

ALJ/SMW/jt2

PROPOSED DECISION

Agenda ID #14420 (Rev. 1)

Ratesetting

12/3/15 Item #14

Decision PROPOSED DECISION OF ALJ WILSON (Mailed 10/30/2015)

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
(Filed February 12, 2015)

**DECISION ALLOCATING THE FINAL REVISED 2016 REVENUE
REQUIREMENT DETERMINATION OF THE CALIFORNIA
DEPARTMENT OF WATER RESOURCES**

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APPENDIX A - Allocation of 2016 Revenue Requirement Among Utilities

**DECISION ALLOCATING THE FINAL REVISED 2016 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 California Public Utilities Commission (Commission), DWR submitted its 2016 revenue requirement initial determination to this Commission on August 6, 2015. This request consists of an \$891 million Bond Charge and return of \$58 million of excess Power Charge funds for customers in the service areas of Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), and Southern California Edison Company (SCE).¹ On October 15, 2015, DWR submitted its final 2016 revenue requirement determination, with no changes based on review of operating results as of September 30, 2015.

In today's decision, we allocate DWR's final revised 2016 bond charge related revenue requirement of \$891 million to the electric customers of PG&E, SDG&E, and SCE, using the allocation methodology adopted in Decision (D.) 05-06-060, as modified by D.08-11-056.² The allocation results in the electric customers of all three utilities paying \$.00539/kilowatt-hour (kWh) for DWR's recovery of bond charges. The return of Power Charge Funds for all three utilities results in a negative revenue requirement (return to ratepayers) of \$38 million for PG&E, \$16 million for SCE and \$4 million for SDG&E, for the total

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

² See D.08-11-056 at 7-8.

of \$58 million. We also adopt a methodology for the allocation of negative revenue requirements for PG&E, SCE, and SDG&E for the year 2016.

1. Background

The California Department of Water Resources (DWR) submitted its 2016 revenue requirement determination to the California Public Utilities Commission (Commission) on August 6, 2015. This submission consisted of the “Determination of Revenue Requirements for the Period January 1, 2016 Through December 31, 2016” (August Determination), the “Notice of Determination of Revenue Requirements” (August Notice), and a memorandum from John Pacheco of DWR to President Michael Picker of the Commission, all provided via electronic mail on August 6, 2015. The memorandum notified the Commission of DWR’s 2016 revenue requirement determination, and requested “that the Commission calculate, revise and impose Bond Charges in accordance with Article V of the Rate Agreement...” and that “the imposition of a Power Charge is not required. The Power Charge accounts contain excess amounts that can be allocated back to ratepayers in the IOU service areas.”³

On September 3, 2015, the Commission held a prehearing conference (PHC) to discuss the processing of DWR’s 2016 revenue requirement determination. At the PHC, DWR informed the assigned Administrative Law Judge (ALJ), that it was planning to submit a revised 2016 revenue requirement determination to the Commission no later than October 15, 2015.

On October 15, 2015, DWR submitted its final revised 2016 revenue requirement determination to the Commission, which included the same August

³ The terms “Bond Charge” and “Power Charges” are defined in Article I of the Rate Agreement that was adopted in D.02-02-051.

Determination, the same August Notice, and DWR's October 15, 2015 memorandum to President Michael Picker titled "Notification of Determination of Revenue Requirement for 2016." DWR stated that it may propose to revise its revenue requirement for 2016, given the potential for changes in the California energy market, receipt of settlements from any legal proceedings involving DWR, and any other events that may materially affect the realized or projected financial performance of the Power Charge Accounts or the Bond Charge Accounts. In such event, DWR will inform the Commission of such material changes and will revise its revenue requirement accordingly.

We affirm all assigned Commissioner and ALJ rulings herein.

2. Allocation of the Final Revised 2016 Revenue Requirement Determination

2.1. Background

The Commission's obligation is to calculate, revise, and impose the Bond Charge and Power Charges on the electric customers of the three major electric utilities, namely Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), and San Diego Gas & Electric Company (SDG&E). This obligation is contained in the Rate Agreement that was adopted by the Commission in D.02-02-051, and Water Code §§ 80110 and 80134. We perform these calculations using the allocation methodology that we adopted in D.05-06-060, as modified by D.08-11-056, the results of which appear in Appendix A of this decision.

