Decision 10-12-006 December 2, 2010

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.	Rulemaking 09-06-018 (Filed June 18, 2009)

DECISION ALLOCATING THE REVISED 2011 REVENUE REQUIREMENT DETERMINATION OF THE CALIFORNIA DEPARTMENT OF WATER RESOURCES

1. Summary

In accordance with the Rate Agreement between the California Department of Water Resources (DWR) and this Commission, DWR submitted its 2011 revenue requirement determination of $1.793 billion to this Commission on August 5, 2010. DWR then updated and made some changes to its revenue requirement and submitted a revised 2011 revenue requirement determination on October 26, 2010. The revised determination is for a revenue requirement of $1.369 billion, a decrease of $424 million as compared to the August 5, 2010 submission.

In today's decision, we allocate DWR's revised 2011 revenue requirement determination of $1.369 billion to the electricity customers of Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), and Southern California Edison Company (SCE) using the allocation methodology

adopted in Decision (D.) 05-06-060, as modified by D.08-11-056.[1] The allocation will result in DWR recovering its electric power costs and bond-related financing costs for 2011 from the electric customers of these three utilities. As shown in Appendix A of this decision, the Power Charges of $509 million, to provide the necessary funds to cover DWR's 2011 energy costs, are allocated to the customers of PG&E, SDG&E and SCE at $0.0845, $0.04989, and $0.03952 per kilowatt-hour (kWh), respectively. The Bond Charge of $860 million is allocated to the customers of all three utilities at $0.00505 per kWh.

2. Background

The California Department of Water Resources (DWR) submitted its 2011 revenue requirement determination to the Commission on August 5, 2010. This submission consisted of the August 5, 2010 "Determination of Revenue Requirements for the Period January 1, 2011 Through December 31, 2011," the August 5, 2010 "Notice of Determination of Revenue Requirements," and an August 5, 2010 memorandum from John Pacheco of DWR to President Peevey of the Commission. The memorandum notified the Commission of DWR's 2011 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 Commission calculate, revise and impose Power Charges in accordance with Article VI of the Rate Agreement…."[2]

On September 9, 2010, the Commission held a prehearing conference (PHC) to discuss the processing of DWR's 2011 revenue requirement

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[1] See D.08-12-006 at 7-8.

[2] 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. At the PHC, DWR informed the Administrative Law Judge (ALJ), as explained in DWR's 2011 revenue requirement determination, that it was planning to submit a revised 2011 revenue requirement determination to the Commission around October 21, 2010.

One of the issues identified at the PHC is how the Commission should allocate to customers the 2011 reduction and future reductions in DWR's operating reserves. This issue arose because of concerns raised by Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE) that any reduction in DWR's operating reserves resulting from the expiration or novation of the DWR power contracts should be returned on a pro rata basis to all customers, including direct access customers. Pursuant to the ALJ's oral ruling at the September 9, 2010 PHC regarding the DWR 2011 revenue requirement determination, a workshop was held on September 21, 2010 to begin the process of resolving issues involving current and future Investor-Owned Utility (IOU) negative power charge remittance and DWR operating reserve disposition. A Workshop Report on these issues will be issued shortly by the Commission's Energy Division.[3] We anticipate issuing a separate decision on the workshop issues in the near future.

Other issues discussed at the PHC included PG&E's concerns regarding the inclusion of three novated contracts in DWR's calculation of the revenue

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[3] As shown in Appendix A, PG&E's customers are anticipated to have a negative power charge in 2011 of approximately $486 million. DWR and PG&E have agreed to address the negative power charge through remittances to DWR from PG&E's customers in the amount of $207 million, and payments by DWR to PG&E's customers in the approximate amount of $486 million, resulting in a net return to PG&E's customers. This agreement between DWR and PG&E to resolve the negative power charge issue is not binding on how this issue will be resolved for SCE.

requirement and the status of the Sempra Generation (Sempra) settlement and its possible effect on DWR's calculation of the revenue requirement. PG&E was also concerned whether DWR is recording gas hedging costs and revenues in accordance with the 2008 settlement, which DWR stated it was.

DWR initiated its revision of the 2011 revenue requirement by issuing a "Proposed Revision to the Determination of Revenue Requirements" on October 18, 2010. The deadline for submitting comments with DWR through its administrative process was October 25, 2010. DWR did not receive any comments on its proposed revision.

On October 26 2010, DWR submitted its revised 2011 revenue requirement determination to the Commission.[4] This submission consists of the October 26, 2010 "Revision to the Determination of Revenue Requirement for the Period January 1, 2011 Through December 31, 2011," the October 26, 2010 "Notice of Determination of Revenue Requirements," and DWR's memorandum to President Michael R. Peevey titled "Notification of Revised Revenue Requirement Determination for 2011." DWR stated in its revised 2011 determination and at the PHC that it may propose further revisions to its 2011 revenue requirement, given the potential for significant changes in the California energy market. These changes in the market could include forecasted fuel costs, novation of some of the power contracts that may materially affect the realized or projected financial performance of the power charge or the bond charge accounts, and the pending settlement with Sempra pertaining to the energy

[4] On September 20, 2010, DWR sent a memorandum to President Peevey and to the assigned ALJ requesting that the Commission modify certain servicing and operating

Footnote continued on next page

crisis. If such events occur, DWR will inform the Commission and submit a revised revenue requirement for the Commission's consideration.

At the September 9, 2010 PHC, the ALJ announced the procedure for the filing of a protest or objection to the allocation of the revised 2011 revenue requirement determination. Shortly after DWR submitted and served its revised determination, the ALJ reminded the service list by e-mail of this procedure and directed that any protest or objection to the allocation of the revised 2011 revenue requirement determination be filed by November 2, 2010. Since no protests or objections were filed, we conclude there are no contested issues concerning DWR's request to allocate its revised determination.

In accordance with the procedure set forth at the September 9, 2010 PHC, the ALJ then prepared the proposed decision.

3. Allocation of the Revised 2011 Revenue Requirement Determination

3.1. Background

The revised 2011 revenue requirement determination updated the information contained in the August 5, 2010 submission by incorporating DWR's preliminary actual operating results through September 30, 2010 and projected operating results through the end of 2010. In addition, the revised determination used: 1) updated actual Electric Power Fund and Bond Account operating results through September 30, 2010; 2) updated natural gas price forecasts and related assumptions; 3) updated projections of direct access volumes that consider levels of subscription in IOU service areas realized pursuant to Senate

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orders and agreements between DWR and the electric utilities. That request will be addressed in a separate decision.

Bill 695;[5] 4) updated interest rate on all unhedged variable rate bonds based on data through September 30, 2010; and 5) novation of the Calpine 2, Calpine Peaking, and the GWF Energy LLC (GWF) power contracts to PG&E consistent with Commission directives in D.10-07-042. The revised determination also updated the projection of Power Charges for 2011.

According to DWR, the revised 2011 revenue requirement determination results in a total decrease of $424 million as compared to the original determination that was submitted on August 5, 2010. This decrease is made up of two components. The first component is a $395 million decrease in DWR's Power Charge Revenue Requirement. This $395 million decrease is due primarily to a decrease in contract costs as a result of a decrease in the gas price forecast for the remainder of 2010 and 2011 and the novation of the Calpine 2, Calpine Peaking and GWF contracts. The second component of the total decrease is due to a $29 million decrease in the Bond Charge Revenue Requirement. This $29 million decrease is primarily the result of the net effect of the restructuring of DWR Series 2010M Power Supply Revenue bonds, a decrease in the projected interest rates for the unhedged variable rate portion of DWR's bond portfolio, and a higher than previously projected beginning 2010 balance in the Bond Charge Accounts.

DWR's revised 2011 revenue requirement determination contains the information needed to recover the revenue requirement from the utilities' customers for calendar year 2011. The revised 2011 revenue requirement determination is based on the assumptions contained in Section D of DWR's

[5] Chapter 337 of the Statutes of 2009.

revised determination. These assumptions include retail customer load, demand side management and conservation, power supply, natural gas prices, administrative and general expenses, and other considerations that affect DWR's revenues and expenses.

The Commission's obligation is to calculate, revise, and impose the Bond Charge and Power Charges on the customers of the three electric utilities. 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.

3.2. Bond Charge

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' customers.

DWR's revised 2011 revenue requirement determination states that its 2011 revenue requirement for bond-related costs is $860 million. DWR's modeling in support of its revised determination indicates that it will receive the required $860 million if the Commission sets the Bond Charge at $0.00505 per kilowatt-hour (kWh). We adopt DWR's requested 2011 Bond Charge, and the Bond Charge rate of $0.00505 per kWh shall be allocated to the electric customers of PG&E, San Diego Gas & Electric Company (SDG&E) and SCE.

3.3. Power Charges

DWR requests that the Commission calculate, revise and impose Power Charges on the three utilities. The Power Charges are designed to provide the funds necessary to satisfy DWR's revised 2011 revenue requirement determination for the cost of electric power sold to the utilities' customers.

DWR's revised determination states that its 2011 revenue requirement for the Power Charge is $509 million. We adopt DWR's requested 2011 Power Charge, and the Power Charges shall be calculated and allocated to the customers of PG&E, SDG&E, and SCE as shown in Appendix A of this decision. The Power Charges allocated to the customers of PG&E, SDG&E, and SCE are $0.08045, $0.04989, and $0.03952 per kWh, respectively.

