Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (E 338-E) for Authority to Institute a Rate Stabilization Plan with a Rate Increase and End of Rate Freeze Tariffs.	Application 00-11-038 (Filed November 16, 2000)
Emergency Application of Pacific Gas and Electric Company to Adopt a Rate Stabilization Plan. (U 39 E)	Application 00-11-056 (Filed November 22, 2000)
Petition of THE UTILITY REFORM NETWORK for Modification of Resolution E-3527.	Application 00-10-028 (Filed October 17, 2000)

OPINION ADOPTING REVENUE REQUIREMENTS FOR UTILITY RETAINED GENERATION

This decision establishes cost-of-service revenue requirements for the utility retained generation (URG) of Pacific Gas and Electric Company (PG&E), Southern California Edison Company (Edison) and San Diego Gas & Electric Company (SDG&E). URG reflects the utility-incurred costs associated with utility-owned generation assets and purchased power.[1] The URG revenue

[1] In Decision (D.) 01-01-061, the Commission defined URG broadly to include generation under utility control.

requirement is calculated based on operating expenses, purchased power costs, depreciation, taxes, and a return on rate base (derived from the net book value of retained plant). We adopt a January 2002 to December 2002 URG revenue requirement of $2.875 billion for PG&E, $3.801 billion for Edison, and $466 million for SDG&E. In general, we establish the URG revenue requirements by authorizing recovery of actual and reasonably incurred costs. Therefore, the initial revenue requirement we adopt in this decision will be trued-up to reflect actual recorded costs.[2] We adopt balancing accounts for PG&E, Edison, and SDG&E to ensure that these costs will be recovered. In D.01-10-067, we rejected the market valuation approach that PG&E used to develop its scenarios to recover balances in generation related balancing accounts via its URG revenue requirement. We reasoned that these approaches were not cost-based, but instead sought to recover expenses previously considered to be stranded costs. Our decision today is consistent with D.01-10-067 and reflects a cost-of-service approach.

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[2] On October 2, 2001, the Commission and Edison entered into a settlement agreement, which may impact recovery of Edison's URG revenue requirement. Due to timing, the settlement agreement was not fully considered in this proceeding.

4. ORA

ORA proposes the termination of ICIP pricing for Diablo Canyon at the end of 2001. ORA states that PG&E should receive a revenue requirement for Diablo Canyon that is based on cost-of-service and that PG&E should recover any remaining Diablo Canyon sunk costs over the remaining plant life. Also, ORA recommends a reduced rate of return for Diablo Canyon of 7.17% for 2001 and a full rate of return of 9.12% for 2002.

5. Discussion

Aglet, TURN and ORA all oppose PG&E's proposed 50/50 sharing mechanism for Diablo Canyon. These parties support termination of ICIP pricing and recommend that Diablo Canyon should return to cost-of-service ratemaking.

PG&E's 50/50 sharing proposal mechanism lacks merit. PG&E's proposal is premised on the assumption that the rate freeze has ended, a finding that the Commission has not made. In fact, the proceeding dealing with PG&E's sharing proposal, A.00-06-046 has been suspended because a determination has not been made that the rate freeze has ended. In addition, under PG&E's 50/50 sharing proposal, ratepayers would likely pay in excess of the costs to produce power. Thus, the revenue requirement for Diablo Canyon would not be cost-based. PG&E's proposed 50/50 sharing mechanism also fails to consider how profits are established under a cost-of-service approach, with output dedicated to utility ratepayers. Under this approach, the Commission sets the profit level by establishing a return on equity (ROE) for the utility. We believe it would be inappropriate for the Commission to require PG&E to refund 50% of its authorized ROE to ratepayers.

In D.01-01-061, we placed PG&E on notice that URG revenue requirements should be cost-based. ICIP should be modified since it does not produce a cost-based URG revenue requirement. However, the record is insufficient to determine a cost-based revenue requirement for Diablo Canyon. Therefore, subject to true-up against actual recorded costs, the Diablo Canyon revenue requirement contained in PG&E's second scenario should be used as an interim revenue requirement since it purportedly relies on cost-based calculations. Application of TURN's cost recovery proposal should ensure that

PG&E, which does not have a distribution PBR mechanism, of 11.2%, 10.6% and 11.22%. (D.97-12-089, D.99-06-057, D.00-06-040.) Thus, Aglet reasons that Edison's 11.6% ROE has not fairly reflected distribution risks since 1997. Aglet rejects Edison reasoning that a ROE of at least 11.6% "is clearly indicated" by the recent memorandum of understanding (MOU) among Edison, Edison International and DWR. Aglet contends that no weight should be given to any cost of capital in the MOU since neither the Commission nor the Legislature has found the MOU to be reasonable. Further, because the Edison MOU is a settlement, Aglet contends that neither the principles nor the numbers in it can be relied upon as precedent.

