

Decision 07-01-030 January 25, 2007

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking Regarding the Implementation of the Suspension of Direct Access Pursuant to Assembly Bill 1x and Decision 01-09-060.

Rulemaking 02-01-011  
(Filed January 9, 2002)

**OPINION GRANTING JOINT PETITION  
FOR MODIFICATION OF DECISION 06-07-030**

**I. Introduction**

By this decision, we grant the Joint Parties'<sup>1</sup> Petition for Modification of Decision (D.) 06-07-030 (Decision).

The Decision resolved various outstanding issues related to the cost responsibility surcharge (CRS) methodology application to non-bundled customers, including Direct Access (DA) and Municipal Departing Load (MDL) customers within the territories of the investor-owned utilities (IOUs). For

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<sup>1</sup> The Joint Parties in sponsoring the Petition are: Southern California Edison Company (SCE), Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), The Utility Reform Network (TURN), the Alliance for Retail Energy Markets, California Large Energy Consumers Association, City of Rancho Cucamonga, City of Corona, South San Joaquin Irrigation District, California Manufacturers & Technology Association (collectively referred to as the "Working Group Parties"). These parties participated in the "Working Group" that was formed to develop the consensus recommendations that were adopted in D.06-07-030.

reasons discussed below, the Joint Parties request that the Commission modify the Decision to:

1. Adopt Resource Adequacy Generation Capacity (RA/capacity) adders for 2007 of \$7 per megawatt hour (MWh) for SCE and SDG&E, and \$4/MWh for PG&E, based on the consensus of the Working Group, and remove erroneous statements that the Working Group Parties agreed to base the RA/capacity adders on the annual capital costs of a combustion turbine;
2. Adopt line loss factors of 6.0% for PG&E and 5.3% for SCE for use in the 2007 market benchmark calculation. These line loss factors have been agreed to by the Working Group.
3. Modify the calculation of the price benchmark for 2007 to reflect the availability of published prices for both on-peak and off-peak future power deliveries; and
4. Modify Table 3C of the Decision for SCE and SDG&E as shown in Attachment A, and adopt the results in Modified Table 3C for 2003 - 2006 for SCE, and 2006 for SDG&E, as the CRS applicable to MDL customers not exempt from the Department of Water Resources (DWR) Power Charge component of the CRS.<sup>2</sup>

Responses in support of the Petition were filed by Hercules Municipal Utility and, jointly, by the City of San Moreno and the City and County of San Francisco.

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<sup>2</sup> PG&E indicates that it will file a separate petition to modify the Decision with respect to Table 3C as it applies to PG&E.

## II. Parties' Proposed Modifications

### A. Generation Capacity Adders for 2007

In adopting a forecast market price benchmark methodology for calculating the Indifference Rate, the Decision acknowledged the need for an RA/capacity adder to capture the cost of complying with resource adequacy requirements.<sup>3</sup> The Decision stated that no capacity market was presently available to provide transparent RA/capacity adders.<sup>4</sup> Thus, for 2006, the Decision adopted the parties' consensus for RA/capacity cost adders, which were negotiated as part of the workshop report discussions.<sup>5</sup> For 2007 and beyond, the Decision directed the Energy Division to coordinate a meeting of the Working Group to discuss RA/capacity adders based on publicly reported transactions in a California capacity market or another suitable public index once available.<sup>6</sup>

On August 7, 2006, the Commission's Energy Division convened the Working Group to discuss RA/capacity adders for 2007 and beyond. Follow-up calls were held on August 16 and 18, 2006. The Working Group Parties acknowledged that RA/capacity adders would need to be negotiated for 2007, as there is no capacity market yet available to provide transparent values, and the IOUs required 2007 RA/capacity adders to file advice letters or updates to their Energy Resource Recovery Account (ERRA) filings to establish the Indifference

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<sup>3</sup> See the Decision, *mimeo.*, pp. 10-13 and Finding of Fact 12.

<sup>4</sup> See *Id.*, pp. 8-9.

<sup>5</sup> See *Id.*, p. 12 and Ordering Paragraph (OP) 3.

<sup>6</sup> See the Decision, *mimeo.*, p. 12 and OP 4.

Rate for 2007, as well as the Power Charge Indifference Adjustment (PCIA) and Ongoing Competition Transition Charge (CTC) components of the CRS.

Accordingly, the Working Group Parties reached the following consensus for 2007 RA/capacity adders: \$7/MWh for SCE and SDG&E, and \$4/MWh for PG&E.

