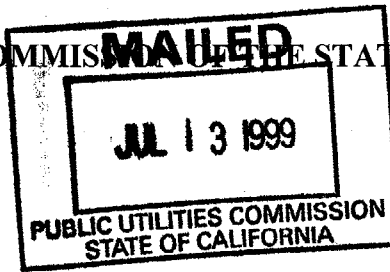


PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION



RESOLUTION E-3612
JULY 8, 1999

RESOLUTION

RESOLUTION E-3612. SAN DIEGO GAS & ELECTRIC COMPANY (SDG&E) REQUESTS AUTHORIZATION TO MODIFY DEFINITIONS IN TARIFF RULE 1 WHICH ARE APPLICABLE TO SCHEDULES A-V1, A-V2, AND A-V3, RTP-1, RTP-2, AND I-2 AND SPECIAL CONDITIONS 13 AND 14 OF SCHEDULES RTP-1 AND RTP-2. DENIED.

BY ADVICE LETTER 1146-E FILED JANUARY 20, 1999

Summary

SDG&E filed Advice Letter (AL) 1146-E which requested modifications to definitions in Tariff Rule 1 which are applicable to Schedules A-V1, A-V2, and A-V3, RTP-1, RTP-2, and I-2 and Special Conditions 13 and 14 of Schedules RTP-1 and RTP-2. All of the preceding schedules charge customers a high rate when certain conditions occur. Customers can choose to curtail or interrupt their load to avoid the high rates; hence these schedules and associated load and customers are often referred to as interruptible.

SDG&E proposes modifications that would eliminate mandatory Signal Days or Periods resulting in voluntary curtailments. Instead, SDG&E would be allowed to call Signal Days or Periods at its discretion provided those Signal Days or Periods would have otherwise occurred as set forth in Rule 1.

To the extent that SDG&E calls fewer curtailments, interruptible customers and SDG&E benefit, but SDG&E's other customers who are the vast majority of ratepayers are adversely impacted. For these reasons, SDG&E's AL 1146-E is denied.

Background

On January 20, 1999, SDG&E filed Advice Letter 1146-E which requested modifications to definitions in Tariff Rule 1 which are applicable to Schedules A-V1, A-V2, and A-V3, RTP-1, RTP-2, and I-2 and Special Conditions 13 and 14 of Schedules RTP-1 and RTP-2. All of the preceding schedules charge customers a high rate when certain conditions occur. Customers can choose to curtail or interrupt their load to avoid the high rates; hence these schedules and associated load and customers are often referred to as interruptible.

Schedules A-V1, A-V2, and A-V3 are variable time of use schedules. Customers are charged relatively high rates during Signaled Periods relative to non-Signaled Periods. The Signal Periods 1G, 2G, and 3G, as currently defined in Rule 1, commence when the utility's system sendout exceeds defined threshold levels or when there is a Signal Period Alert, i.e., when the utility or the Independent System Operator (ISO) calls a Stage 2 or 3 Emergency. Each Signal Period also commences in September for a minimum of five hours to ensure that the Signal Period has occurred in the past 365 days. Although there is no set duration for the Signal Period, they can occur for only a preset maximum number of hours per year except in extreme circumstances. Customers are notified of Signal Periods on a real-time basis through an electronic signal.¹ Due to the higher rates during the Signaled Period, customers have an economic incentive to curtail or interrupt their load in order to avoid paying the higher charges.

Schedules RTP-1 and RTP-2 are similar to the Schedules A-V1 through A-V3 in that during certain periods when a Signal Day occurs, customers pay a higher charge compared to non-Signal Days. Customers can avoid the higher rates by voluntarily curtailing their load. Signal Days are automatically triggered when certain conditions are met according to the algorithm in Tariff Rule 1. Customers are notified by 4 p.m. of the current day, that a Signal Day will be in effect on the following day. According to the most recent tariffs, based on data from 1984 through 1993, Signal Days occur approximately 6 days per year for Signal Day DA1 and 15 days per year for Signal Days DA2. The Signal Day type is typically correlated with the Signal Period that is in effect.

