

**PUBLIC UTILITIES COMMISSION**505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298**FILED**11/09/18  
04:20 PM

November 9, 2018

Agenda ID #17018  
Ratesetting

## TO PARTIES OF RECORD IN RULEMAKING 15-02-012

This is the proposed decision of Administrative Law Judge (ALJ) Roscow. It will appear on the Commission's November 29, 2018, agenda. The Commission may act then, or it may postpone action until later. This matter was categorized as ratesetting and is subject to Pub. Util. Code § 1701.3(c). Upon the request of any Commissioner, a Ratesetting Deliberative Meeting (RDM) may be held. If that occurs, the Commission will prepare and publish an agenda for the RDM 10 days beforehand. When the RDM is held, there is a related *ex parte* communications prohibition period. (See Rule 8.3(c)(4).)

When the Commission acts on the proposed decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Pursuant to Rule 14.6(b), comments on the proposed decision must be filed by November 20, 2018 and reply comments must be filed by November 26, 2018.

Comments must be filed pursuant to Rule 1.13 either electronically or in hard copy. Comments should be served on parties to this proceeding in accordance with Rules 1.9 and 1.10. Electronic and hard copies of comments should be sent to ALJ Roscow at [scr@cpuc.ca.gov](mailto:scr@cpuc.ca.gov) and the assigned Commissioner. The current service list for this proceeding is available on the Commission's website at [www.cpuc.ca.gov](http://www.cpuc.ca.gov).

/s/ JESSICA T. HECHT for  
Anne E. Simon  
Chief Administrative Law Judge

AES:jt2

Attachment

Decision PROPOSED DECISION OF ALJ ROSCOW (Mailed 11/9/2018)**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Consider the Annual Revenue Requirement Determination of the California Department of Water Resources and Related Issues.	Rulemaking 15-02-012
---	----------------------

**DECISION ALLOCATING THE 2019 REVENUE  
REQUIREMENT DETERMINATION OF THE CALIFORNIA  
DEPARTMENT OF WATER RESOURCES**

**Summary**

In accordance with the Rate Agreement between the California Department of Water Resources (DWR) and the California Public Utilities Commission, this decision allocates DWR's 2019 bond charge-related revenue requirement of \$812 million to the electric customers in the service territories of Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company. The allocation results in the electric customers of all three utilities paying \$0.00503 per kilowatt-hour in 2019 for DWR's recovery of its bond financing costs.

**1. Background**

Beginning during the 2000-2001 energy crisis in California, the California Department of Water Resources (DWR or the Department) purchased power, entered into long-term contracts, and engaged in bond financing activity in order to meet a portion of the power supply needs of retail end use electric customers

in the state. Pursuant to statute, the Commission's obligation since that time has been to calculate, revise, and impose corresponding DWR Bond Charges and Power Charges that collect these costs from the electric customers of Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), and Southern California Edison Company (SCE).<sup>1</sup> This obligation is contained in the Rate Agreement between the Commission and DWR that was adopted by the Commission in Decision (D.) 02-02-051, and Water Code §§ 80110 and 80134.

The Department submitted its 2019 revenue requirement determination to the California Public Utilities Commission (Commission) on August 2, 2018. This submission consisted of the "Determination of Revenue Requirement for the Period January 1, 2019 Through December 31, 2019" (August Determination), the "Notice of Determination of Revenue Requirements" (August Notice), and a memorandum from DWR's Chief of California Energy Resources Scheduling, Jesse Cason, to Commission President Michael Picker.<sup>2</sup> The memorandum notified the Commission of DWR's 2019 revenue requirement determination, and requested "that the Commission calculate, revise and impose Bond Charges in accordance with Article V of the Rate Agreement..."<sup>3</sup> DWR ceased purchasing power for sale to customers in the IOUs' service areas in 2015; for this reason, the imposition of a Power Charge for 2019 is not required.

---

<sup>1</sup> PG&E, SDG&E, and SCE are identified jointly as "Investor-Owned Utilities" or "IOUs" throughout this decision.

<sup>2</sup> Copies of the August Notice and August Determination may also be accessed at DWR's website at <https://water.ca.gov/Programs/All-Programs/California-Energy-Resource-Scheduling>

<sup>3</sup> The term "Bond Charge" is defined in Article I of the Rate Agreement that was adopted in D.02-02-051.

On September 25, 2018, the Commission held a prehearing conference (PHC) to discuss the scope and schedule of this proceeding. At the PHC, DWR informed the assigned Administrative Law Judge (ALJ) that, if necessary, it was planning to submit a revised 2019 revenue requirement determination to the Commission no later than October 16, 2018. Following the PHC the assigned Commissioner issued a Scoping Ruling that determined the issues that would be addressed in this decision and established the schedule that would be followed to process DWR's 2019 revenue requirement determination.

