

Background

On November 26, 1996, 1/ and December 18, 1996, 1/ the Commission issued orders which, among other things, authorized the establishment of the ISO and the California Power Exchange (PX).

On March 31, 1997, pursuant to the November 26 and December 18 orders, SoCal Edison and PG&E filed TO Tariffs with cost support and DA Tariffs in Docket Nos. ER97-2355-000 and ER97-2358-000, 1/ and SDG&E filed a TO Tariff in Docket No. ER97-2364-000. The Companies' company-specific TO Tariff cost support filings were made concurrently with a joint pro forma Transmission Owner's Tariff filing.

On August 15, 1997, the Companies filed their revised pro forma TO Tariff and individual responses to certain Requests for Additional Information made by the Commission Staff on July 18, 1997.

On August 18, 1997, following consultations with various stakeholders, as well as SoCal Edison and PG&E, SDG&E filed a DA Tariff in Docket No. ER97-4235-000. On October 31, 1997, SDG&E filed in Docket No. ER97-2364-000 revised tariff sheets for ancillary services under its proposed TO Tariff. On the same date, SDG&E filed in Docket No. ER98-497-000 seven forms of service agreement related to its proposed Master Must-Run Agreement, 1/ placing itself under its DA Tariff.

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- 1/ Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company, 77 FERC ¶ 61,204 (1996) (November 26 order).
 - 2/ Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company, 77 FERC ¶ 61,265 (1996) (December 18 order).
 - 3/ PG&E's filing in Docket No. ER97-2358-000 was amended on December 16, 1997.
 - 4/ SDG&E's Master Must-run Agreement was filed in Docket No. ER98-496-000. The Companies' reliability must-run agreements are considered in another order approved today, Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company, 81 FERC ¶ _____ (1997).

Docket No. ER97-2355-000, et al. - 3 -

The Companies request that the pro forma terms and conditions of the Joint TO Tariff be reviewed in the same proceeding in which we are considering the ISO and PX filings, i.e., Docket Nos. EC96-19-003, et al.

On October 30, 1997, the Commission issued an order conditionally authorizing limited operation of, and transfer of control over facilities to, the ISO and PX. 1/ That order also approved the jointly-filed pro forma TO tariff. 1/

Notice of the Companies' applications in Docket Nos. ER97-2355-000, ER97-2358-000 and ER97-2364-000 was published in the Federal Register, 62 Fed. Reg. 17,796 (1997), with comments, protests and motions to intervene due on or before June 6, 1997.

Notices of SDG&E's revised TO filing in Docket No. ER97-2364-000, its DA Tariff filing in Docket No. ER97-4235-000, and its service agreement filing in Docket No. ER98-497-000 were published in the Federal Register, 62 Fed. Reg. 48,832 (1997), 62 Fed. Reg. 61,318 (1997), and 62 Fed. Reg. 62,326 (1997), respectively, with comments, protests, or motions to intervene due on or before September 24, 1997, November 20, 1997, and December 4, 1997, respectively.

Many entities 1/ timely filed pleadings in response to the various notices. Several respondents raise a variety of company-specific cost of service and other issues, and ask the Commission to suspend the Companies' filings, make them effective January 1,

1/ Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company, 81 FERC ¶ 61,122 (1997) (October 30 order).

2/ The October 30 order did not designate rate schedules for the pro forma TO tariff, which was accepted in Docket No. ER96-1663-005. We are doing so in this order. See Appendix B.

3/ Appendix A lists the intervenors in these dockets and their abbreviations.

1998, subject to refund, and set them for hearing. An untimely motion to intervene in Docket Nos. ER97-2355-000, ER97-2358-000 and ER97-2364-000 was filed by Marron. Marron states that it represents the owners of generation facilities that will participate in the California market, as well as itself, and that its late intervention will not delay or prejudice these proceedings.

SoCal Edison and PG&E timely filed answers in Docket Nos. ER97-2355-000 and ER97-2358-000, respectively, to the pleadings filed in response to their applications. Edison states that the body of its tariff is identical to the pro forma tariff filed by the Companies in Docket Nos. EC96-19-003 and ER96-1663-003, and requests that it be made subject to the outcome of that proceeding. SoCal Edison states that the proceeding in Docket No. ER97-2355-000 should address only the calculation of the TO revenue requirement and the terms and conditions (but not the rates) of Edison's DA Tariff. SoCal Edison responds to the cost of service and other TO Tariff issues raised by various parties, and to the comments and protests of various parties concerning its DA Tariff. SoCal Edison does not oppose a hearing on its TO Tariff, but would prefer a paper hearing, or one with only limited trial-type hearing on specific issues and on an expedited basis.

