

ALJ/BDP/sid

Mailed 1/5/2001

Decision 01-01-020 January 4, 2001

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC
COMPANY in the 1999 Annual Transition Cost
Proceeding.

Application 99-09-006
(Filed September 1, 1999)

(See Appendix A for a list of appearances.)

TABLE OF CONTENTS

Title	Page
INTERIM OPINION ON 1999 ANNUAL TRANSITION	
COST PROCEEDING	2
I. Summary	2
II. Procedural Summary.....	2
III. Hunters Point Power Plant.....	3
IV. PG&E’s Application.....	3
A. Motion to Strike	5
V. The Stipulation	5
VI. Employee-Related Transition Costs.....	9
A. Position of ORA.....	9
B. Position of PG&E.....	11
C. Position of CUE.....	11
D. Discussion.....	15
VII. Workforce Reduction Rate Mechanism (WRRM) Account.....	16
A. Background	16
B. Position of PG&E.....	18
C. Position of ORA.....	19
D. Response of PG&E.....	21
E. Discussion.....	24
VII. Comments on Proposed Decision.....	26
Findings of Fact	26
Conclusions of Law	32
INTERIM ORDER	33
APPENDIX A List of Appearances	
APPENDIX B Stipulation Agreement	

**INTERIM OPINION ON 1999 ANNUAL
TRANSITION COST PROCEEDING**

I. Summary

The Commission approves an all-party settlement in Pacific Gas and Electric Company's (PG&E) 1999 Annual Transition Cost Proceeding (ATCP). The settlement resolves all but two issues: (1) generation-related employee transition costs, and (2) the Workforce Reduction Rate Mechanism (WRRM) account. With regard to these contested issues, the Commission concludes that PG&E should be authorized to: recover \$500,000 for payments made to 11 employees under the Bargaining Unit Severance and Displacement Program; and close the WRRM memorandum account and recover an undercollection of approximately \$2 million. These amounts would be recovered through the Transition Cost Balancing Account (TCBA).

II. Procedural Summary

Concurrently with PG&E, Southern California Edison Company (Edison) and San Diego Gas & Electric Company (SDG&E) also filed their 1999 ATCP applications on September 1, 1999, Application (A.) 99-09-011 and A.99-09-013, respectively. The Office of Ratepayer Advocates (ORA) was the only party protesting these applications. These applications were subsequently consolidated for hearing. Separate decisions will be issued in each application.

On November 3, 1999, May 5, 2000, and June 7, 2000, the Assigned Commissioner and the presiding Administrative Law Judge (ALJ) convened prehearing conferences (PHCs) to determine the parties, positions of the parties, issues, and other procedural matters. PG&E and Edison each filed PHC Statements on November 2, 1999.

On November 23, 1999, following the first PHC, Commissioner Josiah L. Neeper issued a Scoping Memo categorizing the proceeding, designating the presiding ALJ, defining the scope of the proceeding, and establishing the proceeding schedule. Pursuant to the adopted procedural schedule, ORA submitted direct testimony on February 23, 2000. PG&E, Edison and SDG&E served rebuttal testimony on March 29, 2000. Finally, on April 3, 2000, PG&E and Edison served update testimony addressing modifications and additions necessitated by the Commission's decision in the 1998 ATCP.

Evidentiary hearings were held on May 30, June 8, 9, and 16, 2000. Opening briefs were filed on July 14 and the proceeding was submitted when reply briefs were filed on August 14, 2000. Opening and reply briefs were filed by the Coalition of California Utility Employees (CUE), ORA and PG&E.

III. Hunters Point Power Plant

On February 4, 2000, pursuant to an ALJ ruling, PG&E's request for approval of its Hunters Point decommissioning cost estimate was bifurcated into a separate phase and will be addressed in a separate decision.

IV. PG&E's Application

On September 1, 1999, PG&E filed its 1999 ATCP requesting that the Commission:

1. approve the revenues and costs recorded to the TCBA and TCBA-related memorandum accounts from July 1, 1998 through June 30, 1999;
2. approve the adjustments to the TCBA reflecting recovery of 1996, 1997 and the first quarter of 1998 non-nuclear generation capital additions;

3. approve PG&E's proposed method for calculating and applying the rate of return and divestiture bonus incentive rate of return to uneconomic generation assets;
4. approve the entries in connection with 48-month accelerated depreciation of generation assets;
5. approve PG&E's scheduled amortization of regulatory assets through the TCBA;
6. find reasonable PG&E's environmental and non-environmental decommissioning cost estimates for Hunters Point Power Plant;
7. find reasonable PG&E's divestiture transaction costs associated with the sale of PG&E's fossil and geothermal power plants and the market valuation of Hunters Point Power Plant;
8. find reasonable PG&E's activities related to Qualifying Facilities (QFs) and other power purchase agreements (PPAs), including Western Area Power Administration (WAPA), and approve recovery of all the costs (including PG&E's actual administrative and litigation costs) associated with these contracts as recorded in the TCBA; and
9. approve recovery of \$0.55 million in QF shareholder incentives related to eight renegotiated/restructured QF contracts from July 1, 1998 through June 30, 1999;
10. find reasonable PG&E's geothermal and Helms pumped storage operations, and water purchases for power; and
11. approve recovery of \$13.6 million in employee-related transition costs recorded in the TCBA.

A. Motion to Strike

In its report, ORA recommends that authorization for recovery of Post Retirement Benefits Other than Pensions transition obligations and Long-Term Disability regulatory assets be postponed until compliance with previous Commission decisions is demonstrated. On March 16, 2000, PG&E, SDG&E, and Edison jointly moved to strike that recommendation and Chapter 8 of ORA's Report, which supported the recommendation. On April 27, 2000, the presiding ALJ granted the utilities' motion to strike.

V. The Stipulation

As stated above, ORA and PG&E reached agreement on all but two issues in this phase of the proceeding. The agreement is embodied in the *Stipulation Agreement Between Pacific Gas And Electric Company And The Office Of Ratepayer Advocates Resolving Issues In The 1999 Annual Transition Cost Proceeding* (Stipulation), which was entered into on June 16, 2000, and entered into the record in this proceeding on that date as Exhibit 5. No party has indicated any intent to oppose the Stipulation in whole or in part.

A summary of the Stipulation is as follows:

1. The Stipulation provides that \$13,800 of disputed retraining assistance costs are consistent with the programs approved in D.00-02-048 and should be recovered through the TCBA.
2. The Stipulation provides that \$25,452 of disputed Hunters Point Management Enhanced Performance Incentive Plan (PIP) costs were incurred while Hunters Point was part of PG&E's divestiture proposals and, therefore, are consistent with the programs approved in D.00-02-048 and should be recovered through the TCBA.

3. The Stipulation confirms that none of PG&E's QF administrative costs were authorized for recovery in PG&E's 1999 general rate case (GRC). The ATCP is the appropriate mechanism for recovery of these costs.
4. The Stipulation confirms that the costs of and incentive amounts associated with the Mt. Poso Cogen termination and bridging agreements, the San Joaquin Cogen termination agreement, and the Ultrapower Blue Lake termination agreement, are appropriately recorded in the TCBA, but are subject to revisions necessary to reflect final Commission decisions from the proceedings considering those PPA modifications.
5. The Stipulation adopts a reduction of \$6,100 to PG&E's requested Big Creek incentive amount as a compromise of the party's positions.
6. The Stipulation concurs with ORA's observation that further entries in the TCBA may be required based on the Commission's decision in I.98-12-013 (relating to the December 8, 1998, San Francisco outage).
7. The Stipulation agrees with ORA that the December 1998 monthly PBOP entry was in error, requiring PG&E to credit the TCBA by \$3,082,556 plus interest.
8. The Stipulation agrees with ORA that a June 1999 TCBA credit of \$2,468,356 should have included interest of \$352,211, requiring PG&E to make an adjustment to address this.
9. The Stipulation agrees with ORA that an erroneous record period debit entry relating to revenues from departing load customers should have been a credit, requiring PG&E to credit the TCBA by \$174,878, plus interest.

