

# Memorandum

Date: August 29, 2013

To: Honorable Michael Florio  
Assigned Commissioner  
California Public Utilities Commission  
San Francisco, California 94102

Honorable Seaneen M. Wilson  
Administrative Law Judge  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, California 94102

From: Department of Water Resources

Subject: Rulemaking No. 13-02-019

The California Energy Resources Scheduling division of the Department of Water Resources ("DWR") submits this memorandum to assist the California Public Utilities Commission ("CPUC" or "Commission") in its calculation and allocation of the Department's 2014 Retail Revenue Requirement ("Determination") provided to the CPUC on August 1, 2013.

Specifically, this memorandum provides; (1) that the Department supports the Uncontested Settlement ("Settlement") of the three investor owned utilities ("IOUs") regarding the cost allocation of the Kern River Firm Transportation Service Agreement No. 1724 ("TSA 1724") and (2) clarification of the roles and obligations of DWR and the CPUC pertaining to establishing the Department's cost and the allocation of such costs.

## Department's Position on the Settlement

The Settlement requests that all costs, less any revenues received by the Department related to TSA 1724 for the period beginning July 1, 2012, until such time as the Department no longer bears any responsibility for TSA 1724, should be allocated to the San Diego Gas & Electric ("SDG&E") Utility-Specific Balancing Account ("USBA"). Additionally, the Settlement requests that in recognition of their agreement that all of the costs and revenues related to TSA 1724 should be recorded to the SDG&E USBA, the Settling Parties agree that one-time offsetting credits and debits should be reflected in the Department's 2014 annual determination of revenue requirement as follows: (a) a one-time \$30 million credit should be entered in the SDG&E USBA; (b) a one-time \$15 million debit entry should be entered in the Southern California Edison USBA; and (c) a one-time \$15 million debit entry should be entered in the Pacific Gas and Electric USBA.

The Department will await the Commission's Decision on the Settlement and the associated cost allocation and then reflect the Decision in each IOU's USBA. Currently the costs and revenues associated with TSA 1724 are being entered into the SDG&E USBA.

#### The Roles and Obligations of DWR and the CPUC

The Settlement incorrectly characterizes the Department's role in establishing its revenue requirements. For instance the Settlement states that "the Department had proposed to allocate the entire costs of TSA 1724 to SDG&E" and "in this filing, the Department indicates it continues to incur costs related to TSA 1724 and proposes once again to allocate the entirety of those costs to SDG&E for ratemaking purposes".

Under California law and the Rate Agreement, the respective roles of the CPUC and DWR are clearly defined. The role of the CPUC is to set bond charges and power charges to recover DWR's revenue requirement and to allocate such charges among IOU service areas and electric customers. DWR is responsible for notifying the CPUC of the amounts required to pay for bond related costs that are to be recovered from bond charges and the amounts required to pay for power related costs that are to be recovered from power charges.

The Department has not and will not interfere with any allocation that the CPUC determines; rather it will assist the CPUC with any information and analyses necessary to support the Commission as it implements the Department's 2014 Revenue Requirement. As soon as the allocation is final, the Department will reflect the decision and any related adjustments to the IOU's USBA accounts.

As mentioned in the Settlement, any solution that reduces the Department's costs under TSA 1724 and thereby benefits utility ratepayers is fully supported by the DWR. The Department supports the recommendation that SDG&E should seek the Commission's authorization to immediately assume responsibilities, whether as the Department's agent or as the replacement shipper via means available under applicable Kern River capacity release tariffs, for managing the shipper rights under TSA 1724. As noted in the Settlement, if the Department's financial and legal responsibilities under the TSA 1724 are unconditionally released, the Department will notify the CPUC of any excess reserves that could be used to offset the cost of the 2014 Revenue Requirement or otherwise be released to benefit ratepayers. If the release of the financial and legal responsibilities of the Department does not occur before the Commission allocates the 2014 Revenue Requirement, the Department will work with the Commission to return any excess amounts to ratepayers as soon as practical.

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DWR appreciates the Commission's assistance in implementing the Department's Revenue Requirements Determination for 2014. If you have any questions or need additional information, please contact me at (916) 574-2733.

A handwritten signature in black ink, appearing to read "John Pacheco for". The signature is written in a cursive, flowing style.

John Pacheco  
Acting Deputy Director  
California Energy Resources Scheduling

Attachment

(cc: See attached list.)

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cc: Honorable Michael R. Peevey, President  
California Public Utilities Commission  
505 Van Ness Avenue  
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Honorable Catherine J. K. Sandoval, Commissioner  
California Public Utilities Commission  
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Honorable Mark J. Ferron, Commissioner  
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Honorable Carla J. Peterman, Commissioner  
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Mr. Paul Clanon, Executive Director  
California Public Utilities Commission  
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Service List Rulemaking 13-02-019 (via electronic mail)