

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**RESOLUTION E-3538
JUNE 18, 1998**

RESOLUTION

RESOLUTION E-3538. PACIFIC GAS AND ELECTRIC COMPANY (PG&E), SOUTHERN CALIFORNIA EDISON COMPANY (EDISON), AND SAN DIEGO GAS & ELECTRIC (SDG&E) REQUEST APPROVAL OF TRANSITION COST BALANCING ACCOUNT (TCBA) TARIFFS AND SEVERAL MEMORANDUM ACCOUNTS IN COMPLIANCE WITH DECISION (D.) 97-06-060, D.97-11-074, AND D.97-12-039. IN ADDITION, PURSUANT TO D.97-12-096, PG&E SEEKS APPROVAL OF MUST-RUN HYDROELECTRIC/GEOTHERMAL MEMORANDUM ACCOUNT. APPROVED WITH MODIFICATIONS.

BY ADVICE LETTERS 1720-E (PG&E) AND 1275-E (EDISON), FILED ON DECEMBER 15, 1997 AND ADVICE LETTER 1061-E (SDG&E) FILED DECEMBER 12, 1997. IN ADDITION, BY ADVICE LETTER 1723-E (PG&E) FILED DECEMBER 22, 1997 AND SUPPLEMENTED BY ADVICE LETTERS 1723-E-A AND 1723E-B ON DECEMBER 31, 1997 AND JANUARY 30, 1998, RESPECTIVELY.

SUMMARY

1. By the above listed advice letters, PG&E, Edison, and SDG&E (the Utilities) request approval of TCBA tariffs and several memorandum accounts in compliance with D.97-06-060 (Transition Cost Phase 1 Decision), D.97-11-074 and D.97-12-039 (Transition Cost Phase 2 Decisions). These decisions address utilities' Applications (A.) 96-08-001 et al. concerning "Valuation and Categorization of Non-Nuclear Generation-Related Sunk Costs Eligible for Recovery in the Competition Transition Charge." By Advice Letter 1723-E-B, PG&E also requests approval of its Must Run Hydroelectric and Geothermal Plant Memorandum Account (MRHGPMMA) pursuant to D.97-12-096, the Hydroelectric (Hydro) Generation Performance Based Ratemaking (PBR) decision. These filings are required to be effective January 1, 1998.
2. The Office of Ratepayer Advocates (ORA) protests PG&E's Advice Letters 1720-E, 1723-E, and Edison's Advice Letter 1275-E, alleging that they are not in compliance with D.97-11-074. ORA claims that Edison's Hydro Generation Memorandum Account (HGMA) and PG&E's Non Must-Run Hydroelectric/Geothermal Memorandum Account

provide for annual transfer of debits from these accounts to the TCBA for the hydroelectric and geothermal losses. ORA also alleges that Edison unilaterally altered the previously approved jurisdictional factor definition.

3. ORA's protest is granted with respect to the jurisdictional factor issue because the Commission has not ordered any utility to change the computation of the factors as a result of changes in electric restructuring. Edison's proposal on tracking any differences between its actual jurisdictional allocation factors based on recorded kilowatt-hour (kWh) and its 1995 general rate case (GRC) authorized allocation factors beginning April 1, 1998 is modified. ORA's protest concerning annual transfer of debits to the TCBA from the hydroelectric and geothermal memorandum accounts is also granted, but its request that no amortization of uneconomic costs of hydroelectric and geothermal assets through the TCBA, except a one-time debit or credit upon market valuation or sale, is denied. ORA's position contradicts the provisions of Commission's decisions. The tariffs filed by PG&E, Edison and SDG&E are approved as modified.

BACKGROUND

1. In compliance with Ordering Paragraph 1 (OP) of D.97-06-060, the Utilities served parties to the proceedings pro forma TCBA and Competition Transition Charge (CTC) Terms and Conditions tariffs. Subsequently, the Energy Division (ED) held workshops from August 26 through 28, 1997 as directed by ALJ Ruling dated July 3, 1997. This was a change from the July dates ordered in D.97-06-060. The workshops addressed issues associated with implementation of the transition cost amortization and balancing account principles established by D.97-06-060, including the remaining issues on CTC terms and conditions responsibility. On September 16, 1997, the ED served its workshop report on parties to the proceedings. Comments and reply comments on the report were filed by parties as required. OP 2 of D.97-06-060 also ordered the ED to convene additional workshops after the issuance of the Phase 2 decision, if necessary.