We will approve the Stipulation. The Stipulation meets the Commission's standards for all-party settlements, is reasonable in light of the record as a whole, is consistent with the law, and is in the public interest. As the Commission explained in last year's ATCP decision, it has developed criteria for evaluating all-party settlements. These criteria are that: (1) all active parties must sponsor

the settlement; (2) the sponsoring parties must be fairly reflective of the affected interests; (3) the settlement cannot contravene statutory provisions of prior Commission decisions; and (4) the settlement must convey sufficient information to allow the Commission to discharge future regulatory obligations with respect to the parties and their interests.¹

The Stipulation meets these requirements with respect to the issues it resolves. Other than PG&E and ORA, CUE was the only active participant in the proceeding. CUE participated only with respect to the disputed employee transition cost issue, which is not addressed by the Stipulation. The sponsoring parties, PG&E and ORA, are fairly reflective of the interests affected by this ratemaking proceeding, ORA representing the ratepayer interest and PG&E representing its own interests. No party has proposed that the Stipulation or any part of it contravenes statutory provisions or prior Commission decisions, and none do. Finally, the Stipulation conveys sufficient information for the Commission to discharge its regulatory duties. The Stipulation sets forth clearly the ratemaking treatment, if any, associated with each issues it resolves. Thus, the Stipulation between PG&E and ORA meets these all-party criteria, and should be approved.

Turning from the all-party criteria, the Commission's Rules of Practice and Procedure also address criteria for the adoption of stipulations. Under its rules, the Commission will not approve a stipulation unless it is reasonable in light of

¹ D.00-02-048, p. 5.

the whole record, consistent with the law, and in the public interest.² The Stipulation between PG&E and ORA meets these requirements, as well.

The Stipulation is consistent with the whole record. The record in this proceeding, as it relates to issues resolved by the Stipulation, consists of the Stipulation itself, the relevant portions of PG&E's direct testimony,³ ORA's Report,⁴ and PG&E's rebuttal testimony.⁵ No other party filed testimony, and there was no oral testimony relating to issues resolved by the Stipulation.

The issues resolved by the Stipulation are raised in ORA's Report. PG&E's rebuttal testimony responds to each of the issues raised by ORA. The additional information in PG&E's rebuttal, coupled with PG&E's direct testimony and ORA's Report, provides the basis for the Stipulation's resolution of issues. Therefore, the Stipulation is consistent with the record as a whole.

The Stipulation is consistent with the law. Neither PG&E, ORA, nor any other party has suggested that the Stipulation's resolution of any issue is inconsistent with the law, and we have determined that this is true.

The Stipulation is in the public interest. Under it, PG&E is allowed to recover costs through the TCBA account consistent with prior Commission decisions. To paraphrase the Commission's analysis in last year's ATCP in evaluating the settlement SDG&E presented, the public interest is served because

² Rule 51.1(e), Commission's Rules of Practice and Procedure.

³ Exh. 1.

⁴ Exh. 21(c1).

⁵ Exh. 2 (the redacted version of PG&E's rebuttal testimony); Exh. 3(c) (the confidential, unredacted version).

active parties agreed on a mutually beneficial outcome, while representing the major interests of the proceeding. The Stipulation is a reasonable compromise that fairly serves the interests of PG&E, its shareholders, customers, and employees. Commission and party resources are freed up and the cost of litigation is avoided.⁶

VI. Employee-Related Transition Costs

ORA raised several issues with respect to the generation-related employee transition costs PG&E recorded in the TCBA during the record period. Through subsequent discussion, PG&E and ORA were able to resolve all of the issues except for one. The one unresolved issue relates to an amount of \$500,000 paid by PG&E to 11 employees under the Bargaining Unit Severance and Displacement Program.⁷

A. Position of ORA

ORA recommends disallowance of the \$500,000 amount paid by PG&E to the 11 employees because the employees were released from their positions in divested plants and placed in other positions in PG&E in less than one month. ORA questions the combination of the employees spending such a short period of time in the divested plants in conjunction with their immediate hire by PG&E, and so challenges both the propriety and amount of these payments.

⁶ D.00-02-048, p. 6.

⁷ According to PG&E, each employee was eligible to receive a \$50,000 payment. Only \$500,000 is at issue in this ATCP because two employees elected to each receive \$25,000 payments in the record period. These employees will receive an additional \$25,000 payment after the record period.

ORA argues that after having presented a program in the 1998 ATCP to the Commission which focused on severance and was therefore subjected to less scrutiny, PG&E and the CUE now seek to expand the program to provide \$50,000 payments and other benefits to employees that return to PG&E after less than one month in a divested facility. ORA finds no reference in the Settlement Agreement to individuals whose employment status is comparable to that of the 11 individuals at issue in this proceeding. ORA believes that it was misled in the 1998 ATCP and contends that PG&E and CUE are attempting to change the terms and eligibility requirements of the Settlement Agreement.

Also, ORA contends that as a result of the 1998 ATCP, ORA believed that employees returning to PG&E after only a brief time at a divested plant would receive a prorated payment. The basis for ORA's contention is the vesting provision in the April 14, 1997 Letter Agreement between PG&E and the International Brotherhood of Electrical Workers (IBEW) 1245 (Exh. 31), specifically Title 206 in the context of the employee severance and displacement program.⁸ ORA believes that it reasonably interpreted the proration provisions of Title 206 in negotiating the settlement agreement in the 1998 ATCP. In the 1998 ATCP, ORA witness Godfrey testified that: "This bonus program pays \$50,000, per employee, to IBEW employees located at a plant to be sold and who remain in the retention plan for the entire duration, otherwise a pro-rated portion will be received." (1998 ATCP Exhibit (Exh.) 34, pp. 5-6.)

⁸ The "206 process" describes the demotion and layoff provisions of the collective bargaining agreement between PG&E and IBEW 1245.

B. Position of PG&E

PG&E argues that as the testimony in the 1998 ATCP made clear, employees are eligible for the \$50,000 payment when they are displaced, regardless of whether that occurs prior to year four after the trigger date, so long as it occurs at a plant for which Section 851⁹ approval has been granted. Therefore, PG&E contends that these employees were entitled to receive these payments under the Program.

According to PG&E, the Program provides employees with an incentive to stay at the plant until PG&E displaces them through the provisions of the collective bargaining agreement. PG&E points out that the reasonableness of the Program was approved in last year's ATCP Decision (D.) 00-02-048, and should not be relitigated in this year's proceeding.

C. Position of CUE

CUE disagrees with ORA's argument that the vesting provision in the Letter Agreement provides that the payments to these 11 employees should be prorated. CUE notes that the vesting provision, as cited by ORA, states:

“Employees who are in the Plan for the entire duration of the retention vesting period or are displaced in accordance with Title 206 or exercise the provision of subsection 206.9(a) will receive full retention benefits. A pro-rated portion will be received if any of the following conditions are met ... an employee is released from their current position pursuant to Section 205.17, ... an employee is hired, returns from LTD, or

⁹ All statutory references are to the Public Utilities Code unless otherwise stated.

enters a covered regular position under the provisions of Titles 205 and 206, during the retention vesting period.”¹⁰

CUE points out that ORA does not explain which of these two conditions requires proration of the payments for the 11 employees at issue. According to CUE, none of them do.

CUE explains that the first condition states that a “pro-rated portion will be received if ... an employee is released from their current position pursuant to Section 205.17.” Section 205.17 (which refers to Section 205.17 of the collective bargaining agreement between PG&E and IBEW 1245) describes job appointments that are due to urgent necessity, such as health crises. CUE states that ORA has received and reviewed Title 205 of the collective bargaining agreement as part of this proceeding and is well aware of the limited applicability of Section 205.17. It does not apply to any of the employees at issue here.

