

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U 338-E) for Authority to Institute a Rate Stabilization Plan with a Rate Increase and End of Rate Freeze Tariffs.

Application 00-11-038
(Filed November 16, 2000)

Emergency Application of Pacific Gas and Electric Company to Adopt a Rate Stabilization Plan.

(U 39 E)

Application 00-11-056
(Filed November 22, 2000)

Petition of THE UTILITY REFORM NETWORK for Modification of Resolution E-3527.

Application 00-10-028
(Filed October 17, 2000)

William Ahern, Janet Beautz (for Santa Cruz County Board of Supervisors), Charlie Betcher, Robert J. Boileau, William Burns, Alvin Colley, James Crettol, Michael Gallo, Dave Hennessy, Dennis Herrera, Nettie Hoge, Walter Johnson, Fred Keeley, Reggie Knox, William Knox, Bruce Livingston, Elizabeth Martin, Barbara McIver, Robert Meacher, Deidra O'Merde, Elizabeth Sholes, Mary Frances Smith, Ladan Sobhani, Peter Van Zant, Mary Ann Woomer, and Carl Zichella,

Complainants

vs.

Pacific Gas and Electric Company,

Defendant.

Case 02-02-027
(Filed February 27, 2002)

**ASSISTANT CHIEF ADMINISTRATIVE LAW JUDGE'S RULING
REGARDING PROPOSED DECISION OF ALJ ALLEN AND ALTERNATE
PROPOSED DECISION OF COMMISSIONER LYNCH**

On November 20, 2002, the Commission received a memorandum from Peter S. Garris, Deputy Director of the Department of Water Resources (DWR). This document, previously served on parties electronically by DWR, suggests corrections to what DWR believes are "unintended results in connection with the proposed allocation of DWR's 2003 revenue requirements." DWR has included its proposed revisions in its memorandum. Attached to this Ruling is an analysis by the Commission's Energy Division Staff. Staff has reviewed DWR's memorandum and identified errors in the calculations made by the Energy Division for the Proposed Decision and Alternate Proposed Decision. The Energy Division analysis describes these errors, and provides a correctly-calculated Table C ("Calculation of Adopted IOU Power Charges") for the Proposed Decision and Alternate Proposed Decision.

It is important that parties have these documents so that they understand how the proposed decision may be revised. Parties should address Energy Division's recalculated Table C in their comments to the proposed decision and alternate proposed decision. The schedule for comments does not change. Opening comments must be filed and served on December 5, 2002 and reply comments must be filed and served by December 10.

IT IS RULED that:

1. Parties may address the revisions proposed by DWR and the analysis by Energy Division in their comments on the Proposed Decision of ALJ Allen and the Alternate Proposed Decision of Commissioner Lynch.

2. The schedule for filing and serving comments does not change. Opening comments are to be filed and served on December 5, 2002, and reply comments shall be filed and served on December 10.

Dated November 22, 2002, at San Francisco, California.

/s/ ANGELA K. MINKIN
Angela Minkin, Assistant Chief
Administrative Law Judge

ATTACHMENT

State of California

Memorandum

Date: November 22, 2002

To: Parties in A.00-11-038

From: **Energy Division**
California Public Utilities Commission

Subject: *Corrections to Calculations in Proposed Decision of ALJ Allen and Alternate Proposed Decision of President Lynch*

Summary

On November 20, 2002 the Department of Water Resources (DWR) provided preliminary comments on the calculations in the Proposed Decision of ALJ Allen and Alternate Proposed Decision of President Lynch. DWR believes that the charges calculated in Table C of the Proposed Decisions do not provide for the collection of the variable and ancillary services costs of DWR, and that the Proposed Decisions do not reasonably reflect the customer receipts necessary to maintain the target minimum balance in DWR's Operating Account for 2003.

The Energy Division has reviewed DWR's comments and has identified 2 errors in its calculation of the power charges in Table C of the Proposed Decisions. As a result, the calculation of the power charges shown in Table C should be corrected, as will be explained below.