The total load of the affected schedules is less than 40 MW. Currently, there are only customers on Schedules AV-1, AV-2, and RTP-2 and Schedule I-2 is closed to new customers.

In its post-rate freeze applications, Application (A.) 99-01-019 and A.99-02-029, SDG&E proposes Schedules A-V1, A-V2, A-V3, RTP-2, and I-3 be closed to new customers. SDG&E believes these schedules which were originally designed to control generation requirements are no longer necessary since electric restructuring has been implemented.²

The proposed modification to Special Condition 13 of the RTP schedules will allow SDG&E to declare a Signal Day at the utility's discretion provided that the Signal Day would have otherwise occurred as set forth in Tariff Rule 1. Similarly, the majority of the proposed changes to Tariff Rule 1 will allow, rather than require, the initiation of Signal Periods when certain parameters are met. Modifications to Special Condition 14 of the RTP schedules will allow customers to switch to Schedule A-V1 on less than a 12 month basis.

In its advice letter filing, SDG&E asserts that the changes, if granted, would create a winning situation for all parties. With an Electric Procurement Performance Based Ratemaking (PBR), SDG&E would profit from the revenues earned from bidding the load on the affected schedules

¹ Customers can check SDG&E's hotline to see if the forecasted sendout is expected to be above the threshold levels which would trigger a Signal Period.

² A.99-01-019, pg. V-2.

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(the interruptible load) into the ISO's ancillary services market. Customers on these interruptible schedules would benefit from being interrupted less often. SDG&E's non-interruptible customers would benefit from a shortened transition period. The ISO would benefit from having additional resources available to avoid Stage 2 or 3 Emergencies. SDG&E further claims that under existing tariff conditions, it loses retail revenues when customers curtail their load, but it receives no benefits from such curtailments.

On March 1, 1999, Energy Division sent a letter informing SDG&E that AL 1146-E was deficient and that SDG&E should either supplement or withdraw its filing. The Energy Division letter cited specific deficiencies such as lack of comprehensive notice and inadequate explanation of SDG&E's current treatment of affected load with respect to the California Power Exchange (PX) load bidding process and benefits to interruptible and non-interruptible customers.

On March 12, 1999, SDG&E sent a letter responding to the deficiencies cited by the Energy Division. SDG&E's letter was followed up with a meeting with Energy Division staff and data requests. In its letter or other communications with Energy Division staff, SDG&E made the following clarifications.

Presently, SDG&E bids into the PX the load of its interruptible customers along with the load of all of its other customers. When the mandated Signal Day or Period is expected to occur, SDG&E does not include the interruptible load in its demand bid into the PX.³

In order to be eligible for ancillary services, the load must be available to be interrupted by the ISO, as needed. If SDG&E were to bid the interruptible load into the ancillary service market under existing tariffs and the Signal Day or Period was activated as mandated in the tariffs prior to the ISO's request for curtailment, the load on the affected schedules would not be available to meet the ISO's subsequent request. This is due to the fact that customers would have likely already curtailed to avoid the higher prices during the Signal Day or Period.

With the requested tariff changes, SDG&E will have the discretion of determining when the Signal Day or Period will occur within the parameters otherwise specified in Tariff Rule 1. Thus, SDG&E would initiate a Signal Day or Period no more often and potentially less often than under current tariff requirements. With that discretion, SDG&E plans to (1) bid the interruptible load into the ancillary services market and (2) declare a Signal Day or Period only at the direction of the ISO. SDG&E would receive capacity payments if its bid is accepted by the ISO and energy payments if it is actually called upon by the ISO.

To ensure that the ISO would order curtailments only when the Signal Day or Period is in effect, SDG&E would submit high price energy cost curves associated with its ancillary service bid.

