

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company (U 39 E) for Rate and Line Extension Incentives for Conversion of Stationary Agricultural Internal Combustion Equipment to Electric Service.

Application 04-11-007
(Filed November 9, 2004)

Application of Southern California Edison Company (U 338-E) for Rate and Line Extension Incentives for Conversion of Stationary Agricultural Internal Combustion Equipment to Electric Service.

Application 04-11-008
(Filed November 9, 2004)

**ASSIGNED COMMISSIONER AND
ADMINISTRATIVE LAW JUDGE'S RULING AND SCOPING MEMO**

In these applications, Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (Edison) seek authority to offer reduced rates and additional line extension allowances to agricultural customers who convert engines used for agricultural pumping from diesel fuel to electricity. Under both applications, customers agreeing to make such a conversion would receive a 20% reduction compared with the current average rate of the otherwise applicable tariff for their engine use, a reduction that would remain in effect for ten years (subject to escalation of the total average rate at 1.5% per year). Ratcheted demand charges would be eliminated from the rate applicable to the converted engines. The additional line extension allowances proposed in the applications would be tied to reductions in various air pollutants that could be

expected from the proposed engine conversions in the San Joaquin and Sacramento Valleys.

Petitions to intervene in these proceedings were filed by the Agricultural Energy Consumers Association (AECA) on November 24, 2004. Protests to the applications were filed by the Office of Ratepayer Advocates (ORA) on December 13 and 16, 2004, and by The Utility Reform Network (TURN) on December 16, 2004. Two prehearing conferences (PHCs) have been held on the applications, the first on January 14 and the second on February 4, 2005. In addition, a workshop facilitated by the Commission's Energy Division and open to all parties was held on January 28, 2005, with a follow-up session on February 1.

Pursuant to Rules 6(a)(3) and 6.3 of the Rules of Practice and Procedure, we are issuing this scoping memo and ruling to consolidate the two applications, confirm the proceeding category, establish the issues and procedural schedule, and designate the principal hearing officer.

Consolidation

PG&E and Edison have moved to consolidate these two applications, which all parties at the January 14 PHC agreed was appropriate. The matters are hereby consolidated for hearing and decision.

Scope of the Proceeding

Based on the discussion at the two PHCs and the workshop, this case will address the following issues:

1. Would the proposed rate incentives create any reliability problems during the summers of 2005 and 2006? TURN's protest asserted that if both applications were granted, enough agricultural pumping customers might convert to electricity so that a total of 400 megawatts of load could eventually be added in the two applicants'

service territories. While the workshop discussions suggested that a significantly smaller amount of load is likely to be added in Summer 2005 (due to long lead times in making investment decisions and scheduling line extension work with the utilities, among other reasons), all parties, especially Edison, will be expected to address in their testimony reliability concerns for the summers of 2005 and 2006. The testimony should address such questions as (1) how much load the applicants expect to add during the summers of 2005 and 2006 as a result of the proposed conversion program; (2) to assure that the amount of additional agricultural load attributable to the conversion program does not raise reliability issues, what measures (such as megawatt caps) should be considered to control such load growth; and (3) what transmission constraints exist in the relevant areas and how can such constraints be expected to affect agricultural load growth?

2. PG&E and Edison both assert that based on their respective marginal cost proposals in their most recent general rate cases, the proposed agricultural incentive rates would make a positive contribution to margin (CTM). The protests questioned this assertion. The issues related to CTM include but are not limited to (1) whether marginal cost should be calculated using the New Customer Only (NCO) methodology or the Rental methodology, and (2) how the CTM computations should treat the non-bypassable cost components attributable to power contracts entered into by the California Department of Water Resources (DWR).

3. In Applications 05-01-016 and 05-01-018, PG&E and Edison, respectively, have proposed that the Commission should approve a “special condition” applicable during “critical peak” events that would significantly increase the rates paid by large customers (*i.e.*, those with loads of 200 kilowatts and above). The applicants should explain whether this special condition would apply to agricultural customers eligible for the proposed engine conversion rate, and whether the 20% discount proposed here is computed based on the rates that would apply during the above-described special condition, or on “regular” rates applicable during non-critical peak conditions.

4. How should the Commission value the air quality benefits on

which the proposed line extension incentives are based? Is it appropriate to compute them based on a comparison of the emissions produced by Tier 1 (*i.e.*, dirty) diesel engines versus electric engines, or should the benefits be computed based only on the additional reductions in nitrous oxides, particulate matter and sulfur dioxide that can be expected as a result of using electric engines rather than the Tier 3 (*i.e.*, clean) diesel engines? Should any of the carbon dioxide credits the utilities might receive as a result of the engine conversions be sold to help defray added ratepayer costs brought about by the line extension incentives?

5. What additional eligibility criteria -- such as the installation of variable speed motors, restriction of the proposed rate reduction to off-peak periods, or enrollment in interruptible reliability programs -- should the Commission consider?

6. What factors, if any, may serve to reduce the additional capital and operation and maintenance costs that the proposed rate and line extension incentives will add to ratepayer costs in the future? How much revenue will be lost as a result of eliminating ratcheted demand charges from the incentive rates proposed by PG&E and Edison?