The remainder of this memo provides further explanation of the calculation errors made in preparing Table C, the corrections made by the Energy Division, and the resulting effect on IOU power charges.

Errors in Energy Division Calculations for the Proposed Decisions

As part of its responsibilities during preparation of the Proposed Decisions, the Energy Division modified the financial model provided by DWR with its August 16 Determination in order to reflect (1) the proposed allocation of costs between the three IOUs, and (2) the higher deliveries of DWR power to ratepayers due to the protocol for allocation of off-system sales adopted in D.02-09-053. Once these modifications were made, the model had to be “solved” again to ensure that the operating account balance remained above \$1 billion every day in 2003, as requested in DWR’s August 16th Determination. The solution method essentially involves repeatedly increasing each IOU power charge by an identical small amount, in an iterative process that produces final power charges that, when multiplied by daily sales in the model, result in cash flows from each IOU that are sufficient to maintain the operating account balance above \$1 billion.

Unfortunately, an error was introduced into the model when the sales were changed in 2003 to reflect the D.02-09-053 protocol, such that the same protocol was also inappropriately applied to DWR deliveries in years prior to 2003. This had the effect of incorrectly inflating DWR’s retail sales in that period, which in turn led to an overestimate of revenues collected by current power charges, and, ultimately, an increase in the end-of-2002 operating account balance, above the amount predicted by the August 16th model. This created the appearance of extra cash-on-hand at the beginning of 2003, which caused the Energy Division solution of the model to underestimate the level of the power charge that would be necessary in 2003 to maintain the DWR operating account balance above \$1 billion.

A second error was introduced into the model when the Energy Division added a spreadsheet formula that “double counted” DWR’s forecast of IOU payments for ancillary services in 2003. This resulted in an overestimate of cash receipts by DWR in 2003, and the resulting appearance that lower power charges would suffice to maintain the operating account balance above \$1 billion.

Correction of these errors does not change the allocation of costs between the three IOUs, but it does require the calculation of a higher power charge for each IOU, which results in a higher revenue requirement as well. The attachments to this memo provide the corrected calculations for the Proposed Decision of ALJ Allen (Attachment 1) and the Alternate Proposed Decision of President Lynch (Attachment 2).

Attachment 1

Corrections to Proposed Decision of ALJ Allen

To assist Parties in their understanding of the corrected calculations, the table below shows a side-by-side comparison of the revenue requirements from the August 16th Determination, the November 15th Proposed Decision of ALJ Allen, and the corrected calculations provided in this document

	August 16 th DWR Determination	November 15 th Proposed Decision of ALJ Allen	Corrected Calculations
<i><u>Power Charge Accounts--Operating Expenses</u></i>			
Total Power Costs	\$4,119,902,243	\$4,119,902,243	\$4,119,902,243
Ancillary Services	\$170,454,426	\$170,454,426	\$170,454,426
Administrative and General Expenses	\$28,400,000	\$28,400,000	\$28,400,000
Net Operating Revenues	\$517,399,690	\$0	\$307,752,619
Total	\$4,836,156,359	\$4,318,756,669	\$4,626,509,289
<i><u>Power Charge Accounts--Operating Revenues</u></i>			
Power Charge Revenues	\$4,648,262,915	\$4,224,265,882	\$4,532,018,501
Other Power Sales	\$128,885,940	\$35,483,282	\$35,483,282
Interest Earnings on Fund Balances	\$59,007,505	\$59,007,505	\$59,007,505
Total	\$4,836,156,359	\$4,318,756,669	\$4,626,509,289
DWR Deliveries to Retail Customers (MWh)	36,993,931	44,073,621	44,073,621

A corrected Table C, to replace the version that was mailed with the Proposed Decision, is provided below that shows the effect of the corrections on the IOU power charges to be used for 2003 remittances to DWR.

