

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION ★

**RESOLUTION E-3618
JULY 8, 1999**

RESOLUTION

RESOLUTION E-3618. SOUTHERN CALIFORNIA EDISON COMPANY (SCE) AND PACIFIC GAS AND ELECTRIC COMPANY (PG&E) PROPOSE TARIFF REVISIONS TO THEIR POWER EXCHANGE ENERGY COST (PX) RATE SCHEDULES. THE REQUESTED CHANGES WOULD PERMIT SCE AND PG&E TO RECOVER THE COSTS OF POWER PURCHASED THROUGH A NEW BLOCK-FORWARD MARKET OFFERED BY THE CALIFORNIA POWER EXCHANGE. APPROVED WITH MODIFICATIONS.

BY SCE ADVICE LETTER 1377-E, FILED ON APRIL 19, 1999.

BY PG&E ADVICE LETTER 1866-E, FILED ON APRIL 22, 1999.

SUMMARY

1. By Advice Letter 1377-E, Southern California Edison Company (SCE) proposes to revise its Power Exchange Energy (PX) tariff to include the cost of power supplies from the California Power Exchange's new Block-Forward Market.
2. By Advice Letter 1866-E, Pacific Gas and Electric Company (PG&E) proposes to revise its Power Exchange Energy Costs (PX) tariff to include the cost of power supplies from the Block-Forward Market.
3. Both Advice Letters request that the costs of Block-Forward Market supplies be considered *prima facie* prudent, and therefore recoverable without further reasonableness review.
4. Both Advice Letters were protested by Alliance for Retail Markets (ARM), Dynegy Marketing and Trade (Dynegy), Reliant Energy Power Generation (Reliant), the Western Power Trading Forum (WPTF), and Williams Energy Marketing & Trading Company (Williams).
5. Letters in support of both Advice Letters were submitted by the Office of Ratepayer Advocates (ORA) and The Utility Reform Network (TURN).
6. Both Advice Letters are approved with modifications.

BACKGROUND

1. On March 23, 1999, the California Power Exchange Corporation (Power Exchange) applied to the Federal Energy Regulatory Commission (FERC) for permission to operate a Block-Forward Market. Under the Power Exchange application, the Block-Forward Market would be operated by a separate division, to be known as Cal PX Trading Services (CTS).
2. The new Block-Forward Market will offer buyers a "bundle" consisting of services covering the hours from 6:00 a.m. to 10 p.m., Monday through Saturday (holidays excluded), for an entire month. For the month of August, 1999, for example, the Block-Forward Market service would cover 416 hours. Capacity will be traded in lots of either one megawatt or 25 MW. The market will continuously match asking and bidding prices. Trading will close two days before the delivery month begins. Deliveries will be arranged through the existing day-ahead market, and settlement will be made based on the differences between the block-forward price and the corresponding day-ahead price.
3. In its application to the FERC, the Power Exchange said that the Block-Forward Market should improve price stability and supply security in the California power market by offering buyers an additional supply option to complement the existing day-ahead and hour-ahead markets. The Power Exchange said that the ability of customers to purchase energy on a block-forward basis should mitigate the effects of price spikes. The Power Exchange said that block-forward trading is already practiced by members of the Western Systems Power Pool (WSPP).
4. As an intervenor in the FERC proceeding, the Commission recommended that the FERC approve the Power Exchange's application.
5. On May 26, 1999 the FERC approved the Block-Forward Market application (FERC Docket No. ER99-2229-000, 87 FERC ¶61,203), subject to certain modifications. FERC's approval is to be effective on the day that CTS begins operations.
6. Both the SCE and PG&E Advice Letters request that the cost of purchases from the new Block-Forward Market be recouped via the utility distribution company's (UDC's) respective PX rate schedules, by being rolled in with other power supply costs.
7. Both Advice Letters request that the costs of Block-Forward Market supplies be considered *prima facie* prudent, and therefore recoverable without further reasonableness review. SCE and PG&E say that this is in keeping with the treatment of other purchases from the Power Exchange or the Independent System Operator, and is consistent with the Commission's Preferred Policy Decision (D.95-12-063).

NOTICE

1. Public notice of the Advice Letters was made by publication in the Commission Calendar, and by SCE and PG&E mailing copies of the filings to interested parties.

PROTESTS

1. Protests of both the SCE and PG&E Advice Letters were submitted by the Alliance for Retail Markets (ARM), Dynegy Marketing and Trade (Dynegy), Reliant Energy Power Generation (Reliant), the Western Power Trading Forum (WPTF), and Williams Energy Marketing & Trading Company (Williams).
2. Letters in support of both Advice Letters were submitted by the Office of Ratepayer Advocates (ORA) and The Utility Reform Network (TURN).
3. Dynegy objects to the Advice Letters on the grounds that neither Assembly Bill (AB)1890 (Stats.1996, Ch.854) nor the Commission's Preferred Policy Decision suggested that the UDCs be authorized to participate in any kind of block-forward market. Dynegy says it "supports the movement towards a robust, liquid market, including one that utilizes forward market tools," but opposes the UDCs' participation in block-forward markets while the rate freeze is still in effect. Dynegy would have the Commission withhold permission for the UDCs to take part in block-forward markets until after the rate freeze has ended and the Commission has addressed post-transition market structure.
4. Reliant says the Advice Letters should be rejected because their approval would further a "piecemeal" approach to regulation which is distorting the market to the advantage of large buyers. Reliant asks that the Commission take up the issue of Block-Forward Markets in the context of a broader proceeding which would address all facets of the power supply market, including the issue of price caps on ISO services.
5. ARM claims that allowing the UDCs to operate in the new Block-Forward Market places them in competition with ESPs in the power procurement market, and alleges that the UDCs will then use market power to the detriment of ESPs. ARM claims that use of the Block-Forward Market by ESPs would enhance competition, but that in the hands of the UDCs, the Block-Forward Market becomes a tool for the exercise of market power. Moreover, ARM asserts that allowing UDCs to participate in the Block-Forward Market will undermine the buy-sell requirement, because the UDCs' portfolios will then consist of a mix of short-term and long-term purchases, instead of the single short-run incremental cost that is the spot power market. ARM also claims that this more diversified supply mix will make it more difficult for customers to make price comparisons. ARM says the UDCs' requests to participate in the Block-Forward Market should have been put before the Commission as applications, not as advice letters. ARM would prefer that the issue of the Block-Forward Market be consolidated with other

market structure issues in a new post-transition proceeding. ARM asks that, if the Commission does authorize UDC participation in the Block-Forward Market, that the Commission conduct reasonableness reviews.

6. WPTF also raises the issue of market power and asks that consideration of the Advice Letters be suspended until the completion of a Commission proceeding on post-transition market structure.

7. Williams joins in criticizing what it calls the "piecemeal" nature of recent filings by SCE and PG&E, including the Block-Forward Market advice letters, voluntary curtailment advice letters from the same two utilities, and also Edison's application to resell bilateral forward contracts (A.99-03-062). Williams suggests that all these matters should be considered in one comprehensive proceeding.

8. In answer to the protests, SCE asserts that the protesting parties who seek to have the Advice Letters refiled as applications are simply endeavoring to slow down the approval process. Against the protestants who would have Block-Forward Market purchases subject to reasonableness reviews, SCE says it was the intent of the Preferred Policy Decision that market processes be substituted for reasonableness reviews. SCE says its proposed treatment of Block-Forward Market costs comports with the Preferred Policy Decision. As to the allegations of buyer market power raised by some protestants, SCE says that this is largely a matter of FERC jurisdiction, and that, in any case, sellers who find the Block-Forward Market prices unattractive may simply choose not to participate in the Block-Forward Market and instead to continue selling into the existing PX and ISO markets.