Schedule for the Proceeding

It is clear from the discussion at the two PHCs and from briefing requested by the assigned Administrative Law Judge (ALJ)¹ that agricultural customers have some time to decide whether to upgrade their Tier 1 diesel engines to electric service or to Tier 3 diesel technology, since the new air quality regulations mandated by Senate Bill 700 will not require actual replacement of existing Tier 1 diesel engines until mid-2007. However, it is also clear that the process of

¹ See, TURN's Brief Regarding Legal Deadlines Related to Agricultural Engine Conversion, filed January 20, 2005; Agricultural Energy Consumers Association's Reply to TURN's Brief Regarding Legal Deadlines, filed January 24, 2005.

upgrading or replacing the existing diesel engines will take some time whatever technology is chosen, since investment decisions must be made, equipment ordered, and – in the case of electric service – construction associated with line extensions scheduled, all before the 2007 growing season begins.² In the light of this, it would be helpful to agricultural customers weighing whether to convert their engines to electric service to have a Commission decision on these applications sometime this summer, and preferably early in the summer.

The schedule set forth below, which is based upon a proposal made at the February 4 PHC by the ALJ with minor modifications by the parties, reflects these needs. Under this schedule, which we adopt, the Commission will aim to issue a decision on the applications at its June 30, 2005 meeting. If unanticipated problems arise, or if an alternate decision is drafted, the Commission will aim to issue a decision either at its July 21, 2005 meeting or at the August 25, 2005 meeting.

² Early 2007 is the practical deadline because no agricultural customer can afford to take the risk of replacing diesel engines once the growing season begins, when the need for pumping may arise.

EVENT	DATE
Applicants serve updated testimony on reliability and any other issues	March 4, 2005
Intervenor testimony served	March 11, 2005
Rebuttal testimony served	March 25, 2005
Hearings held	April 5-8, 2005
Opening briefs filed and served	April 15, 2005
Reply briefs filed and served	April 22, 2005
Projected submission date per Rule 6.3	April 22, 2005
Target date for mailing ALJ's proposed decision (PD)	June 7, 2005
Opening comments filed on PD ³	June 20, 2005
Reply comments filed on PD	June 24, 2005
Target date for Commission vote on PD	June 30, 2005

³ Both this date and the date for reply comments shown in the table reflect a stipulation pursuant to which all parties agreed to shorten the time for comments on the PD. The stipulation, which was announced orally at the February 4 PHC and filed in writing on February 9, 2005, also provides that "in the event the [PD] is mailed on a different date, the Parties also agree to reduce the period for public review and comment on the [PD] if such reduction is necessary in order to accommodate the Commission's ability to issue a decision at its next scheduled business meeting."

Categorization and Need for Hearing

This ruling confirms that this is a ratesetting proceeding and that a hearing is required, as preliminarily determined in Resolution ALJ 176-3142.

Ex Parte Communications

Limited ex parte communications are permitted in this ratesetting proceeding, but only in accordance with the restrictions set forth in Rule 7(c). Such ex parte communications must be reported in accordance with Rule 7.1.

Principal Hearing Officer

ALJ A. Kirk McKenzie is hereby designated as the principal hearing officer pursuant to Rule 5(l), and will thus be the presiding officer pursuant to Rule 5(k)(2).

Final Oral Argument Before the Commission

Any party wishing to exercise the right under Rule 8(d) to make a final oral argument before the Commission must file a written request therefor and serve it on all parties and the assigned Commissioner and assigned ALJ not later than the submission date, which is expected to be the date of filing for reply briefs (*i.e.*, April 22, 2005).

Pursuant to the discussion set forth above, **IT IS RULED** that:

1. The issues to be considered are those described in this ruling.
1. The schedule for the proceeding is as set forth herein.
2. This is a ratesetting proceeding.
3. A hearing is necessary.
4. Administrative Law Judge A. Kirk McKenzie is designated as the principal hearing officer.

2. Any party wishing to make a final oral argument before the Commission must file a written request therefore and serve it on all parties and the assigned Commissioner and assigned ALJ not later than the submission date.

Dated March 3, 2005, at San Francisco, California.

/s/ GEOFFREY F. BROWN
Geoffrey F. Brown
Assigned Commissioner

/s/ A. KIRK MCKENZIE
A. Kirk McKenzie
Administrative Law Judge

CERTIFICATE OF SERVICE

I certify that I have by mail, and by electronic mail, to the parties to which an electronic mail address has been provided, this day served a true copy of the original attached Assigned Commissioner and Administrative Law Judge's Ruling and Scoping Memo on all parties of record in this proceeding or their attorneys of record.

Dated March 3, 2005, at San Francisco, California.

/s/ TERESITA C. GALLARDO
Teresita C. Gallardo

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 to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

The Commission's policy is to schedule hearings (meetings, workshops, etc.) in locations that are accessible to people with disabilities. To verify that a particular location is accessible, call: Calendar Clerk (415) 703-1203.

If specialized accommodations for the disabled are needed, e.g., sign language interpreters, those making the arrangements must call the Public Advisor at (415) 703-2074 or TDD# (415) 703-2032 five working days in advance of the event.