Date of Issuance 04/25/2012

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION **RESOLUTION E-4483**
April 19, 2012

R E S O L U T I O N

Resolution E-4483. Pacific Gas & Electric Company (PG&E)

PROPOSED OUTCOME: This Resolution approves PG&E's Advice Letter (AL) 3990-E.

ESTIMATED COST: None

By AL 3990-E, filed on January 12, 2012

SUMMARY

This is an uncontested Tier 3 AL. Per G.O. 96-B, Section 5.1 and Energy Industry Rule 5.3 (5). Commission approval is required for a Contract or other deviation from tariff.
This AL requests approval of an Exceptional Case Agreement between Plains Exploration and Production Company (PXP) and PG&E for a Distribution Line and Service Extension deviating from PG&E's Tariff Rules 15 and 16. The agreement shifts more of the cost responsibility to PXP for the benefit of ratepayers.

BACKGROUND

PXP is expanding its oil field operation in the Price Canyon Road area of Arroyo Grande, CA. The current electric demand is approximately 1.5 MW and PXP is adding approximately 12.5 MW of electric load. Loads include additional oil production wells and steam generators, and a reverse osmosis water treatment plant. PXP has requested expanded electric service capacity by September 2012 and has indicated an interest in converting to transmission voltage service at a later date. To meet PXP's 2012 service requirements, PG&E will install a new 12 kV feeder bank (primarily breakers) at the San Luis Obispo (SLO) Substation and a new second 12 kV distribution feeder (SLO 1103) to PXP's property. PG&E will also reconstruct and reinforce the existing eight mile 12 kV electric distribution feeder (SLO 1104) which currently serves PXP's 1.5 MW load and 8.7 MW load of other customers. For much of the distance, SLO 1104 will be upgraded in place and the new feeder will primarily be constructed on the same pole line within the existing right of way. Portions of the new line will be installed on poles on a route generally parallel to the existing pole line. For the portions of SLO 1104 which are underground, the second distribution feeder will also be installed underground, in parallel. Additional rights of way may be needed to accommodate the reinforcement of the existing feeder and the installation of the new feeder in this area. The existing feeder 1104 load will be balanced between the two feeders to provide Applicant with 7 MW of capacity on each feeder. In addition to the distribution feeder reinforcement work, PG&E will install a second, separately metered 12 kV underground electric service to PXP.

Projects of this type are normally installed under the standard provisions of Rules 15 and 16. For this project, the standard provisions of the tariff direct that PG&E would be responsible for nearly the entire project cost of $ 8,522,000. PXP's over $ 3 million line extension allowance, calculated per Rule 15.C.2, will more than cover the $ 22,000 cost of the second service, while PG&E's cost to reinforce the existing distribution capacity solely for PXP's immediate benefit is estimated to be approximately $ 8.5 million, recoverable from ratepayers under standard application of tariff provisions.

NOTICE

Notice of AL 3990-E was made by publication in the Commission's Daily Calendar. PG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section 4 of General Order 96-B.

PROTESTS

PG&E's Advice Letter AL 3990-E was not protested.

DISCUSSION

Energy Division has reviewed PG&E's proposal.

1. PG&E's proposal

In recognition that the immediate benefit of the costly distribution system upgrade accrues solely to PXP, and to arrive at a more equitable allocation of costs between the parties, PG&E and the applicant have mutually agreed to request a deviation from tariff under the exceptional case provisions of Rules 15.I.3 and 16.G. The key elements of the deviation would involve: (a) treating the entire cost of PG&E's distribution and service work for PXP as an amount subject to allowance; (b) applying a standard allowance based upon the anticipated net distribution revenues from PXP's first year of operation; and (c) payment by PXP of a non-refundable contribution equal to 50% of the refundable amount in excess of the allowance. The application of the 50% discount option is in recognition that in the longer term (beyond the five year planning horizon), the upgrades, in conjunction with other area distribution improvements, may serve to benefit other customers in the area and would not result in a refund to PXP.

Electric Rule 15 and 16 provides that where application of the rules appears impractical or unjust to either party or the ratepayers, PG&E or Applicant may refer the matter to the Commission for a special ruling or for special condition(s), which may be mutually agreed upon.

Standard tariff provisions will otherwise apply, including the payment adjustment, contract compliance and excess facilities provisions of Electric Rule 15.D.7 and in Paragraph 11 of the Electric Form Number 62-0980 - "Distribution and Service Extension Agreement – Provisions" (Electric Form Number 62-0982) . The language in these tariffs ensures cost recovery from the customer and mitigates ratepayer impacts if PXP fails to use the contracted capacity due to a reduction in load or conversion to transmission level service, or if the actual revenue from PXP within 12 months does not justify the initial allowance.