The Working Group Parties also agree to resume discussion in the summer of 2007 to determine the RA/capacity adders for 2008 and beyond. If a functioning and transparent capacity market or a suitable public index becomes available, the Working Group Parties plan to recommend, for 2008 and beyond, a RA/capacity adder based on such a market or public index. Otherwise, Working Group Parties will formulate the RA/capacity adder based on consensus until such market or public index becomes available.

Given the present lack of transparent RA/capacity adders, and the IOUs' need to incorporate RA/capacity adders in their November 2006 filings to establish the 2007 Indifference Rate, PCIA and CTC, the Joint Parties propose that the Decision be modified to adopt the Working Group's consensus for the 2007 RA/capacity adders of \$7/MWh for SCE and SDG&E, and \$4/MWh for PG&E. To effectuate the requested modification, the Joint Parties recommend the following changes to the Decision (with the modified text underlined).

*At page 12 of the Decision, Section II.B.2:*

*"For 2006, we adopt the parties' consensus for a RA/capacity cost adder of \$8/MWh for SCE and \$4/MWh for PG&E, and for 2007, \$7/MWh for SCE and SDG&E, and \$4/MWh for PG&E, which will be added to the average strip price."*

*At Ordering Paragraph 3:*

*"For 2006, the Resource Adequacy Generation Capacity*

(RA/capacity) cost adder will be \$8/megawatt-hours (MWh) for SCE and \$4/MWh for PG&E, and for 2007, \$7/MWh for SCE and SDG&E, and \$4/MWh for PG&E, which will be added to the average strip price.”

### **B. Correction of Error Regarding Basis for RA/capacity Adders**

The Joint Parties further propose that the Decision be modified to eliminate any statements that the Working Group agreed to base the RA/capacity adders on the annual capital costs of a combustion turbine (CT), since the Working Group never reached such agreement. Accordingly, the Joint Parties propose that the Decision be modified to delete text indicated with a strike-through as follows:

*At page 8 of the Decision:*

“Parties also agree that a Resource Adequacy/Generation Capacity”) cost adder should be incorporated for each IOU, ~~based on the annual capital costs for a combustion turbine.”~~

*At Appendix 1, Fourth Bullet:*

“Add a capacity/resource adequacy adjustment to the forward NP15/SP15 futures prices. ~~The capacity/resource adequacy adder shall equal the annual carrying cost of a combustion turbine, as reported in the CEC’s Comparative Cost of California Central Station Electricity Generation Technologies, (June 2003, CEC Report 100 003 01), Appendix D, adjusted for inflation. Using the Bureau of Economic Analysis’ implicit price deflator for gross domestic product (as reported in the EIA’s Annual Energy Outlook Table 1.1.9), the 2005 capacity/resource adequacy adder equals \$9.44/MWh.~~

**C. Modification to Reflect the Availability of More Complete Published Futures Prices for the Benchmark Used in Calculating the Indifference Charge**

The Decision's "Adopted Procedure for Deriving Market Benchmark," set forth in Appendix 1, thereof, states that average published prices for future delivery of power will be multiplied "by .87 to account for the fact that the benchmark is effectively for baseload power while the future price assumes a 6x16 product." Joint Parties report that since the adoption of the Decision, future prices for off-peak hours for the coming year have begun to be published. Therefore, Joint Parties argue that it is appropriate to modify the procedure to incorporate published on-peak and off-peak power prices, with the average price based on a weighted average of on-peak and off-peak prices. Such a modification is both appropriate and consistent with the intent of the Working Group to recommend a procedure that maximizes use of published data.

To effectuate this modification, the Joint Parties recommend that footnote 12 of the Decision be eliminated in its entirety as no longer necessary, and that the first sentence of the first bullet point on Page 1 of Appendix 1 be amended as follows:

"Use an weighted average of Megawatt Daily published market indices for a one-year strip of on-peak and off-peak power prices for the coming calendar year for NP15 and SP15 published over the period October 1 through October 31 of the year prior to that being considered; the weighting will be done by the number of on-peak and off-peak hours in the particular year."

**D. Modification to Adopt Line Loss Factors for SCE and PG&E for the Market Price Benchmark Calculation for 2007**

The Decision's "Adopted Procedure for Deriving Market Benchmark," set forth in Appendix 1, thereof, adjusts the sum of average strip price and the

RA/capacity adder for line losses to ensure that the benchmark reflects the same average line losses that are inherent in the delivered power prices. This adjustment keeps the comparison of the portfolio prices to the market price benchmark consistent.<sup>7</sup> The Decision noted that line loss values had not yet been agreed upon by the Working Group Parties, but were estimated to range from 6.0%-8.5% for PG&E, 5.3%-8.4% for SCE and 4.3% for SDG&E.

