BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALI

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Application of SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) for Authority to, Among Other Things, Increase Its Authorized Revenues For Gas Service For Santa Catalina Island In 2009, And to Reflect That Increase In Rates.	A.08-09-019

PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES

Pursuant to Rule 2.6 of the Commission's Rules of Practice and Procedure, the Division of Ratepayer Advocates ("DRA") hereby files its protest to Southern California Edison Company's ("SCE") Application (A.) 08-09-019 for a Test Year ("TY") 2009 General Rate Case ("GRC") for its propane gas service on Santa Catalina Island. The Commission calendar first showed A.08-09-019 on September 26, 2008, and hence this protest is timely.

I. INTRODUCTION AND BACKGROUND

On September 23, 2008, SCE filed A.08-09-019 with the California Public Utilities Commission ("Commission") for a TY 2009 GRC for its propane service on Santa Catalina Island. For TY 2009, SCE seeks a revenue requirement of $1.654 million, an increase of $0.751 million over revenues at present rates.[1] The impact of SCE's application would be to increase Residential average rates by 26% and Commercial average rates by 27%, TY 2009 over 2007.[2]

On July 27, 2007, SCE tendered its Notice of Intent ("NOI") to file this GRC. DRA issued a notice of deficiencies on August 30, 2007. On November 6, 2007, DRA

[1] A.08-09-019, p. 1.

[2] A.08-09-019, p. 11, Table 2.

notified SCE that the list of deficiencies had been substantially resolved and found the NOI acceptable for filing. Subsequently, SCE agreed with DRA to a delay of its application for TY 2009 GRC for Santa Catalina Island so that all parties could focus on SCE's electric TY 2009 GRC, A.07-11-011. Now that A.07-11-011 has approached its conclusion, SCE filed this TY 2009 GRC application.

For TY 2009, SCE seeks a revenue requirement of $1.654 million, an increase of $0.751 million over present rate revenues. SCE requests an 83 percent increase in rate base and a 27 percent increase in total gas rates.[3] SCE is not requesting attrition year increases for either 2010 or 2011, consistent with the Commission practice of denying attrition to small utility operations, but is proposing memorandum account treatment should the Commission issue a decision after January 1, 2009.

In this GRC, SCE asserts that its $1.654 million application is primarily attributable to operations and maintenance ("O&M") expenses and capital additions. SCE forecasts O&M expense for gas operations on Catalina to be $769,000 for TY 2009, which would result in an overall increase of six percent above 2006 recorded O&M expenses. SCE claims the primary cost driver is increasing system inspections and infrastructure maintenance activities. SCE is proposing total capital expenditures of $3.2 million for projects, including two authorized in Decision ("D.") 04-12-018 for TY 2005. SCE claims that the primary drivers for these projects are infrastructure replacements and a new monitoring and control system. SCE has spent far more than authorized in the previous rate case for capital projects, and proposes to embark on an ambitious pipeline replacement project for its entire distribution system.

II. DISCUSSION

As noted above, SCE is seeking a significant increase over its current revenues. DRA has just commenced the process of conducting discovery and analyzing SCE's

[3] SCE Exhibit 1, p. 1, ln. 12-14.

application and justifications for such a large increase, and will make recommendations to the Commission as appropriate in testimony.

DRA is generally concerned that SCE's application is overstated. Historically, costs of service at Santa Catalina Island are very stable. Most specifically, SCE has applied for and received Commission authorization for GRC rate increases *only twice since 1962*.[4] The most recent rate increase was authorized for TY 2005 in D.04-12-018, a quite large and phased-in rate base increase of 39.4% in 2005, a 28.2% increase in 2006, and a 22.0% increase in 2007. DRA is concerned that the cost incidence of certain short-term activities covered in D.04-12-018 are being used as a pretext to secure a long term revenue requirement that is both excessive and unnecessary given SCE's long-run regulatory history of a static operation in Santa Catalina Island and the recent proximity of SCE's TY 2005 increases in D.04-12-018. DRA is also concerned that SCE has dramatically overspent on capital projects, and requests that the Commission find such increased spending reasonable for inclusion in prospective rate base without sufficient justification. DRA is skeptical of SCE's plans for a complete overhaul of the pipeline distribution system, particularly given the high costs and current economic crisis. Finally, DRA notes SCE's utter lack of any recognition of the large impact its requested increase will have on ratepayers, especially after the very recent and quite large 2005 rate increase, which was phased-in to spare ratepayers the immediate impact of such a dramatic increase. Despite this large increase in the last rate case, SCE overspent authorized amounts, and requests further increases to account for past, unauthorized capital spending.