2. OP 14 of D.97-11-074, directed the Utilities to file by advice letter the final TCBA tariffs on December 12, 1997. The final decision, D.97-12-039, affirmed the filing date and urged the Utilities to work with the ED on all compliance issues. The ED agreed with the Utilities to file their tariffs by December 15, 1997 due to shortness of time. PG&E's request for the one day extension on behalf of other utilities dated December 12, 1997 was approved by the Commission by a letter dated December 24, 1997.

3. On December 15, 1997, PG&E and Edison filed their TCBA tariffs and several memorandum accounts in compliance with D.97-06-060, D.97-11-074, and D.97-12-039. SDG&E filed timely on December 12, 1997. On December 22, 1997 PG&E filed its Must-Run Hydroelectric/Geothermal Plant Memorandum Account (MRHGPMMA) pursuant to D.97-12-096 by Advice Letter 1723-E. This was later supplemented by Advice Letters 1723-E-A and 1723-E-B filed on December 31, 1997 and January 30, 1998 respectively, as directed by the ED. Each utility's filing is enumerated below.

4. **PG&E:** PG&E's filing created new Preliminary Statements:

- Part AV, Transition Cost Balancing Account (TCBA); Part AW, Rate Group Transition Cost Obligation Memorandum Account; Part AX, Must Run Fossil Plant Memorandum Account; Part AY-Non Must-Run Fossil Plant Memorandum Account; Part AZ, Non Must-Run Hydroelectric/Geothermal Memorandum Account. Others include: Part BA, Divestiture Bonus Return on Equity Memorandum Account; Part BC, PU Code Section 376-Restructuring Implementation Memorandum Account; Part BD, PU Code Section 381 (d) - Renewable Program Costs Tracking Account; Part BE, Must-Run Hydroelectric/Geothermal Plant Memorandum Account. PG&E's filing also includes a new subaccount in Part AH, Industry Restructuring Memorandum Account (IRMA), titled, ISO/PX Implementation Costs Subaccount.

5. **Edison:** Edison's filing revises its Preliminary Statement, to establish Part JJ, Transition Cost Balancing Account (TCBA), modifies Preliminary Statement, Part N, Memorandum Accounts, and adds various authorized Memorandum Accounts. This filing also eliminates Preliminary Statement, Part Z, SONGS 2&3 Ratemaking Mechanism authorized by D.96-04-059 and Preliminary Statement, Part FF, Palo Verde Ratemaking Mechanism authorized by D.96-12-083. These nuclear ratemaking tariffs have been moved to the Preliminary Statement, Part JJ, Sections 6c. through 6d. of the TCBA. Edison also transferred the memorandum accounts associated with the ratemaking tariffs to the Preliminary Statement, Part N.

6. The filing also includes:

- a) Independent System Operator Revenue Memorandum Account (ISORMA) for each designated must-run fossil generating facility;
- b) Power Exchange Revenue Memorandum Account (PXRMA) for each non must-run fossil generating facility;
- c) Increased Return on Equity Divestiture Memorandum Account (IROEOD).
- d) Deemed Inventory Tracking Memorandum Account (DITMA) with subaccounts for Materials and Supplies (M&S), Gas, and Coal inventories;
- e) Unavoidable Fuel Contract Costs Memorandum Account (UFCCMA); and
- f) Hydro Generation Memorandum Account (HGMA).

7. Edison also adds to its Preliminary Statement the following new memorandum accounts to comply with transition cost decisions: Part N, Rate Group Tracking Memorandum Account (RGTMA); PU Code Section 376, Restructuring Implementation Tracking Memorandum Account; and PU Code Section 381 (d) Renewable Program Tracking Memorandum Account.

8. **SDG&E:** SDG&E revises Section II - Balancing Accounts, of its Preliminary Statement, to add new paragraph J, Transition Cost Balancing Account (TCBA). In addition, SDG&E revises Section III - Memorandum Accounts, to add: T - Independent

System Operator Revenue Memorandum Account (ISORMA), U - Power Exchange Revenue Memorandum Account (PXRMA), and V- Rate Group Transition Cost Obligation Memorandum Account (RGTCOMA). SDG&E filed its Industry Restructuring Memorandum Account (IRMA) by Advice Letter 1063-E pursuant to D.97-12-042.

9. The ED convened a workshop on December 19, 1997 to provide parties the opportunity to resolve their concerns about the Utilities' filings that they might otherwise protest. Many of the concerns were resolved except a few. There was no workshop report required. Subsequent to the filings and workshops, the ED held several conference calls with the Utilities in order to correct the changes agreed to by them at the workshops. The Utilities filed and served substitute tariff sheets to reflect the modifications agreed by consensus. Filing errors made by PG&E when the hydro generation PBR decision was issued have been corrected and made available to parties to the proceeding. The ED also suggested a few language changes to the revenue subaccount of the rate group transition cost obligation memorandum account filed by the Utilities, so that the monthly CTC revenues from the Transition Revenue Account (TRA) can match the monthly rate group CTC aggregated revenues. SDG&E does not have a TRA, as do PG&E and Edison, to track the residual CTC revenues ("headroom") transferable to the TCBA monthly.

10. Pursuant to D.97-12-131, PG&E, Edison, and SDG&E filed Advice Letter 1735-E, Advice Letter 1285-E, supplemented by Advice Letter 1285-E-A, and Advice Letter 1075-E, respectively. This decision was issued because the ISO and PX did not start operations as anticipated on January 1, 1998. It modified various Commission orders in view of the delay in implementing the new market structure.

NOTICE

1. Notice of Advice Letters 1720-E, 1723-E, 1275-E, and 1061-E was made by publication in the Commission's calendar and by mailing copies of the filings to parties in Application (A.) 96-08-001 et al. and interested parties in accordance with Section III of General Order (GO) 96A.

PROTEST

1. **Introduction:** On December 23, 1997, ORA filed two concurrent timely protests to Advice Letter 1720-E (PG&E) and 1275-E (Edison) but did not protest SDG&E's Advice Letter 1061-E. On January 8, 1998 ORA filed an identical protest to Advice Letter 1723-E (PG&E).¹ On December 31, 1997, PG&E and Edison timely responded to the ORA's protests. On January 15, 1998 PG&E filed its original response to Advice Letter 1720-E in response to ORA's protest of Advice Letter to 1723-E.

2. ORA protests two issues. One issue concerns the treatment of annual debit balance in PG&E's NMRHGMA and Edison's HGMA. The other issue which affects only Edison is the calculation of the jurisdictional factor.

Annual Debits-NMRHGMA/HGMA

3. ORA believes that PG&E's NMRHGMA and Edison's HGMA are not in compliance with D.97-11-074 because they provide for annual transfer of debits from these accounts to the TCBA. The disagreement between ORA and the two utilities centers on the different interpretations of pages 135 and 136 of D.97-11-074 (Slip Opinion). ORA alleges that "D.97-11-074 makes no provision for annualized debits for hydroelectric resources to the TCBA" except for monthly debits to the account and annual transfer of credits to the TCBA. ORA states that "the accounting treatment for hydroelectric assets essentially mirrors the memorandum accounts for fossil." It provides excerpts from the decision showing the similarity. ORA notes that the difference between the two generation assets is that for hydroelectric assets, "the entire revenue requirement is to be used, instead of only short operating costs." It believes that the inclusion of the entire hydroelectric revenue requirement is logical because of the likelihood of hydroelectric assets being economic and, therefore, all costs should be recovered through the market. Additionally, ORA believes that hydroelectric assets are afforded transition cost eligibility, but not hydroelectric revenue requirement. For this reason, it believes the reduced rate of return can be earned, similar to the treatment for fossil plants under must run contract C.

4. ORA asserts that "D.97-11-074 consistently provides for annual credits." It cites excerpts from the decision where "annual" and "credits" are used together to show that the Commission does not provide for annual debits when it compared two sources of revenues which can result in a debit or credit balance. In addition, ORA states that the "application of the reduced rate of return to hydro assets reflects the substantial reduction in risk for these assets between the proposed and final decision." ORA adds that during

¹ ORA would not have protested this advice letter if PG&E had not filed TCBA tariffs contained in Advice Letter 1720-E with Advice Letter 1723-E. PG&E filed Supplemental Advice Letters 1723-E-A which did not correct the problem. Supplemental Advice Letter 1723-E-B corrected the problem. ORA did not protest the supplements.

the ex parte communications, the Utilities expressed two concerns with the ALJ's proposed decision (PD): the monthly crediting by plant and the lack of provision for transition cost eligibility for uneconomic costs upon sale or market valuation of the assets. It argues that the PD was changed to address these concerns by allowing annual credits on a portfolio basis and authorizing a reduced rate of return in the final decision, instead of full rate of return provided by the PD. ORA cites part of the decision which states "... these assets are afforded transition cost treatment..." and states that "there is no comparable statement for operating costs" to support its position.

5. Additionally, ORA argues that "the requirement for annual hydro credits makes eminent policy sense in light of the proposed policy decision and market valuation results." It states that the preferred policy decision, D.95-12-063, modified by D.96-01-009, provides for hydroelectric and geothermal credits to transition costs, either on a revenue requirement basis or from gain on sale (D.95-12-063, slip opinion pp. 135-136). ORA believes that "it would represent a total reversal of the preferred policy decision to allow debits of operating costs to transition costs for these resources." ORA adds that the fears expressed by the Utilities over the fossil resources have not been founded, given market valuation results. "Instead, when sales close there will be a significant credit to CTC" for assets with average operating cost higher than hydroelectric resources. "ORA believes there is no policy rationale to set the standard so low for utilities, relative to expected market valuation." It adds that if they can not compete "with assets which common sense suggests and which the Commission has found are likely to be economic (slip opinion page 135)," they should quit the business. ORA concludes its protest by recommending that certain language in PG&E's and Edison's tariffs be modified.

6. **Response of PG&E:** PG&E states that "Under ORA interpretation of D.97-11-074, both the "sunk costs" and "going forward" costs of non-must run facilities are not eligible for recovery in the transition cost balancing account..." PG&E believes that ORA's position is "in direct conflict with the text of D.97-11-074, which provides that "we find it is appropriate to include the amortization of any current costs of hydroelectric and geothermal assets in the transition cost balancing account." PG&E also states that ORA's position "is flatly inconsistent with AB 1890, which provides in section 367c for recovery of all generation-related obligations and puts at risk in section 367c (1) only the "going forward" costs of fossil generation." It therefore asserts that "The Commission does not have authority to extend the "going forward" fossil limitation to hydroelectric and geothermal facilities."

7. PG&E states that its non-must run hydroelectric and geothermal proposal is to recover the "sunk cost" through the TCBA and track operating and "going forward" costs on a portfolio basis in a single memorandum account. It adds that "going forward" costs and post-1997 capital additions will be tracked in the account and be compared to market revenues earned from the Power Exchange (PX), Independent System Operator (ISO), and others by these facilities. PG&E indicates that if market revenues are insufficient to cover aggregate operating costs on an annual basis, the shortfall would be recovered from

the TCBA except for the costs of post-1997 capital additions. If, however, there are sufficient market revenues to cover operating costs and capital additions, the excess will be credited to the CTC on an annual basis. PG&E believes its proposal conforms with every provision of D.97-11-074.

8. PG&E states that while ORA's position was adopted in the PD, it was clearly reversed in D.97-11-074. PG&E believes that the changes made to the PD fundamentally altered the risk profile for hydroelectric and geothermal assets by "going from no TCBA combined with a full rate of return for the assets, to a full TCBA treatment combined with a reduced rate of return." PG&E adds that hydroelectric and geothermal generation assets meet all the criteria for transition cost recovery under PU Code Section 367 "unless the Commission were to conclude as a matter of law" that they can never become uneconomic in a competitive generation market. PG&E states that ORA's position puts "hydroelectric and geothermal assets at greater risk for recovery than fossil facilities."

9. PG&E disagrees with ORA that the accounting treatment for non must-run hydroelectric and geothermal mirrors that for non must-run fossil facilities. It believes that PU Code Section 367c adopts no limitation for the recovery of "going forward" costs for hydroelectric and geothermal facilities as it does for fossil facilities. PG&E adds that the tracking mechanisms for the two generation assets are different. In addition, PG&E believes that ORA explains away the changes to the PD by suggesting that the hydroelectric and geothermal assets may be recovered in CTC, if, at the time of the plant sale, the book value is greater than market value. PG&E states that "ORA ignores that the CTC Phase 1 decision requires PG&E to fully amortize its estimates of the above market value of its uneconomic plants during the amortization period." PG&E also adds that the absence of the word "debit" in the discussion of the memorandum account and the changes made to the PD does not invalidate the rest of the decision. In conclusion, PG&E requests that ORA's protest be rejected. Edison's approach to ORA's protest is different from PG&E's as discussed below.

10. **Response of Edison:** Edison's response focuses on the ambiguity in D.97-11-074, which it claims "does not define precisely how 'market revenues in excess of the revenue requirements' are to be determined." It raises this question, "What is to be included in the 'revenue requirements' tracked in the memorandum account?" Edison believes this question is relevant because the Commission has directed the inclusion of the amortization of any current costs and crediting of market revenues in excess of revenue requirements in the TCBA for hydroelectric and geothermal assets. Edison provides two possible answers in view of these provisions.

11. Edison states "The first possibility is to include the entire revenue requirements in the memorandum account including the sunk costs associated with the hydroelectric and geothermal assets." It, however, argues that it would not make sense to include the sunk costs, which are similar to the amortization of any current costs in the memorandum account since the Commission has directed that these costs be included in the TCBA to

avoid the result of double counting. The second possibility, which Edison believes is more reasonable, "is that the revenue requirements associated with the sunk costs" be recorded in the TCBA and the remaining portion of the revenue requirements be tracked in the memorandum account. Edison believes that its TCBA filing and the HGMA are in agreement with the second option and in compliance with the provisions of D.97-11-074.