Further, CUE explains that the second condition in the provision cited by ORA states that a “pro-rated portion will be received if ... an employee is hired, returns from LTD, or enters a covered regular position under the provisions of Titles 205 and 206, during the retention vesting period.” CUE states that this condition refers to individuals who are hired or return from long-term disability *into a position at a divested plant* after the trigger date for the program. According to CUE, the provision does not apply to any of the 11 individuals at issue here, all of whom worked at their respective plants for several years prior to the plant being sold.

¹⁰ ORA Opening Brief, p. 15, *see also* Exh. 31, p. 9.

CUE believes that because none of the conditions of the vesting provision apply to the 11 employees at issue, ORA must have misunderstood the provision. CUE contends that, however, the remainder of the record in the 1998 ATCP dispels any notion that ORA did or reasonably could have misinterpreted this provision to conclude that employees whose jobs were eliminated prior to the end of the “retention vesting period” (the Operation and Maintenance (O&M) period) and transferred to other positions in PG&E would receive prorated benefits.

CUE contends that the record in the 1998 ATCP established that employees whose jobs were eliminated prior to the end of the O&M period would receive the full \$50,000 program payment. According to CUE, the Letter Agreement that ORA relies on itself clarified that an employee receives the full \$50,000 payment if his or her job is eliminated prior to the end of the O&M period. The Letter Agreement states that:

Following approval by the CPUC of the process to sell a power plant, eligible bargaining unit employees will receive annual lump sum payments of \$10,000 for the first two years, \$15,000 for the third year, and the final payment of \$50,000, *once the two-year O&M obligation has been completed or if an employee has been displaced through the 206 process. In any event the final payment will be \$50,000.*¹¹

The Letter Agreement also describes the criteria for program eligibility, none of which requires an employee to remain at the plant for the entire duration

¹¹ Exh. 31, p. 4 (emphasis added).

of the O&M period.¹² These provisions eliminate any ambiguity that ORA may find in the language of the vesting provision, according to CUE.

Further CUE points out that in addition, PG&E testified in the 1998 ATCP that:

The \$50,000 final payment is made in conjunction with an employee's displacement or layoff, and *therefore may be paid prior to year four* in conjunction with the application of the demotion and layoff provisions of the appropriate collective bargaining agreement.¹³

CUE contends that this testimony also contradicts ORA's notion that the \$50,000 payment is prorated for employees who are displaced or laid off prior to the end of the O&M period.

CUE argues that most significantly, ORA's recommendation that payments should be prorated if an employee's job is eliminated prior to the end of the O&M period conflicts with its own recommendation in the 1998 ATCP. In that proceeding, ORA recommended that the Commission allow PG&E to recover severance and displacement program costs for 10 employees who lost their jobs prior to the start of the O&M period.¹⁴

Also, CUE points out that Aglet Consumer Alliance (Aglet) actively litigated this issue in the 1998 ATCP proceeding, arguing that the severance and displacement program was unreasonable because program benefits did not

¹² Exh. 31, p. 9.

¹³ Exh. 35, p.3-28 (emphasis added). Part of Exh. 33 in A.98-09-003.

¹⁴ Godfrey, 1998 ATCP Testimony, Exh. 34.

differentiate among employees that are severed and those that are rehired or transferred. According to CUE, ORA was a prominent player in this debate.¹⁵

D. Discussion

PG&E seeks recovery of \$500,000 in severance and displacement costs for 11 employees whose jobs were eliminated as a result of restructuring. Under the terms of the Settlement Agreement adopted in D.00-02-048, PG&E may recover these costs if: (a) the costs were incurred only for employees eligible to receive benefits under the specific terms of the Program, as described in the 1998 ATCP; (b) PG&E appropriately identified the costs; (c) PG&E accurately recorded the costs; and (d) the costs do not exceed the cost caps established in the Settlement Agreement. ORA opposes recovery of these costs because the 11 employees were only employed in the divested plants for approximately one month before being placed in other positions with PG&E. However, ORA has provided no evidence that these 11 employees were ineligible to receive benefits under the specific terms of the Program, as described in the 1998 ATCP.

In general, the Program is triggered at a specific plant when the Commission approves a Section 851 application for plant divestiture. In approving the Program, the Commission noted that the payment schedule for employees remaining at a facility after approval of the § 851 process would be as follows:

- \$10,000 one year after the trigger date;
- \$10,000 two years after the trigger date;

¹⁵ See reply of ORA to the Comments of Aglet on the Settlement Proposed by PG&E, the Coalition of Union [sic] Employees, and ORA, pp. 6-7 (July 21, 1999).

- \$15,000 three years after the trigger date;
- \$50,000 final payment, when the employee is displaced.

The \$50,000 payment is made in conjunction with an employee's displacement or layoff, and therefore may be paid prior to year four in conjunction with the application of the demotion and layoff provisions of the appropriate collective bargaining agreement. (Exh. 33, pp. 3-27 – 3.28).¹⁶

We believe that the record in the 1998 ATCP makes clear that an employee at a divested plant receives a \$50,000 final payment under the Program when the employee is displaced through the 206 process regardless of whether that employee is actually severed or demoted following displacement. The relevant issue in this proceeding is whether PG&E seeks to recover costs for employees eligible to receive benefits under the specific terms of the Program as it was described in the 1998 ATCP. The evidence establishes that it does. In fact, this issue was fully litigated in A.98-09-003 and the settlement specifically asked for multi-year approval of this program, subject only to a cap. We conclude that ORA's recommendation to disallow recovery of these costs should be denied.

VII. WRRM Account

PG&E requests that the Commission close the electric component of the WRRM account and allow it to recover an under-collection of approximately \$2 million through the TCBA.

A. Background

In 1993, after the Commission issued its decision in PG&E's 1993 GRC, PG&E announced its Workforce Management Program. The anticipated effect of

¹⁶ D.00-02-048, mimeo., p. 25, emphasis added.

that Program was to reduce PG&E's workforce levels, beginning in 1993. PG&E used various human resource programs, such as severance and voluntary early retirement incentives, to achieve the reduction in a manner as fair as possible to the affected employees.

The 1993 GRC decision, D.92-12-057, did not reflect the anticipated effects of the Program on PG&E's workforce. Although generally shareholders absorb either increases or decreases in recorded costs compared to the amounts adopted in a GRC, PG&E believed this change was significant enough that it warranted different treatment. Therefore, PG&E filed an application shortly after announcing the Program, proposing to return to ratepayers the difference between (1) the amount that was included in the base revenue requirement for 1993, 1994, and 1995, but would not have been included had the 1993 GRC decision reflected the effect of the Program, and (2) the incremental cost of the Program.

In response, the Commission issued D.93-03-025. The Commission denied PG&E's request for a balancing account and a Workforce Reduction Rate. However, the Commission authorized a memorandum account¹⁷ to track: (1) the reduction in salaries and related overheads due to the program, and (2) the costs of the program. The Commission stated that the balance in the memorandum account may be reflected in rates after the Commission review and audit of the recorded balance. Also, the Commission stated:

¹⁷ Memorandum accounts operate similarly to balancing accounts. However, unlike balancing accounts, many of which are routinely recoverable through rates, memorandum accounts may or may not be recoverable through rates and are subject to further scrutiny by the Commission. Also, memorandum accounts are generally not recorded in the utility's balance sheet.

“5. On or before May 1 of each year, PG&E will file with the Commission a report of the amounts recorded in the memorandum account for Commission review and audit. This report shall include PG&E’s proposal for the recovery or refund of the amounts recorded in the account ...” (48 CPUC2d, 417; D.93-03-025, Ordering Paragraph 5, emphasis added.)

After 1995, PG&E did not make entries to the memorandum account as any savings and costs associated with the WRRM were reflected in the 1996 GRC. Accordingly, since December 31, 1995, only interest has accrued to the WRRM account. PG&E now seeks recovery of the electric department’s portion of \$2,032,414 through the current ATCP.