The individual accounts, projects, and jobs involved in this general issue are addressed under the disaggregated categories below, and comprise a non-exhaustive list of the issues DRA at this time intends to address.

[4] SCE Exhibit 1, p. 2, ln. 10-15.

A. Operations and Maintenance Expenses

For TY 2009 SCE is seeking $769,000 for O&M expenses (including some administrative and general accounts). This request represents a six percent increase from SCE's recorded/adjusted 2006 expenses of $727,000. SCE asserts that most of this increase is due to: (1) continued compliance with the various state and federal regulations; (2) increased maintenance, testing, and repair of gas pipelines; and (3) increased staffing levels attendant to the first two items.[5]

DRA's investigation of SCE's justifications is ongoing. Generally, regulatory matters, such as public health and safety and emergency response, have been and should be a routine part of service operations. In a similar respect, DRA is conducting discovery and analysis on the status of the gas pipelines and any attendant need for additional staff. DRA intends to conduct an independent review of SCE's showing and, to this end, submit its own findings, conclusions, and recommendations.

B. Sales

For TY 2009 SCE has forecasted a decline in total therms sold. This is based on an *a priori* assumption of a cooler climate.[6] In addition, SCE is forecasting a slight rise in number of total customers, which would appear to contradict its sales trend, especially in the longer run.

DRA's investigation of SCE's forecasts is ongoing. DRA intends to conduct an independent review of SCE's forecasts of therms and customers including its own independent forecasts using the most recent recorded data.

C. Capital Additions

SCE's request $3.2 million in capital expenditures is comprised of the following four projects:

Table I
Capital Expenditure Forecast[7]

[5] SCE Exhibit 1, p. 6.

[6] SCE Exhibit 1, pp. 3-5.

[7] SCE Exhibit 1, p. 27.

Projects	Costs
Pipeline Replacement Program	$905,000
Automated Monitoring System – "SCADA Enhancement"	$839,000
Pebbly Beach Village Line Replacement Project*	$276,000
Propane Plant Conversion*	$1,166,000
Total	**$3,186,000**

*The Commission authorized these projects for recovery in tariffs in D.04-12-018. SCE's request reflects the incremental costs above the authorized levels.

1. Pipeline Replacement Program

SCE has not provided sufficient justification for its pipeline replacement proposal. DRA is seriously concerned that SCE has only provided evidence of insignificant but routine repairs and maintenance rather than critical deterioration of pipe leading either to a compromising of safety or quite large cost increases. Furthermore, SCE has not submitted any evidence of net benefits to ratepayers including, but not limited to, long term cost reductions.

DRA's investigation of SCE's pipeline replacement program is ongoing. DRA intends to conduct an independent analysis of SCE's justifications and, to this end, submit its own findings, conclusions, and recommendations.

2. Automated Monitoring Program – Supervisory Control and Data Acquisition Enhancement

SCE justifies its proposed enhancement to its Supervisory Control and Data Acquisition ("SCADA") system by claiming:

> The additional functionality SCADA provides will result in a decrease in the number, length, and extent of customer disruptions when abnormal conditions arise.[8]

DRA is concerned that SCE has failed in its application to show any improved efficiencies with explicit cost reductions as a result of enhancing its SCADA system. In fact, SCE uses increased maintenance costs as a justification for increasing its O&M revenue requirement.[9] To charge ratepayers for the program but have all the benefits go

[8] SCE Exhibit 1, p. 31.

[9] SCE Exhibit 1, p. 6, ln. 10-13.

to shareholders is profoundly unfair and unreasonable. SCE is compounding this wrong by claiming increased costs for the same cost activities.

DRA's investigation of SCE's SCADA Enhancement Project is ongoing. DRA intends to conduct an independent analysis of SCE's justifications and, to this end, submit its own findings, conclusions, and recommendations.