4. 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 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 Public Utilities Code Section 1768 apply to the judicial review of a Commission order or decision that interprets, implements, or applies the provisions of AB1X.

5. Comments on Proposed Decision

The proposed decision of ALJ John S. Wong in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed pursuant to Rule 14.3 of the Commission's Rules of

Practice and Procedure. PG&E filed opening comments on November 22, 2010, and SCE filed reply comments on November 29, 2010. Those comments have been considered and incorporated into this decision.

6. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner, and John S. Wong is the assigned ALJ in this proceeding.

Findings of Fact

1. DWR submitted its 2011 revenue requirement determination to the Commission on August 5, 2010.

2. A PHC was held on September 9, 2010 to discuss the processing of DWR's 2011 revenue requirement determination.

3. On September 29, 2010, the assigned ALJ issued a ruling to address DWR's request that the Commission modify certain servicing orders and operating orders and agreements between DWR and the electric utilities.

4. DWR's revised 2011 revenue requirement determination was submitted to the Commission on October 26, 2010.

5. The main differences between the August 5, 2010 determination of $1.793 billion and the October 26, 2010 revised 2011 revenue requirement determination of $1.369 billion are due to a decrease in the Power Charge Revenue Requirement of $395 million and a decrease in the Bond Charge Revenue Requirement of $29 million. The decrease in the Power Charge Revenue Requirement is due to a decrease in contract costs as a result of the decrease in the gas price forecast for the remainder of 2010 and 2011, and the novation of the Calpine 2, Calpine Peaking, and GWF contracts. The decrease in the Bond Charge Revenue Requirement is primarily due to the net effect of the restructuring of DWR Series 2010M Power Supply Revenue bonds, a decrease in

the projected interest rates for the unhedged variable rate portion of DWR's bond portfolio and a higher than previously projected beginning 2011 balance in the Bond Charge Accounts.

6. DWR's revised 2011 revenue requirement determination contains the information needed to recover the revenue requirement from the utilities' customers for calendar year 2011.

7. The Bond Charge is designed to recover DWR's costs associated with its bond financing activities from the utilities' customers.

8. DWR's revised 2011 revenue requirement for bond-related costs is $860 million, which results in a Bond Charge of $0.00505 per kWh.

9. The Power Charges are designed to provide the funds necessary to satisfy DWR's revised 2011 revenue requirement for the cost of electric power sold to the utilities' customers.

10. DWR's revised 2011 revenue requirement for the Power Charge is $509 million, which results in the allocated Power Charges to the customers of the three electric utilities as shown in Appendix A. In 2011, DWR is forecast to collect $207 million from PG&E's customers, $620 million from SCE's customers, and $169 million from SDG&E's customers. DWR will return approximately $486 million to PG&E's customers in 2011.

Conclusions of Law

1. The agreement between DWR and PG&E to resolve the negative power charge issue is not binding on how this issue will be resolved for SCE.

2. There are no contested issues concerning DWR's request to allocate the revised 2011 revenue requirement determination.

3. The Commission's obligation is to calculate, revise, and impose the Bond Charge and Power Charges on the customers of the three electric utilities.

4. DWR's requested 2011 Bond Charge and Power Charge should be adopted and allocated to the customers of PG&E, SCE, and SDG&E.

5. This decision construes, applies, implements, and interprets the provisions of AB1X, 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.

O R D E R

IT IS ORDERED that:

1. The allocation to Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company, as shown in Appendix A of this decision, of the California Department of Water Resources' 2011 revenue requirement determination as revised on October 26, 2010, is adopted.

    a. As shown in Appendix A of this decision, the 2011 Power Charges allocated to the electric customers of Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company are set at $0.08045, $0.03952, and $0.04989 per kilowatt-hour, respectively, and shall go into effect on January 1, 2011. Pacific Gas and Electric Company will reduce the Power Charges allocated to its electric customers by $280 million for 2011 in anticipation of the California Department of Water Resources returning approximately $486 million to Pacific Gas and Electric Company's electric customers in 2011.

    b. The 2011 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 $0.00505 per kilowatt-hour, and shall go into effect on January 1, 2011.

2. Within ten days of today's date, Pacific Gas and Electric Company, Southern California Edison, and San Diego Gas & Electric shall file Tier 1

advice letters, as provided for in General Order 96-B, with revised tariffs that reflect the adopted Bond Charge and Power Charges. These new tariffs shall be effective beginning January 1, 2011.

3. 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.

4. Rulemaking 09-06-018 remains open.

This order is effective today.

Dated December 2, 2010, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
TIMOTHY ALAN SIMON
NANCY E. RYAN
Commissioners

D1012006 Appendix A