Decision 08-04-051 April 24, 2008

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Consider the Annual Revenue Requirement Determination of the California Department of Water Resources.	Rulemaking 06-07-010 (Filed July 20, 2006)

ORDER ALLOCATING THE 2008 SUPPLEMENTAL REVENUE REQUIREMENT DETERMINATION OF THE CALIFORNIA DEPARTMENT OF WATER RESOURCES

1. Summary

This decision allocates the Supplemental Determination of Revenue Requirements For the Period January 1, 2008 through December 31, 2008 (2008 Supplemental Determination) of the California Department of Water Resources (DWR) to Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), and Southern California Edison Company (SCE) using the allocation methodology adopted in Decision (D.) 05-06-060. The results of this allocation are set forth in Appendix A of this decision. The remittance rates (cents per kilowatt hour) allocated to the customers of PG&E, SDG&E and SCE to reimburse DWR for its 2008 energy costs are 0.07123, 0.09395, and 0.08614, respectively.

Today's action to allocate the 2008 Supplemental Determination to the three utilities reduces the amount the customers of PG&E, SDG&E and SCE will have to pay for DWR's power purchases by about $630 million. Although PG&E will have to procure replacement power because of the power that was lost as a

result of DWR's restructuring of the contract with Calpine Energy Services, L.P. (Calpine 2 contract), today's action will help offset PG&E's higher power procurement costs by allocating a lower amount of DWR energy costs to PG&E's customers than was allocated before the Calpine 2 contract was restructured.

As discussed later, this decision is related to two other proceedings in which the Calpine 2 contract was raised by PG&E. We issued decisions in those two proceedings in D.08-04-025 and D.08-04-026. Although this decision only pertains to the allocation of DWR's 2008 Supplemental Determination, today's action will ensure that the overall rates of PG&E's customers do not increase as a result of the restructuring of the Calpine 2 contract.

2. Procedural Background

DWR's 2008 Supplemental Determination is comprised of a February 15, 2008 memorandum from Timothy Haines of DWR to President Peevey of the Commission, a notice of the 2008 Supplemental Determination, and the 2008 Supplemental Determination. The memorandum notified the Commission of DWR's 2008 Supplemental Determination, and requested "that the Commission calculate, revise, and impose Power Charges in accordance with Article VI of the Rate Agreement …."

On February 22, 2008, the assigned Administrative Law Judge (ALJ) issued a ruling that DWR's memorandum and the 2008 Supplemental Determination would be adjudicated in this Rulemaking proceeding. The ruling also allowed interested parties to file opening and reply comments on how DWR's 2008 Supplemental Determination should be allocated.

Opening comments were filed by the California Large Energy Consumers Association, PG&E, SDG&E, and SCE. Reply comments were filed by the Division of Ratepayer Advocates, PG&E, SDG&E, and SCE.

3. Allocation of the 2008 Supplemental Determination

3.1. Background

DWR's 2008 Supplemental Determination requests that its 2008 revenue requirement of $3.992 billion be allocated to the customers of the three electric utilities. The 2008 Supplemental Determination represents a downward revision in Power Charge Accounts of $630 million as compared to DWR's 2008 revenue requirement that we allocated to the utilities in D.07-12-030.[1] The $630 million reduction in DWR's Power Charge Accounts is due to three reasons. The primary reason is because of DWR's amendment and restructuring of the Calpine 2 contract, replacing it with the 180 megawatts (MW) peaking contract, and other DWR forecasted changes. This results in a net reduction of DWR's energy costs for 2008 by $467 million.[2] The second reason for the reduction in the Power Charge Accounts is because of a higher ($89 million) beginning of the year account balance. The third reason is because of a reduction ($74 million) in the year-end Power Charge Accounts balance.

The restructuring of the Calpine 2 contract is also an issue in two other proceedings in which PG&E has requested relief. Since the Calpine 2 contract

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[1] The Bond Charge of $831 million remains the same.

