

Application of Pacific Gas and Electric Company in Response to Resolution E-3921, Proposing Revisions to Line Extension Allowance and Related Policies.

Application 05-10-016
(Filed October 13, 2005)

PROTEST OF THE OFFICE OF RATEPAYER ADVOCATES

I. SUMMARY

On October, 2005, Pacific Gas & Electric Company filed an application to revise the current methodology for line extension allowances. Pursuant to Rule 44 of the Commission's Rules of Practice and Procedure, the Office of Ratepayer Advocates ("ORA") protests this application. Since the application was first noticed on the Commission's calendar on October 19, 2005, the protest is timely filed.

II. BACKGROUND

After ORA and other parties raised a number of issues regarding advice letter filings which proposed to significantly increase line extension allowances and make various other changes to line extension tariff, the Commission issued Resolution E-3921 both to resolve disputed issues and to provide a forum to allow consideration of a broader range of issues. In pertinent part, Resolution E-3921 directed that "...SCE, SDG&E, PG&E and SoCalGas shall file applications within 90 days that address possible changes in policy..." with respect to line extension allowances.

III. ISSUES

PG&E is to be commended for going significantly further than the other utilities in the revision of its line extension allowances. Its application addresses problems that

ORA discussed in its testimony in the PG&E General Rate Case (A.04-06-024) such as the 50% discount option.

ORA also is generally supportive of PG&E's efforts to simplify its line extension allowances, though ORA will be evaluating the potential impacts of doing so on the aggregate level of allowances extended to new customers. ORA has a concern that non-residential customers are significantly more heterogeneous than residential ones, and customers on the smallest commercial rate schedule (A-1) can have demands ranging literally from a few kilowatts ("kW") to 200 kW. The imposition of a "one size fits all" approach likely will result in the smaller customers on schedule A-1 taking the maximum allowance (limited by the actual cost of the installation) and the larger ones seeking an exception to the average. The exception presumably would be revenue justified in the manner line extension allowances are currently calculated. The smaller customers might receive allowances larger than they would be entitled to under the existing revenue justification approach. Thus the aggregate level of the line extension allowances might increase.

ORA's largest concern with PG&E's filing is that it stays completely clear from the hot "third rail" of this issue, and that is how the net revenues are calculated. The calculation relies on Revenue Cycle Services ("RCS") credits extended to direct access customers when their Energy Service Providers ("ESP") perform the meter reading and billing instead of PG&E. These credits are significantly below the marginal costs that PG&E normally files in its GRC. The latter are used for rate design and reflect a much longer-term perspective than the RCS credits. The existing line extension allowance approach is based on a contribution to margin ("CTM") principle, and any CTM must reflect the true cost of adding a customer to PG&E's system on a generally permanent basis.

ORA also will be evaluating whether adequate basis exists for offering developers an "equitable adder" to the line extension allowances in locations where there is competition from publicly-owned utilities. The equitable adder appears to be based in part on the difference between CTM as it is conceptualized in the standard allowance (as "net revenue") and a more comprehensive calculation of CTM. For example, the

calculation is not limited to distribution marginal revenues and costs as in the standard allowance. The equitable adder also appears to be based on distribution marginal costs from PG&E's 1996 GRC rather than the RCS credits. It is unclear at this time to ORA why such a calculation would result in line extension allowances that are *higher* than the standard allowance given: (1) RCS credits are much lower than the marginal costs PG&E filed in its most recent GRC, and (2) The generation marginal costs in PG&E's last GRC *exceeded* generation revenues by 12% (See A.04-06-024, Exh. PG&E-3, Ch. 1B work papers, pg. 1B-34), leading to a negative CTM for a function whose revenue requirement is double that of the distribution function.

The magnitude of the line extension allowance impacts existing customers in two ways, one of which is unique to PG&E. First, these allowances enter directly into rate base and affect the overall revenue requirement that all customers pay. Second, PG&E recently began using line extension allowances as the basis for calculating marginal customer costs in its GRC, and this affects the allocation of the revenue requirement especially to smaller customers. For these reasons, ORA intends on fully participating in this case and serving testimony.

IV. CATEGORIZATION OF PROCEEDING

ORA agrees with Joint Applicant's categorization of this proceeding as ratesetting.

V. PROCEDURAL ISSUES

ORA proposes that the applications of SCE, SDG&E, and SCG pursuant to Resolution E-3921 be consolidated with this application. The applications are likely to involve a number of similar issues. In all likelihood, the most efficient manner in which to consider the applications, and the policy alternatives raised thereto, is to consolidate the applications.

ORA also recommends that the scope of the proceeding be commensurate with that provided in Resolution E-3921, and consider the range of policy issues raised by line extension allowances. In particular, this proceeding should consider whether any line extension allowance is necessary, how the costs of line extension allowances borne by ratepayers should be allocated among various customer classes, how line extension

allowances could be granted in a manner compatible with reduction of greenhouse gases and policies favoring renewable resources.

ORA recommends that a prehearing conference (“PHC”) be held in order to set the procedural schedule and procedural course for this proceeding. The three applications should be consolidated so that these important policy issues be decided in a cohesive manner.

VI. SCHEDULING

PG&E’s proposed schedule anticipates hearings in March of 2006. Owing to the complexity of the issues, and to the fact that ORA’s staff is fully engaged in the Advanced Metering Infrastructure proceedings of the three electric utilities, ORA respectfully requests that its testimony be due in March of 2006 with hearings in April of 2006. This will advanced all subsequent dates in the schedule by one month.

VII. CONCLUSION

ORA respectfully recommends that: (1) the proceeding be categorized as ratesetting; (2) the scope of the proceeding include, but not be limited to, the issues identified in this protest; (3) a reasonable schedule be adopted at the PHC which recognizes both the complexity of the proceeding and the current staffing constraints facing ORA and intervenors.

Respectfully submitted,

Rashid Rashid
Gregory Heiden
Staff Counsel

Attorneys for the Office of Ratepayer
Advocates

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 355-5539
Fax: (415) 703-2262
e-mail: gXH@cpuc.ca.gov

November 10, 2005

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing document
“PROTEST OF THE OFFICE OF RATEPAYER ADVOCATES” in **A.05-10-016**.

A copy was served as follows:

BY E-MAIL: I sent a true copy via e-mail to all known parties of record who have provided e-mail addresses.

BY MAIL: I sent a true copy via first-class mail to all known parties of record.

Executed in San Francisco, California, on the **10th** day of **November, 2005**.

Rebecca Rojo

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.