12. Edison does not believe it is reasonable to include the Hydro Sunk Costs Revenue Requirement (HSCRR) in the definition of Hydro Generation Revenue Requirement (HGRR), as suggested by ORA. Edison adds that the Commission wants HSCRR included in the TCBA and not in HGMA. For this reason, Edison defines HGRR "...as sum of the Hydro Expense Related Revenue Requirement and the Incremental Capital Additions Revenue Requirement for incremental capital additions after December 31, 1997." Edison agrees that if the HGRR determination excludes sunk costs, then only market revenues in excess of HGRR should be credited to Hydro Subaccount in the TCBA unlike what PG&E argues for. Edison has modified its original HGMA to reflect that only credit balance should be transferred from the HGMA to the subaccount in the TCBA, if its definition of HGRR is found reasonable.

Jurisdictional Factors

13. In addition to the issue discussed above, ORA protests the jurisdictional factor definition used by Edison in its filing as not in compliance with D.97-11-074. Jurisdictional factors allocate costs between the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC) jurisdictional customers and are typically set in the general rate cases (GRC). Edison defines CPUC-Jurisdictional Factor (Factor) as: "the ratio (expressed as a percentage), derived each month, of service (in kWh) provided to customers under the jurisdiction of the Commission, to the total service level (in kWh) provided to all customers in Edison service territory." ORA claims that Edison's proposed new definition is not authorized by the Commission. It believes that Edison's methodology would allocate "a higher proportion of transition costs to retail customers than June 10, 1996 recovery, and is contrary to several sections of AB 1890." ORA also claims that the new definition contradicts the SONGS settlement in D.96-04-059. ORA indicates that the Conclusion of Law (COL #8) of that decision states "We modify the joint proposal to direct that the utilities should use the most recent jurisdictional factor adopted by the Commission in that utility's most recent general rate case or successor proceeding." ORA concludes that Edison's proposal would change the very concept of jurisdictional factor used by other utilities such as PG&E. It states that Edison's method would split recovery mainly for services in its service territory without any consideration for FERC jurisdictional sales that do not have service territory designation.

14. **Response of Edison:** Edison contends that ORA is partially correct for alleging that jurisdictional factors are typically set in GRC but believes that none of the CTC decisions directs it to continue the use of the last GRC adopted factors. Edison adds that fuel and fuel contract related expenses and power purchase expenses recorded in the

Energy Cost Adjustment Clause (ECAC) balancing account have been traditionally based on the actual factors developed on a monthly basis using the recorded kWh of retail and wholesale customers approved by the Commission. Edison believes that a significant portion of its transition costs applies to fuel and purchased power expenses and, therefore, the ECAC methodology should be used for allocating transition costs and revenues in the TCBA, which combines both the Electric Revenue Adjustment Mechanism (ERAM) and ECAC balancing accounts. Edison admits that GRC jurisdictional factors have been used to allocate energy related costs such as operation and maintenance (O&M) expenses, administrative and general (A&G) expenses, and investment related costs. Edison adds that it used 1995 GRC authorized Factors in its prepared testimony in Phase 1 and Phase 2 of CTC proceedings because they were the only ones available at that time.

15. Edison believes that ORA's proposal for a fixed jurisdictional factors during the transition cost recovery period would violate AB 1890 provisions and is unfair. Edison states that its contractual generation related obligations with its wholesale customers have been renegotiated during 1997 to prepare for the ISO/PX Direct Access implementation. Edison argues that if ORA proposal is adopted, it would unfairly penalize it for renegotiating the contracts. In addition, Edison states that ORA's use of PG&E as an example to support its argument is not appropriate because neither PG&E nor SDG&E "will experience the magnitude of change in kWh sales to wholesales customers that Edison will experience." Edison adds that ORA implies in its protest that PG&E's definition of jurisdictional factor is sufficient, but argues that PG&E has not indicated which method it will use in the operation of its TCBA. Edison also contends that ORA misrepresented D.96-04-059 in its protest, concerning its jurisdictional factor position that was adopted by the Commission. Edison faults ORA for proposing a fixed jurisdictional factor during the transition cost recovery period, a position it argued against in its "Comments on SONGS 2&3 Proposal."

16. Edison also contends that ORA's reference to June 10, 1996 is incorrect. It claims that ORA's references to sections of AB 1890 remotely address the issue of jurisdictional factors because they relate to Equal Percentage of Marginal Costs (EPMC) percentages which are to remain unchanged during the transition cost recovery period. Edison adds that in case the jurisdictional factor issue is deferred to a later proceeding, it wants to track any differences between its actual jurisdictional allocation factor based on recorded kWh and its 1995 GRC authorized allocation factors. Edison concludes its response by stating that it agrees with ORA's proposal presented at the ED December 19, 1997 workshop that jurisdictional factor applied to the transition costs should also be applied to ISO/PX revenues, other market revenues, and market valuation revenues.

DISCUSSION

1. The ED has reviewed the advice letters filed by the Utilities. It also reviewed all the changes made to the filings through substitute sheets, including suggested language proposed by the Utilities after staff questioned certain items that appear to be unclear. ED

also reexamined and reviewed the pertinent sections of Commission decisions alluded to by ORA in its protest of Utilities' filings and the responses provided by PG&E and Edison to the protests.

Annual Debits-NMRHMA/HGMA

2. ORA's arguments center on the assumption that all hydroelectric and geothermal assets are less costly to operate compare to other generation assets and, therefore, should be economic. Consequently, "sunk costs" and all operating costs should be recovered from the market. ORA recommends that uneconomic cost recovery only be determined when market valuation or sale is performed. PG&E on the other hand believes that the language in D.97-11-074 provides for both the recovery of "sunk costs" and "going forward" costs except for incremental capital additions. PG&E also claims that since there is no specific language in AB 1890, limiting recovery of "going forward" costs, the Commission can not disallow such recovery. Edison's arguments are essentially between PG&E's and ORA's. Edison believes "sunk costs" are recoverable through the TCBA and "going forward" costs are not.

3. The ED believes that PG&E's arguments on the issue of annual transfer of debits from its NMRHGMA to the TCBA are not persuasive. PG&E's argument that the section of the decision that states: "We find that it is appropriate to include the amortization of any current costs of hydroelectric and geothermal assets in the transition cost balancing account." (D.97-11-074, p. 135) gives it the authority to recover both its "sunk costs" and "going forward" costs. PG&E knows that operating costs are generally not amortized but expensed as incurred. Therefore, this statement is obviously not referring to operating costs. This citation is consistent with guideline No. 2 of D.97-06-060, (slip opinion) page 49, which states in part: "The definition of current costs also includes the amortization of depreciable assets on a straight line basis over a 48-months period." Guideline No. 2 is also consistent with PU Code 367 which provides for recovery of uneconomic costs since the Commission could not conclusively assert that any generation assets including hydroelectric and geothermal are likely to be economic. Contrary to PG&E's assertions, the changes made to the PD reflect this notion, thus, the reduced rate of return is appropriate for allowing the uneconomic cost recovery through the TCBA. ORA's position contradicts guideline No. 2, since amortization implies more than one time treatment of cost recovery. The ED agrees that Edison's interpretation of D.97-11-074 provisions that the "sunk costs" of hydroelectric and geothermal assets recovery should be excluded from the hydro memorandum account is reasonable.

4. We recognize AB 1890 is silent on the treatment of "going forward" costs for hydroelectric and geothermal assets. The law, however, does provide that "The commission shall identify and determine those costs and categories of costs for generation related assets and obligations..." (PU Code 367) Therefore, the Commission has the authority to establish eligible transition costs for generation assets and obligations. Since AB 1890 is silent on the issue of "going forward" costs for hydroelectric and geothermal assets, the ED looked to the Preferred Policy Decision

(Decision) as modified, issued prior to AB 1890 for guidance. ORA precisely states the position of that decision on the treatment of hydroelectric and geothermal assets with respect to revenue crediting. The Decision, as modified, does not make provision for any recovery of operating costs in the restructured electric industry for hydroelectric and geothermal assets. D.97-11-074 authorizes the hydro memorandum accounts to allow annual transfer of credits to the TCBA and not debits. The ED can not find any justification for PG&E's request.

Jurisdictional Factors

5. ORA argues that Edison does not have the authority from the Commission to alter the existing jurisdictional factor definition for use in its TCBA. Edison disagrees with ORA because it believes market conditions have changed and as a result jurisdictional factor definition should change with it.

6. The ED does not accept Edison's definition of jurisdictional factor because the Commission has not directed any utility affected by the changes in the restructured electric industry to pick and choose from the existing established methods or abandon them. The ED recognized that all the transition cost decisions are silent on the issue of jurisdictional split but this should not cause Edison to adopt a new method for computing the Factor. Edison should have presented its proposal to the Commission during the transition cost proceeding because it had knowledge that the advent of PX/ISO Direct Access implementation would affect generation service to wholesale customers. Edison's request should be denied.