[2] The net amount of $467 million shown in Table B-1 of the 2008 Supplemental Determination is derived as follows: (1) Due to the amendment of the Calpine 2 contract, i.e., no longer having to pay for the around the clock (24 x 7) energy, DWR's fixed costs decrease by $479 million. (2) Due to the restructuring of the Calpine 2 contract and its replacement with the peaking contract, DWR's fixed costs increase by $4 million. (3) DWR corrected its forecast of the fixed costs associated with the Coral contract which resulted in an increase of $10 million. (4) DWR reduced its gas hedging expense by $2 million. (5) The reductions of $479 million and $2 million total to $481 million, which are offset by the increases of $4 million and $10 million ($14 million), which result in a net reduction of $467 million.

had been allocated to PG&E, and because of the smaller size and operational constraints of the peaking contract, PG&E will have to purchase power on behalf of its customers to replace the low-cost power that had been supplied by the Calpine 2 contract. PG&E expects that it will have to pay more for replacement power, as compared to the cost of the energy that had been supplied by the Calpine 2 contract. To purchase this replacement power, PG&E filed a request for authorization to increase its 2008 power procurement costs by $531 million in its Energy Resource Recovery Account (ERRA) trigger application in Application (A.) 08-01-014. We granted PG&E's request in D.08-04-026.

The other proceeding in which the Calpine 2 contract has been raised is PG&E's petition to modify D.05-06-060 that was filed in A.00-11-038 et al. PG&E requested that D.05-06-060 be modified in two ways. First, PG&E requested that the reduction in DWR's energy costs, as a result of the restructured Calpine 2 contract, be allocated 100% to PG&E. By doing so, this will mitigate the increase in the ERRA procurement costs that are at issue in PG&E's ERRA trigger application. The second request in PG&E's petition to modify is for the Commission to open a proceeding to revise the permanent allocation methodology that was adopted in D.05-06-060. In D.08-04-025, we granted the request to allocate the reduction in energy costs, due to the Calpine 2 restructuring, to PG&E, but denied PG&E's request to open a proceeding to revise the allocation methodology.

3.2. Discussion of the Allocation

DWR's 2008 Supplemental Determination contains the information needed to recover the revenue requirement from the utilities' customers for calendar year 2008. The restructured Calpine 2 contract reduces DWR's energy costs, which affects some of the power supply assumptions shown in section D of the

2008 Supplemental Determination. In addition, the assumptions in the 2008 Supplemental Determination include updated actual Electric Power Fund operating results through December 31, 2007.

The opening and reply comments regarding the allocation of DWR's 2008 Supplemental Determination all agree that DWR's revenue requirement should be allocated in accordance with the methodology set forth in D.05-06-060. That methodology allocates the unavoidable (fixed) costs as follows: 42.2% to PG&E, 10.3% to SDG&E, and 47.5% to SCE.

The comments also agree that PG&E's request, contained in its petition to modify, to allocate 100% of the reduction in DWR's energy costs resulting from the restructured Calpine 2 contract to PG&E should be granted.[3] In addition, the commenting parties agree that the reduction in operating reserves, which is part of DWR's 2008 Supplemental Determination, should be allocated to all three utilities using the allocation percentages in D.05-06-060. Also, the commenting parties agree that if the option to extend the peaking contract is exercised, that all of the costs of the peaking contract are to be allocated to PG&E in 2010-2012.

The reply comments of PG&E and SCE raised three issues that we briefly address.

In its reply comments, SCE recommends a change to PG&E's method for allocating the reduction in DWR's energy costs due to the restructured Calpine 2 contract. SCE notes that PG&E's method of allocating the reduction in energy costs would require the use of two new line items, as described in the declaration

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[3] With regard to PG&E's second request that a proceeding be opened to revise the allocation methodology adopted in D.05-06-060, the other parties either oppose this

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attached to PG&E's petition to modify D.05-06-060. SCE's method would add some additional information to Line 23, and add Line 24 to the allocation table that appears in Appendix A of this decision, as compared to Appendix A in D.07-12-030. We adopt SCE's recommended changes to Appendix A of this decision.[4] SCE's method will help simplify the allocation adjustments as referenced in this decision.