B. Position of PG&E

PG&E proposes to keep customers whole by returning to customers the amount which was included in rates in the 1993 through 1995 time period but which would not have been included had the 1993 GRC decision reflected the reduction in PG&E’s workforce due to the Program. This amount is to be offset by the costs of implementing the Program. In other words, PG&E’s proposal is to calculate an adjustment to the 1993 through 1995 revenue requirement based on perfect knowledge of both the costs of, and reductions in salaries due to this Program, and to return this amount, including interest, to customers.

Exhibit 27 summarizes PG&E’s proposal: The reduction in revenue requirement from 1993 through 1995 due to the reduction in salaries and related overheads was \$293 million, the cost of the Program was \$180 million; interest during 1993 through 1995 was \$8 million. Thus, the amount to be returned to customers is \$105 million (\$293 million minus \$180 million minus \$8 million).

During 1994 and 1995, PG&E returned \$107 million to customers. Thus, PG&E returned \$2 million more than necessary to keep customers whole (\$107 million minus \$105 million).

PG&E states that none of the costs of the Program were recovered through any other rate making mechanism or proceeding. According to PG&E, the \$180 million cost of the program, shown in Exhibit 27, which generally included severance payments to individuals who left PG&E's employment and payments to benefit plans to recognize a larger number of retirees than had previously been assumed, was not included in any other proceeding.

Also, PG&E states that none of the costs to implement the program were included in the 1993 GRC. According to PG&E, the cost estimates adopted in the 1993 GRC did not anticipate the severance and other benefits costs for the Program.

Further, PG&E states that none of the costs to implement the Program were included in rates prior to the 1993 GRC. According to PG&E, prior to 1993, benefit costs associated with the workforce positions which were eliminated through the program were for the benefits earned by employees while they were employed by PG&E. The costs of the program were incremental to the costs of benefits earned by the employees prior to the program.

C. Position of ORA

ORA contends that PG&E's accounting methodology is contrary to the Commission directive set forth in D.93-03-025. ORA argues that D.93-03-025 denied PG&E's request to establish a balancing account, but instead ordered PG&E to establish a memorandum account wherein all costs and savings, which would otherwise have been recorded in PG&E's expense and capital accounts "would be reflected at 100%." According to ORA, in March of 1993, PG&E

commenced booking expenses and savings for its gas and electric departments through the balancing account methodology, which was contrary to the direction of D.93-03-025.

ORA argues that WRRM issues were the central topic of D.93-03-025. At the urging of various parties, D.93-03-025 explicitly rejected PG&E's proposal to use the balancing account methodology. According to ORA, rather than file a petition to modify, or take some other procedurally appropriate action, PG&E determined to ignore a Commission order. ORA contends that PG&E now attempts to shift the burden to ORA to raise the various issues and alternate methodological approaches that other parties to D.93-03-025 may have contemplated. ORA argues that thus, in addition to having utilized the balancing accounting methodology in contravention of D.93-03-025, PG&E failed to take steps to ensure that parties to D.93-03-025 would be provided an opportunity to participate in this proceeding, and thereby deprived parties of their due process rights.

ORA contends that in light of these facts, to address the issue of whether it is appropriate to use PG&E's methodology for the WRRM issues in this proceeding would run the risk of depriving parties to D.93-03-025 of due process and their right to be heard on the issue. ORA is concerned that such action would preempt the Commission's consideration of the full spectrum of viable methodological approaches. Accordingly, ORA recommends that the WRRM issues should be deferred to another proceeding, outside the ATCP, where adequate notice is given and all parties are afforded the opportunity to develop and criticize a variety of methodological approaches.

D. Response of PG&E

PG&E takes exception to ORA's proposal as described in Exhibit 29 and on page 59 of the transcript. PG&E argues that rather than allowing PG&E to recover the total cost of the Program, \$180 million, ORA's proposal would allow PG&E to recover only \$120 million of the cost. According to PG&E, the result is that ORA would deny PG&E recovery of \$60 million of costs associated with the Program.

PG&E states that in D.93-03-025, the Commission established a memorandum account on a "total dollar basis," and deferred ruling on the ultimate disposition of these dollars until all costs and savings had been recorded. The decision instructed PG&E to debit the WRRM memorandum account with the costs of the Program and credit the account with all savings resulting from the Program which would otherwise have been recorded in PG&E's expense or capital accounts. The accounting practice adopted by D.93-03-025 required PG&E to record the savings in total without differentiating between amounts that would have been capitalized and amounts that would have been expensed.

Further, PG&E states that as required by D.93-03-025, PG&E set up the required memorandum account to track the affected dollars. However, to facilitate the ultimate disposition of these dollars, PG&E also maintained an account using the revenue requirement methodology, in the expectation that this would ultimately be needed by the Commission to determine the final disposition of these dollars. PG&E asserts that as established by D.93-03-025, the WRRM memorandum account was indeed a true memorandum account—recording total dollar amounts pending a determination of any appropriate ratemaking adjustments.

PG&E disagrees with ORA's opinion that the direction and intent of D.93-03-025 was to capture the sum of all savings which would otherwise have been recorded in PG&E's expense and capital accounts. PG&E contends that while the memorandum account called for in D.93-03-025 did not differentiate between the amounts that would have been recorded as expense or capital, the decision included other provisions which relate to the ratemaking effects of the Program. According to PG&E, ORA has overlooked these other provisions. PG&E points out that in adopting the memorandum account, the decision states: "While the appropriate regulatory response will require further consideration, we do want to allow PG&E to begin recording its costs and savings as soon as possible, so as to preserve for all the opportunity for future recovery or refund."¹⁸

PG&E points out that in Ordering Paragraph 5, the Commission requires PG&E to file annual reports which "shall include PG&E's proposal for the recovery or refund of the amounts recorded in the account," further indicating that the decision did not assume that the amounts recorded in the memorandum account would be transformed dollar-for-dollar into rate changes, as ORA is advocating.

Further, PG&E points that, more explicitly, Ordering Paragraph 4 requires PG&E to file an initial report including "the impact of the (workforce management) plan on revenue requirements for the test year and succeeding years" (emphasis added).

PG&E explains the difference between the total dollar basis and the revenue requirements basis as follows:

¹⁸ D.93-03-025, *mimeo.* at 4.

“The total dollar basis is a running total of the costs of the Program and the savings in labor cost without regard for whether the labor savings represented an expense savings or capital savings. The revenue requirement basis is the result of a computation identical to that performed in rate cases to determine the level of revenue necessary to recover amounts that are expensed and the depreciation, return and taxes on amounts that are capitalized as assets. The revenue requirement basis recognizes that the costs of assets are not collected from customers at the time of installation.” (PG&E Rebuttal Testimony Exh. 2, pp. 5-4 and 5-5.)

PG&E argues that it is not appropriate to credit customers with the savings from the Program on a total dollar basis. According to PG&E, using the total dollar basis, customers would get a refund that would be greater than what they would have paid in rates had the labor savings not occurred. The 1993 revenue requirement was set by the Commission based on adopted forecasts of expense and capital investment. The WMP reduced PG&E’s labor costs for both expense items and capital items. The savings that should flow back to customers should be the amount by which the adopted revenue requirement would have been reduced had the estimates of expense and capital been lower than originally adopted.

PG&E states that it performed the revenue requirement calculations for the WMP on a monthly basis during 1993, 1994 and 1995, to determine the appropriate credit for customers. Beginning in 1996, the cost savings from the Program were recognized in the revenue requirement adopted in the 1996 GRC decision.

PG&E points out that its revenue requirement was reduced to reflect the savings of the Program through the 1994 Attrition filing (which adjusted the revenue requirement adopted in the 1993 GRC) and in the 1996 GRC (which was

based on forecast of expenses and rate base which excluded the savings from the Program). According to PG&E, refunding the capital portion of the Program savings to customers as ORA proposes would result in customers receiving the savings twice.

Thus, PG&E believes it is owed \$2 million, and ORA says PG&E should return an additional \$58 million, resulting in a difference of \$60 million. PG&E argues that the ORA proposal would unfairly deprive PG&E of the ability to recover the costs of the Program. PG&E contends out that ORA provides no justification for its proposal to disallow a portion of the Program costs.

E. Discussion

We are not persuaded by ORA's memorandum account versus balancing account argument. The accounting methodology is the same for both. However, the ratemaking treatment for either account is a separate matter to be determined by the Commission.

Neither D.93-03-025 nor any other Commission decision has adopted a ratemaking treatment to be applied to PG&E's WRRM account. There is no decision ordering PG&E not to file a ratemaking proposal. To the contrary, D.93-03-025 specifically required PG&E to make a ratemaking proposal for the items recorded in the WRRM account.¹⁹ Therefore, we find that PG&E's action in this proceeding, which has been to propose a ratemaking treatment and ask the Commission to adopt it, is consistent with, not in contravention of, a Commission order.

¹⁹ D.93-03-025, Ordering Paragraph 5, *mimeo.*, p. 8.

Further, we believe that there is no reason to delay any longer the resolution of this issue, which has been fully litigated in this proceeding.²⁰ PG&E included the WRRM issue in last year's ATCP proceeding, A.98-09-003. In its discussion of balancing and memorandum accounts related to the TCBA, PG&E made its proposal for the WRRM account.²¹ In response, ORA's report for the 1998 ATCP states that "ORA's audit findings regarding PG&E's TCBA and related balancing and memorandum accounts will be presented in the next annual filing of the TCBA."²² Thus, in essence, ORA requested deferral of the issue from last year's ATCP proceeding to this proceeding.

Further, we are not persuaded by ORA's argument that D.93-03-025 requires PG&E to refund the net amount of the costs and savings on a dollar-for-dollar basis as recorded in the memorandum account without adjustment for a revenue requirement factor. As PG&E points out, under ORA's proposal customers would receive a refund that would be greater than what they paid in rates.

In summary, we conclude that the appropriate credit to customers for the net savings of the WMP should be based on the reduction in revenue requirement arising from the Program, not on the total dollar savings. The

²⁰ The proof of service for PG&E's 1999 ATCP shows that those who have traditionally participated in PG&E's ratemaking proceedings were served with copies of PG&E's ATCP. ORA's prepared testimony addressed the dollar amounts at issue. And, there were two days of evidentiary hearings on the substantive issues.

²¹ A.98-09-003, Exh. 33, Ch. 2, Section D. (Elimination and Retention of TCBA-Related Balancing and Memorandum Accounts) Subsection 1.i. (WRRM Memorandum Account, p. 2-26.)

²² A.98-09-003, Exh. 54, p. 2-1.

revenue requirement method properly computes the savings to customers in 1993 through 1995 arising from the WMP; savings to customers from 1996 on have been and will continue to be reflected in rates through the GRC decisions. PG&E's estimate of the revenue requirement savings over the 1993 through 1995 period was \$1.6 million greater than the revenue requirement savings computed on a monthly basis and recorded in the WRRM memorandum account. This \$1.6 million difference, plus accumulated interest totaling approximately \$2.0 million should be transferred to the TCBA, and the WRRM docket (A.93-02-047) should be closed.

VIII. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Pub. Util. Code § 311(d) and Rule 77.1 of the Rules of Practice and Procedure. Comments were filed on December 19, 2000, and reply comments were filed on December 26, 2000, by CUE, ORA, and PG&E, respectively. We have reviewed the comments and made changes to the proposed decision where appropriate.

Findings of Fact

1. In A.99-09-006, PG&E requested Commission approval of its entries to the TCBA during July 1, 1998 through June 30, 1999, and for a Commission determination of the reasonableness of PG&E's activities during July 1, 1998 through June 30, 1999, associated with: (1) employee-related transition cost programs; (2) QF and other PPAs; (3) pumped storage operations, geothermal operations and water purchases for power production; (4) ISO and PX costs and revenues; and (5) management of transaction costs for Wave 1 and Wave 2 plant sales and Hunters Point Power Plant market valuation.

2. On February 4, 2000, pursuant to an ALJ ruling, PG&E's request for approval of the Hunters Point decommissioning cost estimate was bifurcated into a separate phase and will be addressed in a separate decision.

3. On April 27, 2000, the assigned ALJ issued a ruling granting the joint motion of PG&E, Edison and SDG&E to strike Chapter 8 of ORA's Report, entitled *Regulatory Assets*.

4. The only active participants in this phase of PG&E's ATCP have been ORA, and CUE. ORA filed testimony, while CUE participated through cross-examination.

5. On June 16, 2000, PG&E and ORA submitted a *Stipulation Agreement Between Pacific Gas And Electric Company And The Office Of Ratepayer Advocates Resolving Issues In The 1999 Annual Transition Cost Proceeding* (Stipulation) that resolves all of the contested issues in this phase of the proceeding except for the \$500,000 employee transition cost issue and the WRRM issue.

6. No other party has filed testimony or participated in hearings on any of the issues addressed by the Stipulation. No party has proposed that the Stipulation or any part of it contravenes statutory provisions or prior Commission decisions, and none do.

7. We review PG&E and ORA's Stipulation under the rules provided in Rule 51.1 and the Commission's criteria for all-party settlements.

8. The PG&E and ORA Stipulation is a reasonable compromise that fairly serves the interests of PG&E, its shareholders, customers, and employees.

9. The PG&E and ORA Stipulation is reasonable in light of the whole record, consistent with law, and in the public interest.

10. The Stipulation provided that \$13,800 of disputed retraining assistance costs are consistent with the programs approved in D.00-02-048 and should be recovered through the TCBA.

11. The Stipulation provided that \$25,452 of disputed Hunters Point Management Enhanced PIP costs were incurred while Hunters Point was part of PG&E's divestiture proposals and, therefore, are consistent with the programs approved in D.00-02-048 and should be recovered through the TCBA.

12. The Stipulation confirms that none of PG&E's QF administrative costs were authorized for recovery in PG&E's 1999 GRC. The ATCP is the appropriate mechanism for recovery of these costs.

13. The Stipulation confirms that the costs and incentive amounts associated with the Mt. Poso Cogen termination and bridging agreements, the San Joaquin Cogen termination agreement, and the Ultrapower Blue Lake termination agreement, are appropriately recorded in the TCBA, but are subject to revisions necessary to reflect final Commission decisions from the proceedings considering those PPA modifications.

14. The Stipulation adopts a reduction of \$6,100 to PG&E's requested Big Creek incentive amount as a compromise of the party's positions.

15. The Stipulation concurs with ORA's observation that further entries in the TCBA may be required based on the Commission's decision in I.98-12-013 (relating to the December 8, 1998, San Francisco outage).

16. The Stipulation agrees with ORA that the December 1998 monthly PBOP entry was in error, requiring PG&E to credit the TCBA by \$3,082,556 plus interest.

17. The Stipulation agrees with ORA that a June 1999 TCBA credit of \$2,468,356 should have included interest of \$352,211, requiring PG&E to make an adjustment to address this.

18. The Stipulation agrees with ORA that an erroneous record period debit entry relating to revenues from departing load customers should have been a credit, requiring PG&E to credit the TCBA by \$174,878, plus interest.

19. D.00-02-048 in the 1998 ATCP adopted a settlement between PG&E, ORA and CUE which approved, among other things, the reasonableness of the employee transition programs at divested fossil and geothermal plants.

20. PG&E's Bargaining Unit Severance and Displacement Program (called the Bargaining Unit Displacement Program in the settlement) is one of the employee transition cost programs approved by D.00-02-048.

21. Under the 1998 ATCP settlement, and therefore the 1998 ATCP decision, PG&E may recover the costs incurred under the Bargaining Unit Severance and Displacement Program up to a cap of \$42.575 million, so long as the employees receiving the payments are eligible to do so, and PG&E has properly identified and recorded the costs.