DWR issued its final 2016 Revenue Requirement on October 15, 2015. Pursuant to the Scoping Memo, comments from parties were due on October 23, 2015. No comments were received. According to DWR, the final 2016 revenue requirement determination of \$891 million, based on its review of

operating results as of September 30, 2015, remains the same as the one it submitted on August 6, 2015.

DWR's final 2016 revenue requirement determination contains the information needed to recover the revenue requirement from the utilities' electric customers for calendar year 2016. The final 2016 revenue requirement determination is based on the assumptions contained in Section D of DWR's determination. DWR considered a number of assumptions, including retail customer load, administrative and general expenses, and other considerations affecting DWR's revenues and expenses.

2.2. Bond Charges

DWR requests that the Commission calculate, revise and impose the Bond Charge on 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 the utilities' electric customers.

DWR's final 2016 revenue requirement determination states that the portion for bond-related costs is \$891 million. DWR's modeling in support of its final determination indicates that a Bond Charge of \$.00539/ kilowatt-hour (kWh) is required to collect this \$891 million. We adopt DWR's requested 2016 Bond Charge, and the Bond Charge rate of \$.00539/ kWh shall be allocated to the electric customers of PG&E, SCE, and SDG&E.

2.3. Negative Revenue Requirement

In past decisions (including D.10-12-006 and D.11-12-005, and D.12-11-040) we authorized methods for determining and returning the negative revenue

requirement to PG&E, SCE, and SDG&E electric customers.⁴ We continue to use these adopted methodologies for PG&E, SCE, and SDG&E.

2.4. Power Charges

DWR requests that \$58 million of Power Charge funds be returned to customers in the IOU's territories. The Power Charges are designed to provide the funds necessary to satisfy DWR's final revised 2016 revenue requirement determination for the cost of electric power sold to the utilities' electric customers.

DWR's final revised determination for the 2016 revenue requirement indicates that adequate reserve exists to satisfy indenture required minimum balances, that no Power Charge remittance is necessary, and that \$58 million of 2016 Power Charge funds be returned to customers of the IOUs.

The return of Power Charge Funds for 2016 results in allocations to the customers of the three IOUs as follows: \$38 million for PG&E, \$16 million for SCE and \$4 million for SDG&E, for the total of \$58 million.

3. 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,

⁴ As DWR contracts expire or are novated, DWR's required operating reserves are also reduced. With the expiration or novation of these contracts, utilities may experience a "negative revenue requirement," which means that the return of operating reserves to the investor-owned utilities' electric customers is greater than the allocated costs to such customers, resulting in a reduction of customer rates or offset to other rate increases.

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.

4. Comments on the Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. No comments were filed.

5. Assignment of Proceeding

Michel Peter Florio is the assigned Commissioner, and Seaneen M. Wilson is the assigned ALJ in this proceeding.

Findings of Fact

1. DWR submitted its 2016 revenue requirement determination to the Commission on August 6, 2015.
2. A PHC was held on September 3, 2015 to discuss the processing of DWR's 2016 revenue requirement determination.
3. DWR's final 2016 revenue requirement determination was submitted to the Commission on October 15, 2015.
4. There is no difference between the August 6, 2015 determination of a \$891 million Bond Charge revenue requirement and return of \$58 million of Power Charge funds to the IOU's customers, and the October 15, 2015 final 2016 revenue requirement determination.

5. DWR's final 2016 revenue requirement determination contains the information needed to determine the revenue requirement allocated to utility electric customers for calendar year 2016.

6. The Bond Charge is designed to recover DWR's costs associated with its bond financing activities.

7. DWR's final 2016 revenue requirement for bond-related costs is \$891 million, which results in a Bond Charge of \$.00539/kWh.

8. DWR's final determination for the 2016 revenue requirement indicates that adequate reserve exists to satisfy indenture required minimum balances, that no Power Charge remittance is necessary, and that \$58 million of 2016 Power Charge funds be returned to customers of the IOUs.

9. In past decisions (including D.10-12-006, D.11-12-005, and D.12-11-040), the Commission authorized methods for determining and returning the negative revenue requirement to PG&E, SCE, and SDG&E electric customers.

Conclusions of Law

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

2. The methodology authorized in D.10-12-006 to return negative revenue requirement to PG&E electric customers should be adopted for 2016.

3. The methodology authorized in D.11-12-005 to return the negative revenue requirement to SCE electric customers should be adopted for 2016.

