Subjects Covered by Legislation

- Assured rate reductions and cost recovery plan
- CTC scope and exemptions
- Rate design
- Direct Access
- Responsibilities of ISO, CPUC, retailers
- Consumer Protection
- Public goods programs
- Employee-related issues
- Municipal utility issues
- Short-run avoided cost

Assuring Rate Reductions

- By 6/1/97, utilities are obligated to seek CPUC approval to monetize and reliquefy CTC for residential and small commercial to achieve a 10% rate reduction from 1996-2002
  - Revenue bonds issued through Infrastructure Bank
  - Cash flow out of reliquefied CTC associated with these customers based on CTC projections
- Not later than 4/1/2002, residential and small commercial customers are to receive a 20% rate reduction as compared with rates in place 6/10/96
  - Computed by excluding energy costs from 2002 rates

Scope of the CTC

- Consists of (as determined by CPUC):
  - Generation-related assets and obligations, including purchase contracts and fuel-related regulatory assets
  - That were being collected in rates on 12/31/95
  - That may become uneconomic as a result of competitive generation market

- Not included: 1.2. Capital additions the CPUC finds reasonable and necessary to maintain generation through 12/31/96
  - Nuclear decommissioning costs non-passable, but not part of CTC

CTC Cost Recovery Plan

- Rates at levels as of 6/10/96, except for residential and small commercial, which have 10% reduction
- SDG&E may adjust rates higher or lower if fuel costs change with other utilities' caps as ceiling
- Return on unamortized uneconomic assets may not exceed authorized rate for those assets
- ECAC and ERAM overcollections as of 12/31/96 credited to CTC recovery
- Separation of individual rate components
- SONGS cost recovery limitation in any year eliminated

CTC for Fossil Generation

- Amounts for CTC includes :
  - Net book value as of 12/31/95
  - Capital additions costs incurred after 12/31/95 that the CPUC determines are reasonable. If the additions are necessary to maintain the facilities through 12/31/2003
  - "Going forward costs" must be recovered through IP or contracts with ISO
  - Operating costs for units required for voltage support are recoverable as CTC when it is not practicable at market-based rates (must correspond to "going forward costs")
CTC Recovery Period

- CTC Recovery does not extend beyond 12/31/2001 subject to the following exceptions:
  - Employee-related transition costs collected until 2006
  - Power purchase obligations collected for the duration of the contract
  - BPRU benefit costs collected through 3/31/2002, and only 80% of balance remaining after 12/31/2001 may be collected
  - SONGS ICIP collected for its entire term and not after 12/31/2003
  - Irrigation district-related CTCs recovered until 3/31/2002 subject to a $50,000 limit after 12/31/2001

Exemptions to CTC

- General rule: All existing and future consumers pay CTC
- No CTC avoidance by municipalizing after 12/95
- No CTC for self-generation or "over-the-fence" (OTF) arrangements operating on or before 12/95
  - No CTC for increases in existing self-generation up to 12% of original capacity for self-generation or OTF between affiliated entities
  - "12%" applies to other self-generation and increases in existing capacity until 9/30/2000

Exemptions to CTC (cont.)

- Where a customer has a cogeneration deferral agreement by 12/20/95 that terminates the customer may:
  - Continue service under the agreement through 2001
  - Take direct access service and pay CTC
  - Construct a self-generation facility of same size as the burning plant and pay CTC
- Utilities and customers may jointly apply for exceptions to full CTC recovery
- Subject to certain rules, limited irrigation district exemptions, and other PG&E-specific exemptions

CTC Recovery Period - Additional Exceptions

- If the cost to accommodate direct access, the PX, or ISO reduces ability to recover CTC by 2001, the utility may recover surplus CTC after 2001
  - Amount limited to utility's cost of CPUC or FERC approved restructuring and related implementation programs

Exemptions to CTC (cont.)

- No CTC obligation to self-generation or OTF that was committed to construction as of 12/20/95 if the facility was substantially operational by 1/1/98
- No CTC obligation to the extent that load is served by emergency generation not operating in parallel with the system, when the utility is unavailable
- No CTC obligation for new or incremental load not requiring service through UDC T&D facilities

CTC Effect on Rate Design and Revenue Allocation

- CTC allocated among customer classes, tariff options, and rate schedules in substantially the same proportion as similar costs are recovered now
- The cost of CTC exemptions granted to residential and small commercial customers is recovered only from them and the cost of exemptions for others is recovered only from them (the "firewall")
- No cost shifting among customer classes, rate schedules, contracts, or tariff options
CTC Effect on Rate Design and Revenue Allocation (cont.)

