Decision 03-04-002 April 3, 2003

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 1999. (U 39 M)	Application 97-12-020 (Filed December 12, 1997)
Investigation into the Reasonableness of Expenses Related to the Out-Of-Service Status of Pacific Gas and Electric Company's El Dorado Hydroelectric Project and the Need to Reduce Electric Rates Related To This Non-Functioning Electric Generating Facility.	Investigation 97-11-026 (Filed November 19, 1997)
Application of Pacific Gas and Electric Company for Authority, Among Other Things, to Decrease its Rates and Charges for Electric and Gas Service, and Increase Rates and Charges for Pipeline Expansion Service.	Application 94-12-005 (Filed December 9, 1994)
Order Instituting Investigation Into Rates, Charges, and Practices of Pacific Gas and Electric Company.	Investigation 95-02-015 (Filed February 22, 1995)

OPINION ADOPTING STIPULATION REGARDING 1998 ELECTRIC DISTRIBUTION PLANT, ORDERING RESULTS OF OPERATIONS ANALYSIS TO BE PERFORMED, AND CLOSING GENERAL RATE CASE DOCKETS

OPINION ADOPTING STIPULATION REGARDING 1998 ELECTRIC DISTRIBUTION PLANT, ORDERING RESULTS OF OPERATIONS ANALYSIS TO BE PERFORMED, AND CLOSING GENERAL RATE CASE DOCKETS

1. Summary

In connection with the test year 1999 general rate case (GRC) of Pacific Gas and Electric Company (PG&E), the Commission approves and adopts an uncontested stipulation pertaining to PG&E's electric distribution plant (Stipulation). Pursuant to the Stipulation, a copy which is attached to this decision as Attachment A, the forecast of net additions to electric distribution plant for 1998 that was adopted in Decision (D.) 00-02-046 is reduced by $88.375 million. Pursuant to the Commission's order in D.01-10-031, the revenue requirement impact of the plant reduction, along with other adjustments that have been ordered by the Commission, will be calculated in a final Results of Operations (RO) analysis which is to be performed by PG&E and filed by PG&E by advice letter.

With this decision, all pending matters in the dockets constituting PG&E's 1999 GRC are resolved. The dockets are therefore ordered closed.

2. Background

D.00-02-046, issued in February 2000, resolved most of the issues in PG&E's test year 1999 GRC. In D.01-10-031 the Commission granted rehearing of D.00-02-046 with respect to various issues, including the forecast of electric distribution plant adopted therein. The Utility Reform Network (TURN) had contended that D.00-02-046 erred in assuming that PG&E's 1998 forecasted amount of capital expenditures, used to develop the test year forecast, was ever completely spent. As to this issue the Commission concluded as follows:

> We are of the view that the evidence TURN points to strongly indicates that PG&E was not going to spend all the dollars it claimed

> it would spend in 1998, and that therefore, using that forecast for developing the test year capital expenditures forecast might well have been improper. We agree with TURN that it would be legal and factual error for us to authorize PG&E to recover in rates amounts that were not spent, on plant that does not exist.
>
> * * *
>
> To correct this, we can adjust the adopted forecast to reflect only amounts we know PG&E spent in 1998; however, because the record was closed before 1998 ended, this would be certain to leave legitimate expenditures unaccounted for. Alternatively, we can [grant] rehearing to allow PG&E to put in evidence of exactly how much it invested in its electric distribution plant in 1998. We choose the latter course. We will not disallow anything at present. However, in conjunction with the rehearing we will order that any rates that are raised based on the electric distribution capital forecast adopted in D.00-02-046 be made subject to refund, to allow for the possibility that this forecast may be adjusted pending the results of the rehearing. (D.01-10-031, pp. 6-7.)

D.01-10-031 then ordered the following with respect to the issue of PG&E's 1998 capital spending and the ratemaking consequences of the outcome of this and other outstanding matters in this GRC:

> IT IS FURTHER ORDERED that rehearing is granted to allow PG&E to put in evidence of exactly how much it invested in its electric distribution plant in 1998. In conjunction with the rehearing, it is ordered that any rates that are raised based on the electric distribution capital forecast adopted in D.00-02-046 be made subject to refund, to allow for possible adjustments of this forecast pending the results of the rehearing. The assigned [Administrative Law Judge (ALJ)] shall establish an appropriate schedule for and procedures governing such rehearing.
>
> * * *
>
> IT IS FURTHER ORDERED that following the rehearing ordered above, and following resolution of all other outstanding matters relevant to an ultimate outcome in this proceeding, a final Results of Operations analysis shall be performed and a final revenue requirement determined. (D.01-10-031, p. 45.)