3. Cost Overruns for Projects Authorized in D.04-12-018

The remaining two capital additions are projects that are carry-overs from Application 04-01-031 and were authorized in D.04-12-018. The central issue is whether it is reasonable for SCE to recover in future rate base such large expenditures over the amounts authorized in D.04-12-018.

a. Pebbly Beach Village Line Replacement Project

In the 2005 GRC, SCE requested $200,000 in capital expenditures to replace its gas distribution pipeline and services in Pebbly Beach Village. D.04-12-018 authorized the project at $100,000 in capital based on SCE's representation that it would coordinate and share construction costs with the Island Company. SCE is now requesting an additional $275,000 above the initial $100,000, claiming that an additional $100,000 in costs are attributable to the Island Company's decision not to share in the project, and the remaining increase due to the subsequent redesign of the project's scope to account for the non-participation of the Island Company, SCE's underestimate of the contractor costs, and costs associated with the lack of appropriate qualifications on the part of the contractor SCE chose for the project. SCE claims that such increased costs are due to "unforeseen circumstances" and were reasonable and necessary to complete the project, and thus the Commission should authorize their recovery in this proceeding.

DRA's investigation of the Pebbly Beach Village Line Replacement Project is ongoing. DRA intends to conduct an independent analysis of SCE's cost overruns and, to this end, submit its own findings, conclusions, and recommendations. Based on the application, however, DRA is quite skeptical that SCE's overspending was unforeseeable and reasonable, given the clear failure of SCE to correctly anticipate the Island Company's participation in the project and accurately forecast the project's costs. Such

utter miscalculations beg the question of whether any of SCE's justifications for further massive rate increases are reasonable.

b. Propane Plant Conversion

In the 2005 GRC, SCE requested and the Commission approved $1.303 million for the "LPG Vaporization Plant Upgrade" project. This project was fully operational in February 2005 and the authorized rate increase took effect in March 2005. The total recorded cost for this project was $2.469 million, a $1.166 million increase above what the Commission authorized in the 2005 GRC. As with the previous item, SCE grossly underestimated the costs of proposed capital additions, such that it requests further massive increases in the current rate case. DRA will investigate and make appropriate recommendations as to the reasonableness of SCE's justifications for its dramatic overspending.

D. Rate Design

DRA is in the process of conducting independent discovery and analyses on SCE's rate design. To the extent DRA's sales predictions and revenue requirements differ from SCE, and for other reasons, DRA reserves its right to make an independent showing on rate design, including comments on SCE's proposed CARE rates for low-income customers. DRA notes that despite being directed in D.04-12-018 to phase-in a large rate increase, SCE included no similar proposal to phase-in its requested increase in this proceeding even though so much of the current rate increase is traceable to overspending on projects authorized in D.04-12-018 for which a phase-in was required. In general, SCE failed in its application to recognize the impacts on its customers of its previous rate increase and its current proposal.

E. Categorization

Rule 2.1(c) of the Commission's Rule of Practice and Procedure requires that applications "state the proposed category for the proceeding, the need for hearing, the issues to be considered, and a proposed schedule." SCE rightly proposes that its GRC application be categorized as a "ratesetting" proceeding. DRA concurs with this

categorization, and requests evidentiary hearings to examine the myriad issues raised in this Protest.

F. Recommended Schedule

DRA does not agree to SCE's proposed schedule, which would barely allow DRA any time for discovery and testimony and would deny SCE's ratepayers due process. DRA will submit a proposed schedule at the Prehearing Conference on November 20, 2008. However, DRA will endeavor to work with SCE on a mutually agreeable schedule prior to the Prehearing Conference. DRA will be prepared to discuss alternative hearing schedules at the Prehearing Conference.

III. CONCLUSION

For the reasons stated above, DRA requests that the Commission allow the parties substantial time to conduct discovery, analyze the application, address the concerns and issues raised herein, and set the proceeding for evidentiary hearings. DRA reserves the right to comment on other issues not included in this Protest due to time limits and inability to conduct discovery as of yet.

Respectfully submitted,

/s/ JONATHAN A. BROMSON

Jonathan A. Bromson
Principal Counsel

Attorney for the Division of Ratepayer Advocates

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-2362
Fax: (415) 703-2262
Email: jab@cpuc.ca.gov

October 27, 2008

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of **"PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES"** in **A.08-09-019** by using the following service:

[x] **E-Mail Service:** sending the entire document as an attachment to all known parties of record who provided electronic mail addresses.

[x] **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on **October 27, 2008** at San Francisco, California.

/s/ ANGELITA MARINDA

Angelita Marinda

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address and/or e-mail address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

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SERVICE LIST FOR A.08.09.019

scegrc@sce.com
asteinberg@semprautilities.com
Robert.F.LeMoine@sce.com
cem@newsdata.com
fcc@cpuc.ca.gov
rab@cpuc.ca.gov