3. Discussion

Edison has not made any showing for cost of capital. Edison requests a 11.6% ROE which reflects Edison's last authorized ROE in 1997. Although, some parties argued for a reduced return on rate base due to perceived changes in risk, no comprehensive cost of capital showing was made by any other party.

We are receptive to arguments that Edison's financial risks may be reduced due to DWR's intervention, however, the record developed is insufficient to adopt a new ROE. Consequently, Edison's last authorized ROE should be used until Edison's next cost of capital proceeding or equivalent proceeding.

G. Table 2 – Adopted URG Revenue Requirement for Edison

SOUTHERN CALIFORNIA EDISON COMPANY
(000's)

Revenue Requirements		
	Generation	
1	Operating Expenses*	$987,205
2	Capital Related	
3	Depreciation	$102,506
4	Taxes	$55,827
5	Return	$106,137
6	Gen.Plant	$42,271
7	Total	$1,293,946
8	W/ FF&U	$1,308,460
	Purchased Power **	
9	QFs	$2,130,162
10	Bilaterals	$106,364
11	Interutility	$161,255
12	Total	$2,397,781
13	W/ FF&U	$2,424,677
	ISO-Related Charges	
14	Ancillary Services	-
15	Uplift Charges	$67,214
16	W/ FF&U	$67,968
17	Total URG	$3,758,941
18	Total URG w/ FF&U	$3,801,105

* Operating Expenses have been reduced by 0.9277% to reflect no reas. review = ~ 105 basis point reduction in ROE. (Excludes SONGs and Palo Verde)

** DRI forecast of July 20, for July 2001 - June 2002.

each cost category identified above, rather than creating entirely new balancing accounts. These ALs will be effective upon review of the Energy Division. We will true these accounts up on a semi-annual basis by AL filing. Each true-up AL shall be filed no later than 30 days after the end of each period. These accounts should remain in place until each utility's respective GRC is completed, at which time any remaining balances should be fully amortized. The utilities should withdraw any advice letters they may have previously submitted that establish balancing accounts or tariffs that are not consistent with this decision.

A general concern we have is about double collection. We are concerned that the utilities may record an actual cost in a balancing account for which DWR is already paying or the utility may already be collecting in another account or seeking in another proceeding.

The utilities are in the best position to determine whether a cost is being paid by DWR or whether the utility is recovering such cost in another account or proceeding. Consequently, we will place the burden on the utilities to ensure that double collection does not occur. Thus, PG&E, Edison and SDG&E should submit AL filings within 30 days of the effective date of decision, stating what, if any, URG costs are reflected in other Commission approved accounts or the utility is seeking in other proceedings, such as PG&E's current attrition request. Such filings should protect against the possibility of PG&E, Edison or SDG&E recovering more than once the same costs.

As discussed in Sections V, VI and VII, we are using the utilities net book value of its generation facilities as of December 31, 2000 as the starting point for future URG recovery of costs. This is the most reasonable method based on the information in the record in this proceeding. However, we recognize that a significant portion of the net book value on December 31, 2000

was to be recovered as transition costs in the year 2001. Thus, some portion of the amounts we approve herein for interim URG revenue requirements may reflect recovery of stranded costs.

The use of the December 2000 net book value for establishing initial URG revenue requirements going forward is based on the record presented to us in this proceeding, and should not be considered as a final determination of stranded cost recovery. The Commission is not making a final determination of stranded cost recovery in this proceeding. Thus, these values may need to be revised when the Commission ultimately decides the issues relating to stranded cost recovery in future proceedings.

The revenue requirements specified in this decision reflect the utilities receiving a return equal to their full authorized rate of return on these rate base amounts. We recognize that these assets while in the TCBA only earned the lower transition cost return on equity.

X. Comments on Proposed Alternate Pages

The proposed alternate pages of Commissioner Lynch were mailed to parties on January 18, 2002. Generally, pursuant to Pub. Util. Code § 311(d), the Commission must wait 30 days to take action on this matter, absent an unforeseen emergency or the stipulation of all parties. Similarly, Pub. Util. Code § 311(e) allows the Commission to reduce the time and manner of review and comment on alternates in unforeseen emergency situations. In this case, the Commission must take immediate action in this proceeding in order to facilitate the preparation of a Term Sheet as required by the bankruptcy court in PG&E's bankruptcy proceeding. (Pacific Gas and Electric Company, Case No. 01-30923 DM, United States Bankruptcy Court, Northern District of California, San Francisco Division.) Therefore, we find that there is good cause to determine that this court-imposed deadline requires immediate action and constitutes an unforeseen emergency (cf. Rule 81(g)). The comment-and-review period is reduced for both the proposed decision and the alternate pages. Comments must be filed and served by February 1, 2002. Comments should also be served electronically on the ALJ at jrd@cpuc.ca.gov and other parties in addition to regular filing and service. No reply comments will be accepted.

Findings of Fact

1. Consistent with D.01-01-061 and D.01-10-067, the scope of this decision is limited to establishing cost-based revenue requirements on a going forward basis.

