BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of California Pacific Electric Company, LLC (U 933-E) for Authority to among other things, Increase Its Authorized Revenues for Electric Service, Update Its Energy Cost Adjustment Clause Billing Factors, Establish Marginal Costs, Allocate Revenues, and Design Rates, as of January 1, 2013.	Application No. 12-02-014 Filed February 29, 2012

PROTEST
OF THE DIVISION OF RATEPAYER ADVOCATES

I. INTRODUCTION

Pursuant to Rule 2.6, subdivision (a), of the Commission's Rules of Practice and Procedure, the Division of Ratepayer Advocates (DRA) hereby protests in whole the General Rate Case (GRC) Application (A.) 12-02-014 of the California Pacific Electric Company (CalPeco) as stated in the caption above. This Protest is filed within the period provided under Rule 2.6(a).

In general, Public Utilities Code section 451 prohibits a public utility from charging any rates that are unreasonable or unjustified. DRA has begun discovery issuing data requests, and CalPeco has proposed a meeting to clarify its positions.

At this time, DRA requests an evidentiary hearing, at which DRA would present facts and law showing whether all or part of A.12-02-014 violates Section 451 and therefore should be denied. The facts and law that DRA would present at such a hearing would address the issues stated below:

II. SUMMARY OF GRC: CALPECO SEEKS A BASE RATE INCREASE OF $16.299 MILLION OR A 62% INCREASE OVER CURRENT RATES

CalPeco's GRC Application combines base rates and purchased energy costs as follows: base rates (including vegetation management) would increase by $16.3 million annually with an offsetting reduction of $8.7 million annually in Energy Cost Adjustment Clause (ECAC) rates. CalPeco forecasts current base rate revenues of $26.134 million for Test Year (TY) 2013 and additional requested revenues of $16.299 million, a 62% increase over current rates, resulting in a Base Revenue Requirement of $42.433 million. It further requests an authorized Return on Equity (ROE) of 10.5% which would result in an overall Rate of Return of (ROR) 8.24%.

CalPeco's showing is based on recorded 2011 costs plus incremental changes and escalations. Additionally, CalPeco seeks to amend its ECAC mechanism and Post Test-Year Adjustment Mechanism (PTAM) and establish a Base Revenue Requirement Adjustment Mechanism.

On February 29, 2012, CalPeco filed an amended Application which entirely replaces its initial Application and related testimony filed on February 17, 2012. In Phase 2 of this proceeding, on April 2, 2012 CalPeco will serve its proposed marginal cost and revenue allocation testimony. CalPeco will serve its rate design testimony on April 16, 2012.

III. BACKGROUND

On January 1, 2011, CalPeco acquired Sierra Pacific Power Co.'s (Sierra Pacific) California service area, electric distribution facilities, and the Kings Beach Generation Facility (Kings Beach), which was approved in Commission Decision (D.) 10-10-017. Further, CalPeco's proposal to adopt Sierra Pacific's schedule for submitting GRC applications was approved. CalPeco postponed its Test Year 2013 GRC filing until this year.

IV. ISSUES TO BE CONSIDERED

DRA's list of issues stated below is not exhaustive, and DRA reserves the right to amend them or raise other issues before or during the hearings and after DRA has conducted discovery.

A. Summary of Earnings/Results of Operations

The Summary of Earnings presents CalPeco's proposed revenues based on projections of revenues, expenses, net earnings, rate base, and rate of return. These elements are inputs to the ROR model, which is used to develop the Summary of Results of Operations. DRA will review and evaluate CalPeco's RO model calculations and inputs and develop its own independent analysis and forecast.

B. Sales, Customers and Revenues

Operating revenues are the product of estimated sales, customers, and billing factors including effective rates. CalPeco used sales and customer forecast prepared in January 2012. According to CalPeco, its sales forecast is based on 20-years of heating and cooling degree-days data for California customers. DRA will review and evaluate CalPeco's forecasts and may develop independent forecasts.