7. Edison, however, should establish a memorandum account instead of a tracking account. The purpose of the memorandum account is to determine the net effect, if any on Edison's revenue requirement resulting from its use of the 1995 GRC jurisdictional split beginning April 1, 1998. This should give Edison the opportunity to prove its case in the next transition cost proceeding and would avoid any double counting or over-collection of revenues. The memorandum account would also demonstrate which costs Edison has avoided by not having jurisdictional customers or has collected from other sources. The memorandum account at this time does not mean that the Commission has made a determination that these costs should be recovered. ORA's proposal, which Edison agrees with, that jurisdictional factors be applied to both transition costs and all market revenues should not be adopted at this time. This is a new issue that must be considered by all parties to the transition cost proceeding and should not be limited to two parties. Edison and /or ORA can raise this issue in the first annual transition cost proceeding (ATCP).

Other Items

8. The ED recognizes that SDG&E does not have a Transition Revenue Account (TRA) like PG&E and Edison, where the "headroom" calculation is determined. The ED also notes that SDG&E included in Advice Letter 1075-E a proposal to calculate monthly "headroom" in the TCBA revenue account similar to the calculation that was approved

for PG&E and Edison in their TRA. The inclusion of this proposal in the filing has been rejected by the ED in a letter dated April 17, 1998 on the basis that it does not belong to it. SDG&E's proposal was considered as pertinent to Advice Letter 1061-E, the TCBA filing. The ED believes the purpose of SDG&E's proposal is to show how the monthly CTC residual revenue is calculated. Since SDG&E does not have a TRA where a similar calculation can be shown, it is reasonable for SDG&E to include the proposed detail calculation in the "Accounting Procedure" Section of the TCBA and not within the CTC Revenue Account. The subsection should be titled "CTC Residual Calculation." SDG&E should indicate that any monthly calculation resulting in a debit balance shall not be used to offset monthly CTC revenues, however, the debit balance shall earn the normal TCBA interest allowed. SDG&E may seek a tracking account from the Commission to record the potential debits.

9. The ED has reviewed the proposed changes to the Rate Group Transition Cost Obligation Memorandum Account (RGTCOMA) submitted by the Utilities. PG&E provided examples of its proposal which was found to be in agreement with the language in Edison's proposal. Edison's proposal is appropriate and reasonable. PG&E and SDG&E should adopt similar language in their memorandum accounts.

10. The ED observed that some revenue definitions and credits in the TCBA and memorandum accounts are limited to just the PX and ISO revenues or credits. D.97-11-074 states that "The utilities should then credit the transition cost balancing account for any excess market revenues ... including revenues from the ISO, Power Exchange and other retirement sources," (D97-11-074, slip opinion, pp. 52-53) The Utilities should comply with this provision by revising the affected parts of their TCBA tariffs and memorandum accounts.

11. The Utilities should revise their filings pursuant to D.97-12-131 to the extent they are affected by the discussion, findings, and orders of this resolution, by filing a supplemental advice letter.

12. The ED recommends that Advice Letters 1720-E, 1723-E-B (PG&E), 1275-E (Edison), and 1061-E (SDG&E) as modified by the orders, discussion, and findings of this resolution are reasonable.

FINDINGS

1. D.97-06-060 ordered the Utilities to file proforma TCBA and Transition Cost Terms and Conditions tariffs with the ED and the ED to convene workshops to determine how the TCBA guidelines in the decision are to be implemented and to resolve the remaining issues on terms and conditions. D.97-06-060 also indicated that additional workshops might be necessary after the Phase 2 decision has been issued.