On January 9, 2002, the Commission issued D.02-01-044, denying PG&E's application for rehearing of D.01-10-031. On January 28, 2002, the ALJ issued a ruling setting a prehearing conference to establish the schedule and procedures for the rehearing in accordance with D.01-10-031. Addressing the scope of the rehearing, the ALJ stated the following:

> In its discussion of the electric distribution capital issue, the Commission indicated in D.01-10-031 its intent to disallow PG&E's capital expenditures for 1998 to the extent that its actual expenditures were less than the amount that was forecasted. [Citation omitted.] Further, in lieu of using the actual year-to-date expenditures in the 1998 hearing record, the Commission allowed PG&E to supplement that record by putting into evidence the exact amount it invested in electric plant for the entire year. [Citation omitted.] The discussion clearly indicates the Commission's intent to limit the inquiry on rehearing to a comparison of actual and forecast capital expenditures to determine the amount, if any, that would be disallowed. (January 28, 2002 ALJ ruling, pp. 2-3.)

At the February 13, 2002, prehearing conference (PHC), the parties stated a preference for working towards a joint evidentiary submission in lieu of pursuing a full litigation schedule. The ALJ directed the parties, following a workshop to be conducted by PG&E, to present by May 2, 2002, either a joint submission reflecting any agreements reached at the workshop with respect to the outcome of the rehearing phase or, if such agreements were not reached, a joint recommended procedural schedule for addressing unresolved issues.

In accordance with the procedure adopted at the prehearing conference, on March 1, 2002, PG&E served its *Supplemental Submission of Pacific Gas and Electric Company in Response to Decision 01-10-031* (Supplemental Submission), providing detailed information regarding PG&E's 1998 electric distribution plant additions and the estimated effect of the plant additions adjustments on revenue requirements.[1] PG&E estimated that if the adopted 1999 rate base were adjusted to reflect its calculation of the recorded 1998 plant additions and 1998 year-end plant balances, the adopted electric distribution revenue requirement would be reduced by $20.6 million. PG&E also estimated that the reductions in expense items adopted in D.01-10-031 would further reduce the electric distribution revenue requirement by $23.2 million and reduce the gas distribution revenue requirement by $13.8 million.

In accordance with the PHC directives, PG&E provided notice of and convened a workshop on April 22, 2002 to explain and respond to questions about the Supplemental Submission. By letter dated April 24, 2002, PG&E reported that the workshop had been held with the Office of Ratepayer Advocates (ORA), the Commission's Energy Division, California Farm Bureau, Aglet Consumer Alliance, and TURN participating. PG&E also reported that the participants agreed that after ORA had an opportunity to conduct discovery and review transactions from 1998, they might be able to agree on a joint evidentiary submission. By ruling dated April 30, 2002, the ALJ granted a request by PG&E, set forth in the April 24 letter and joined by ORA, vacating the May 2 date set for the joint evidentiary submission and providing instead for submission of a status report by May 31, 2002.

During the remainder of the year 2002, ORA continued to conduct discovery and analysis and confer with PG&E. PG&E and ORA provided the ALJ with status updates from time to time by letter, e-mail, and telephone

---

[1] Earlier, by letter dated February 8, 2002, submitted in response to the January 28, 2002 ALJ ruling, PG&E had provided summary information showing that its 1998 recorded gross electric distribution plant additions were $114.605 million less than the adopted forecast for gross additions ($832.722 million adopted less $718.117 million recorded), and that recorded net additions were $76.120 million less than forecast for net plant additions ($753.442 million adopted less $677.322 million recorded).

conference. On January 16, 2003, PG&E and ORA noticed a settlement conference regarding a proposed stipulation between PG&E and ORA with respect to PG&E's 1998 electric distribution plant. The settlement conference was held on January 23, 2003, and on January 24, 2003, PG&E and ORA filed a joint motion for approval of the Stipulation.

3. Summary of the Stipulation

PG&E and ORA agree that the recorded 1998 electric plant additions should be as set forth in the following table:

1998 Electric Distribution Plant Additions
(Excluding Common and General)
(Thousands of Dollars)

Item	1998 Adopted (D.00-02-046)	1998 Recorded	Stipulated Reductions	Stipulated Over/(Under) Adopted
Gross Additions	$832,722	$718,117	$12,255	($126,860)
Retirements	$ 79,280	$ 40,795	$ 0	($ 38,485)
Net Additions	$753,442	$677,322	$12,255	($ 88,375)

PG&E and ORA further agree that while the amounts set forth in the table reasonably represent PG&E's gross additions and retirements in 1998, the amounts do not include other factors (such as depreciation expense, depreciation reserve, tax depreciation expense, and deferred taxes) associated with these gross additions and retirements that would affect the overall revenue requirement calculation.

4. Discussion

The issues to be resolved in the rehearing phase of this GRC are twofold. First, we will determine any appropriate adjustments to the adopted forecast of electric distribution plant additions for 1998 that may be necessary to give effect to the Commission's determination in D.01-10-031 that "it would be legal and factual error for us to authorize PG&E to recover in rates amounts that were not spent, on plant that does not exist." Second, as we directed in D.01-10-031, we will provide for the final calculation of the adopted revenue requirements in this GRC based on an RO analysis that incorporates the above-described plant adjustments as well as other decisions that affect the adopted revenue requirements.

4.1 Plant Additions Adjustments

With respect to the 1998 plant additions, our sole interest here is implementing the rehearing order in D.01-10-031. The inquiry is essentially limited to determining the actual additions and comparing those amounts to the adopted forecast to determine the amounts, if any, by which the adopted plant additions should be reduced. PG&E acknowledges that "the clear inference from Decision 01-10-031 is that the [Commission] intends to reduce PG&E's revenue requirement to reflect the [1998] actual capital spending." (Tr. PHC-3, p. 150.)

As described earlier, PG&E calculated that the 1998 actual net plant additions totaled $677.322 million, or $76.12 million less than the adopted additions of $753.442 million. Based on extensive discovery, analysis and review of PG&E's accounting records, ORA recommended additional reductions based on what ORA believes to be accounting errors. ORA conducted additional discovery and review, which ultimately led to the stipulated agreement between PG&E and ORA. In addition to the $76.12 million reduction that would flow from PG&E's initial calculations, the Stipulation provides for a further reduction of $12.255 million, or a total reduction from the adopted net plant additions for 1998 of $88.375 million.

We note that all parties have had an opportunity to participate in a workshop, conduct their own review and analysis, participate in a duly noticed settlement conference, and respond to the joint motion for adoption of the stipulation. No party has objected to the requested adoption of the Stipulation. TURN, whose application for rehearing led to this review of PG&E's actual plant additions for 1998, filed comments in support of the Stipulation.

The Commission will not approve a stipulation unless it is reasonable in light of the whole record, consistent with the law, and in the public interest. The Stipulation meets these criteria and will therefore be approved. The agreed upon 1998 recorded plant additions for electric distribution reflect PG&E's initial calculations as set forth in the February 8, 2002 letter to the ALJ and the Supplemental Submission of March 1, 2002, reduced to recognize certain accounting errors identified by ORA during its extensive discovery and review of PG&E's records. The stipulated reduction to PG&E's 1998 electric distribution plant figures is consistent with, and gives effect to, D.01-10-031. The Stipulation is in the public interest because it reduces the revenue requirement that PG&E's ratepayers must pay through rates and reasonably reflects PG&E's actual electric distribution plant additions in 1998. We find that the plant addition amounts set forth in the Stipulation and shown in the table above are reasonable and should be adopted.

4.2 RO Analysis

As noted in the stipulation, the plant additions amounts set forth therein do not include factors such as depreciation expense, depreciation reserve, tax depreciation expense, and deferred taxes associated with the gross additions and retirements that would affect the overall revenue requirement calculation. Properly reflecting these amounts in adopted revenue requirements requires that detailed RO modeling be performed. Moreover, as noted earlier, D.01-10-031 requires that a final RO analysis shall be performed to incorporate the plant additions adjustments when all other outstanding matters relevant to an ultimate outcome in this proceeding have been completed, so that a final revenue requirement may be determined.

Since the issuance of D.00-02-046 in early 2000, we have issued several decisions ordering ratemaking adjustments in this GRC. In addition to the instant order, these include D.01-10-031 (which ordered several adjustments in addition to the 1998 plant additions forecast), D.02-12-002 (which resolved PG&E's petition for modification of D.00-02-046 and also ordered an adjustment to Account 903 supervision costs), and D.03-02-006 (which ordered rate base and expense adjustments related to overstated Materials and Supplies balances).[2] These decisions addressed the "other outstanding matters relevant to an ultimate outcome in this proceeding" that were referenced in D.01-10-031. As all such outstanding matters have now been resolved, it is time to order the final RO analysis to be completed.[3]

We are mindful of the difficulties with PG&E's complex RO models that have been encountered throughout this proceeding, and the need for transparency in the RO modeling process has previously been noted. However, we do not believe that it is necessary to keep this GRC proceeding open in order to provide oversight to the process of completing the final RO analysis. Instead, we will direct PG&E to perform the final RO analysis and to bring the results to

---

[2] In D.02-10-064 the Commission approved an uncontested settlement agreement between PG&E and ORA resolving ratemaking issues related to the outage of PG&E's previously owned El Dorado generation project. While that decision adopted an adjustment of $810,000 plus interest, the adjustment was made to the Transition Cost Balancing Account and did not require RO modeling to be performed.