4. The methodology authorized in D.12-11-040 to return the negative revenue requirement to SDG&E electric customers should be adopted for 2016.

5. The final net allocation of 2016 revenue requirement (after remittances) for all three utilities which results in a return of excess amounts of \$38 million for

PG&E, \$16 million for SCE and \$4 million for SDG&E, for the total of \$58 million, should be adopted.

6. DWR's requested 2016 Bond Charge of \$891 million (\$.00539/kWh) should be adopted and allocated to the electric customers of PG&E, SCE, and SDG&E, as ordered herein.

7. This decision construes, applies, implements, and interprets the provisions of AB 1X, 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.

8. 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' (DWR) 2016 revenue requirement determination of \$891 million, is adopted and allocated as follows to Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), and San Diego Gas & Electric Company (SDG&E), as shown in Appendix A of this decision, and as detailed below:

- a. The Commission shall allocate the return of DWR's excess Power Charge Funds as follows:
 - i. Return \$38 million to PG&E's electric customers in 2016;
 - ii. Return \$16 million to SCE's electric customers in 2016;

- iii. Return \$4 million from SDG&E's electric customers in 2016; and
 - b. The 2016 Bond Charge allocated to the electric customers of PG&E, SCE, and SDG&E is set at \$.00539 per kWh, and shall go into effect on January 1, 2016.
 2. The methodology authorized in Decision 10-12-006 to return the negative revenue requirement to Pacific Gas and Electric Company electric customers is adopted for 2016.
 3. The methodology authorized in Decision 11-12-005 to return the negative revenue requirement to Southern California Edison Company electric customers is adopted for 2016.
 4. The methodology authorized in Decision 12-11-040 to return the negative revenue requirement to San Diego Gas & Electric Company electric customers is adopted for 2016.
 5. 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.
 6. Rulemaking 15-02-012 remains open.

This order is effective today.

Dated _____, at San Francisco, California.

APPENDIX A

Allocation of 2016 Revenue Requirement Among Utilities

Allocation of 2016 Revenue Requirement Among Utilities						
California Department of Water Resources						
(Dollars in millions, unless otherwise noted)						
Line	Description	Scenario 1: 2016 RR-- 8-6-2015 filing				Reference
		PG&E	SCE	SDG&E	Total	
1	Allocation Percentages	42.20%	47.50%	10.30%	100.00%	Decision 05-06-060
2						
3	2004-2014 Expenses	12,171	15,125	4,594	31,890	Actuals
4	2004-2014 Revenues	11,824	14,083	4,672	30,579	Actuals
5	Amount to be collected from/(returned to) the IOU USBA	\$ 347	\$ 1,042	\$ (78)	\$ 1,311	Line 3 - Line 4
6						
7	2015 Expenses	0	6	1	8	actuals through Aug-15 then projected
8	2015 Revenues	(119)	(115)	(39)	(273)	actuals through Aug-15 then projected
9	Amount to be collected from/(returned to) the IOU USBA	\$ 120	\$ 121	\$ 40	\$ 281	Line 7 - Line 8
10						
11	Balancing Calculation					
12	December 31, 2016 Projected PCA Balance: Desired Allocation	4	5	1	10	
13	January 1, 2004 Starting PCA Balance: Desired Allocation	701	789	171	1,660	
14	Amount to be collected from/(returned to) the IOU USBA	\$ (696)	\$ (784)	\$ (170)	\$ (1,650)	Line 12 - Line 13
15						
16	Fixed Transfer Payments Through 2015	192	(395)	204	-	
17	2004-2015 True-up	467	1,163	(37)	1,593	Line 5 + Line 9
18	Starting and Ending balance True-up	(696)	(784)	(170)	(1,650)	Line 14
19	Cumulative True-up to be collected from/(returned to) IOU USBA	\$ (38)	\$ (16)	\$ (3)	\$ (58)	Subtotal
20						
21	2016 Revenue Requirement Determination					
22	Avoidable Costs	-	-	-	-	2016RptRR
23	Net CFC	-	-	-	-	2016RptRR
24	Fixed Transfer Payments	-	-	-	-	includes 2009 Calpine Indifference/Acceleration Pmts
25	Administrative and General	-	-	-	-	2016RptRR
26	Interest Earnings on Fund Balance	(0)	(0)	(0)	(0)	2016RptRR
27	Balancing Transfer between IOUs [(+) is pmt, (-) is receipt]	(38)	(16)	(3)	(58)	Line 19
28	Net Allocation of Revenue Requirements	\$ (38)	\$ (16)	\$ (4)	\$ (58)	
29						
30	Return of Excess Cash to IOUs	\$ 38	\$ 16	\$ 4	\$ 58	