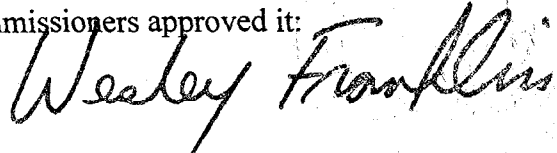
2. The ED held a three day workshop from August 26 through 28, 1997 to discuss the issues outlined by D.97-06-060 and a workshop report was filed and served on September 16, 1997 with the Commission.
3. D.97-11-074 ordered the Utilities to file the final TCBA and transition cost Terms and Conditions tariffs with the ED, comply with all the provisions of the decision by December 12, 1997, and to work with the ED on all compliance matters.
4. D.97-12-039 affirmed the December 12, 1997 filing date, but the ED changed this to December 15, 1997 in response to the Utilities' request, which was approved by the Commission on December 24, 1997.
5. On December 15, 1997, PG&E and Edison filed Advice Letters 1720-E and 1275-E, respectively while SDG&E filed Advice Letter 1061-E on December 12, 1997.
6. The ED held a workshop on December 19, 1997 to provide parties the opportunity to raise any concerns they might otherwise protest with respect to the Utilities' filings.
7. ORA could not resolve two of its concerns with PG&E and Edison and subsequently protested PG&E's Advice Letters 1720-E, 1723-E, and Edison's Advice Letter 1275-E.
8. ORA's protest to annual transfer of debits from PG&E's Non Must- Run Hydroelectric/Geothermal Memorandum Account (NMRHGMA) to the TCBA is reasonable.
9. ORA's protest concerning the amortization of estimated uneconomic costs of hydroelectric and geothermal assets conflicts with the provisions of D.97-11-074. ORA's protest is denied.
10. ORA's protest to the Edison's definition of jurisdictional factor is reasonable.
11. ORA's protest that the amortization of uneconomic costs of hydroelectric and geothermal assets should not be allowed is denied.
12. Edison's interpretation of the provisions of D.97-11-074 that "sunk costs" of hydroelectric and geothermal asset recovery should be excluded from the hydro memorandum account is reasonable.
13. Edison's request with respect to tracking any differences between 1995 GRC authorized jurisdictional split and its proposed method is modified. Edison should establish a memorandum account to track the effect, if any, of its use of 1995 GRC authorized jurisdictional factor on its revenue requirement beginning April 1, 1998.

6. PG&E, Edison, SDG&E shall file Supplemental Advice Letters to implement the orders, findings, and conclusions of this resolution within 20 days of approval of the resolution. The Supplemental Advice Letters shall be deemed effective on January 1, 1998 after the Energy Division has reviewed them for compliance with the Resolution.

7. Edison should establish a memorandum account to track the effect, if any, of its use of 1995 GRC authorized jurisdictional factors on its revenue requirement beginning April 1, 1998.

8. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on June 18, 1998. The following Commissioners approved it:



WESLEY M. FRANKLIN
Executive Director

Richard A. Bilas, President
P. Gregory Conlon
Jessie J. Knight, Jr.
Josiah L. Neeper
Commissioners

I dissented.
/s/ Henry M. Duque
Commissioner

14. The understanding between ORA and Edison that the jurisdictional factor applied to transition costs be also applied to market revenues, is too limited in scope in the number of participants.
15. SDG&E's proposal with respect to creating a "headroom" calculation or CTC residual calculation in the TCBA is reasonable but the details should not be included in the CTC Revenue Account. The calculation details should be included in a separate subsection of the Preliminary Statement of the TCBA.
16. Market revenues or credits to the TCBA should not be limited to the ISO and PX revenues credits. All sources of revenues should be included as required by D.97-11-074.
17. Advice Letters filed pursuant to D.97-12-131 should be revised to the extent the orders, findings, and discussion of this resolution affect those filings.
18. Advice Letters 1720-E, 1723-E-B, 1275-E, and 1061-E as modified by the orders, findings, and discussion of this resolution are reasonable.

THEREFORE IT IS ORDERED THAT:

1. Pacific Gas and Electric Company's (PG&E), Southern California Edison Company's (Edison), and San Diego Gas & Electric Company's (SDG&E) Advice Letters, 1720-E, 1275-E, and 1061-E are approved, respectively, subject to PG&E, Edison, and SDG&E filing Supplemental Advice Letters that conform with the findings, and discussion of this resolution.
2. Pacific Gas and Electric Company's Advice Letter 1723-E is hereby approved effective January 1, 1998.
3. ORA's protest to PG&E's Advice Letter 1720-E that there should be no amortization of uneconomic costs of hydroelectric and geothermal assets in the transition balancing account (TCBA) is denied.
4. ORA's protest to PG&E's Advice Letter 1720-E and Edison's Advice Letter 1275-E that there should be no transfer of annual debits from both PG&E's Non Must Run Hydroelectric and Geothermal Memorandum Account (NMRHGMA) and Edison Hydro Geothermal Memorandum Account (HGMA) is granted.
5. ORA's protest to Edison's Advice Letter 1275-E that the CPUC-Jurisdictional factor definition used by Edison in its filing lacks Commission authority is granted. Edison, however, should establish a memorandum account instead of a tracking account to record any differences in revenues and costs produced for both retail and wholesale customers between its actual jurisdictional allocation factors based on recorded kWh and its 1995 GRC authorized allocation factors beginning April 1, 1998.