9. PG&E says that the protesting parties' claims that the Block-Forward Market will diminish competition are unsubstantiated; PG&E claims that the new market will in fact enhance competition. PG&E says that participation in the Block-Forward Market is not inconsistent with the Preferred Policy Decision, because that Decision did not limit the UDCs to particular Power Exchange products. Because the Block-Forward Market is a Power Exchange product, PG&E says, participation by UDCs in the Block-Forward Market is consistent with the Decision, and, moreover, purchases should be afforded the presumption of prima facie prudence and not be subjected to reasonableness reviews. PG&E says the Advice Letter process is a proper means of beginning PG&E's participation in the Block-Forward Market, because the structure of the Block-Forward Market itself must be addressed at FERC; the Advice Letter simply implements PG&E's participation by providing for PX rate cost recovery.

10. TURN urges the Commission to promptly approve the Advice Letters and to "disregard these self-serving protests." According to TURN, Block-Forward Market purchases "would provide a badly-needed hedge against extremely high day-ahead and real-time prices" in times of peak demand. TURN says the Block-Forward Market will also help to mitigate market power on the part of large generators.

11. In support of the Advice Letters, ORA says that the Block-Forward Market will be "an important tool for the utilities and other market participants to diversify their portfolios and better manage their energy purchases and sales." ORA says it expects the Block-Forward Market to "increase the breadth and liquidity of the PX market to the benefit of all California ratepayers."

DISCUSSION

1. The issues before us are whether to permit SCE and PG&E to participate in the Block-Forward Market, and, if permitted, what treatment to accord the costs these two UDCs incur in that market. We note that the FERC has already ruled on the structure of the Block-Forward Market, but our decisions on cost treatment may determine whether the UDCs will actually elect to take part in the market.
2. The Commission supported FERC approval of Block-Forward Market trading, and we continue to believe that the existence of a block-forward market will enhance the supply choices and overall competitiveness of the California electricity industry. Therefore, we will approve the inclusion of Block-Forward Market supply costs and administrative fees in the PX rates of SCE and PG&E, and such trades shall be deemed prudent to the same extent as the cost of other supplies purchased from the Power Exchange or the ISO. This is based on the assumption that the Block-Forward Market will be used by the UDCs for hedging, rather than speculation. To ensure this result, we will limit each utility's trades to one-third of its historical minimum hourly load by month.
3. The new Block-Forward Market will offer an additional option to both buyers and sellers of generation and will be subject to the same rules as the existing day-ahead and hour-ahead markets. Therefore, we cannot agree with ARM that the use of block-forward trading represents an attempt by UDCs to compete against the ESPs in the supply market, or that the Block-Forward Market represents an enhancement of buyers' market power.
4. Nor do we agree with Dynegy that the UDCs' participation in the Block-Forward Market should be postponed until the end of the rate freeze, for this would delay the potential benefits of Block-Forward Market trading to California electricity consumers.
5. Reliant and Williams would have us take up the content of these Advice Letters in a consolidated proceeding which would also encompass SCE's application for bilateral trading of block-forward contracts, and also the demand-responsiveness Advice Letters of SCE and PG&E. While we recognize the importance of having a consistent purpose to inform our many decisions, we do not think this compels us to treat all of the aforementioned matters in one consolidated proceeding. In the case of the Block-Forward Market Advice Letters, FERC has already ruled on the structure of the Block-Forward Market, and we are addressing primarily the matter of PX cost recovery by the UDCs. Protestants raise no factual or legal issues that need to be address in an application.

Reliant's and Williams's request to have the utilities file applications should be denied. We think it is important that SCE and PG&E be able to acquire supplies on the Block-Forward Market for at least part of this summer.

6. While we believe approval of the Advice Letters is in the best interest of California ratepayers, we will direct SCE and PG&E to make certain modifications to the tariff language. The companies' proposed tariff language provides for cost recovery of supply costs from the Block-Forward Market "or any other type of forward energy market." However, the Commission will not grant approval in advance for automatic recovery of other forward-market products which the Power Exchange may offer in the future. Therefore, we will require SCE and PG&E to delete such tariff language. Should the Power Exchange introduce additional forward market products, SCE and PG&E may at that time request Commission authorization for cost recovery.

7. We will also require that SCE and PG&E pass along any credits they receive against their administrative fees. The utilities may take service under CTS's basic or participating fee schedule. The participating fee schedule, the more advantageous schedule for larger market participants, provides for credits to customers of half the amount by which administrative fees exceed actual costs. It is appropriate for the UDCs to recover administrative fees through the PX rate, but any credits, refunds, or rebates should go toward reducing the PX rate. Accordingly, the SCE and PG&E tariff language should specify that the subscription or administrative fees recoverable through the PX rate are to be net of any credits, refund, or rebates.

8. While generally PG&E Advice Letter 1866-E and SCE Advice Letter 1377-E are very similar, there is a notable difference. PG&E's Advice Letter does not specify how to account for gains and losses associated with trades. PG&E should handle the gains and losses in the same manner as SCE, i.e. gains and losses should be included in the calculation of the Schedule PX hourly forward market costs.

9. Moreover, in view of the innovative nature of the Block-Forward Market, we think it appropriate to set a limited term of approval for the Advice Letters, and to impose reporting requirements upon participating UDCs. We will use the data gathered during this initial term to evaluate the efficacy of the Block-Forward Market. We will grant our authorization for cost recovery of Block-Forward Market costs incurred for deliveries through October 31, 2000, subject to the outcome of the Post-Transition Ratemaking Proceeding (A.99-01-016/A.99-01-019/A.99-01-034). By selecting this date we insure that the program will have a fair period of time to work, will not be interrupted during a peak season, and will allow time for analysis and the implementation of any appropriate changes before the next peak season begins.

10. So that we may review the operation of the Block-Forward Market, we will require SCE and PG&E to file monthly reports on their new transactions for the month and their outstanding Block-Forward Market positions. The utilities will show for each BFM transaction the quantity, price, date and time of purchase or sale, and applicable

time period. Any sale of previously held Block-Forward Market commitments will indicate the gain or loss on that transaction. SCE and PG&E should also provide the market value of all Block-Forward Market positions held at the close of each reporting month, valuing them at the latest available market price. SCE and PG&E should also provide PX cost data with and without the Block-Forward Market program, assuming that the demand that was met by Block-Forward Market program had instead been met by purchases in the PX day-ahead market. These reports may be filed under Public Utilities Code Section 583 with the Energy Division.

11. Finally, we note that in approving the application of CTS, FERC directed that the filing be revised to delete a market rule requiring Block-Forward Market participants to implement deliveries through the day-ahead market. The FERC ruling directed the Power Exchange to allow market participants to carry out transactions via bilateral trades as well. FERC also stated that the purpose of this change was to prevent participation in the Block-Forward Market from being limited to Power Exchange members. However, FERC's allowance of bilateral transactions was limited to those participants "not otherwise obligated to use the PX." SCE and PG&E are so obligated. Accordingly, in order to reiterate our policy that the UDCs subject to our jurisdiction purchase supplies entirely through the Power Exchange, we will require that all of SCE's and PG&E's Block-Forward Market trades be delivered through the day-ahead market, as was envisioned in the original CTS filing at FERC. We will do so by requiring day-ahead market delivery as a condition of recovering the Block-Forward Market costs via SCE's and PG&E's PX rates.

12. For the reasons discussed in the above, we deny the protests of ARM, Dynegy, Reliant, WPTF, and Williams.

COMMENTS

1. The draft of Resolution of the Energy Division in this matter was mailed to the parties on June 8, 1999, in accordance with Public Utilities Code Section 311(g). On June 15, 1999, SCE, PG&E, ARM, TURN and Williams filed comments on the draft Resolution.

2. SCE says the draft Resolution is not sufficiently specific on what costs are recoverable. SCE asks that the language of the Resolution be modified to state that SCE is allowed to recover all costs it incurs in the Block-Forward Market, including gains and losses on transactions, trading fees, all costs of satisfying credit and collateral requirements, and any other costs required by the Participating Agreement and Trading Rules. SCE specifically mentions "default chargebacks," which it says occur when collateral and Pool Performance Bonds are insufficient to cover a default.