³ In this case, the total load that is bid into the PX when it includes the load of interruptible customers is greater than when it is excluded. On non-Signal Days or Periods, SDG&E includes the load of its interruptible customers as a positive load and is part of the total demand which is bid into the PX. On Signal Days or Periods, the total demand that is bid into the PX does not include the load of interruptible customers because SDG&E expects them to curtail their load.

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Under such a scenario, the ISO would only call upon SDG&E to curtail its interruptible load when the imbalance energy price is very high which is typically correlated with high system loads.

SDG&E claims that if AL 1146-E is approved, customers on the affected schedules would benefit from fewer interruptions. According to SDG&E, if the proposed modifications were in effect in the summer of 1998 and SDG&E submitted energy cost curves at the maximum price of \$250/Mwh, customers would have interrupted their loads for only 44 hours compared to the 313 hours that they actually curtailed their load.

SDG&E believes the proposed tariff changes would also benefit the ISO. SDG&E explains that during the 313 hours in 1998 when the customers on the affected schedules interrupted their load, the ISO could not rely on that load to respond to Stage 2 or 3 emergencies. With the proposed changes, the affected load is less likely to be interrupted, thereby increasing the amount of capacity in the form of interruptible load available for Stage 2 or 3 emergencies.

In its March 12, 1999 letter, SDG&E acknowledges that given the projected date of July 1, 1999 for the end of the rate freeze in its post-rate freeze application, A.99-02-029, it is unlikely that non-interruptible customers would benefit from a shortened transition period. However, SDG&E points out that if its Electric Procurement Performance Based Ratemaking (PBR) proposed in A.99-02-029 is adopted, any savings or losses associated with SDG&E's performance in meeting the ancillary service requirements of default customers would be shared between ratepayers and shareholders. The revenues from bidding the interruptible load into the ancillary services market could be used to offset the costs actually incurred for procuring ancillary services. The savings in ancillary costs would be shared through the ISO/PX balancing account proposed in A.99-02-029.

SDG&E also recognizes that there are attendant risks with bidding a voluntary interruptible load into the ancillary service market. If SDG&E's bid is accepted, it is obligated to interrupt the load at the ISO's request. However, if the interruptions do not occur, e.g., customers choose not to curtail their load and instead pay the higher rate during the Signal Day or Period, SDG&E would be subject to penalties. Additionally, there is also the possibility that the ISO may rescind the capacity and energy payments for interruptions which were ordered but did not take place. SDG&E indicates that it would be unwilling to assume these risks unless there is some potential shareholder reward such as suggested under the proposed Electric Procurement PBR.

Notice

Notice of SDG&E's Advice Letter 1146-E was made by publication in the Commission Daily Calendar and by SDG&E mailing copies to certain parties. On February 18, 1999, SDG&E served AL 1146-E to all customers on the affected schedules. In response to Energy Division's March 1, 1999 letter, SDG&E also served the AL 1146-E on the PX, ISO, and Electricity Oversight Board (EOB).

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Protests

The Alliance for Retail Markets (ARM) filed a late protest on June 17, 1999, after the draft Resolution went out for comments. ARM states it was unaware of SDG&E's Advice Letter 1146-E until recently. SDG&E responded to ARM's protest on June 24, 1999.

ARM objects to the Advice Letter because the Advice Letter, if adopted would (1) allow SDG&E to abuse its monopoly distribution and default commodity provider positions to the detriment of ESPs by inappropriately retaining customers and (2) contradict Commissioner Duque's Ruling in the consolidated post-rate freeze proceedings, (A.99-01-016 et al,) which stated that post- rate freeze market structure issues should be addressed in a separate proceeding.⁴

In its reply, SDG&E states that there is no inappropriate customer retention because the proposals are equal applicable to direct access customers as well as bundled customers. SDG&E further claims ESPs already have 70% of the large industrial load which is the target group in the Advice Letter. SDG&E disagrees with ARM's interpretation of Commissioner Duque's Ruling. SDG&E believes that the Ruling recommended, not mandated, a separate proceeding to address market structure issues.