Table C—ALJ Proposed Decision
Calculation of Adopted IOU Power Charges—Corrected November 22, 2002

2003 DWR Expenses

Power Costs	\$4,119,902,243
Administrative and General Expenses	\$28,400,000
Ancillary Services	\$170,454,426
<u>Increase in Operating Account Balance</u>	<u>\$307,752,619</u>
Total DWR Expenses	\$4,626,509,289

Revenues Other Than Ratepayer Remittances

Revenues from Sale of Excess DWR Power	\$35,483,282
<u>Interest Earnings</u>	<u>\$59,007,505</u>
Total Revenues Before Ratepayer Remittances	\$94,490,787

DWR Revenue Required from Ratepayers **\$4,532,018,502**

<u>Cost Allocation Summary</u>	<u>PG&E</u>	<u>SCE</u>	<u>SDG&E</u>	<u>Total</u>
DWR Revenue Required from Ratepayers				\$4,532,018,502
Allocation of Total Revenue Requirement	\$1,984,837,384	\$1,897,722,878	\$649,458,239	\$4,532,018,501
less: Direct Access CRS Revenues	\$0	\$0	\$0	\$0
less: Revenue to maintain Operating Account above \$1 billion	\$134,351,926	\$129,573,341	\$43,827,352	\$307,752,619
less: Allocation of Ancillary Services	\$74,775,961	\$71,334,473	\$24,343,992	\$170,454,426
<u>less: Allocation of Variable Costs</u>	<u>\$85,661,819</u>	<u>\$65,501,750</u>	<u>\$68,722,250</u>	<u>\$219,885,819</u>
Equals: Residual Fixed Costs	\$1,690,047,678	\$1,631,313,313	\$512,564,645	\$3,833,925,636
 2003 DWR Delivered Energy (kWh)	 19,205,963,516	 18,459,409,403	 6,398,534,999	 44,063,907,918
 <u>Components of IOU Power Charge (\$/kWh)</u>				
1. Ancillary Services Cost Component	\$0.00389	\$0.00386	\$0.00380	\$0.00387
2. Variable Power Cost Component	\$0.00446	\$0.00355	\$0.01074	\$0.00499
3. Fixed Power Cost Component	\$0.08800	\$0.08837	\$0.08011	\$0.08701
4. Charge Component to Fund Operating Account	\$0.00931	\$0.00931	\$0.00931	\$0.00931
Total IOU Power Charge (\$/kWh)	\$0.10566	\$0.10510	\$0.10396	\$0.10518
 Total Ratepayer Revenues	 \$1,984,837,384	 \$1,897,722,878	 \$649,458,239	 \$4,532,018,501

Note: multiplying the Power Charges shown above by delivered energy will not result in Ratepayer Revenues shown above, because DWR assumes a 45 day lag between delivery of energy and receipt of

cash

Attachment 2**Corrections to Alternate Proposed Decision of President Lynch**

To assist Parties in their understanding of the corrected calculations, the table below shows a side-by-side comparison of the revenue requirements from the August 16th Determination, the November 15th Alternate Proposed Decision of President Lynch, and the corrected calculations provided in this document

	August 16 th DWR Determination	November 15 th Alternate Proposed Decision of President Lynch	Corrected Calculations
<i>Power Charge Accounts--Operating Expenses</i>			
Total Power Costs	\$4,119,902,243	\$4,119,902,243	\$4,119,902,243
Ancillary Services	\$170,454,426	\$141,454,426	\$141,454,426
Administrative and General Expenses	\$28,400,000	\$28,400,000	\$28,400,000
Net Operating Revenues	\$517,399,690	\$0	\$292,505,867
Total	\$4,836,156,359	\$4,289,756,669	\$4,582,262,536
<i>Power Charge Accounts--Operating Revenues</i>			
Power Charge Revenues	\$4,648,262,915	\$4,195,265,882	\$4,487,771,749
Other Power Sales	\$128,885,940	\$35,483,282	\$35,483,282
Interest Earnings on Fund Balances	\$59,007,505	\$59,007,505	\$59,007,505
Total	\$4,836,156,359	\$4,289,756,669	\$4,582,262,536
DWR Deliveries to Retail Customers (MWh)	36,993,931	44,073,621	44,073,621