- Individual customers shall not experience rate increases as a result of CTC allocation
- CPC retains cost allocation authority
- Rate levels for each customer class, rate schedule, contract or tariff option remain in effect until earlier of 3/31/2002 or when CTC is fully recovered

ISO/Power Exchange Governance

- Oversight Board to oversee ISO and PX
  - determines composition of governing boards
  - acts as appeal board for ISO decisions
  - 3 members appointed by governor (not to exceed by CPC and 1 by 3 non-voting members appointed by legislative bodies)
- Simple majority of Governing Board must be unaffiliated with electric gen. T or D
- Ensure early incorporation of ISO PX

ISO Responsibilities (cont.)

- Adopts standards for inspection, maintenance, repair and replacement of transmission facilities by 3/31/97
- Requires TO to report annually on compliance with standards
- Performs review following major outage that affects at least 10% of customers of an LDC
- Identifies cause, response time and effectiveness and effect of TO's O&M practices
- TO's O&M practices subject to FERC approval of rates

Direct Access

- Commences simultaneously with start of ISO/PX, not later than 1/1/98
- Subject to nonbypassable charge
- Subject to phase-in schedule that is equitable and accomplished as soon as practicable (subject to technological and operation considerations) not later than 1/1/2002
- Phase-in avoided by customers who buy at least 1/2 of requirements from renewable resources

ISO Responsibilities

- ISO responsible for confirming with FERC relevant portions of legislation
- ISO to secure gen. and trans. resources necessary to achieve WSCC NERC planning and operating reserve criteria (subject to FERC approval)
- Report to legislature on:
  - independent review of WSCC criteria
  - cost of outages and mitigation options
  - communications protocols
  - need for new transmission equipment
  - transmission capacity additions, etc.

CPU/C Reliability Responsibilities

- Ensure that facilities needed to maintain reliability remain available and operational
- Require that sale of generating facilities include a requirement that the selling utility continue to operate and maintain the facility for at least 2 yrs
- Adopt inspection and maintenance standards for the distribution system and provide sanctions for failure to meet standards

DRAFT based on 8/26 draft bill
Retailing Responsibilities

- Customers aggregated only on a voluntary basis; by positive writing; no forced aggregation
- Public agencies that aggregate residential customers must offer purchase opportunity to all residential customers in its jurisdiction
- No change in provider unless confirmed in writing or independently verified (which is required for changes in a residential customer's provider)
- Retailers for small customers must provide certain information (see consumer protection)

Consumer Protection

- Bills must provide certain information:
  - Charges associated with T&D, generation, CTC, and public goods
  - Notice of obligation to continue to pay CTC
- CPUC implements customer education program
- Retailers for small customers must –
  - register with CPUC
  - provide written notice of price, terms, and conditions of proposed service and right to rescind the contract

Consumer Protection (cont.)

- Small customers have right to cancel contract until the end of the 3rd business day after signing agreement
- CPUC responsible for accepting, compiling, and helping to resolve consumer complaints for registered entities

Public Policy Programs: Funding

- DSM: For 1998-2001, exp. sec.: SD - $12MM yr; SCE - $9MM yr (5% MM in 2001); PG&E - $106MM yr
- RD&D: For 1998-2001, exp. sec.: SD - $45MM yr; SCE - $28.5MM yr; PG&E - $30MM yr
- Renewables: For 1998-2001, exp. sec.: SD - $12MM yr; SCE - $40.5MM yr (5% MM in 2001); PG&E - $45MM yr
  - Renewables funding ends after 3/31/2001
- Low income funding at 1998 authorized levels

Public Policy Programs: Administration

- CPUC administers DS and RD&D funds relating to T&D
- CPUC administers remaining RD&D funds and renewables funds
- CPUC administers among new and existing projects and designs of technologies
- Municipal utilities must fund these four programs at not less than the lowest percentage of 1994 revenue requirements of the IOUs

Employee-Related Transition Costs

- Recovery allowed for reasonable employee-related transition costs directly caused by restructuring
  - includes severance, retraining, early retirement, replacement, and related expenses
  - does not apply to officers with severance agreements or other employees performing predominantly regulatory functions
- Recovery must extend to 12/31/2006

DRAFT based on 8/26 draft bill
Municipal Utilities

- Legislative intent that munis commit transmission system operation to ISO
  - Delays major munis issue of correct transmission pricing to agreement or ADR
  - Failure to do so precludes CTC recovery
- No direct access by public or investor-owned utility without customer agreeing to pay CTC
- Reciprocity requirement
- Munis cannot recover CTC without providing direct access, but may phase implementation

Short-Run Avoided Cost Reform

- SRAC based on a formula with starting energy price based on pre-1996 12 month averages, and index based on border price indices
- SRAC changes to PN pricing after CPUC rules that the PN is functioning properly, and either —
  - the utility divests 50% of gas units, or
  - the "going forward" cases of the unit are recovered solely through PN clearing prices or ISO contracts
- Value of capacity subtracted from clearing price for certain contracts