California Department of Water Resources				
Revenue Requirement Filing				
(Amounts in millions)				
Description	Scenario 1: 2016 RR-- 8-6-2015 filing			
	2016 RR Filing (actuals through Aug-15)			
	PG&E	SCE	SDG&E	Total
Beginning Balance in Power Charge Accounts				68
Power Charge Revenues				
Power Charge Accounts Operating Revenues	-	-	-	-
Power Charge Revenues from Direct Access Customers	-	-	-	-
Total Power Charge Revenues	-	-	-	-
IOU Specific Revenue				
Surplus (Off-System Sales) Revenue	-	-	-	-
Return of Exces Cash	-	-	-	-
Avoidable Revenues	-	-	-	-
ISO Reimbursement	-	-	-	-
Non-IOU Specific Revenue				
(Non-IOU Specific Revenue % Allocator)	42.2%	47.5%	10.3%	100.0%
Return of Exces Cash (per fixed percentages)	(24)	(27)	(6)	(58)
Extraordinary Receipts (see breakout below)	-	-	-	-
Non-Avoidable Revenue	-	-	-	-
Total Non-IOU Specific Revenue	(24)	(27)	(6)	(58)
Subtotal	(24)	(27)	(6)	(58)
Interest Earnings on Fund Balances	0	0	0	0
Total Power Charge Accounts Operating Revenues	(24)	(27)	(6)	(58)
Power Costs				
<i>Non-Avoidable % Allocator</i>	<i>42.2%</i>	<i>47.5%</i>	<i>10.3%</i>	<i>100.0%</i>
Non Avoidable Costs	-	-	-	-
Williams Gas Adjustment - projected for remainder of year	-	-	-	-
Net Non Avoidable Costs	-	-	-	-
Avoidable Costs	-	-	-	-
Total Contract Costs	-	-	-	-
Other Non-Allocated Costs	-	-	-	-
Total Power Costs	-	-	-	-
Gas Collateral Costs	-	-	-	-
Administrative and General Expenses	-	-	-	-
Total Power Charge Accounts Operating Expenses	-	-	-	-
Net Operating Revenues	(24)	(27)	(6)	(58)
Ending Aggregate Balance in Power Charge Accounts				\$ 10

California Department of Water Resources									
2015 Revenue Requirement Filing									
(Dollars in millions)									
					Scenario 1: 2016 RR— 8-6-2015 filing				
					2015 RR Filing (actuals through Aug-15)				
Line	Description	PG&E	SCE	SDG&E	Total	PG&E	SCE	SDG&E	Total
1	Beginning Balance in Power Charge Accounts				333				349
2									
3	Power Charge Revenues								
4	Power Charge Accounts Operating Revenues	2	-	-	2	0	0	0	0
5	Power Charge Revenues from Direct Access Customers	-	-	-	-	-	0	0	0
6	Total Power Charge Revenues	2	-	-	2	0	0	0	0
7	IOU Specific Revenue								
8	Surplus (Off-System Sales) Revenue	-	-	-	-	-	-	-	-
9	Return of Exces Cash	-	-	-	-	(130)	(126)	(42)	(298)
10	Avoidable Revenues	-	-	-	-	0	-	-	0
11	ISO Reimbursement	-	-	-	-	-	-	-	-
12	Non-IOU Specific Revenue								
13	(Non-IOU Specific Revenue % Allocator)	42.20%	47.50%	10.30%	100.00%	0	47.5%	10.3%	100.0%
14	Return of Exces Cash (per straight percentages)	(124)	(140)	(30)	(294)	-	-	-	-
15	Extraordinary Receipts (see breakout below)	-	-	-	-	10	11	2	23
16	Non-Avoidable Revenue	-	-	-	-	-	-	-	-
17	Total Non-IOU Specific Revenue	(124)	(140)	(30)	(294)	10	11	2	23
18	Subtotal	(124)	(140)	(30)	(294)	(120)	(115)	(39)	(274)
19	Interest Earnings on Fund Balances	0	0	0	1	0	0	0	1
20	Total Power Charge Accounts Operating Revenues	(122)	(139)	(30)	(292)	(119)	(115)	(39)	(273)
21									
22	Power Costs								
23	<i>Non-Avoidable % Allocator</i>	42.20%	47.50%	10.30%	100.00%	0	47.5%	10.3%	100.0%
24	Non Avoidable Costs	4	-	-	4	(6)	-	-	(6)
25	Williams Gas Adjustment - projected for remainder of year	-	-	-	-	-	-	-	-
26	Net Non Avoidable Costs	4	-	-	4	(6)	-	-	(6)
27	Avoidable Costs	2	-	-	2	0	-	-	0
28	Total Contract Costs	5	-	-	5	(5)	-	-	(5)
29	Other Non-Allocated Costs	-	-	-	-	(0)	(0)	(0)	(0)
30	Total Power Costs	5	-	-	5	(6)	(0)	(0)	(6)
31									
32	Gas Collateral Costs	-	-	-	-	(0)	(0)	-	(0)
33	Administrative and General Expenses	6	7	2	15	6	7	1	14
34	Total Power Charge Accounts Operating Expenses	12	7	2	20	0	6	1	8
35									
36	Net Operating Revenues	(134)	(146)	(32)	(312)	(120)	(121)	(40)	(281)
37									
38	Ending Aggregate Balance in Power Charge Accounts				21				\$ 68

California Department of Water Resources									
2014 Revenue Requirement Filing									
(Dollars in millions)									
Line	Description	2014 RR Filing				2014 Actuals			
		PG&E	SCE	SDG&E	Total	PG&E	SCE	SDG&E	Total
1	Beginning Balance in Power Charge Accounts				177				192
2									
3	Power Charge Revenues								
4	Power Charge Accounts Operating Revenues	3	-	3	5	57	0	3	60
5	Power Charge Revenues from Direct Access Customers	-	-	-	-	-	-	1	1
6	Total Power Charge Revenues	3	-	3	5	57	0	4	62
7	IOU Specific Revenue								
8	Surplus (Off-System Sales) Revenue	-	-	-	-	-	-	-	-
9	Return of Excess Cash	-	-	-	-	(15)	(27)	(27)	(69)
10	Avoidable Revenues	-	-	-	-	5	-	-	5
11	ISO Reimbursement	-	-	-	-	-	-	-	-
12	Non-IOU Specific Revenue								
13	(Non-IOU Specific Revenue % Allocator)	42.20%	47.50%	10.30%	100.00%	42.2%	47.5%	10.3%	100.0%
14	Return of Excess Cash	(25)	(28)	(6)	(59)	-	-	-	-
15	Extraordinary Receipts (see breakout below)	-	-	-	-	86	97	21	203
16	Non-Avoidable Revenue	-	-	-	-	-	-	0	0
17	Total Non-IOU Specific Revenue	(25)	(28)	(6)	(59)	86	97	21	204
18	Subtotal	(25)	(28)	(6)	(59)	76	70	(6)	140
19	Interest Earnings on Fund Balances	0	0	0	0	0	0	0	0
20	Total Power Charge Accounts Operating Revenues	(22)	(28)	(3)	(53)	133	70	(2)	201
21									
22	Power Costs								
23	<i>Non-Avoidable % Allocator</i>	42.20%	47.50%	10.30%	100.00%	42.2%	47.5%	10.3%	100.0%
24	Non Avoidable Costs	12	-	15	27	4	-	1	5
25	Williams Gas Adjustment - projected for remainder of year	-	-	-	-	-	-	-	-
26	Net Non Avoidable Costs	12	-	15	27	4	-	1	5
27	Avoidable Costs	3	-	-	3	18	-	8	26
28	Total Contract Costs	15	-	15	30	22	-	9	31
29	Other Non-Allocated Costs	-	-	-	-	1	1	0	3
30	Total Power Costs	15	-	15	30	23	1	9	33
31									
32	Gas Collateral Costs	-	-	-	-	(0)	(0)	-	(0)
33	Administrative and General Expenses	6	7	2	15	5	5	1	11
34	Total Power Charge Accounts Operating Expenses	21	7	17	45	28	7	10	44
35									
36	Net Operating Revenues	(43)	(35)	(20)	(99)	106	64	(12)	157
37									
38	Ending Aggregate Balance in Power Charge Accounts				79				\$ 349

(END OF APPENDIX A)