PG&E likewise responds to the various comments and protests concerning its TO and DA Tariffs.

The DWR also timely filed a response to the various pleadings filed in response to notice of the Companies' applications. DWR states that it appreciates accommodations made by the Companies to the intervenor's concerns, but that it remains concerned that conflicting terms, conditions and rate treatments for non-ISO facilities will make open transmission access more expensive and difficult to obtain. DWR states that all of the tariffs should be made consistent with and subject to the ISO standards before restructuring takes effect.

Notice of SoCal Edison's and PG&E's answers was published in the Federal Register, 62 Fed. Reg. 35,800 (1997), with responsive comments due by July 23, 1997. Several entities filed additional responsive pleadings.

Discussion

Procedural Issues

Interventions

Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (1997), the timely, unopposed motions to intervene of the entities listed on Appendix A serve to make the movants parties to the proceedings in which they intervened.

We will grant Marron's motion for late intervention, in light of its interest in this proceeding and the absence of any undue prejudice or delay.

SoCal Edison's Request for Summary Disposition

SoCal Edison states, in its August 8, 1997 response to DWR's comments filed July 23, 1997, that because DWR withdrew its request for consideration of issues concerning its eligibility for service under SoCal Edison's DA Tariff, SoCal Edison is withdrawing that part of its June 23, 1997 answer regarding eligibility issues raised by DWR. SoCal Edison further states that, as no party has requested a hearing on the terms and conditions of its DA Tariff, it is renewing its request that the DA Tariff be approved based on the pleadings, without an evidentiary hearing.

Vernon and Anaheim, et al. filed responses opposing SoCal Edison's request for summary disposition. Vernon states that SoCal Edison's response is a prohibited answer to an answer and that Vernon raised a variety of objections to SoCal Edison's DA Tariff in Vernon's May 12, 1997 protest. Anaheim, et al., referencing their own protest, state that SoCal Edison's DA Tariff should be rejected as filed, and that a hearing is required if it is not.

As there are factual issues in dispute with respect to the terms and conditions of SoCal Edison's DA Tariff, we will deny SoCal Edison's motion for summary disposition.

Intervenor Concerns

Docket No. ER97-2355-000 (SoCal Edison)

The intervenors raise many cost of service issues. Some issues, including the change from charges based on path-specific studies to system-wide, rolled-in rates, rate of return, comparability of Period I and Period II costs, inclusion Electric Power Research Institute and Account 565 costs, functionalization of administrative and general expenses, and consistency of the TO and ISO tariffs, are raised by several parties. Other issues appear to be of concern only to certain parties. For instance, Anaheim, et al. state that they should receive a credit for the cost of transmission facilities owned by SoCal Edison that parallel and effectively duplicate transmission facilities owned by Anaheim, et al. Enron states that there are unexplained inconsistencies between the TO Tariffs of PG&E and SoCal Edison.

The California Commission is concerned about potential cost-shifting in unbundled retail transmission rates owing to differences between ratemaking and accounting methodologies of this Commission and the California Commission.

Docket No. ER97-2358-000 (PG&E)

The parties to PG&E's proceeding also raise many cost of service issues, including the use of system-wide, rolled-in rates, rate of return, functionalization of various costs, the lack of time-differentiated rates, and credits for customer-owned facilities. Various parties also express concerns about consistency between utility-specific tariffs and the ISO tariff.

Docket Nos. ER97-2364-000, ER97-4235-000, and ER98-497-000 (SDG&E)

In response to SDG&E's filing in Docket No. ER97-2364-000, Nutrasweet expresses concern that SDG&E may be using a substantially different method to calculate rates for ancillary services than is used by SoCal Edison and PG&E, resulting in widely varying ceiling rates for similar services. The California Commission reiterates its concerns about the effects of inconsistencies between its ratemaking and accounting methodologies and those of this Commission.

No substantive issues were raised in the pleadings filed in response to the notices in Docket Nos. ER97-4235-000 and ER98-497-000.