22. ORA and PG&E have a dispute in this proceeding as to whether 11 employees, who received \$500,000 in displacement payments during the record period, were eligible to receive benefits under the specific terms of the Bargaining Unit Severance and Displacement Program.

23. ORA asserts that because the 11 employees were released from their positions in divested plants and placed in other positions in PG&E in less than one month, they were not eligible to receive \$50,000 payments under the specific terms of the WMP.

24. The Bargaining Unit Severance and Displacement Program provides payments at various times after the Commission approval of PG&E's Pub. Util. Code § 851 application for plant divestiture, which is referred to as the "trigger date."

25. The \$50,000 payment is made in conjunction with an employee's displacement or layoff, and therefore may be paid prior to year four in conjunction with the application of the demotion and layoff provisions of the appropriate collective bargaining agreement.

26. Employees are eligible for the \$50,000 payment when they are displaced, regardless of whether that occurs prior to year four after the trigger date, so long as it occurs at a plant for which § 851 approval has been granted.

27. These 11 employees were displaced after § 851 approval had been granted for the plants where they were employed.

28. These 11 employees were eligible for and entitled to receive these payments under the Bargaining Unit Severance and Displacement Program, and PG&E is authorized to recover the costs of the payments in the TCBA.

29. ORA and PG&E have a dispute in this proceeding as to the calculation of the net benefit of the Workforce Reduction Program to be returned to ratepayers.

30. In 1993, after the Commission issued its decision in PG&E's 1993 GRC, PG&E announced its WMP. The 1993 GRC decision did not reflect the anticipated effects of the Program on PG&E's workforce.

31. PG&E filed an application shortly after announcing the Program, proposing to return to ratepayers the difference between (1) the amount that was included in the based revenue requirement for 1993, 1994, and 1995, but would not have been included had the 1993 GRC decision reflected the effect of the Program, and (2) the incremental cost of the Program.

32. In D.93-03-025, the Commission established the WRRM account as a memorandum account, to track (1) the reduction in salaries and related overheads due to the Program, and (2) the costs of the Program. The Commission did not determine what ratemaking treatment should result from the information recorded in the WRRM account.

33. The amount that was included in the electric base revenue requirement for 1993, 1994, and 1995, but would not have been included had the 1993 decision reflected the effect of the WMP on PG&E's workforce, is \$293 million.

34. The electric portion of the costs of the WMP were \$180 million.

35. ORA and PG&E agree that PG&E has returned a total of \$107 million to electric ratepayers through reductions in the electric base revenue requirement for 1994 and 1995.

36. ORA and PG&E agree that interest should accrue on the balance of the WRRM.

37. Interest of \$8 million has accrued on the WRRM based on the amounts described above.

38. There is no basis for ORA's assertion that a portion of the \$180 million of Program costs should not be recovered.

39. To close out the WRRM, PG&E should recover the approximately \$2 million through the TCBA.

40. Except as described above, PG&E's entries into the TCBA during the record period were appropriate.

41. During the record period, PG&E operated its geothermal, hydroelectric and pumped storage generation facilities reasonably.

42. PG&E reasonably administered and managed its QF contracts in accordance with Commission decisions. The QF contract modifications,

restructurings, amendments and dispute settlements for which PG&E is seeking approval in this proceeding are reasonable.

43. Except for the Big Creek incentive amount to be adjusted as described above, the associated incentive amounts for which PG&E is seeking approval in this proceeding are reasonable and properly recorded in the TCBA.

44. PG&E properly recorded in the TCBA during the record period the amounts for other PPA payments and associated administrative costs, including amounts recorded associated with the WAPA integration agreement.

45. PG&E reasonably administered and managed its other PPA agreements, including the WAPA integration agreement.

46. PG&E's activities in scheduling "must take" resources were reasonable.

47. In addition to the amounts discussed above, PG&E's employee transition costs incurred during the record period were consistent with the terms of the programs approved in last year's ATCP decision, and they are appropriately recorded in the TCBA during the record period.

48. PG&E's transaction costs associated with the divestiture of PG&E's Wave 1 and Wave 2 power plants were reasonable, and they are appropriately recorded in the TCBA.

Conclusions of Law

1. The Settlement before us is reasonable in light of the whole record, consistent with the law and in the public interest, and should be approved.

2. Employees receiving benefits from the employee transition programs during the record period were eligible for the benefits received.

3. Pub. Util. Code § 367 authorizes transition cost recovery of the above market costs associated with QF contracts and other PPAs and the costs to buy-

out, buy-down and/or restructure those QF contracts and other PPAs, including administrative and legal costs and shareholder incentive amounts.

4. Further entries in the TCBA may be required based on the Commission's decision in I.98-12-013 (relating the December 8, 1998, San Francisco outage).

5. Further entries in the TCBA may be required based on the Commission's decisions in the proceedings considering the Mt. Poso Cogen termination and bridging.

INTERIM ORDER

IT IS ORDERED that:

1. The *Stipulation Agreement Between Pacific Gas And Electric Company And The Office Of Ratepayer Advocates Resolving Issues In The 1999 Annual Transition Cost Proceeding* (Exhibit 5), attached as Appendix B, shall be adopted.

2. Pacific Gas and Electric Company (PG&E) shall recover through the Transition Cost Balancing Account (TCBA) the \$500,000 for payments made to 11 employees under the Bargaining Unit Severance and Displacement Program.

3. PG&E shall close out the Workforce Reduction Rate Mechanism (WRRM) account and recover the undercollection of approximately \$2 million through the TCBA.

4. The WRRM docket (A.93-02-047) shall be closed.

5. Within 21 days of the effective date of this decision, PG&E shall file and serve a compliance advice letter to confirm the adjusted entries in its TCBA and related memorandum accounts. The advice letter will become effective after appropriate review by the Energy Division.

6. This proceeding shall remain open to address Hunters Point Power Plant decommissioning issues.

This order is effective today.

Dated January 4, 2001, at San Francisco, California.

LORETTA M. LYNCH
President
HENRY M. DUQUE
RICHARD A. BILAS
CARL W. WOOD
JOHN R. STEVENS
Commissioners

APPENDIX A
List of Appearances

Applicant: Mark R. Huffman, Attorney at Law, for Pacific Gas & Electric Company.

Interested Parties: Steven C. Nelson, Attorney at Law, and Tom Whelan, Sempra Energy, for San Diego Gas & Electric Company; and James P. Scott Shotwell, and Janet K. Lohmann, Attorneys at Law, for Southern California Edison Company; Ellison & Schneider, by Andrew Brown, Attorney at Law, for California Dept. of General Services; Bruno Gaillard, for Enron Corporation; Grueneich Resource Advocates, by Dian Grueneich; Attorney at Law, for City and County of San Francisco; Ellison & Schneider, by Douglas Kerner, Attorney at Law, for Independent Energy Producers; Ronald Liebert, Attorney at Law, for California Farm Bureau Federation; Sutherland, Asbill & Brennan, by Keith McCrea, Attorney at Law, for California Manufacturers Association; Adams, Broadwell, Joseph & Cardozo, by Katherine S. Poole, Attorney at Law, for Coalition of California Utilities; James Weil, for Aglet Consumer Alliance; Norman J. Furuta, Attorney at Law, for Federal Executive Agencies; and Goodin, MacBride, Squeri, Ritchie & Day, by James W. McTarnaghen, Attorney at Law, for himself.

Legal Division: Darwin Farrar, Attorney at Law.

Office of Ratepayer Advocates: Donna-Fay Bower.

Energy Division: Kayode Kajopaiye.

Public Advisor's Office: Rosalina White.