Since the Advice Letter is rejected, ARM's protest is moot.

Discussion

SDG&E argues that since interruptible customers choose to curtail their load during the mandated Signal Day or Period, the interruptible customers' load during these times is not available to the ISO to meet Stage 2 or 3 emergencies. However, since the load of these interruptible customers has already been curtailed by the customers themselves, should a Stage 2 or 3 emergency occur, the additional capacity needed by the ISO to meet the emergency is lower than it would have been otherwise without the customer-initiated curtailments. Therefore, in effect, the ISO has accessed, albeit indirectly, the load of the interruptible customers to meet Stage 2 and 3 emergencies under existing tariff provisions.

While the proposed changes would not increase the number of Signal Days or Periods, there is no assurance that the number of potential interruptions would decrease, as SDG&E contends. The comparison of 44 hours of curtailment under the proposed tariffs to the 313 hours of actual curtailments assumes that SDG&E bids the energy cost curve at the maximum price of \$250/Mwh. Should SDG&E bid in the ancillary service market at prices lower than \$250/Mwh, the number of potential interruptions may not be significantly less than under current tariff conditions.

⁴ March 11, 1999 Scoping Memo and Ruling of the Assigned Commissioner Ruling in A.99-01-016 et al.

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To the extent that there are fewer curtailments, SDG&E's other customers would be negatively impacted. SDG&E's other customers pay either directly or indirectly through the cost allocation mechanism for a given level of curtailment. With the proposed changes, the vast majority of SDG&E customers will receive less curtailment service than for which they paid.

SDG&E is now in the unique position of potentially ending its rate freeze as early as July 1, 1999. At that time, SDG&E will have recovered the majority of its transition costs. However, prior to recovering its transition costs, a low PX price resulted in more revenues being available to recover these costs. So when customers curtailed their load during the mandatory Signal Day or Period, resulting in a lower load being bid into the PX and a correspondingly lower PX price, SDG&E benefited from the increased revenues available to reduce its transition costs. Since SDG&E anticipates recovering its transition costs by July 1, 1999, a lower PX price due to the load reduction no longer provides SDG&E any benefits with respect to transition cost recovery.

When customers elect to curtail load during a mandated Signal Day or Period, SDG&E loses revenues from those interruptible customers. Prior to electric restructuring, the revenue losses were partially offset by lower generation costs. Since SDG&E now purchases its generation from the PX, there are no cost savings to SDG&E offset to its revenue losses.

With the proposed changes, SDG&E would not only mitigate the revenue loss but would be better off by the additional capacity and energy revenues for ancillary services, i.e., the proposed changes would allow SDG&E to capitalize on a business opportunity. With every opportunity for gain, there is also an opportunity for loss. SDG&E itself has recognized that there are risks associated with bidding the load of the affected schedules into the ancillary service market, e.g., the penalties that would be charged if the customers did not curtail when the ISO required the load to be interrupted. SDG&E has clearly stated that it is unwilling to bear such risk unless there is some potential shareholder reward like that proposed in its Electric Procurement PBR. Since the Electric Procurement PBR is being litigated in A.99-02-029, it would be inappropriate for the advice letter process to address the electric procurement issue and the associated distribution of risk between ratepayer and shareholders. It is not clear, however, absent an Electric Procurement PBR, how SDG&E proposes the revenues from the ancillary service market and any penalties as the result of non-performance would be shared between ratepayers and shareholders.

To the extent that SDG&E calls fewer curtailments, interruptible customers and SDG&E benefit, but SDG&E's other customers who are the vast majority of ratepayers, are adversely impacted. For these reasons, SDG&E's AL 1146-E is denied.

Comments

The draft Resolution of the Energy Division in this matter was mailed to parties in accordance with Public Utilities Code Section 311 (g). Comments were filed on June 15, 1999 by SDG&E.

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In its comments, SDG&E states the draft Resolution is inaccurate in concluding that with fewer curtailments, the vast majority of customer would be adversely impacted. SDG&E points out that with fewer curtailments, retail revenues would increase to the benefit of all customers through its Distribution PBR sharing mechanism. SDG&E also argues that reduced curtailments may lead to a higher sales forecast in SDG&E's next Cost-of-Service proceeding which would create further rate reductions.

SDG&E is correct that reducing curtailments increases retail distribution revenues. However, whether customers benefit depends if the incremental revenue from the reduced curtailments is within the Distribution PBR sharing range. We do not expect significant sharing, if any, because the interruptible rates are heavily discounted and the total load in question is less than 40 MW. Moreover, there is no sharing unless the actual return on ratebase is 25 basis points above the authorized return on ratebase. For similar reasons, we do not see the increase in sales to have a noticeable impact on the sales forecasts in SDG&E's next Cost of Service Proceeding which will not occur until 2001 for rates effective 2003.

SDG&E states that the Background section of the draft Resolution errs in stating that SDG&E would benefit from revenues earned from bidding the interruptible load into the ancillary service market. SDG&E indicates that this only true if there were an Electric Procurement PBR. We will make this clarification.

Now in its comments, SDG&E claims that currently any revenues earned from bidding into the ancillary service market as well as any penalties associated with non-performance with an ISO order would be credited against Schedule PX charges. Therefore all bundled customers benefit from reduced commodity charges. SDG&E is implicitly stating it is willing to bid the interruptible load into the ancillary service market. The revenues and risks of doing so would accrue solely to ratepayers. This is essentially a new proposal.

In its March 12, 1999 Letter, SDG&E stated it would not bid the interruptible load into the ancillary service market and assume the associated risk without some potential shareholder reward for assuming those risks as suggested in the Electric Procurement PBR. In the draft Resolution we declined to address the Electric Procurement PBR because that was being litigated in A.99-02-029. As we also stated in the draft Resolution, without an Electric Procurement PBR, it is not clear what happens to the distribution of revenues and risks associated with SDG&E's proposal to bid interruptible load into the ancillary service market. However it is clear, absent an Electric Procurement PBR specifying the disposition of revenues and risk associated with bidding the load into the ancillary service market, that with fewer curtailments, interruptible customers would benefit from fewer curtailments, SDG&E would benefit by the increase in distribution revenues, but SDG&E's other customers would not benefit because they had paid for a certain level of curtailment but now would not receive those curtailments. The consequence of fewer curtailments to SDG&E's other customers who are the vast majority of SDG&E's customers is potentially higher PX prices. Since the vast majority of SDG&E's customers would be adversely impacted compared to the few interruptible customers who would benefit, we rejected SDG&E's Advice Letter 1146-E in the draft Resolution. Comments to the draft Resolution should address factual, legal, or technical errors and not present new proposals. Should SDG&E wish to present an alternative or an additional option to

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its original proposal the appropriate vehicle is to supplement the Advice Letter. We cannot consider SDG&E's new proposal since procedurally it is improper.

Findings

1. On January 20, 1999, SDG&E filed Advice Letter 1146-E which requested modifications to definitions in Tariff Rule 1 which are applicable to Schedules A-V1, A-V2, and A-V3, RTP-1, RTP-2, and I-2 and Special Conditions 13 and 14 of Schedules RTP-1 and RTP-2.
2. On March 1, 1999, Energy Division sent a letter informing SDG&E that AL 1146-E was deficient and that SDG&E should either supplement or withdraw its filing.
3. SDG&E sent a letter to the Energy Division responding to the deficiencies on March 12, 1999. The SDG&E letter was followed up with a meeting with Energy Division staff and data requests.
4. ARM filed a late protest on June 17, 1999.
5. SDG&E replied to ARM's protest on June 24, 1999.
6. All of the affected schedules charge customers a high rate during a Signal Day or Period. Customers can choose to curtail or interrupt their load to avoid the high rates.
7. Under current tariff rules, Signal Days or Periods must commence when certain criteria are met as set forth in Tariff Rule 1. The proposed changes in AL 1146-E would allow SDG&E to initiate Signal Days or Periods at its discretion, provided that the Signal Day or Period would have otherwise occurred under the conditions set forth in Rule 1.
8. When customers elect to curtail load during a mandated Signal Day or Period, SDG&E loses revenues from those interruptible customers. Prior to electric restructuring, the revenue losses were partially offset by a reduction in its generation costs. Since SDG&E now purchases its generation from the PX, there are no cost savings to SDG&E to offset its revenue losses.
9. With the proposed changes, SDG&E would not only mitigate the loss but would be better off by the additional capacity and energy revenues from ancillary services, i.e, the proposed changes would allow SDG&E to capitalize on a business opportunity.
10. If SDG&E were to bid the interruptible load into the ancillary service market under existing tariffs and the Signal Day or Period was activated as mandated in the tariffs prior to the ISO's request for an interruption, the load on the affected schedules would not be available to meet the ISO's request.

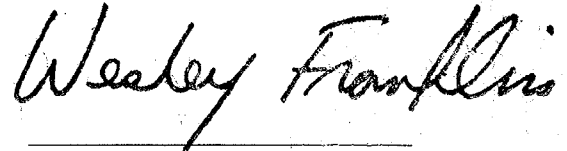
11. With the requested tariff changes, SDG&E will have the discretion of determining when the Signal Day or Period will occur within the parameters otherwise specified in Tariff Rule 1. With that discretion, SDG&E plans to (1) bid the interruptible load into the ancillary services market and (2) declare Signal Day or Period only at the direction of the ISO. SDG&E would receive ancillary service capacity payments if its bid is accepted by the ISO and additional energy payments if it is actually called upon by the ISO.
12. The risks associated with bidding the load of the affected schedules into the ancillary service market are the penalties that would be charged if the customers did not choose to curtail when the ISO required the load to be interrupted. SDG&E is unwilling to bear this risk unless there is some potential shareholder reward through an Electric PBR as proposed in its post-rate freeze application, A. 99-02-029.
13. It is not clear, absent an Electric PBR, how SDG&E would propose the revenues from the ancillary service market and any penalties as the result of non-performance would be shared between ratepayers and shareholders.
14. Since the Electric PBR is being litigated in A. 99-02-029, it would be inappropriate for the advice letter process to address the electric procurement mechanism and the associated distribution of risk between ratepayers and shareholders.
15. If SDG&E bids in the ancillary service market at prices lower than \$250/Mwh, interruptible customers may not see any benefit because the number of potential interruptions may not be significantly less than under current tariff conditions.
16. To the extent that there are fewer curtailments, SDG&E's other customers would be negatively impacted. SDG&E's other customers pay either directly or indirectly through the cost allocation mechanism for a given level of curtailment. With the proposed changes, the vast majority of SDG&E customers will receive less curtailment service than for which they paid.
17. Even though interruptible customers and SDG&E benefit from fewer curtailments, SDG&E's other customers who are the vast majority of SDG&E's ratepayers are adversely impacted.
18. SDG&E's AL 1146-E should be denied.

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Therefore it is ordered that:

1. SDG&E's Advice Letter 1146-E is denied.
2. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on July 8, 1999; the following Commissioners voting favorably thereon:



WESLEY M. FRANKLIN
Executive Director

RICHARD A. BILAS
HENRY M. DUQUE
JOSIAH L. NEEPER
CARL W. WOOD
Commissioners

I abstained.
/s/ Joel Z. Hyatt
Commissioner