2. The scope of this phase of the RSP is the determination of URG revenue requirements. Issues concerning stranded cost recovery or ending of the rate freeze are not addressed.

3. Issues concerning DWR's revenue requirement are outside the scope of this phase and are being specifically addressed in a separate phase of this proceeding.

65. To the extent Edison receives revenues for Reliability Must Run (RMR) or ancillary services it provides, such revenues should be credited to the appropriate balancing account.

66. Edison's ROE should not be modified at this time based on the record in this proceeding.

67. Under the TURN cost recovery proposal, SDG&E will recover all of its actual costs for SONGS.

68. A revenue requirement of $154.132 million for nuclear generation subject to balancing account treatment is reasonable for purposes of establishing SDG&E's interim URG revenue requirement.

69. A revenue requirement of $238.842 for purchased power subject to balancing account treatment is reasonable for purposes of establishing SDG&E's interim URG revenue requirement.

70. A revenue requirement of $72.886 million for ISO charges subject to balancing account treatment is reasonable for purposes of establishing SDG&E's interim URG revenue requirement.

71. Past QF costs should not be included in SDG&E's purchased power revenue requirement.

72. To the extent that past QF costs are contained in SDG&E's revenue requirement, SDG&E should not record such amounts in its balancing account.

73. The potential exists for extended time differences between PG&E and Edison receiving income tax revenue requirements in 2002 and later payments of actual income taxes.

74. Edison and PG&E may benefit from the time value of money due to timing difference between receipt of revenues and actual payment of taxes.

75. We have developed target revenue requirements for purposes of this decision that must be tracked and trued-up when compared with actual, recorded costs. In adopting this cost recovery approach, therefore, we must also allow PG&E, Edison, and SDG&E to establish balancing accounts in order to compare recorded costs with the revenue requirements we adopt here.

76. The purpose of this decision is to establish a revenue requirement for URG. This decision does not set generation rates since the utilities have not provided a definitive sales forecast and we are simultaneously considering the DWR revenue requirement. We cannot set rates until we have this information, which is critical to determining whether a change in rates is necessary. The rate setting exercise must also consider the status of the rate freeze.

77. The possibility exists that the utilities may recover more than once the same costs.

Conclusions of Law

1. The recovery of "past expenses" is a distinct issue from establishing a URG revenue requirement based on prospective costs.

2. ALJ DeUlloa's July 18, 2001 ruling that (1) the scope of the evidentiary hearing is the determination of URG revenue requirements; and that (2) issues

25. Pub. Util. Code § 360.5 requires the Commission to determine retail rates based on the costs of the utility's own generation.

26. Modification of ICIP pricing does not violate Pub. Util. Code § 367(a)(4).

27. The profit sharing element of ICIP is not a utility cost.

28. ICIP should be modified.

29. Changes in law, market and regulatory environment have occurred that warrant eliminating or modifying ICIP to produce a cost-based rate.

30. Pursuant to Pub. Util. Code § 360.5, the Commission may pursue cost-based pricing for nuclear generation.

31. TURN's request to modify the initial starting point revenue requirement by reducing the SONGS ICIP by 20% should be denied.

32. Edison's nuclear generation costs, including O&M, should be subject to reasonableness review and balancing account treatment.

33. Edison's purchased power costs should be subject to reasonableness review.

34. Edison's ROE should be set at a level sufficient to attract capital investment and accelerate the improvement of Edison's standing in the credit markets.

35. Edison's ROE should not be changed until its next cost-of-capital proceeding, GRC, or other appropriate proceeding.

2. This decision should be effective today so that the utilities may expeditiously implement the revenue requirements set forth in this decision.

3. It is reasonable to determine that the bankruptcy court's deadline constitutes an unforeseen emergency (cf. Rule 81(g)) and it is reasonable to reduce the comment and review period.

O R D E R

IT IS ORDERED that:

1. The cost recovery approach of The Utility Reform Network (TURN) is adopted.

2. Consistent with the direction of this decision, the utility retained generation (URG) revenue requirement of Pacific Gas and Electric Company (PG&E) for January 2002 to December 2002 is $2.875 billion subject to balancing account treatment. (See Table 1, page 33.)

3. Consistent with the direction of this decision, the URG revenue requirement of Southern California Edison Company (Edison) for January 2002 to December 2002 is $3.801 billion subject to balancing account treatment. (See Table 2, page 59.)

4. Consistent with the direction of this decision, the URG revenue requirement of San Diego Gas & Electric Company (SDG&E) for January 2002 to December 2002 is $465.860 million subject to balancing account treatment. (See Table 3, p. 63.)

5. PG&E, Edison and SDG&E are authorized to record actual and reasonably incurred generation costs in their respective balancing accounts.

6. Incremental Cost Incentive Pricing (ICIP) is terminated to provide PG&E, Edison and SDG&E cost-based revenues for nuclear generation.