(END OF APPENDIX A)

APPENDIX B

Page 1

**STIPULATION AGREEMENT BETWEEN
PACIFIC GAS AND ELECTRIC COMPANY AND THE
OFFICE OF RATEPAYER ADVOCATES RESOLVING ISSUES IN THE
1999 ANNUAL TRANSITION COST PROCEEDING
(APPLICATION NO. 99-09-006)**

In accordance with Article 13.5 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure, the Office of Ratepayer Advocates (ORA) and Pacific Gas and Electric Company (PG&E), by and through their undersigned representatives, enter into this Stipulation Agreement resolving several issues in the 1999 Annual Transition Cost Proceeding, A.99-09-006. As a compromise between their respective litigation positions in A. 99-09-006, PG&E and ORA agree to and support all of the terms of this Stipulation Agreement.

Except for the two unresolved issues identified in Section II., and issues relating to Hunters Point power plant decommissioning costs, this Stipulation Agreement resolves all of the issues between ORA and PG&E in this proceeding.

I. REASONABLENESS AND COST RECOVERY

A. Employee-Related Transition Costs

1. Bargaining Unit Retraining Assistance Issue: PG&E and ORA agree that PG&E should recover \$93,786 in record period costs incurred for Bargaining Unit Retraining Assistance for employees working at Morro Bay, Geysers, Moss Landing, Contra Costa, and Pittsburg power plants. In particular, because of additional information provided by PG&E, ORA agrees that recovery of \$13,800 in costs for this program which it questioned in its report is consistent with the terms of the Settlement Agreement between PG&E, ORA and the Coalition of California Utility Employees, adopted in D.00-02-048, and is appropriate.

APPENDIX B

Page 2

2. Hunters Point Management Enhanced PIP Issue: Because of additional information provided by PG&E, ORA agrees that PG&E should recover \$25,452 in record period costs incurred for Management Enhanced Performance Incentive Program (PIP) for 16 employees who were working at the Hunters Point plant.

**B. Qualifying Facility And Other Power
Purchase Agreement Costs, Including
Legal and Administrative Costs**

1. Recovery Of QF Administrative Costs: PG&E and ORA agree that none of PG&E's QF administrative costs were authorized for recovery in PG&E's 1999 General Rate Case (GRC). PG&E inadvertently included an estimate of the administrative costs in its 1999 GRC cost estimates, but the GRC decision did not authorize recovery of the electric portion of the "Gas And Electric Supply Expenses" component of GRC costs in which PG&E had inadvertently included an estimate of QF administrative costs. The 1999 GRC decision allows PG&E to propose a recovery mechanism for these costs at a future date.

PG&E and ORA agree that PG&E will remove all QF administrative costs from the electric portion of the Gas And Electric Supply Expenses estimate adopted in PG&E's 1999 GRC decision, D. 00-02-046 before recording that amount in PG&E's proposed Electric Supply Cost Memorandum Account (ESCMA), and will not seek recovery of QF administrative costs, except through the Transition Cost Balancing Account (TCBA). Because this Stipulation resolves issues in the 1999 ATCP, PG&E agrees that any recovery mechanism which it may propose for recovery of the amounts in the ESCMA shall not be proposed in the ATCP. PG&E further agrees that it will not seek to recover QF administrative costs associated with the 1999 ATCP record period through an alternative recovery mechanism.

Based on this, PG&E and ORA agree that PG&E appropriately recorded approximately \$2 million in QF administrative costs in the TCBA during the first six months of 1999.

APPENDIX B

Page 3

2. QF Contract Costs: During the record period, PG&E reasonably and prudently administered and managed its QF contract agreements. During the record period, PG&E recorded in the TCBA QF contract payments and associated administrative and legal costs in the amount of \$1,387.3 million.
3. QF Contract Restructurings/Modifications/Amendments/Dispute Settlements: During the record period, PG&E reasonably and prudently modified the contracts of or settled disputes with the 15 QF projects shown in Table 1, which appears at the end of this section. During the record period, PG&E recorded in the TCBA all costs incurred and payments made pursuant to these modified/settled QF contracts.

There are also three additional restructured QF PPAs for which PG&E is not seeking approval in this ATCP: (1) Mt. Poso Cogen Termination and Bridging Agreements;^{1/} (2) San Joaquin Cogen Termination Agreement; and (3) Ultrapower Blue Lake Termination Agreement. PG&E is seeking approval of these restructurings through separate Commission proceedings. PG&E and ORA agree that during the record period PG&E recorded costs associated with these restructurings in the TCBA. PG&E and ORA also agree that if the Commission does not approve the recovery of costs associated with these additional restructurings as recorded in the TCBA, PG&E will adjust these costs, including associated interest, in the TCBA to reflect the Commission's final decisions in these separate proceedings.

4. Associated QF Shareholder Savings Incentives: PG&E's testimony in this proceeding requested approval of a \$0.554 million shareholder savings incentive associated with QF contracts that PG&E had restructured during the record period. ORA and PG&E agree that this amount should be reduced to \$0.548 million, and that PG&E may recover this total shareholder savings incentive amount for these restructured QF contracts. This agreed upon amount includes a \$6,100

^{1/} At the end of the 1999 ATCP record period, the Mt. Poso Termination Application was still an active proceeding. After the end of the record period, PG&E withdrew the Termination Application. TCBA entries resulting from withdrawal of the Termination Application will be subject to review in the 2000 ATCP.

APPENDIX B

Page 4

reduction from the recorded amount to reflect a compromise by PG&E and ORA on the amount of the shareholder incentive for the Big Creek buyout. ORA and PG&E's compromise in this case is not precedential or binding on either party for future, similar QF termination or buyout agreements. PG&E agrees it will make an appropriate entry in the TCBA to reflect this adjustment, including any associated interest.

There are also three additional restructured QF PPAs for which PG&E is not seeking approval in this ATCP: (1) Mt. Poso Cogen Termination and Bridging Agreements;^{2/} (2) San Joaquin Cogen Termination Agreement; and (3) Ultrapower Blue Lake Termination Agreement. PG&E is seeking approval of the shareholder incentives for these three PPA restructurings through the separate Commission proceedings, as well. PG&E and ORA agree that PG&E recorded costs associated with these incentive amounts in the TCBA. PG&E and ORA also agree that if the Commission does not approve these incentive amounts as recorded in the TCBA, PG&E will adjust them, including associated interest, in the TCBA to reflect the Commission's final decisions in these separate proceedings

5. Other Power Purchase Agreements (PPA): During the record period, PG&E reasonably and prudently administered and managed its Other Power Purchase Agreements.

During the record period, PG&E recorded in the TCBA Other Power Purchase Agreement payments and associated administrative and legal costs in the amount of \$90.2 million (including \$24.5 million of WAPA costs identified in ¶6 below).

PG&E and ORA agree that during the record period, PG&E erroneously recorded \$1.6 of non-retail costs in the TCBA as costs associated with the Other Misc. Must-Take Agreements. Outside of the record period PG&E recorded an adjustment to the TCBA to correct this error.

^{2/} At the end of the 1999 ATCP record period, the Mt. Poso Termination Application was still an active proceeding. After the end of the record period, PG&E withdrew the Termination Application. TCBA entries resulting from withdrawal of the Termination Application will be subject to review in the 2000 ATCP.

APPENDIX B

Page 5

6. Western Area Power Administration Integration Agreement: During the record period, PG&E reasonably and prudently administered and managed its Western Area Power Administration Integration Agreement. During the record period, PG&E recorded in the TCBA \$24.5 million in costs associated with the Western Area Power Administration Integration Agreement.
7. Adjustments Outside the Record Period for this Proceeding: PG&E has made some adjustments to the TCBA, relating to QF and other PPA activities during the record period for this 1999 ATCP, outside of the record period for this 1999ATCP.^{3/} Since PG&E recorded these adjustments outside the record period for this proceeding, PG&E agrees the accuracy of the accounting associated with these adjustments may be reviewed in the 2000 ATCP.

^{3/} These adjustments are noted in Table 7-B, page 7-25, of PG&E's direct testimony in this proceeding.