At the Working Group meetings convened on August 7, 16 and 18, 2006, the Working Group Parties discussed the line loss factors for SCE and PG&E, and agreed that the lower range of the estimates contained in the Decision for line loss factors should be used in the 2007 market price benchmark calculation, specifically, 6.0% for PG&E and 5.3% for SCE.

Accordingly, the Joint Parties request that the Decision be modified to adopt a line loss factor of 6.0% for PG&E and 5.3% for SCE for the 2007 market price benchmark calculation. To effectuate this modification, the Joint Parties recommend that Appendix 1 be revised as follows:

“Adjust for line losses. The portfolio prices against which the benchmark will be measured are at the customer meter. Therefore, to keep the comparison consistent, the benchmark shall reflect the same average line losses that are inherent in the delivered power prices. These values have ~~not been yet~~ agreed upon by the working Group as follows:— ~~Lines loss estimates range from~~ 6.0% ~~8.5%~~ for PG&E, 5.3% ~~8.4%~~ for SCE, and 4.3% for SDG&E.

#### **E. Modifications Relating to Appendix 6 of Decision 06-07-030**

The Decision, in Appendix 6, included in Table 3C the results of the Working Group’s calculations of MDL CRS obligations (both actual and

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<sup>7</sup> See Appendix 1 of the Decision, at bullet point “Adjust for line losses.”

illustrative) for years 2003-2011. The Joint Parties recommend that the Table 3C be modified for SCE and SDG&E as shown in the proposed Modified Table 3C, (see Attachment A of the Petition), which contains the following revisions:

1. A notation of "Adopted" CRS calculations has been added for years 2003-2006 for SCE, and for 2006 for SDG&E;
2. A notation of "Illustrative" CRS calculations has been added for years 2007-2011;
3. Footnote has been added to clarify that the Commission did not adopt a 2003 CTC for SCE. The 2004-2006 CTC is the annual system average.
4. Certain CTC results have been revised:
  - a. SCE's 2004 and 2005 CTC values have been revised because the CTC values shown in Table 3C of the Decision are those applicable to DA customers who mostly consist of large commercial and industrial customers. The Joint Parties believe that system average CTC is more appropriate to apply to MDL customers because the MDL customer mix is similar to SCE's bundled customer mix.
  - b. SDG&E's 2006 CTC has been revised.
  - c. Similar to Table 3C in the Decision, in Modified Table 3C, the CTC for SCE and SDG&E for 2007-2011 is the same as the revised 2006 CTC, and is included only as an illustrative figure.
5. MDL Power Charges have also been revised for the following reasons:
  - a. SCE's 2004 and 2005 MDL Power Charges have been revised to reflect the change in the CTC.
  - b. SDG&E's 2006 MDL Power Charge has been revised to reflect the change in the CTC.

An SCE MDL CRS billing sample based upon Modified Table 3C is set forth in Attachment B to the Petition. The SCE billing sample is intended to clarify how SCE's MDL CRS accrual rates are applied. To effectuate the requested modification of Table 3C, the Joint Parties recommend that Modified Table 3C and the SCE billing sample be included in Appendix 6 of the Decision.

To reflect these changes, Joint Parties further propose that the Decision be modified as follows:

*On the "Table of Contents," page ii, the following addition:*

"Appendix 6: Departing Load Obligations" at the end of the list of appendices.

*On page 30, Section III.B.2, the following sentence addition:*

At the end of the paragraph: "We adopt the results of Working Group Parties' CRS calculations for 2003-2006 for SCE, and 2006 for SDG&E, set forth in Modified Table 3C of Appendix 6, as the CRS applicable to MDL customers not exempt from the DWR Power Charge."

*At Ordering Paragraph 19, the following sentence addition:*

At the beginning: "For 2003-2006 for SCE, and 2006 for SDG&E, the CRS obligations of MDL customers not exempt from the DWR Power Charge are set forth in Modified Table 3C of Appendix 6."