Pursuant to the Scoping Ruling, three matters are addressed in this decision:

1. Allocation of DWR's 2019 revenue requirement;
2. Whether SDG&E should recover approximately \$667,000 which it believes was incorrectly treated in the 2014 DWR Revenue Requirement proceeding as proceeds owing to SDG&E's customers, when those proceeds should have been treated as an offset to an accounts receivable due to SDG&E; and, if so, should the Commission authorize SDG&E's proposed correction to this item, i.e., that the \$667,000 be offset against any available Power Charge credits that would otherwise be provided to customers; and
3. Whether any safety considerations are raised by the proceeding that affect the ability of PG&E, SCE, and SDG&E to comply with the safety requirements of Pub. Util. Code § 451 in their administration, management, and dispatch of fuel and purchased power.

Pursuant to the adopted schedule, on October 16, 2018 DWR informed the Commission that after reviewing its operating results as of September 30, 2018 it had determined that no changes to its August 2, 2018 Determination would be

required. Thus, DWR's requested 2019 cash basis Bond Charge Account revenue requirement is \$812 million.<sup>4</sup>

DWR also informed the Commission that for 2019, the Power Charge accounts contain excess amounts that can be allocated back to ratepayers in the IOU service areas. DWR explains that the excess amounts are primarily due to energy crisis settlements and the diminishing required minimum balances in the Power Charge Accounts established by DWR pursuant to the Rate Agreement. The excess amount to be allocated is equal to \$11 million.

Pursuant to the Scoping Memo, comments from parties in response to DWR's October 16, 2018 update were due on October 23, 2018. SDG&E filed comments addressing an issue specific to its situation, which we address below.

## **2. Allocation of the 2019 Bond Charge Revenue Requirement Determination**

DWR requests that the Commission calculate, revise and impose the Bond Charge on the electric customers of the three utilities so as to satisfy the Rate Covenant in Article V of the Rate Agreement between DWR and the Commission. The Bond Charge is designed to recover DWR's costs associated with its bond financing activities from those customers. In D.02-10-063, the Commission adopted a methodology for establishing a charge to repay DWR's

---

<sup>4</sup> DWR also described how it will approach future adjustments to its revenue requirement. DWR currently projects that it will have sufficient amounts in its Bond Charge Accounts at the end of 2020 to pay all future Bond Related Costs. At that time, no further deposits will be required to be made into the Bond Charge Accounts (i.e., Bond Charges will not be imposed on ratepayers). Therefore, DWR states that it expects it will notify the CPUC, likely in its 2021 Revenue Requirement which is projected to be provided to the CPUC in August of 2020, that it has amounts sufficient to satisfy its future obligations so that the CPUC can direct the IOUs to shut off Bond Charge collections. *See* DWR's August 2, 2018 Determination of Revenue Requirement at 6.

bond-related costs. The adopted methodology levies a per kilowatt-hour (kWh) charge on all consumption that is not specifically excluded from this surcharge.

DWR's 2019 revenue requirement determination contains the information needed to recover its 2019 bond charge revenue requirement from the utilities' electric customers for calendar year 2019.<sup>5</sup> DWR explains that during 2019, it projects that it will incur the following bond-related costs: (a) \$876 million for debt service on the bonds and (b) \$12 million for administrative and general expenses. Funds to meet this requirement are provided from: (a) \$37 million in interest earned on DWR's bond charge account balances and (b) \$812 million from the bond charge revenues collected from IOU customers.<sup>6</sup> DWR's modeling in support of its final determination indicates that a Bond Charge of \$0.00503/kWh is required to collect that \$812 million in revenues. Therefore, we adopt DWR's requested 2019 Bond Charge, and the Bond Charge rate of \$0.00503/kWh shall be allocated to the electric customers of PG&E, SCE, and SDG&E. DWR's 2019 bond-related costs, bond-related reserve account balances, and related cash flows are shown in Appendix B of this decision.

### **3. SDG&E Accounts Receivable**

As noted above, the Scoping Memo determined that the scope of this proceeding shall include the question of whether SDG&E should recover approximately \$667,000 which it believes was incorrectly treated in the 2014

---

<sup>5</sup> DWR's 2019 revenue requirement determination is based on the assumptions contained in Section D of its Determination. DWR states that it considered a number of assumptions, including retail customer load, administrative and general expenses, and other considerations affecting DWR's revenues and expenses.

<sup>6</sup> August 2, 2018 Determination of Revenue Requirement at 4, Table A-2, "Summary of the Department's Bond Charge Revenue Requirement and Bond Charge Accounts and Comparison to 2018."

DWR Revenue Requirement proceeding as proceeds owed to SDG&E's customers, when those proceeds should have been treated as an offset to an accounts receivable due to SDG&E; and, if so, should the Commission authorize SDG&E's proposed correction to this item, *i.e.*, that the \$667,000 be offset against any available Power Charge credits that would otherwise be provided to customers.