PG&E and PXP have both signed a specially drafted Agreement to Perform Tariff Schedule Related Work (Agreement), which is tailored to this situation and is enclosed as Attachment. Exhibit A of the Agreement contains a description of work. Exhibit B provides a cost breakdown based upon PG&E's preliminary estimated installed cost. Actual charges for the work performed under the Agreement will be based upon a final cost estimate, which PG&E anticipates will be completed in the second quarter of 2012. PXP has already paid to PG&E the non-refundable cost shown in

Exhibit B in the 2011 calendar year subject to adjustments as described in Exhibit B. Exhibit C describes additional terms and conditions of the Agreement.

2. Analysis

The existing feeder (SLO 1104) served an approximate summer peak load of 9.7 MW, of which 1.5 MW was for PXP. Under existing tariff shared feeders are the responsibility of PG&E and the cost for upgrades is added to the ratebase.

Because of the approximately 12 MW maximum capacity of a feeder (12 kV, 600A) an additional feeder needs to be installed to serve the future peak of 22.2 MW (14 MW for PXP and 8.2 MW for other existing load). This new feeder (SLO 1103), including a feeder bank, will also serve some of the existing non-PXP load because the total load will be balanced between the two feeders. Therefore, it is also PG&E's cost responsibility.

Per the tariff the total PG&E cost responsibility for the two feeders is estimated at $ 8.5 million.

Per Rule 16 the new primary service extension cost of $ 22,000 to PXP is offset entirely by the very large ($ 3,002,267) allowance based on the first year's anticipated net distribution revenue from PXP. Only non-refundable work (e.g. substructures) would thus be paid by PXP.

Because only PXP will immediatly benefit from the upgraded and new distribution feeders and there is a low prospect of additional non-PXP load or reliability benefit to existing non-PXP load within the five years of planning horizon, PG&E and PXP have proposed a more equitable allocation of cost responsibilities.

This proposal in effect treats the entire project cost (excluding non-refundable costs for substructures, etc.) per Rule 15 as new refundable line extension costs. It then applies the 50% non-refundable discount option in recognition that within the 10 years of the refundable option additional load may be connected to the lines. The proposal increases PXP's cost by $2,759,866 (not including tax) and decreases PG&E's cost (addition to the ratebase) by the same amount.

In light of Rule 15's cost assignment of upgrades of the distribution system to PG&E, this exceptional treatment under Rules 15. I.3 and 16.G seems fair to ratepayers and should be approved.

Combining the readings of two meters for billing PXP does not violate Rules 9 and 16, prohibiting more than one meter per premise, because this arrangement is used for PG&E's operating convenience. It is necessary because of the capacity limitation of a feeder.

COMMENTS

Public Utilities Code Section 311(g) (1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g) (2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

All parties in the proceeding have stipulated to waive the 30-day comment period required by PUC Section 311(g) (1) and the opportunity to file comments on the draft resolution. Accordingly, this matter will be on the Commission's agenda directly for prompt action.

FINDINGS AND CONCLUSIONS

1. Distribution infrastructure and its upgrade are the responsibility of PG&E and its cost is added to the ratebase.
2. PXP requested electric service upgrade from 1.5 to 14 MW, which requires upgrading of an existing feeder line and construction of a new feeder line, both of which will be shared with other existing customers to balance the load.
3. There is no other new load anticipated or reliability benefit to existing customers because of the upgraded and new feeders within the 5 year PG&E planning horizon. The immediate benefit is solely to PXP.
4. Rules 15 and 16 allow deviation from the provisions if they seem unfair to the customer or ratepayers. In this case application of Rules 15 and 16 would have required ratepayers to support the new feeder construction and upgrade cost without benefit in the near future.
5. For this reason, PG&E requests approval of the agreement with PXP to apply Tariff Schedule Related Work (Form 62-4527) instead of PG&E's Standard Distribution and Service Extension Agreement (Form 62-0980) to include the $ 8.5 million cost for upgrading and construction of a new feeder in the refundable amount per Rule 15.

6. Refundable amounts are costs to applicants for new line extensions with oversized capacity subject to refund from additional load within 10 years.
7. The refundable amount due from PXP would be reduced by the allowance and the 50% discount option per Rule 15 applied in recognition that additional load may materialize within 10 years. The 50% discount option is available if an applicant for line extension forgoes any future refund of the refundable amount.
8. Standard tariff provisions will otherwise apply, including the payment adjustment, contract compliance and excess facilities provisions of Electric Rule 15 ensuring cost recovery from PXP of the allowance thus mitigating ratepayer impacts if PXP fails to use the contracted capacity or if the actual revenue from PXP within 12 months does not justify the initial allowance.
9. Because the two services and meters serving PXP are for PG&E's convenience, there is no violation of tariff Rules 9 and 16.

