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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

May 20, 1997

To: Board of Directors (Water Planning and Resources Committee--Information)
(Electric Industry Restructuring Ad Hoc Committee--Information)

From: for General Manager

Submitted by: Debra C. Man
Chief of Planning and Resources

Subject: California Public Utility Commission Decisions on Electric Industry Restructuring and Report on the Phase II Filing Made at the Federal Energy Regulatory Commission

RECOMMENDATION(S)

Information only.

EXECUTIVE SUMMARY

The California Public Utilities Commission (CPUC) recently issued decisions regarding consumer choice and direct access, and billing/metering options. Beginning January 1, 1998, any consumer can choose to purchase power either through nonutility retail electric service providers or through direct negotiations with electric generators as an alternative to such consumers existing electric utility arrangements. Additionally, the CPUC determined that consumers purchasing electricity or related services from another supplier will be able to choose from various billing options.

At the Federal Energy Regulatory Commission, Metropolitan will be filing comments on June 6, 1997 regarding the Phase II Filing which was filed by the Trustee and the investor-owned utilities. Primary issues identified which are of concern to Metropolitan consist of: treatment and definitions associated with existing contracts; the operational impact of Southern California Edison's residual right to Metropolitan's Colorado River Aqueduct transmission system; the lack of development of the grid management charge; transmission pricing methodology; and the calculation of transmission losses.

DETAILED REPORT

The California Public Utilities Commission (CPUC) recently issued its decision regarding direct access and billing which are the first steps towards implementation of consumer choice on January 1, 1998. The CPUC determined that customers, regardless of customer class, of private utilities[1]/ who want to choose an alternative supplier can purchase power either through nonutility retail electric service providers (aggregators, brokers, or marketers) or through direct negotiations with electric generators. Utilities will begin accepting direct access requests on November 1, 1997 which will become effective on January 1, 1998. Consumers who have at least one-half of their electrical load supplied by a renewable resource provider will have first priority to direct access. The order however does require a consumer whose maximum peak demand is 20 kilowatts (kW)[2]/ or more to have a hourly meter installed at the load whereas consumers below 20 kW may use load profiling. Load profiling approximates the hourly usage of electricity over a given period of time and will likely be used for commercial, agricultural, and residential loads which are less likely to have hourly meters currently installed. When using load profiling, the consumer is billed based on the load profile versus actual use.

The second decision released at the same time was regarding metering and billing options. With the ability to have a different electricity supplier, as discussed above, billing options need to change and will consist of: (1) a consolidated bill from the electricity supplier; (2) a consolidated bill from the utility distribution company; or (3) two bills, one from the supplier and one from the utility distribution company. The bill(s) will include charges for: electricity from the generator; distribution or delivery of the electricity; a public goods charge to fund conservation and energy efficiency, and research and development; a charge for low-income assistance programs; a competitive transition cost for stranded investments; meter costs; billing costs and administrative costs. Additionally, because of the decision, consumers will see metering and billing companies forming to serve this new market requirement.

On the federal front, the Federal Energy Commission (FERC) has had the Phase II Filing for approximately seven weeks, as the Trustee appointed by the CPUC for the independent system operator (ISO) and power exchange (PX) together with the investor-owned utilities made the Phase II Filing on March 31, 1997. Staff is working on responsive comments, which must be filed by June 6, 1997. FERC has already started its review and issued an order dated April 29, 1997 containing 90 questions that request clarification and explanation of the Phase II Filing. Answers by the Trustee to FERC's questions are due on May 20th to allow stakeholders time to comment on the Trustee's responses in their June 6th filing.

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[1]/ The order specifically identifies Pacific Gas & Electric, Southern California Edison, San Diego Gas & Electric, Kirkwood Gas & Electric, PacificCorp, Sierra Pacific Power Company and Southern California Water Company as the utilities which are under CPUC jurisdiction and are therefore required to grant direct access.

[2]/ An average individual household with every appliance and light turned on would have a maximum demand of 1 kW.

Metropolitan's review team, consisting of General Manager and General Counsel staff and both technical and legal consultants, have identified a number of issues with the Phase II Filing. However, Metropolitan may not comment on all of them because they may be resolved either in the Trustee's answers to FERC questions or in meetings of the stakeholders and the PX and ISO Governing Boards. Additional issues may arise that are not currently listed which will require comment. The current issues have been ranked based on priority and consist of the following:

> First Priority Issues: treatment, definitions, and inconsistencies associated with existing contracts; the operational control requirements associated with Southern California Edison's residual right to Metropolitan's Colorado River Aqueduct transmission system; sufficient development of the grid management charge which is the administrative charge for the ISO; consideration of time-of-use transmission pricing; and the transmission loss methodology.
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> Second Priority Issues: over-generation protocols and their application to Metropolitan; last minute changes to the alternative dispute resolution procedure; consistent application of the recovery of costs for operating reserves; scheduling protocols which are not consistent with industry standards; a billing and payment process which would require daily payments to the ISO and PX; requirements for scheduling coordinators; cost-shifting potential in ancillary services; blanket rights to access another parties facilities; protocols and costs associated with transmission expansion; opportunities and monitoring plans for market power; FERC jurisdiction over a municipal utility's transmission tariff; and the calculation of transmission usage charge credits.
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> Third Priority Issues: potential delay in participation status in the ISO; problems associated with the addition and removal of the ISO's facilities; maintenance standards for the ISO controlled grid; requirement to change to FERC system of accounts; definition of wholesale customers and wholesale sales which excludes Metropolitan; conflicts and inconsistencies in the various documents of the Phase II Filing; rate design and transmission revenue requirement of Pacific Gas & Electric Company; rate design and transmission revenue requirement of Southern California Edison Company; and the rate design and transmission revenue requirement of San Diego Gas & Electric Company.

Because the process is continually changing and staff is responding to such changes, copies of the Phase II Filing will not be available until June 6th. However, a copy of the Phase II Filing will be distributed to the Board as soon as it becomes available. Staff will continue to update the Board of the CPUC and FERC efforts to restructure the electric utility industry.

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