C. Operation & Maintenance (O&M) and Administrative & General (A&G) Expenses

CalPeco's $16.1 million forecast for Operation and Maintenance (O&M) expenses includes expenses for Generation (Kings Beach diesels), Distribution, Customer Accounts, Customer Service and Information, and A&G. CalPeco calculated its TY 2013 O&M expenses based on the 2011 Base Year plus incremental expenses and escalation. CalPeco also is including the expense of adding seventeen new employees at a total cost of $1.3 million. DRA will review and evaluate these requests and may develop independent forecasts for various functional areas of O&M and A&G expenses.

D. Energy Efficiency Programs

CalPeco is requesting a budget of $400,000, which is not an increase for its Energy Efficiency program budget. CalPeco is including $96,400 for CFL giveaways;

$26,000 for "Energy Education"; and $18,400 to establish a Weatherization Pilot Program. DRA will review and evaluate this request and may develop its own independent analysis and forecast.

E. Plant Additions

DRA will review whether CalPeco's projections for plant additions are reasonable and supported. This will include (but is not limited to) CalPeco's methodology in calculating such projections, other major projects proposed, and related forecasted plant additions.

F. Depreciation Expense

Depreciation expense is related to the magnitude of the company's plant-in-service. As new plant items are placed in service, the level of depreciation increases. Recovery of this expense allows CalPeco to recoup the original cost of capital investments, less any estimated net salvage over the useful life of the asset. CalPeco's projected 2013 depreciation expense is $4.9 million. CalPeco states that it adopted Sierra's depreciation rates. DRA will review and evaluate the reasonableness of and support for CalPeco's depreciation requests as stated above. This will include examining such depreciation accounts as plant balances, reserves, service lives, survivor curves, net salvage rates, cost of removal, and net salvage. DRA may develop its own analyses and forecasts.

G. Taxes

CalPeco projects $2.9 million in income and other tax expenses. It used statutory tax rates of 34% and 8.84% for its federal income tax and California franchise tax calculations, taking into account bonus depreciation in 2011 and 2012. CalPeco also provided forecasts of property and payroll taxes. DRA will review and evaluate CalPeco will review and evaluate these claims and may develop its own independent analyses and proposal.

H. Rate Base

Rate base is the net investment in facilities, equipment, and other property a utility has constructed or purchased to provide utility service to its customers. It is the basis for the return or earnings that the utility is allowed to recover from its ratepayers.

CalPeco estimates its rate base at $120.9 million, using actual 2011 plant balances and forecast capital expenditures for 2012 and 2013. CalPeco used an 8.76% AFUDC rate for 2012 and 2013. CalPeco's forecast does not include any projected capital expenditures related to the "Transmission Lines 625/650 Upgrade" project, which is the subject of A.10-08-024. Further, while Sierra Pacific provides all of CalPeco's power, CalPeco's rate base does not include any allocation of costs for Sierra Pacific's generation facilities outside of California.

DRA will review and evaluate CalPeco's rate base requests as stated above and may develop its own independent analyses and proposal. DRA's discovery will include (but is not limited to) examining plant-in-service, working capital, deferred taxes, depreciation reserve, materials and supplies, customer advances, capitalization of overheads, vacation accrual, and other components of rate base.

I. Vegetation Management

In 2010, Sierra Pacific incurred $1.7 million in vegetation management costs in its California service area. In 2011, CalPeco spent $856,000 and now proposes to spend $3.296 million annually for an upgraded program starting in 2013. Further, CalPeco would add a separate line item on customers' bills to highlight the vegetation management program. CalPeco expects that after a sizable increase in 2013, costs will moderate in later years. CalPeco will close its Fire Hazard Prevention Memorandum Account (FHPMA). DRA will evaluate the reasonableness of and the support for CalPeco's vegetation management program costs, and may develop its own independent analyses and proposal.

J. Cost of Capital

CalPeco proposes a Rate of Return (ROR) on rate base of 8.24% as compared to its currently authorized ROR of 8.51%; and a Return on Equity (ROE) of 10.5%, as compared to its authorized ROE of 10.7%, which was adopted by the Commission in D.09-10-041.

DRA will analyze what would be a reasonable level of return based on market returns on investments having similar risks, using the Capital Asset Pricing Model (CAPM) and/or Discounted Cash Flow (DCF). It may develop its own analyses and proposals.

K. Post Test-Year Adjustment Mechanism

CalPeco is proposing a Post Test-Year Adjustment Mechanism (PTAM) which is intended to recover changes in costs during Attrition Years. CalPeco's current PTAM was part of the 2009 Sierra Pacific GRC settlement as adopted in D.09-10-04. CalPeco's proposed PTAM is comprised of the following parts:

(1) Reduce the threshold amount for triggering the Major Plant Additions component from the $20 million figure used for Sierra Pacific's combined California/Nevada basis, to a new lower threshold, 1% of CalPeco's rate base or $1.2 million.

(2) Revise the PTAM attrition factor to adjust revenues by CPI for all non-labor related revenue requirements, removing a 0.5% productivity adjustment.

(3) Adjust revenues for the labor component including wages, salary, payroll taxes, and employee benefits by the wage escalation amount included in the three-year contract CalPeco recently signed with the IBEW.

DRA will review and evaluate the reasonableness of and support for CalPeco PTAM requests and may develop its own independent analyses and proposal.

L. Financial Audit

DRA began its on-site audit review and analyses in late March 2012. The audit will include (but is not limited to): (1) examining CalPeco's historical data; (2) analyzing CalPeco records regarding specific revenue categories, various expenses, and plant items; and (3) adjusting for improperly incurred expenditures, such as certain one-time costs or shareholder costs. CalPeco's financial accounts, records, and/or data are located in South Lake Tahoe, California, and various cities in Canada, which may require more discovery time for DRA to travel to or obtain access to these data.

M. ECAC

CalPeco has included its $48.7 million of Energy Cost Adjustment Clause (ECAC) revenues in its GRC filing. CalPeco essentially buys all of its power from Sierra Pacific, and because of the drop in natural gas prices, CalPeco has been over collecting its ECAC revenues. CalPeco proposes to amortize its over collection over three years, by reducing rate recovery by $8.7 million for each year. DRA will review and examine the reasonableness of and the support for CalPeco's ECAC proposal.

N. Other Issues

CalPeco proposes to establish a Base Revenue Requirement Adjustment Mechanism (BRRAM). This would allow CalPeco to recover its forecast revenues without being subject to sales fluctuations or sales losses due to energy efficiency gains. DRA is examining whether CalPeco's BRRAM proposal is reasonable, supported, and consistent with the law.

V. CATEGORIZATION OF PROCEEDING

DRA agrees that this proceeding should be categorized as ratesetting.

VI. HEARINGS NEEDED

DRA requests an evidentiary hearing, so that a full and complete record of the facts and law in dispute are resolved.

VII. DRA PROPOSED SCHEDULE

CalPeco's proposed schedule would not provide DRA sufficient time for discovery and testimony preparation, especially considering that some of CalPeco's data are located in Canada. Further, DRA is also currently reviewing the Bear Valley Electric Company's GRC A.12-02-013, which increases DRA's time demands in this and the other GRC proceedings. In lieu of CalPeco's, DRA proposes the following schedule:

Event	Proposed Dates
Prehearing conference (Already Calendared)	April 2, 2012
DRA/Intervenor Testimony Served	August 28, 2012
DRA Cost Allocation and Rate Design Testimony Served	September 14, 2012
Rebuttal testimony Served	September 28, 2012
Evidentiary Hearings	October 15-17, 2012

VIII. CONCLUSION

Based on the foregoing, DRA respectfully requests that the Commission issue a Scoping Memo that includes but is not limited to the issues stated above and schedules an evidentiary hearing for October 15-17, 2012.

Respectfully submitted,

/s/ CLEVELAND W LEE

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