Deference to the California Commission

The Companies request in their applications that the Commission defer to the California Commission, for at least the first two years of the new industry structure, concerning the allocation of transmission revenue requirements among retail classes and the design of retail access charges based on those allocations, as well as billing and payment terms. The California Commission supports the Companies' request. In a motion filed September 9, 1997, the California Commission also requests deference to the specific allocation and rate design methods it adopted its August 1, 1997 decision on retail cost allocation and rate design, and that there be no time limit on the Commission's deference. In support, the California Commission explains that the methodologies it has adopted are intended to prevent shifting of cost responsibility between retail customer classes, a result prohibited by AB 1890. The California Commission states that no time limitation is needed, because the Commission encourages utilities and state regulatory authorities to agree on utility-specific classifications and allocations to be filed with the Commission.

CCEM timely filed an answer to the California Commission's motion. CCEM states that the California Commission recognizes that it and the Commission have used different approaches for

wholesale and retail ratemaking, and that those differences could result in shifts of cost responsibility between retail customer classes, in contravention of California's restructuring law, AB 1890. It states that to address this problem, the California Commission has adopted a revenue allocation method for the Companies which determines marginal costs for each customer class and then reaches the adopted revenue requirement to be determined by this Commission for the Companies by increasing or decreasing the rate by an equal percent of marginal cost for each class.

CCEM states that the Commission should only grant the California Commission's request for deference based on an affirmative showing that the rate design and cost allocation methodologies for which deference is sought will result in rates, terms and conditions for transmission service that are consistent with the requirements for the pro forma tariff of Order No. 888.

CCEM is concerned that, absent such a showing, the Companies may be able to exploit differences between the Companies' wholesale and retail rates so as to discourage open access and new market entry.

We decline at this time to address the requests of the California Commission and of the Companies for deference to the decisions of the California Commission concerning cost allocation and rate design. Rather, we will defer action on the requests until the parties have been afforded a full opportunity to consider and address the impact of those decisions in the context of the hearing we will order below.

Relation to ISO/PX Proceedings

Entities supporting separate procedural schedules for these proceedings and for the proceedings in the ISO dockets include CCT and Anaheim, et al. TANC opposes bifurcation of rate and rate methodology issues in Docket No. ER97-2358-000 from Docket No. EC96-19-003, but does not object to adjudication of the non-rate terms and conditions to the TO Tariff in Docket No. EC96-19-003. In a similar vein, SoCal Edison states in its answer of June 23, 1997, that the body of its TO Tariff is identical to the pro forma tariff filed by the Companies in Docket Nos. EC96-19-003 and ER96-1663-003, and requests that the provisions of its TO Tariff be made subject to the outcome of that proceeding. As noted above, we accepted the pro forma TO tariff in the October 30 order.

In this regard, we note that the definition of "eligible customer" in the DA Tariffs filed by SoCal Edison, PG&E and SDG&E

1/ does not include retail customers taking unbundled transmission service pursuant to state requirements or a voluntary offer by the transmission provider, as required in the pro forma Open Access Transmission Tariff. 1/ We will direct the Companies to revise their DA Tariffs to conform to the requirements of the pro forma Tariff in this regard.

Our intention is that all remaining issues raised in these dockets, including the compatibility of the company-specific TO and DA Tariff terms and conditions with those of the ISO tariff, should be considered in these dockets.

Rate Analysis and Hearing Procedures

Our preliminary review of the Companies' proposed tariffs indicates that they have not been shown to be just and reasonable, and may be unjust, unreasonable, unduly discriminatory or preferential, or otherwise unlawful. Accordingly, we will set the proposed tariffs for hearing.

Because the proposed tariffs implement the ISO and PX, which was previously approved and authorized to commence limited initial operation on November 1, 1997, we will accept the proposed tariffs for filing, suspend them for a nominal period, and grant waiver of notice to allow the tariffs to become effective on the date the ISO commences operation, subject to refund.

The Commission orders:

(A) Marron's late motion to intervene is hereby granted.

1/ SoCal Edison Application, Docket No. ER97-2355-000, Vol. 3, sections 1 and 2; PG&E Application, Docket No. ER97-2358-000, Vol. 3, third tab, section 1; SDG&E Application, Docket No. ER97-4235-000, section 1.

2/ See Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Service by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, Order No. 888, 61 Fed. Reg. 21,540 (1996), FERC Stats. & Regs. ¶ 31,036 (1996), order on reh'g, Order No. 888-A, 62 Fed. Reg. 12,274 at 12,466 (1997), FERC Stats. & Regs. ¶ 31,048 at 30,508 (1997), order on reh'g, Order No. 888-B, 81 FERC ¶ 61,248 (1997).

(B) SoCal Edison's motion for summary disposition with respect to its DA Tariff in Docket No. ER97-2355-000 is hereby denied.

(C) The Companies are hereby directed to revise, within 15 days of the date of issuance of this order, their DA Tariffs, as discussed in the body of this order.

(D) Pursuant to the authority contained in and subject to the jurisdiction conferred upon the Federal Energy Regulatory Commission by Section 402(a) of the Department of Energy Organization Act and by the Federal Power Act, particularly sections 205 and 206 thereof, and pursuant to the Commission's Rules of Practice and Procedure and the regulations under the Federal Power Act (18 C.F.R. Chapter I), public hearings shall be held in Docket Nos. ER97-2355-000, ER97-2358-000, ER97-2364-000, ER97-4235-000 and ER98-497-000 concerning the justness and reasonableness of the Companies' proposed rates, as discussed in the body of this order.

(E) Docket Nos. ER97-2364-000, ER97-4235-000 and ER98-497-000 are hereby consolidated for purposes of hearing and decision.

(F) The Chief Administrative Law Judge shall convene a prehearing conference to be held within approximately thirty (30) days after the issuance of this order, in a hearing room of the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426. Such conference shall be held for the purpose of determining the appropriate course of these proceedings and establishing procedural dates, as appropriate, and to rule on all motions (except motions to dismiss) as provided for in the Commission's Rules of Practice and Procedure.

(G) The Companies are hereby informed of the rate schedule designations on Appendix B.

By the Commission.

(S E A L)

Lois D. Cashell,
Secretary.

APPENDIX A

**INTERVENTIONS IN WEPEX TRANSMISSION OWNER
TARIFF AND WHOLESALE DISTRIBUTION ACCESS
SERVICE TARIFF COST OF SERVICE FILINGS**

Southern California Edison Company, Docket No. ER97-2358-000

Arizona Electric Power Cooperative (AEPCO)
Bonneville Power Administration (BPA)
California Cogeneration Council (Cogeneration Council)
California Department of Water Resources (DWR)
California Independent Energy Producers Association (IEP)
California Manufacturers Association and California Large Energy
Consumers Association (CMA/CLECA)
California Electricity Oversight Board (Oversight Board)
California Public Utilities Commission (California Commission)
Cities of Anaheim, Colton and Riverside, and Azusa and Banning,
California (Anaheim, et al.)
City of Redding, California (Redding)
City of Santa Clara, California (Santa Clara)
City of Vernon, California (Vernon)
Coalition for a Competitive Electric Market (CNG Energy Services
Corp., Coastal Electric Services Co., Enron, Koch Energy
Trading, Inc. and Vitol Gas & Electric Services, Inc.)
(CCEM)
Columbia River Inter-Tribal Fish Commission (CRITFC)
Destec Energy, Inc. (Destec)
Electric Clearinghouse, Inc. (Clearinghouse)
El Paso Natural Gas Company (El Paso)
Enron Power Marketing, Inc. (Enron)
Electric Power Supply Association (EPSA)
Imperial Irrigation District (Imperial)
Lassen Municipal Utility District (Lassen)
Los Angeles Department of Water and Power (LADWAP)
Metropolitan Water District of Southern California (Metropolitan)
Modesto Irrigation District (Modesto)
Marron, Reid & Sheehy, on behalf of Crockett Cogeneration, the
Northern Arapaho Tribe, and itself (Marron)
M-S-R Public Power Agency (M-S-R)
National Rural Electric Cooperative Association (NRECA)
New Energy Ventures, Inc. (New Energy Ventures)
New York Mercantile Exchange (NYMERC)
New York Power Pool (NYPP)
Northern California Power Agency (NCPA)
Nutrasweet Kelco Company (Nutrasweet)
Pacific Gas & Electric Company (PG&E)
PacifiCorp

PG&E Energy Services Corporation and PG&E Energy Services, Energy
Trading Corporation (PG&E Services)
PanEnergy Trading and Market Services, L.L.C. (PanEnergy)
Portland General Electric Company (PGE)
Public Power Council (PPC)
Sacramento Municipal Utility District (SMUD)

Appendix A, page 2

San Diego Gas & Electric Company (SDG&E)
Sierra Pacific Power Company (Sierra Pacific)
Southern California Gas Company (SoCal Gas)
State Water Contractors (SWC)
Transmission Agency of Northern California (TANC)
Turlock Irrigation District (Turlock)
United States Department of Energy Oakland Operations Office
(DOE/Oakland)
U.S. Generating Company (US Gen)
The Utility Reform Network (TURN) and Utility Consumers Action
Network (UCAN)
Western Area Power Administration (Western)
ZE PowerGroup, Inc. (ZE Power)

Pacific Gas & Electric Company, Docket No. ER97-2358-000

AEPCO, BPA, Cogeneration Council, DWR, IEP, CMA/CLECA, Oversight
Board, California Commission, Anaheim, et al., City and County of
San Francisco, California, City of Oakland, California, City of
Palo Alto, California, Redding, Santa Clara, Vernon, CCEM,
Coalition for Comparable Transmission (City of Long Beach,
California, NP Cogen, Praxair, Inc., SoCal Gas and Sunlaw Energy
Corp.), CRIFTC, Clearinghouse, Destec, El Paso, Enron, EPSA,
Imperial, Lassen, LADWAP, Metropolitan Water, Modesto, Marron, M-
S-R, NRECA, New Energy Ventures, NYMERC, NYPP, NCPA, Nutrasweet,
PG&E, PG&E Services, PacifiCorp, PanEnergy, PGE, PPC, SMUD,
SDG&E, Sierra Pacific, SoCal Edison, SoCal Gas, SWC, TANC,
Turlock, DOE/Oakland, US Gen, TURN/UCAN, Western, and ZE Power.

San Diego Gas & Electric Company Docket Nos. ER97-2364-000,
ER97-4235-000 and ER98-497-000

Amoco Production Company and Amoco Energy Trading Corporation,
AEPCO, BPA, Cogeneration Association of California (Texaco, Inc.,
Arco Western Energy Company and Union Pacific Fuels, Inc.) (CCA),
Cogeneration Council, DWR, IEP, CMA/CLECA, Oversight Board,
California Commission, Anaheim, et al., Santa Clara, Vernon,
CCEM, CRIFTC, Clearinghouse, Destec, Energy Producers and Users
Coalition (Amoco Production Company, Amoco Energy Trading Corp.,
Atlantic Richfield Company, CalResources, LLC, Chevron U.S.A.,
Inc., CCA, Mobil Oil Corporation, Shell Martinez Refining
Company, Texaco, Inc., Unocal Corp. and Southern Pacific Fuels,

Inc.), El Paso, Enron, EPSA, Imperial, Lassen, LADWAP, Metropolitan Water, Modesto, Marron, M-S-R, NRECA, New Energy Ventures, NYMERC, NYPP, NCPA, Nutrasweet, PG&E, PG&E Services, PacifiCorp, PanEnergy, PGE, PPC, SMUD, SoCal Edison, SoCal Gas, SWC, TANC, Texaco Natural Gas, Inc., Turlock, DOE/Oakland, US Gen, TURN/UCAN, Western, and ZE Power.

APPENDIX B

Rate Schedule Designations

Designation	Description
<p>San Diego Gas & Electric Company <u>Docket No. ER97-4235-000</u></p>	
(1) FERC Electric Tariff, Original Volume No. 5.	Distribution Tariff
<p><u>Docket No. ER98-497-000</u></p>	
(2) Service Agreement No. 1 FERC Electric Tariff, Original Volume No. 5	Distribution Service Agreement Placing San Diego Gas and Electric Company under its tariff for Naval Station
(3) Service Agreement No. 2 FERC Electric Tariff, Original Volume No. 5	Distribution Service Agreement Placing San Diego Gas and Electric Company under its tariff for North Island 2
(4) Service Agreement No. 3 FERC Electric Tariff, Original Volume No. 5	Distribution Service Agreement Placing San Diego Gas and Electric Company under its tariff for El Cajon
(5) Service Agreement No. 4 FERC Electric Tariff, Original Volume No. 5	Distribution Service Agreement Placing San Diego Gas and Electric Company under its tariff for Kearny 1
(6) Service Agreement No. 5 FERC Electric Tariff, Original Volume No. 5	Distribution Service Agreement Placing San Diego Gas and Electric Company under

its tariff for Naval Training
Center

(7) Service Agreement No. 6
FERC Electric Tariff,
Original Volume No. 5

Distribution Service
Agreement Placing San Diego
Gas and Electric Company under
its tariff for Division Street