[3] Pursuant to the Commission's order in D.02-12-002, a separate RO analysis will be performed to incorporate the deferred effective date of the supervision cost adjustments.

the Commission with the advice letter filing that transmits the tariffs needed to implement the final adopted revenue requirements. We further direct PG&E to cooperate with the Energy Division and with parties of record by timely responding to any data requests regarding the analysis while it is underway and after the advice letter is filed. Finally, we direct PG&E to provide associated workpapers to Energy Division, ORA, and any other party making request for them, at the time of the advice letter filing.

5. Comments on Draft Decision

The ALJ's draft decision was issued in accordance with Public Utilities Code Section 311(g)(1). With respect to the Stipulation, this is an uncontested matter in which the draft decision grants the relief requested. Pursuant to Rule 77.7 (f)(2) of the Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment on the draft decision may be waived. In this case the ALJ determined that the Commission would benefit by providing full 30-day opportunity for review and comment. PG&E filed comments in support of the draft decision and no other comments were filed. We adopt the draft decision without modification.

6. Assignment of Proceeding

Carl W. Wood is the Assigned Commissioner and Mark S. Wetzell is the Assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. The agreed upon amounts for 1998 recorded electric distribution plant additions reflect PG&E's initial calculations as set forth in the February 8, 2002 letter to the ALJ and the Supplemental Submission of March 1, 2002, adjusted to recognize certain accounting errors identified by ORA during its extensive discovery and review of PG&E's records.

2. In addition to the $76.12 million reduction in 1998 electric distribution net plant additions that would flow from PG&E's initial calculations, the Stipulation provides for a further reduction of $12.255 million, or a total reduction of $88.375 million from the adopted net plant additions for 1998.

3. The Stipulation's reductions to PG&E's 1998 electric distribution plant figures are consistent with, and give effect to, D.01-10-031.

4. The Stipulation is in the public interest because it reduces the revenue requirement that PG&E's ratepayers must pay through rates and reasonably reflects PG&E's actual electric distribution plant additions in 1998.

5. Detailed RO modeling must be performed in order to properly reflect factors such as depreciation expense, depreciation reserve, tax depreciation expense, and deferred taxes requires that detailed RO modeling be performed in the overall revenue requirement. D.01-10-031 requires that a final RO analysis shall be performed to incorporate the plant additions adjustments and all other outstanding matters relevant to an ultimate outcome in this proceeding.

6. With the issuance of this decision, all pending matters in this GRC will have been resolved.

Conclusions of Law

1. The plant addition amounts set forth in the Stipulation and shown in the table above are reasonable and should be adopted.

2. The above-described adjustments to plant additions should be incorporated in a final RO model run, which shall also incorporate the ratemaking adjustments ordered in D.01-10-031, D.02-12-002, and D.03-02-006.

3. As all pending matters have been resolved, the consolidated dockets in this GRC proceeding should be closed.

O R D E R

IT IS ORDERED that:

1. The January 24, 2003 *Stipulation Between Pacific Gas and Electric Company and The Office of Ratepayer Advocates Regarding PG&E's 1998 Electric Distribution Plant in PG&E's 1999 General Rate Case (A.97-12-020) RehearingPhase*, a copy of which is attached to this order, as Attachment A8, is adopted.

2. Not later than 45 days after the effective date of this order, PG&E shall perform a final Results of Operations (RO) analysis in accordance with the Commission's order set forth in Decision (D.) 01-10-031, at p. 45. The analysis shall incorporate the 1998 electric distribution plant additions amounts set forth in the Stipulation adopted by Ordering Paragraph 1. The RO analysis shall also reflect and incorporate the adjustments ordered in D.01-10-031, D.02-12-002, and D.03-02-006. In performing the RO analysis, PG&E shall cooperate with the Energy Division and with parties to this proceeding in accordance with the foregoing discussion. Upon completion of the analysis, PG&E shall file by advice letter the revised tariff sheets necessary to implement the final gas and electric revenue requirements that result from the RO analysis. The revised tariff sheets shall become effective on filing, subject to a finding of compliance by the Energy Division, and shall comply with General Order 96-A. The revised tariffs sheets shall apply to service rendered on or after their effective date. PG&E shall provide associated workpapers to Energy Division, ORA, and any other party making request for them, at the time of the advice letter filing.

3. Application (A.) 97-12-020, A.94-12-005, Investigation (I.) 97-11-026, and I.95-02-015 are closed.

This order is effective today.

Dated April 3, 2003, at San Francisco, California.

MICHAEL R. PEEVEY
President
CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners