COMMISSIONER JESSIE J. KNIGHT, JR., CONCURRING:

The estimated eligible transition costs are large, but I am confident that they been reduced to the greatest practical extent under the law. More importantly, this reiterates the key policy principle that going forward costs must be recovered from the market. I concur with this policy principle. Once a generation plant has been given its market valuation, that plant must make economic sense to operate on a going-forward basis. The utility will have to make the business decision as to whether the plant should continue to operate. It is imperative that utilities not have competitive advantage through transition cost subsidization of assets that are uneconomic on a going forward basis. If a plant cannot compete on a going-forward basis it has no place in a competitive market and no place in California's future.

I take this opportunity to express my commitment that the Commission will thoroughly review amounts posted to the transition cost balancing account in this proceeding, and particularly the monthly posting to the plant-specific accounts, to ensure that transition costs are minimized and to prevent any competitive advantage to utility plants that could arise by transition cost subsidization of plant operating costs.

This decision estimates the total costs eligible for transition costs recovery. We know that the actual amount of transition costs will be less than this because this estimation will be offset by the market valuation of the plants and other assets. What we can say with certainty is that these are not new costs and that these costs would have been recovered from ratepayers under the traditional regulatory framework. In fact, absent restructuring these costs would have been higher because they would have been subjected to the higher carrying costs reflected by the utilities cost of capital. Furthermore, we can only begin to ponder what the next generation of uneconomic investments would have looked like had the discipline of competitive marketplaces not been introduced to the electricity industry and those who regulate it.

It is not competition that resulted in these costs. Rather, it is competition that brought light to the fact that the traditional cost-of-service regulatory model had resulted in uneconomic investments. The exact magnitude of these uneconomic investments is not known, but today we have estimated what the upper limits are.

This decision tackles very tough issues. It seeks to implement the various provision of state law that govern the recovery of uneconomic costs of the utilities. AB 1890 did not leave this Commission with much policy discretion with respect to so called transition costs. This decision applies the law to the facts.

Dated November 19, 1997 in San Francisco, California.

/s/ Jessie J. Knight, Jr.
Jessie J. Knight, Jr.
Commissioner