3. SCE criticizes part of the draft Resolution's reporting requirement. SCE says the comparisons of customer-class PX rates with and without the Block-Forward purchases

“cannot reveal any useful information...because there is no way to know what the PX day-ahead price would have been without the BFM purchase bidding into that market.” Finally, regarding the supplemental tariff sheets required by this Resolution, SCE requests a specified effective date for those sheets, rather than having their effectiveness depend on a date of notification from the Energy Division. SCE says these proposals are intended to have its participation in the Block-Forward Market become effective as soon as possible.

4. PG&E requests that the Resolution language conditioning cost recovery on delivery via the Day-Ahead Market be broadened to read “gains and losses” rather than simply “purchases.” PG&E also asks for clarification regarding our time limit on utilities’ recovery of Block-Forward Market costs; PG&E asks that we make it clear that the Resolution authorizes block-forward transactions that run through October, 2000, but that cost recovery may take place later than that. Finally, PG&E comments on the reporting requirements the draft Resolution would impose. PG&E asks that, in calculating what the PX prices would have been without the Block-Forward trading, PG&E be allowed to use the corresponding day-ahead prices.

5. TURN urges approval of the Resolution as expeditiously as possible. Regarding the content of the draft Resolution, TURN’s only comment goes to the load limit on block-forward transactions. The draft Resolution would limit each utility’s capacity obtained in the Block-Forward Market to one-third of its minimum load for the corresponding month of the previous year. TURN points out that the Block-Forward Market provides for trading of capacity for the hours of the day and days of the week, while the minimum loads are likely to occur outside those hours. Therefore, TURN suggests that the “one-third of minimum load” standard stated in the draft Resolution be calculated using the minimum historical load from those hours, rather than the absolute minimum load.

6. ARM asserts that the introduction of block-forward capacity to the UDCs’ supply portfolios will make it more difficult for ESPs to compete with bundled service, because “the benchmark [price] would become more ill-defined.” ARM proposes to compensate for this alleged problem by modifying the calculation of the PX credit, and by requiring the UDCs to make public their block-forward trades. Specifically, the latter proposal would require the UDCs to post on their web sites the prices and quantities of their block-forward trades within a day of execution. ARM would modify the PX credit calculation by having the UDCs price their block-forward purchases at the block-forward prices or the corresponding day-ahead rates, whichever is higher. ARM says this would promote the Commission’s goal of price transparency without compromising the purposes of the Block-Forward Market.

7. Regarding the “one-third of minimum load” limit, ARM asks that we clarify that the limit is on capacity, not on energy, and hence is applicable to every hour of service. And ARM proposes that the limit on authorization be altered from October 31, 2000 to the earlier of October 31, 2000 or the end of the respective UDC’s rate freeze.

8. Williams asserts that the draft Resolution is in conflict with the Preferred Policy Decision. Accordingly, Williams asks that we reject the Advice Letters. Williams is essentially elaborating upon and rearguing a point made in its Protest.

9. Regarding SCE's proposed listing of block-forward market costs eligible for recovery, we note that that catalog of costs is more extensive and detailed than was proposed by SCE in its Advice Letter. We are authorizing SCE and PG&E to recover via their PX rates their gains and losses from block-forward market trading, as well as the associated CTS transactions fees. We will not in this Resolution authorize PX recovery of any other types of block-forward costs where the corresponding costs of the day-ahead or hour-ahead markets are not authorized PX recovery. The UDCs must look to the Annual Transition Cost Proceeding (ATCP), the Revenue Adjustment Proceeding (RAP), or other appropriate venue, to seek recovery of costs which are not billed to the UDCs by the Power Exchange or the Independent System Operator. Regarding the effective date of the substitute tariff sheets, we will maintain the requirement of the draft resolution that the substitute sheets become effective upon notice from the Energy Division.

10. We reject ARM's proposal to alter the PX Credit calculation by pricing block-forward volumes at the higher of the block-forward or day-ahead prices. This proposal would have altered the PX methodology so that it no longer reflected actual costs incurred. Nor will we direct the UDCs to introduce their "internal" costs of implementing Block-Forward Market trades; such a proposal would be more appropriately made in the next Revenue Adjustment Proceeding. We will not require the UDCs to post their block-forward trade data on their web sites. We note, however, that the market-clearing prices and quantities will be available as public information from the Power Exchange. ARM also asked that we have our approval for a UDC's block-forward trading terminate on the earlier of October 31, 2000 or the date that the UDC ends its rate freeze. We do not find a persuasive reason to link these two matters and hence we reject this proposal; we note, however, that cost recovery after the end of a UDC's rate freeze may be subject to the outcome of the Post-Transition Ratemaking Proceeding (A.99-01-016/A.99-01-019/A.99-01-034) We will, however, accept ARM's comment regarding the "one-third of minimum load" rule and therefore we reiterate that this rule applies to block-forward capacity rather than energy.

11. Regarding the "one-third of minimum load" rule, our intention is to limit a UDC's block-forward capacity in proportion to the lowest monthly load on the UDC's system. Accordingly, we reject TURN's proposal to modify the rule.

12. Both SCE and PG&E raise questions about our proposed reporting requirements. We are requiring SCE and PG&E to submit monthly reports on their block-forward trading so that we may monitor the impact of this new market. We are directing SCE and PG&E to report both their actual PX costs including block-forward expenses, and what the costs would have been without block-forwards. In computing the latter, SCE and PG&E may simply substitute the actual corresponding day-ahead prices for the block-

forward prices; we are not requiring SCE and PG&E to attempt to divine what the day-ahead prices might have been had the block-forward market not been operating.

13. In answer to PG&E's other request for clarification, we affirm that October, 2000 is the last month for which we are presently authorizing SCE and PG&E to procure supplies in the Block-Forward Market, but that cost recovery is authorized to extend beyond that month, subject to the outcome of the Post-Transition Ratemaking Proceeding (A.99-01-016/A.99-01-019/A.99-01-034)

FINDINGS

1. By Advice Letter 1377-E, filed on April 19, 1999, Southern California Edison Company (SCE) proposed to revise its Power Exchange Energy (PX) tariff to include the cost of power purchases from the California Power Exchange's new Block-Forward Market.

2. By Advice Letter 1866-E, filed on April 22, 1999, Pacific Gas and Electric Company (PG&E) proposed to revise its Power Exchange Energy Costs (PX) tariff to include the cost of power purchases from the Block-Forward Market.

3. On May 26, 1999, the Federal Energy Regulatory Commission granted permission for the Block-Forward Market to begin operations. The Block-Forward Market will be operated by a newly-created division of the California Power Exchange, to be known as Cal PX Trading Services.

4. ARM, Dynegy, Reliant, WPTF, and Williams protested the Advice Letters on the grounds that the Block-Forward Market proposals in the Advice Letters are anti-competitive and inconsistent with the Preferred Policy Decision. They also recommended that the Block-Forward Market proposals be addressed in an application and be subject to reasonableness review.

5. ORA and TURN submitted letters in support of both Advice Letters.

6. The new Block-Forward Market will be a useful option for electricity buyers, offering the ability to obtain power supplies with greater price stability than on the spot markets, and mitigating the effects of price spikes in the day-ahead and hour-ahead markets on peak days.

7. Each UDC's Block-Forward Market transactions should be limited to one-third of its historical minimum hourly load by month.

8. It is appropriate that SCE and PG&E recover the costs of Block-Forward Market trades, and associated administrative fees and charges, via their PX rate schedules.

9. The administrative fees and charges recovered through the PX rate should be net of any credits, rebates or refunds. Accordingly, SCE and PG&E should file revised tariff language which so states.

10. PG&E should handle the gains and losses associated with trades in the same manner as SCE, i.e. gains and losses should be included in the calculation of the Schedule PX hourly forward market costs.

11. Approval of PX cost recovery is only for the Block-Forward Market product authorized by the FERC Order of May 26, 1999 in Docket No. ER99-2229-000 (87 FERC ¶61,203). Should the Power Exchange introduce any additional block-forward offerings, SCE and PG&E must obtain Commission authorization for PX cost recovery of such products. Accordingly, SCE and PG&E should strike all proposed tariff language which provides for cost recovery of any other block-forward products.

12. SCE and PG&E should be authorized recovery of Block-Forward Market costs only for trades which are delivered through the day-ahead market.

13. Because the Block-Forward Market is a new and innovative program, approval of cost recovery should be granted for a limited term, to allow for analysis and review. A term of approval that allows cost recovery for deliveries through the month of October 2000 will provide a reasonable trial period. Owing to the billing and settlements process, the period of cost recovery will extend beyond October 31, 2000. Cost recovery beyond the end of the UDCs' respective rate freeze periods is subject to the outcome of the Post-Transition Ratemaking Proceeding (A.99-01-016/A.99-01-019/A.99-01-034)

14. SCE and PG&E should file monthly reports on their new transactions for the month and their outstanding Block-Forward Market positions. The utilities should show for each transaction the date and time, quantity, price, and applicable time period for the Block-Forward Market transaction. Any sale of previously held Block-Forward Market commitments should indicate the gain or loss on that transaction. SCE and PG&E should also provide the market value of all Block-Forward Market positions held at the close of each reporting month, valuing them at the latest available market price. Each UDC should also provide on a monthly basis its average PX cost with the Block-Forward Market program and the corresponding PX cost without the Block-Forward Market program, and assume the demand that was met by the Block-Forward Market program was instead met by purchases in the PX day-ahead market. These reports may be filed under Public Utilities Code Section 583 with the Energy Division.

15. The protests are denied.

THEREFORE, IT IS ORDERED THAT:

1. Southern California Edison Company Advice Letter 1377-E and Pacific Gas and Electric Company Advice Letter 1866-E are approved with the following modifications:

The administrative fees and charges recovered through the PX rate shall be net of any credits, rebates, or refunds.

All proposed tariff language which provides for cost recovery of any block-forward products other than the Block-Forward Market product authorized by the FERC Order of May 26, 1999 in Docket No. ER99-2229-000 (87 FERC ¶61,203) shall be deleted.

PG&E shall include gains and losses associated with Block-Forward Market transactions in the calculation of its Schedule PX hourly forward market costs.

Each UDC's Block-Forward Market transactions shall be limited to one-third of its historical minimum hourly load by month.

2. SCE and PG&E shall be authorized recovery of Block-Forward Market costs only for trades which are delivered through the day-ahead market

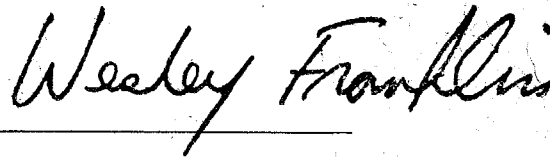
3. SCE and PG&E shall file monthly reports on their new transactions for the month and their outstanding Block-Forward Market positions. The utilities shall show for each transaction the quantity, price, and applicable time period for the Block-Forward Market transaction. Any sale of previously held Block-Forward Market commitments shall indicate the gain or loss on that transaction. SCE and PG&E shall also provide the market value of all Block-Forward Market positions held at the close of each reporting month, valuing them at the latest available market price. SCE and PG&E shall also provide on a monthly basis their average PX costs with the Block-Forward Market program and the PX costs without the Block-Forward Market program and assume the demand that was met by Block-Forward Market program was instead met by purchases in the PX day-ahead market. The exact data to be provided shall be decided by the Energy Division. These reports may be filed under Public Utilities Code Section 583 with the Energy Division.

4. SCE and PG&E shall file supplemental advice letters with the modifications in Ordering Paragraph 1 within ten days. The tariff sheets shall become effective upon notification by the Energy Division that such sheets are in compliance with this Resolution, and such effectiveness shall continue until October 31, 2000. Therefore, SCE and PG&E are authorized cost recovery for Block-Forward Market trades undertaken for delivery through the month of October, 2000, subject to the outcome of the Post-Transition Ratemaking Proceeding (A.99-01-016/A.99-01-019/A.99-01-034)

July 8, 1999

5. 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
PRESIDENT
HENRY M. DUQUE
JOSIAH L. NEEPER
JOEL Z. HYATT
Commissioners

I abstained.
/s/ Carl W. Wood
Commissioner