### **III. Discussion**

We find that the modifications to D.06-07-030 proposed by the Joint Parties as described above are reasonable. No party filed an opposition to the Petition, and two parties filed responses in support. The requested modifications will provide updated figures for RA/capacity adders and line loss factors that are needed for the IOUs' ERRAs filings and indifference charges for 2007. The modifications will also provide for certain miscellaneous corrections and

clarifications of the Decision and its appendix tables. Accordingly, we hereby grant the Petition for Modification and incorporate the modifications set forth in the Order below.

#### **IV. Comments on the Proposed Decision**

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

#### **V. Assignment of Proceeding**

Michael R. Peevey is the assigned Commissioner, and Thomas R. Pulsifer is the assigned Administrative Law Judge.

#### **Findings of Fact**

1. As a result of meetings held during August 2006, the Working Group Parties reached agreement on Resource Adequacy/capacity Adders for 2007 of \$7/MWh for SCE and SDG&E and \$4/MWh for PG&E.
2. RA/capacity adders for 2007 were not specified in D.06-07-030, but are needed to establish the Indifference Rates, PCIA, and CTC for each of the IOUs.
3. The Working Group Parties did not reach agreement to base the RA/capacity adders on the annual capital costs of a combustion turbine, and statements to that effect in D.06-07-030 are in error.
4. Under the procedure adopted in D.06-07-030, the sum of the average strip price and the RA/capacity adder is adjusted for line losses to ensure that the benchmark reflects the same average line losses that are inherent in delivered power prices.
5. Since the adoption of D.06-07-030, futures prices for off-peak hours for the coming year have begun to be published.

6. The Working Group Parties have reached agreement to incorporate published on-peak and off-peak power prices for the benchmark used in calculating the Indifference Charge, to produce a weighted average of the number of on-peak and off-peak hours in the particular year.

7. As a result of meetings held during August 2006, the Working Group parties reached agreement on a line loss factor of 6% for PG&E and 5.3% for SCE for use in the 2007 market benchmark calculations.

8. The Working Group parties presented as Attachment A to its filing a modified version of Table 3C from Appendix 6 of D.06-07-030, to clarify distinctions between figures that reflect actual adopted amounts versus those that are merely illustrative, and to revise certain figures relating to CTC to reflect system average costs applicable to MDL customers.

9. The Working Group parties presented as Attachment B to its filing, a billing sample based upon its proposed Modified Table 3C.

### **Conclusions of Law**

1. The Petition for Modification of D.06-07-030 sets forth appropriate revisions to be adopted.

2. The revisions agreed to by the Working Group Parties for RA/capacity and line loss factors should be adopted for use in calculations of 2007 Indifference Rates, PCIA, and CTC for each of the IOUs.

3. The proposed revision to incorporate published on-peak and off-peak power prices for the benchmark used in calculating the Indifference Charge is consistent with the principle applied in D.06-07-030 to utilize published industry data where available.

4. The Petition for Modification of D.06-07-030 should be granted in accordance with the ordering paragraphs below.

**O R D E R**

**IT IS ORDERED** that:

1. The Joint Parties' Petition for Modification of Decision (D.) 06-07-030 (or Decision) is hereby granted, in order to:

- (a) Adopt Resource Adequacy Generation Capacity adders for 2007 of \$7/megawatt hour (MWh) for Southern California Edison (SCE) and San Diego Gas & Electric Company (SDG&E), and \$4/MWh for Pacific Gas and Electric Company (PG&E), based on the consensus of the Working Group Parties;
- (b) Adopt line loss factors of 6.0% for PG&E and 5.3% for SCE for use in the 2007 market benchmark calculation. These line loss factors have been agreed to by the Working Group Parties.
- (c) Modify the calculation of the price benchmark for 2007 to reflect the availability of published prices for both on-peak and off-peak future power deliveries; and
- (d) Adopt Modified Table 3C (Attachment A) and the SCE billing sample based on Modified Table 3C of Appendix 6 of the Decision (Attachment B).

2. The following modifications to D.06-07-030 are hereby adopted (with additions underlined and deletions shown as strikethrough):

- (a) *At page 12 of the Decision, Section II.B.2:*

*"For 2006, we adopt the parties' consensus for a RA/capacity cost adder of \$8/megawatt hours (MWh) for SCE and \$4/MWh for PG&E, and for 2007, \$7/MWh for SCE and SDG&E, and \$4/MWh for PG&E, which will be added to the average strip price."*

- (b) *At Ordering Paragraph 3:*

“For 2006, the Resource Adequacy Generation Capacity (RA/capacity) cost adder will be \$8/MWh for SCE and \$4/MWh for PG&E, and for 2007, \$7/MWh for SCE and SDG&E, and \$4/MWh for PG&E, which will be added to the average strip price.”

- (c) *At page 8 of the Decision:*

“Parties also agree that a Resource Adequacy/Generation Capacity (RA/capacity) cost adder should be incorporated for each IOU, ~~based on the annual capital costs for a combustion turbine.~~”

- (d) *At Appendix 1, Fourth Bullet:*

“Add a capacity/resource adequacy adjustment to the forward NP15/SP15 futures prices. ~~The capacity/resource adequacy adder shall equal the annual carrying cost of a combustion turbine, as reported in the CEC’s Comparative Cost of California Central Station Electricity Generation Technologies, (June 2003, CEC report 100-003-01), appendix D, adjusted for inflation. Using the Bureau of Economic Analysis’ implicit price deflator for gross domestic product (as reported in the EIA’s Annual Energy Outlook Table 1.1.9), the 2005 capacity/resource adequacy adder equals \$9.44/MWh.~~”

- (e) *Footnote 12 of the Decision is eliminated in its entirety as no longer necessary, and the first sentence of the first bullet point on page 1 of Appendix 1 is amended as follows:*

“Use an weighted average of Megawatt Daily published market indices for a one-year strip of on-peak and off-peak power prices for the coming calendar year for NP15 and SP15 published over the period October 1 through October 31 of the year prior to that being considered; the weighting will be done by the number of on-peak and off-peak hours in the particular year.”

(f) *Appendix 1 is revised as follows:*

“Adjust for line losses. The portfolio prices against which the benchmark will be measured are at the customer meter.

Therefore, to keep the comparison consistent, the benchmark shall reflect the same average e line losses that are inherent in the delivered power prices. These values have not yet been agreed upon by the working Group as follows: ~~Lines loss estimates range from 6.0%-8.5% for PG&E, 5.3% 8.4% for SCE, and 4.3% for SDG&E.”~~

(g) Table 3C in Appendix 6 of the Decision is modified for SCE and SDG&E as shown in Modified Table 3C (Attachment A), which contains the following revisions:

- (1) A notation of “Adopted” CRS calculations is added for years 2003-2006 for SCE, and for 2006 for SDG&E;
- (2) A notation of “Illustrative” CRS calculations is added for years 2007-2011;
- (3) Footnote is added to clarify that the Commission did not adopt a 2003 CTC for SCE. The 2004-2006 CTC is the annual system average.
- (4) Certain CTC results are revised, as follows:
  - a. SCE’s 2004 and 2005 CTC are revised because the CTC values shown in Table 3C of the Decision are those applicable to DA customers who mostly consist of large commercial and industrial customers. The system average CTC is more appropriate to apply to MDL customers because MDL customer mix is similar to SCE’s bundled customer mix.
  - b. SDG&E’s 2006 CTC are revised.
  - c. Similar to Table 3C in the Decision, in Modified Table 3C, the CTC for SCE and SDG&E for 2007-2011 is the same as the revised 2006 CTC, and is included only as an illustrative figure.

- (5) MDL Power Charges are revised for the following reasons:
- a. SCE's 2004 and 2005 MDL Power Charges are revised to reflect the change in the CTC.
  - b. SDG&E's 2006 MDL Power Charge is revised to reflect the change in the CTC.
- (h) The SCE MDL CRS billing sample based upon Modified Table 3C set forth in Attachment B, is hereby adopted in order to clarify how SCE's MDL CRS accrual rates are applied.
- (i) *On the Table of Contents of D.06-07-030, page ii, the following is added:*
- "Appendix 6: Departing Load Obligations" at the end of the list of appendices.
- (j) *On page 30, Section II.B.2, the following is added at the end of the paragraph:*
- "We adopt the results of Working Group Parties' CRS calculations for 2003-2006 for SCE, and 2006 for SDG&E, set forth in Modified Table 3C of Appendix 6, as the CRS applicable to MDL customers not exempt from the DWR Power Charge."
- (k) *At Ordering Paragraph 19, the following is added at the beginning:*
- "For 2003-2006 for SCE, and 2006 for SDG&E, the CRS obligations of MDL customers not exempt from the PWR Power Charge are set forth in Modified Table 3C of Appendix 6."

This order is effective today.

Dated January 25, 2007, at San Francisco, California.

MICHAEL R. PEEVEY  
President

DIAN M. GRUENEICH  
JOHN A. BOHN  
RACHELLE B. CHONG  
Commissioners

[D0701030 Attachments A and B](#)