THEREFORE IT IS ORDERED THAT:

PG&E's AL 3990-E, is approved as submitted.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on April 19, 2012; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

MICHAEL R. PEEVEY
President
TIMOTHY ALAN SIMON
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
MARK J. FERRON
Commissioners

Attachment: PG&E Agreement to Perform Tariff Schedule related Work (including Exhibits A, B and C)

Pacific Gas and Electric Company

DISTRIBUTION:
APPLICANT (Original)
DIVISION(Original)
ACCTG. SVCS.

REFERENCE:
PM 30858520-523, 30842601, 30860155

Agreement to Perform Tariff Scheduled Related Work

Plains Exploration and Production Company, A Delaware Corporation, (Applicant) has requested **PACIFIC GAS AND ELECTRIC COMPANY,** a California corporation (PG&E), to perform the tariff schedule related work as located and described in paragraph 3 herein.

PG&E agrees to perform the requested work and furnish all necessary labor, equipment, material and related facilities required therefore, subject to the following conditions:

1. Whenever part or all of the requested work is to be furnished or performed upon property other than that of Applicant, Applicant shall first procure from such owners all necessary rights-of-way and/or permits in a form satisfactory to PG&E and without cost to it.

2. Applicant shall indemnify and hold harmless PG&E, its officers, agents and employees, against all loss, damage, expense and liability resulting from injury to or death of any person, including but not limited to, employees of PG&E, Applicant or any third party, or for the loss, destruction or damage to property, including, but not limited to property of PG&E, Applicant or any third party, arising out of or in any way connected with the performance of this agreement, however caused, except to the extent caused by the active negligence or willful misconduct of PG&E, its officers, agents and employees. Applicant will, on PG&E's request, defend any suit asserting a claim covered by this indemnity. Applicant will pay all costs that may be incurred by PG&E in enforcing this indemnity, including reasonable attorneys' fees.

3. The location and requested work are described as follows: (Describe in detail the materials and facilities to be furnished and/or work to be performed by PG&E. If more space is required, use other side and attach any necessary drawings as Exhibits A, B, C, etc):

LOCATION: 1821 Price Canyon Road, Arroyo Grande, CA 93421
DESCRIPTION OF WORK: Description of Work: Exhibit A
Cost Breakdown: Exhibit B
Additional Terms and Conditions: Exhibit C

4. Applicant shall pay to PG&E, promptly upon demand by PG&E, as the complete contract price hereunder, the sum of two million, nine hundred five thousand, six hundred fifty-five dollars ($2,905,655).

Executed this __________ day of ___________________ 20 ____.

Upon completion of requested work, ownership shall vest in: ☒ PG&E ☐ Applicant

____
Applicant
By: ____________________________________

____
(Print/Type Name)
Title: __________________________________

Mailing Address: 700 Miliam Street #3100
Houston, TX 77002-2764

PACIFIC GAS & ELECTRIC COMPANY
By: ____________________________________
____
(Print/Type/Name)
Title: __________________________________

Automated Document, Preliminary Statement, Part A

62-4527 (Rev 1/91) Service Planning Advice No. 1633-G/1342-E Effective 4/02/91

Exhibit A
Description of Work

Background

Applicant is expanding its oil field operation in the Price Canyon area of Arroyo Grande, CA. Its existing operation requires approximately 1.5 MW of distribution capacity. It will require an additional 12.5 MW of electric capacity. Loads include additional oil production wells and steam generators, and a reverse osmosis water treatment plant. Applicant has requested expanded electric service capacity by September 2012.

Description of Work

To meet Applicant's 2012 service requirements, PG&E will install a new 12kV feeder bank at the San Luis Obispo Substation. PG&E will reconstruct and reinforce the existing eight mile 12 kV electric distribution line (the San Luis Obispo 1104 Circuit) which currently serves Applicant and add a second 12 kV electric distribution circuit from the San Luis Obispo Substation to Applicant's property. For much of the distance, the San Luis Obispo 1104 Circuit will be upgraded in place and the new circuit will be constructed on the same pole line within the existing right of way. However, portions of the project will consist of two separate poles lines located in a parallel direction along slightly different routes. For the portions of the San Luis Obispo 1104 Circuit which are underground, the second distribution circuit will be installed underground, parallel to the existing line. Additional rights of way may be needed to accommodate the reinforcement of the existing circuit and the installation of the new circuit in this area. The existing 1104 load will be balanced between the two circuits to provide Applicant with 7 MW of capacity on each circuit.

In addition to the line reinforcement work, PG&E will install a second, separately-metered 12 kV underground electric service to Applicant.

Exhibit B
Cost Breakdown

Following is PG&E's preliminary cost estimate

(a)	Substation Work	$ 500,000
(b)	Distribution Line Work	$ 8,000,000
(c)	New Primary Service	$ 22,000
(d)	Total (Cost Subject to Allowance): (a)+(b)+(c)	$ 8,522,000
(e)	Allowance	$3,002,267
(f)	Refundable Amount: (d) – (e)	$5,519,733
(g)	50% Non-refundable Discount Payment: (f) x 50%	$2,759,866
(h)	ITCC: (g) x 8%	$220,789
(i)	Non-refundable Payment: (g) + (h)	$2,980,655
(j)	Less Credit for Project Deposits	($ 75,000)
(k).	Non-refundable amount due upon signing: (i)-(j)	$2,905,655

Notes:

1) Concurrent with the execution of this Agreement, Applicant shall pay PG&E the non-refundable amount set forth in this Exhibit B based upon this preliminary cost estimate. Applicant shall be responsible for any additional cost as determined in the final cost estimate or shall receive a refund from PG&E for any overpayment, if the final cost estimate, including any additional non-refundable costs as described in note (3), is less than the preliminary estimate. PG&E anticipates that the final cost estimate will be prepared in the second quarter of 2012.

2) A total credit of $75,000 has been applied against the non-refundable payment, reflecting project deposits previously paid by customer.

3) In addition to non-refundable payment of $2,905,655, Applicant shall be responsible for other non-refundable costs (e.g. right of way acquisition costs, conduit, substructure and excavation costs, inspection fees, cost of engineering and construction work related to interconnection and continued operation of applicant-owned, on-site electric generation), if any, pursuant to the standard provisions of PG&E's tariffs.

Exhibit C
Additional Terms and Conditions

1. Commission Approval Required: This Agreement is subject to the approval of the California Public Utilities Commission (Commission) and will not be deemed effective until and unless approved by the Commission. PG&E will promptly file a copy of the Agreement with the Commission, seeking approval of this Agreement. Applicant shall cooperate fully in support of PG&E's filing and support Commission approval of this Agreement.

2. Commission Jurisdiction: This Agreement shall be subject to all of PG&E's applicable tariff schedules on file with and authorized by the Commission and shall at all times be subject to such changes or modifications as the Commission may direct from time to time in the exercise of its jurisdiction.

3. Standard Terms and Conditions: Except as provided in item (4) below, the responsibilities, terms and conditions described in the standard provisions of PG&E's tariffs shall apply to PG&E and Applicant, and shall govern the performance of work under this Agreement. PG&E's applicable tariffs include, but are not limited to, the following:

- Electric Preliminary Statement J: "Income Tax Component Of Contributions Provision"
- Electric Rule 2: "Description of Service"
- Electric Rule 9: "Rendering and Payment of Bills"
- Electric Rule 15: "Distribution Line Extensions"
- Electric Rule 16: "Service Extensions"
- Electric Rule 21: Generating Facility Interconnections
- Electric Form Number 62-0980: "Distribution and Service Extension Agreement"
- Electric Form Number 62-0982: "Distribution and Service Extension Agreement – Provisions"

4. Modified Terms and Conditions: Pursuant to PG&E's Electric Rule 15, subsection I.3. and Electric Rule 16, Section G, the following modified terms and conditions shall apply to the performance of work under this Agreement.

a) The cost of the work performed by PG&E as described in Exhibit A shall be considered a "refundable amount" as that term is described in Electric Rule 15, Subsection D.5.

b) In lieu of contributing this refundable amount, Applicant shall contribute, on a non-refundable basis, fifty percent (50%) of the refundable amount in addition to other non-refundable amounts as required under the standard provisions of the tariffs.

5. Payment Adjustments: Applicant acknowledges that PG&E's Distribution and Service Extension Agreement- Provisions (Electric Form Number 62-0982) includes terms relating to Payment Adjustments as set forth in Paragraph 11, which may apply to this Agreement under the conditions specified therein. These conditions include, without limitation, the following:

Contract Compliance: If after one (1) year following the date PG&E is first ready to serve
loads for which the allowance was granted, Applicant fails to take service, or fails to use the service contracted for, Applicant shall pay to PG&E an additional contribution.

End of the Attachment.