APPENDIX B**Page 6**

Table 1
Pacific Gas and Electric Company
1999 Annual Transition Cost Proceeding
QF Contract Renegotiations/Modifications/Amendments/Dispute
Settlements

Joint ORA/PG&E Recommendation for Commission Approval

Log No.	Project Name	Agreement <1>	Date Signed
25C321	Midway Sunset	PG&E Enabling Agreement	July 29, 1998
12C051	Koppers Industries, Inc.	Termination of Contract	Effective July 17, 1998
13C038	Burney Forest Products	· BFP Bridging Agreement Letter Extension · Second Amendment	September 25, 1998 October 19, 1998
13H005	Big Creek Water Works, Ltd.	· Termination and Buy-Out Agreement · Extension of Buyout and Termination Agreement	October 28, 1998 December 25, 1998
25C092	Fresno Cogen	· Fresno Fourth Power Deadline Extension Agreement · Further Extension of Repower Deadline Letter Agreement	October 27, 1998 June 2, 1999
10H059	James B. Peter	Additional Energy Delivery Letter Amendment	May 10, 1999
25C177	Red Top Cogeneration, L.P.	Settlement Agreement	December 17, 1998
16C047	Byron Power Partners	Settlement Agreement and Release	August 14, 1998
25C045	JRW Associates, L.P.	Settlement Agreement and Release	August 14, 1998
10P005	HL Power	· Pay for Curtailment Agreement (January - May 1999) · Pay for Curtailment Agreement (June - July 18, 1999)	December 17, 1998 May 25, 1999
13P162	Wheelabrator Hudson	· Weekly Pay-for-Curtailment Agreement · Weekly Pay-for-Curtailment Agreement	October 21, 1998 April 25, 1999
25C188	Kern Front	· Daily Pay for Curtailment Agreement	November 10, 1998
25C242	High Sierra Limited	· Extension of Term of Daily Pay for	March 31, 1999
25C241	Double "C" Limited	Curtailment Agreement	
06P022	Woodland Biomass	Weekly Pay-for-Curtailment Agreement	July 31, 1998

Footnote

<1> Agreements in PG&E's workpapers pp. dgd-1 through dgd-477.

APPENDIX B

Page 7

C. Transition Cost Balancing Account Issues

1. December 8, 1998 San Francisco Outage: PG&E and ORA agree that further entries may be required in the TCBA based on the Commission's decision in Investigation 98-12-013. No further action is required at this time.
2. Correction of PBOPs Amortization Expense Entry: PG&E and ORA agree that the December 1998 monthly PBOPs entry was in error, requiring a later credit of \$3,082,556 plus interest. PG&E recorded an adjustment in December 1999 to correct this error. No further action is required at this time.
3. Matching End-Of-Month TCBA Balances To The Subsequent Beginning-Of-Month TCBA Balances: PG&E and ORA agree that PG&E does not need to modify its "TCBA showing" to make the flow of balances from one month to the next more apparent, because PG&E provided to ORA a reconciliation of the balances covering the entire record period that explained the discrepancies. PG&E agrees that differences between one month's ending balance in the TCBA and the next month's beginning balance should be avoided, if possible. PG&E has implemented procedures to eliminate these differences in future TCBA reports. No further action is required at this time.
4. Interest On June Credit: PG&E and ORA agree that a \$2,468,356 credit to the TCBA made in June 1999 should have included interest calculated back to December 31, 1996, in the amount of \$352,211. PG&E recorded an adjustment in January 2000 to correct this error. No further action is required at this time.
5. Prior Period Adjustments: PG&E and ORA agree that PG&E's current method of including prior period adjustments in the TCBA report, which began in February 1999, together with the prior period adjustment documentation provided in PG&E's workpapers supporting the TCBA report, address ORA's proposal that "the TCBA should report Prior Period Adjustments in a consistent manner." No further action is required at this time.
6. Interest On Departing Load Customers Credit: PG&E and ORA agree that a record period debit entry relating to revenues from departing load customers that should have been a credit requires an adjustment of (\$174,878), plus interest, to the TCBA. PG&E recorded an adjustment in January 2000 to correct this error. No further action is required at this time.

II. UNRESOLVED ISSUES

1. Bargaining Unit Severance And Displacement Issue: PG&E and CUE disagree with ORA over whether PG&E should recover \$500,000 in record period costs associated with PG&E's Bargaining Unit Severance and Displacement program. (ORA Report, ORA Item 19 for PG&E, p. 1-5.).

APPENDIX B

Page 8

2. Workforce Reduction Revenue Memorandum Account Issue: PG&E and ORA disagree over the ratemaking treatment associated with the Workforce Reduction Revenue Memorandum Account. (ORA Report, ORA Item 27 for PG&E, p. 1-6.)

III. Reservations

1. The Parties agree that this Stipulation represents a compromise of their respective litigation positions. It does not represent the Parties' endorsement of, or agreement with, any or all of the recommendations made by any other Party.

2. The Parties shall jointly request Commission approval of this Stipulation. The Parties additionally agree to actively support prompt approval of the Stipulation. Active support shall include briefing, comments on the proposed decision, written and oral testimony, if required, appearances, and other means as needed to obtain the approvals sought. The Parties further agree to jointly participate in briefings to Commissioners and their advisors regarding the Stipulation and the issues compromised and resolved by it.

3. This Stipulation embodies the entire understanding and agreement of the Parties with respect to the matters described herein, and, except as described herein, supersedes and cancels any and all prior oral or written agreements, principles, negotiations, statements, representations or understandings between the Parties.

4. The Stipulation may be amended or changed only by a written agreement signed by the Parties.

APPENDIX B

Page 9

5. The Parties have bargained earnestly and in good faith to achieve this Stipulation. The Parties intend the Stipulation to be interpreted and treated as a unified, interrelated agreement. The Parties therefore agree that if the Commission fails to approve the Stipulation as reasonable, and adopt it unconditionally and without modification, including the findings and determinations requested herein, either Party may in its sole discretion, and with reasonable notice to the other Party, elect to terminate the Stipulation. The Parties further agree that any material change to the Stipulation shall give each Party in its sole discretion, the option to terminate the Stipulation. In the event the Stipulation is terminated, the Parties will request that the unresolved issues in Application No. 98-09-003 be heard at the earliest convenient time.

6. This Stipulation represents a compromise of Parties' respective litigation positions and should not be considered precedent with respect to employee transition cost programs for other utilities or for ORA in this or any future proceeding. The Parties have assented to the terms of this Stipulation Agreement only for the purpose of arriving at the various compromises embodied herein. Each Party expressly reserves its right to advocate, in current and future proceedings, positions, principles, assumptions, arguments and methodologies that may be different from those underlying this Stipulation.

APPENDIX B

Page 10

7. The Parties agree that no signatory to this Stipulation, nor any member of the Staff of the Commission, assumes any personal liability as a result of the Stipulation Agreement.

8. Each of the Parties hereto and their respective counsel have contributed to the preparation of this Stipulation. Accordingly, the Parties agree that no provision of this Stipulation shall be construed against any Party because that Party or its counsel drafted the provision.

9. It is understood and agreed that no failure or delay by any Party hereto in exercising any right, power or privilege hereunder shall operate as a waiver hereof, nor shall any single or partial exercise thereof preclude any other or future exercise thereof or the exercise of any other right, power or privilege.

10. This document may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

11. This Stipulation shall become effective between the Parties on the date the last Party executes the Stipulation as indicated below.

APPENDIX B
Page 11

In witness whereof, intending to be legally bound, the signatories hereto have duly executed this Stipulation Agreement on behalf of the Parties they represent.

OFFICE OF RATEPAYER
ADVOCATES

PACIFIC GAS AND ELECTRIC
COMPANY

Scott Cauchois
Senior Manager

Mark R. Huffman
Attorney

Dated: _____

Dated: _____

(END OF APPENDIX B)