**Table C—Lynch Alternate
Calculation of Adopted IOU Power Charges—Corrected November 22, 2002**

2003 DWR Expenses

Power Costs	\$4,119,902,243
Administrative and General Expenses	\$28,400,000
Ancillary Services	\$141,454,426
<u>Increase in Operating Account Balance</u>	<u>\$292,505,867</u>
Total DWR Expenses	\$4,582,262,536

Revenues Other Than Ratepayer Remittances

Revenues from Sale of Excess DWR Power	\$35,483,282
<u>Interest Earnings</u>	<u>\$59,007,505</u>
Total Revenues Before Ratepayer Remittances	\$94,490,787

\$4,487,771,749

DWR Revenue Required from Ratepayers

<u>Cost Allocation Summary</u>	<u>PG&E</u>	<u>SCE</u>	<u>SDG&E</u>	<u>Total</u>
DWR Revenue Required from Ratepayers				\$4,487,771,749
Allocation of Total Revenue Requirement	\$1,965,158,417	\$1,879,525,727	\$643,087,606	\$4,487,771,749
less: Direct Access CRS Revenues	\$0	\$0	\$0	\$0
less: Revenue to maintain Operating Account above \$1 billion	\$127,695,832	\$123,153,989	\$41,656,047	\$292,505,867
less: Allocation of Ancillary Services	\$61,753,088	\$59,556,675	\$20,144,663	\$141,454,426
<u>less: Allocation of Variable Costs</u>	<u>\$85,661,819</u>	<u>\$65,501,750</u>	<u>\$68,722,250</u>	<u>\$219,885,819</u>
Equals: Residual Fixed Costs	\$1,690,047,678	\$1,631,313,313	\$512,564,645	\$3,833,925,636
 2003 DWR Delivered Energy (kWh)	 19,205,963,516	 18,459,409,403	 6,398,534,999	 44,063,907,918

Components of IOU Power Charge (\$/kWh)

1. Ancillary Services Cost Component	\$0.00322	\$0.00323	\$0.00315	\$0.00321
2. Variable Power Cost Component	\$0.00446	\$0.00355	\$0.01074	\$0.00499
3. Fixed Power Cost Component	\$0.08800	\$0.08837	\$0.08011	\$0.08701
4. Charge Component to Fund Operating Account	\$0.00902	\$0.00902	\$0.00902	\$0.00902
Total IOU Power Charge (\$/kWh)	\$0.10469	\$0.10417	\$0.10302	\$0.10423
Total Ratepayer Revenues	\$1,965,158,417	\$1,879,525,727	\$643,087,606	\$4,487,771,749

Note: multiplying the Power Charges shown above by delivered energy will not result in Ratepayer Revenues shown above, because DWR assumes a 45 day lag between delivery of energy and receipt of cash

CERTIFICATE OF SERVICE

I certify that I have by mail, and by electronic mail to the parties to which an electronic mail address has been provided, this day served a true copy of the original attached Assistant Chief Administrative Law Judge's Ruling Regarding Proposed Decision of ALJ Allen and Alternate Proposed Decision of Commissioner Lynch on all parties of record in this proceeding or their attorneys of record.

Dated November 22, 2002, at San Francisco, California.

/s/ TERESITA C. GALLARDO
Teresita C. Gallardo

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

The Commission's policy is to schedule hearings (meetings, workshops, etc.) in locations that are accessible to people with disabilities. To verify that a particular location is accessible, call: Calendar Clerk (415) 703-1203.

If specialized accommodations for the disabled are needed, e.g., sign language interpreters, those making the arrangements must call the Public Advisor at (415) 703-2074, TTY 1-866-836-7825 or (415) 703-5282 at least three working days in advance of the event.