PG&E states in its reply comments that it should be allocated a reduction of $475 million instead of $467 million. We agree. As described in footnote 2, the $475 million represents the net reduction in DWR's non-avoidable contract costs directly attributable to the restructuring of the Calpine 2 contract. It consists of the $479 million decrease resulting from the amendment of the Calpine 2 contract, and the $4 million increase for the replacement peaking contract. Using the net reduction of $475 million leaves the customers of SDG&E and SCE in the same position as though the Calpine 2 contract was never renegotiated.

PG&E also notes in its reply comments that because of a one-month lag, PG&E should be allocated one-month's benefit in January 2010 resulting from the reduction in DWR's energy costs due to the restructured Calpine 2 contract. Based on PG&E's representations, this one-month benefit appears appropriate. However, PG&E should raise this issue when DWR provides notice of its proposed 2010 revenue requirement.

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request or condition their support, and have filed pleadings to that effect in A.00-11-038 et al.

[4] Line 24 of Appendix A was based on the assumption that PG&E's request to allocate 100% of the reduction in DWR's energy costs, due to the restructured Calpine 2 contract, would be granted in the decision regarding PG&E's petition to modify D.05-06-060.

Based on the comments and the above discussion, we conclude that there are no contested issues concerning DWR's 2008 Supplemental Determination and no evidentiary hearings are needed.

The Commission's obligation is to calculate, revise, and impose the Bond Charge and Power Charges on the customers of the three electric utilities. This obligation is contained in the Rate Agreement that was adopted by the Commission in D.02-02-051 and Water Code §§ 80110 and 80134. Since no one disagrees that the allocation of the 2008 Supplemental Determination should be allocated to the utilities using the allocation methodology adopted in D.05-06-060, as modified by D.08-04-025, we grant DWR's request for the Commission to allocate DWR's Supplemental Determination using the methodology in D.05-06-060, as modified. The results of that allocation appear in Appendix A of this decision.

DWR requests that the Commission calculate, revise and impose the Power Charges on the customers of the three utilities. The Power Charges are designed to provide the funds necessary to satisfy DWR's 2008 Supplemental Determination for the cost of electric power sold to the utilities' customers. DWR's 2008 Supplemental Determination of the Power Charge is $3.161 billion. The calculation and allocation of the utility-specific Power Charges are shown in Appendix A, and should go into effect as soon as the utilities can make these changes.

The Bond Charge in DWR's 2008 Supplemental Determination was not revised and remains at $831 million. DWR's modeling in support of its 2008 Supplemental Determination indicates that it will receive the required $831 million if the Commission sets the Bond Charge at $.00477 per kilowatt hour. As shown in Appendix A, we allocate DWR's requested Bond Charge to the service territories of PG&E, SDG&E and SCE.

Today's action to allocate the 2008 Supplemental Determination to the service territories of the three utilities reduces the amount the customers of PG&E, SDG&E and SCE will have to pay for DWR's power purchases. Although PG&E will have to procure replacement power because of the power that was lost as a result of DWR's restructuring of the Calpine 2 contract, today's action allocates a lower amount of DWR's energy costs to PG&E's customers than was allocated before the Calpine 2 contract was restructured. As a result, this allocation of DWR's reduced 2008 revenue requirement will help offset, to a large extent, PG&E's higher power procurement costs that was requested and granted in D.08-04-026 in its ERRA trigger application. In addition, by granting PG&E's request to allocate 100% of the reduction in energy costs to PG&E in D.08-04-025, instead of to the three utilities using the allocation percentages adopted in D.05-06-060, this will further reduce the impact of the restructured Calpine 2 contract on PG&E's customers.

PG&E, SDG&E, and SCE shall file Tier 1 advice letters, as provided for in General Order 96-B, within 14 days of today's date, to implement the allocation shown in Appendix A.

4. Rehearing and Judicial Review

This decision implements the provisions of Assembly Bill (AB) 1X (Chapter 4 of the Statutes of 2001-02 First Extraordinary Session) and relates to the establishment or implementation of power charges necessary to recover DWR's revenue requirement. Therefore, pursuant to Public Utilities Code Section 1731(c), any application for rehearing of this decision is due within 10 days after the date of issuance of this decision. For the same reasons, the procedures contained in Public Utilities Code Section 1768 would apply to any judicial review of this Commission decision.