The Commission provided the background of this issue in D.16-12-008, its decision allocating DWR's 2017 revenue requirement. The issue concerns Power Charge Indifference Adjustment (PCIA) revenues that SDG&E collected from customers and remitted to DWR in 2011. Under Commission rules, "departing load" customers are responsible for paying their share of above-market cost obligations that would otherwise be incurred by bundled service customers of the utilities. Part of that payment takes the form of the PCIA, which is intended to recover departing customers' share of the costs of potentially stranded resources. In D.11-12-018 the Commission adopted a revised method to calculate departing load charges so that they reflect both the cost and the value of required RPS-compliant power purchases.<sup>7</sup> This in turn made it necessary for SDG&E to revise the calculation of these charges that had been implemented at the beginning of 2011; in Resolution E-4475 the Commission ordered SDG&E to file revised tariffs showing departing load charges for 2011 that are compliant with the methods adopted in D.11-12-018. Once the new method was adopted, customers who had been paying departing load charges throughout 2011 were

---

<sup>7</sup> Rulemaking 07-05-025, D.11-12-018, "Decision Adopting Direct Access Reforms."

due a refund of their over-payments of those charges, because the revised charges were lower.

SDG&E issued billing adjustments retroactive to April 2011 to certain Direct Access (DA) customers, in order to account for the reduced level of the revised 2011 PCIA. However, SDG&E had already remitted the original PCIA revenues to DWR based on the original (higher) amounts billed to, and collected from, those customers. The difference between the original payments to DWR and the revised amount of PCIA payments was \$6.1 million.

Next, as is routinely done during DWR's annual revenue requirement determination, SDG&E's \$6.1 million PCIA overpayment to DWR was tracked by DWR and used to reduce SDG&E's applicable 2014 DWR Revenue Requirement. In short, SDG&E's bundled customers received the benefit of SDG&E's overpayment to DWR, because their 2014 obligation to DWR was reduced by the \$6.1 million that had actually been paid by DA customers. This left SDG&E itself short the same \$6.1 million, which it had long since refunded to DA customers as instructed by the Commission. Therefore, an account receivable remained due to SDG&E.

SDG&E first sought Commission authorization to recover the amounts owed as part of the Commission's proceeding to allocate DWR's 2017 revenue requirement. SDG&E proposed to use any remaining 2016 "power charge credits" to offset the \$6.1 million shortfall. "Power charge credits" accrue in SDG&E's accounts due to variances in actual versus forecasted sales. In October 2016, SDG&E forecast \$5.6 million in 2016 power charge credits. In accordance with the "Agreement Regarding Procedures Applicable to the Return of Net Negative DWR Power Charge Revenue Requirements" approved in D.13-01-037, any power charge under- or over-collection would be transferred



from SDG&E's "Net Accounts Receivable – DWR" account to SDG&E's Energy Resource Recovery Account in order to be included in SDG&E's commodity rates. Finally, SDG&E sought additional authorization that any remaining balance would be recovered if the future Power Charge balance accommodates it "or in some other appropriate way."

The Commission found SDG&E's proposed solution to be reasonable, and ordered that SDG&E shall use any remaining 2016 power charge credits to offset the \$6.1 million shortfall it had identified, and shall recover any residual balance if the future Power Charge balance accommodates it.<sup>8</sup>

In the instant proceeding, SDG&E updated the Commission on this issue in its September 21, 2018 prehearing conference statement. SDG&E seeks a Commission determination that SDG&E is entitled to recover the remainder of the outstanding Power Charge credit that is owed to SDG&E, which SDG&E estimated to be approximately \$667,000. On October 23, 2018 SDG&E provided an updated amount to be recovered: \$666,346. SDG&E also confirms that DWR's 2019 Determination shows that SDG&E's allocated share of Power Charge credits for 2019 exceeds the remaining sum of \$666,346.<sup>9</sup>

We find that, consistent with D.16-12-008, SDG&E should be authorized to recover the final residual balance owed, \$666,346, and that this will close out this matter.

---

<sup>8</sup> D.16-12-008, Finding of Fact 7, Conclusion of Law 3, and Ordering Paragraph 3.

<sup>9</sup> See, State of California Department of Water Resources, Determination of Revenue Requirement for the Period January 1, 2019 through December 31, 2019 (dated August 2, 2018) (as confirmed in DWR's October 16, 2018 filing) at 3, Table A-1, Line 7 ("Return of Excess Amounts to Customers").

**4. Safety Matters**

The third issue identified in the Scoping Ruling is the question of whether any safety considerations are raised in this proceeding that affect the ability of PG&E, SCE, and SDG&E to comply with the safety requirements of Pub. Util. Code § 451 in their administration, management, and dispatch of fuel and purchased power.<sup>10</sup> As noted above, DWR ceased purchasing power for sale to customers in the IOUs' service areas in 2015; therefore, DWR's requested revenue requirement has not raised any safety considerations that should be addressed in this proceeding.

**5. Rehearing and Judicial Review**

This decision construes, applies, implements, and interprets the provisions of Assembly Bill (AB) 1X (Chapter 4 of the Statutes of 2001-2002 First Extraordinary Session), and relates to the implementation of DWR's revenue requirement and the establishment and implementation of the Bond Charge and Power Charges necessary to recover that revenue requirement. Therefore, pursuant to Public Utilities (Pub. Util.) Code Section 1731(c), any application for rehearing of this decision is due within 10 days after the date of issuance of this decision. The procedures contained in Pub. Util. Code § 1768 apply to the judicial review of a Commission order or decision that interprets, implements, or applies the provisions of AB 1X.

---

<sup>10</sup> Pub. Util. Code § 451 provides in relevant part that "Every public utility shall furnish and maintain such adequate, efficient, just, and reasonable service, instrumentalities, equipment, and facilities ... as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public."

**6. Reduction of Comment Period**

The proposed decision of ALJ Roscow in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code. Pursuant to Rule 14.6(b) of the Commission's Rules of Practice and Procedure, all parties stipulated to a reduction of the 30-day comment period. Comments were filed on November 20, 2018 by \_\_\_\_\_, and reply comments were filed on November 26, 2018 by \_\_\_\_\_.

**7. Assignment of Proceeding**

Clifford Rechtschaffen is the assigned Commissioner, and Stephen C. Roscow is the assigned ALJ in this proceeding.

**Findings of Fact**

1. DWR submitted its 2019 revenue requirement determination to the Commission on August 2, 2018.
2. On October 16, 2018, DWR informed the Commission that after reviewing its operating results as of September 30, 2018 it had determined that no changes to its August 2, 2018 Determination are required.
3. The DWR Bond Charge is designed to recover DWR's costs associated with its bond financing activities.
4. DWR's 2019 revenue requirement determination contains the information needed to determine the revenue requirement allocated to utility electric customers for calendar year 2019.
5. DWR's 2019 revenue requirement for bond-related costs is \$812 million, which results in a Bond Charge of \$0.00503 per kWh.
6. D.16-12-008 authorized SDG&E to recover \$5.6 million of a \$6.1 million accounts receivable dating to the 2014 DWR revenue requirement proceeding,

when \$6.1 million was erroneously credited to SDG&E's customers, instead of to SDG&E.

7. DWR's 2019 revenue requirement determination demonstrates that there are sufficient Power Charge credits to allow SDG&E to recover the residual balance of \$666,346 owed SDG&E, thereby allowing this matter to be fully resolved.

8. DWR's requested revenue requirement has not raised any safety considerations that should be addressed in this proceeding.

### **Conclusions of Law**

1. The Commission is obligated to calculate, revise, and impose the DWR Bond Charge on the electric customers of PG&E, SCE, and SDG&E.

2. DWR's requested 2019 revenue requirement for bond-related costs of \$812 million (\$0.00503 per kWh) should be adopted and allocated to the electric customers of PG&E, SCE, and SDG&E, as ordered herein.

3. SDG&E should use any available 2019 power charge credits to offset the remaining \$666,346 account receivable it has identified in this proceeding, dating to the 2014 DWR Revenue Requirement proceeding.

4. This decision construes, applies, implements, and interprets the provisions of AB 1X (Chapter 4 of the Statutes of 2001-2002 First Extraordinary Session), and relates to the implementation of DWR's revenue requirement and the establishment and implementation of the Bond Charge and Power Charges necessary to recover that revenue requirement.

5. Pub. Util. Code § 1731(c) (applications for rehearing are due within 10 days after the date of issuance of this order) and Pub. Util. Code § 1768 (procedures applicable to judicial review) are applicable to this decision.

**O R D E R**

**IT IS ORDERED** that:

1. The California Department of Water Resources' 2019 revenue requirement determination of \$812 million is adopted and allocated to the electric customers of Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company, as described in Section 2 of this decision.

2. The 2019 Bond Charge allocated to the electric customers of Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company is set at \$0.00503 per kilowatt-hour, and shall go into effect on January 1, 2019.

3. San Diego Gas & Electric Company shall use any remaining 2019 power charge credits to offset the \$666,346 account receivable it has identified in this proceeding, dating to the 2014 California Department of Water Resources' Revenue Requirement proceeding.

4. Public Utilities Code Section 1731(c) (applications for rehearing are due within 10 days after the date of issuance of the order or decision) and Public Utilities Code Section 1768 (procedures applicable to judicial review) are applicable to this decision.

5. Rulemaking 15-02-012 remains open.

This order is effective today.

Dated \_\_\_\_\_, at San Francisco, California.