5. Comments on Proposed Decision

The proposed decision of ALJ John S. Wong in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed pursuant to Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments and reply comments were filed and considered, and appropriate changes have been made to the decision.

6. Assignment of Proceeding

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

Findings of Fact

1. The ALJ ruling of February 22, 2008 ruled that DWR's 2008 Supplemental Determination would be adjudicated in this proceeding and solicited comments on how it should be allocated.

2. As compared to the 2008 revenue requirement that was allocated in D.07-12-030, the 2008 Supplemental Determination represents a reduction in the Power Charge Accounts of $630 million.

3. The primary reason for the reduction in DWR's revenue requirement is because of the reduction in DWR's energy costs as a result of the restructured Calpine 2 contract, and other DWR forecasted changes.

4. The restructuring of the Calpine 2 contract is also an issue in two other related proceedings in which PG&E requested relief and decisions have been issued.

5. DWR's 2008 Supplemental Determination contains the information and the updated assumptions needed to recover DWR's revenue requirement from the utilities' customers for calendar year 2008.

6. The opening and reply comments regarding the allocation of the 2008 Supplemental Determination all agree that DWR's revenue requirement should be allocated in accordance with the methodology set forth in D.05-06-060, and that the reduction in operating reserves should also be allocated to all three utilities using the allocation percentages in D.05-06-060.

7. The Bond Charge in the 2008 Supplemental Determination remains the same as what was allocated in D.07-12-030.

8. Since the Commission in D.08-04-025 granted PG&E's petition to modify D.05-06-060 to allocate 100% of the reduction in DWR's energy costs as a result of the restructured Calpine 2 contract, the Calpine Contract Cost Reduction Credit shown on Line 24 of Appendix A should be $475 million.

9. Today's action allocates a lower amount of DWR's energy costs to PG&E's customers than was allocated before the Calpine 2 contract was restructured, which will help offset PG&E's higher power procurement costs as a result of the restructured Calpine 2 contract.

Conclusions of Law

1. SCE's recommended changes to Line 23 and Line 24 of the allocation table, as reflected in Appendix A of this decision, should be adopted.

2. PG&E's contention about the allocation of one-month's benefit in January 2010 resulting from the reduction in DWR's energy costs due to the Calpine 2 contract should be raised by PG&E when DWR provides notice of its proposed 2010 revenue requirement.

3. There are no contested issues concerning DWR's 2008 Supplemental Determination and no evidentiary hearings are needed.

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

5. DWR's request that we allocate the 2008 Bond Charge and Power Charge, as contained in the 2008 Supplemental Determination, should be adopted.

6. PG&E, SDG&E, and SCE shall file Tier 1 advice letters, as provided for in General Order 96-B, within 14 days of today's date, to implement the allocations shown in Appendix A.

7. This decision implements the provisions of AB1X and relates to the establishment or implementation of Power Charges necessary to recover DWR's revenue requirement. Therefore, Public Utilities Code Sections 1731(c) and 1768 will apply to any rehearing or judicial review of this decision.

IT IS ORDERED that:

1. The allocation to the service territories of Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), and Southern California Edison Company (SCE) of the California Department of Water Resources' Supplemental Determination of Revenue Requirements For the Period January 1, 2008 through December 31, 2008 (2008 Supplemental Determination), as reflected in Appendix A of this decision, is adopted.

2. The 2008 Bond Charge was set at $.00477 in Decision 07-12-030 and remains unchanged.

3. The 2008 Power Charges shown in Appendix A shall go into effect as provided for in Ordering Paragraph 4.

4. Within 14 days of today's date, PG&E, SDG&E, and SCE shall file Tier 1 advice letters, as provided for in General Order 96-B, with revised tariffs that reflect the adopted Bond Charge and Power Charge. The revised tariffs shall be effective upon filing, subject to Energy Division determining that they are in compliance with this order.

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

6. Rulemaking 06-07-010 remains open.

This order is effective today.

Dated April 24, 2008, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners