

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
ENERGY BRANCH

RESOLUTION E-3453*
MAY 8, 1996

R E S O L U T I O N

RESOLUTION E-3453. PACIFIC GAS AND ELECTRIC COMPANY REQUESTS APPROVAL OF RULE CHANGES TO ALLOW CERTAIN SUBSTATIONS TO BE ALLOCATED TO QUALIFYING CUSTOMERS AS SPECIAL FACILITIES.

BY ADVICE LETTER 1564-E, FILED ON FEBRUARY 13, 1996.

SUMMARY

1. By Advice Letter 1564-E, filed February 13, 1996, Pacific Gas and Electric Company (PG&E) requests a change in the basis for the monthly cost-of-ownership charge assessed when customers eligible for transmission service and who have a transformer dedicated to their use have that transformer become a special facility. The Advice Letter replaces estimated installed cost with "replacement cost new, less depreciation" as the appropriate basis for monthly cost-of-ownership charges for these existing facilities.
2. The Bay Area Rapid Transit District (BART) protested the advice letter because basing cost-of-ownership charges on replacement cost new, less depreciation instead of the present estimated installed cost could unjustly increase the cost-of-ownership charges BART pays for special facilities.
3. This Resolution denies the request because it is not adequately supported, it establishes conflicting methods for cost-of-ownership charges of existing facilities, and it raises the revenue and rate design issues. The protest is granted.

BACKGROUND

1. The rates for transmission level service are lower than the rates for primary or secondary level service. Customers who wish to receive transmission level service may currently build a transformer, purchase a transformer from PG&E's existing facilities, or lease a PG&E transformer as a special facility.
2. Under the present PG&E tariff (Special Facilities Section, Rule 2, Section I) customers who contract for special facilities pay a monthly cost-of-ownership charge based on the estimated installed cost of the existing facility.

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3. In Advice Letter 1564-E, PG&E requests authority to allocate certain substations to qualifying customers as special facilities. As part of the request, PG&E customers eligible for transmission service could lease existing transmission substations under the special facilities provisions of Rule 2 (Section I) except that the basis for the cost-of-ownership charge would be established in Rule 2, Section D as replacement cost new less depreciation. Replacement cost new less depreciation is defined as the current cost of a similar new facility having the nearest equivalent utility as the property being appraised, but with modern materials and built to current standards, design and layout, less present worth depreciation calculated at PG&E's weighted average cost of capital.

4. The proposed rule change limits the option to customers who are served by an existing facility dedicated to their use. The allocation of special facilities would be at PG&E's sole discretion, due to the possibility that some facilities which currently serve one customer may be used to serve other customers in the future. PG&E states it is making this request because some of its customers desire transmission level service, but can not afford transformer facilities or do not wish to own them.

NOTICE

1. Notice of Advice Letter 1564-E was made by publication in the Commission's calendar, and by mailing copies of the filing to adjacent utilities and interested parties.

PROTESTS

1. BART filed a protest dated March 1, 1996. BART believes the proposed revisions would unjustly increase PG&E's charges to BART for special facilities used by BART, under existing provisions of Rule 2. BART states: By basing monthly cost-of-ownership charges upon replacement cost new, less depreciation, Advice Letter 1564-E could significantly increase BART's monthly cost-of-ownership charges, without any change in PG&E's actual cost. BART believes that it is unjust and unreasonable to allow PG&E to arbitrarily increase its return in this manner, which is contrary to the fundamental principle that rates should be based on cost-of-service recovery and recovery of actual costs.

2. PG&E replied to BART's protest in a letter filed March 20, 1996; they noted they had only received BART's protest on March 13, 1996. PG&E believes BART's concern is unwarranted because nothing in Advice Letter 1564-E would change any existing special facilities contracts. PG&E also argues that replacement cost new, less depreciation will not result in "excess return" to PG&E. Estimated installed cost is an incorrect basis for cost-of-ownership charges for a facility that has been in ratebase and has been depreciated. If a customer were to build its own transformer facility, it would pay an amount equal to replacement cost new, as defined in the proposed rule change.

DISCUSSION

1. BART, in its protest, claims the revisions could unjustly increase PG&E's charges to BART for special facilities. In its response to BART's protest PG&E states the revisions will not affect any existing special facilities contracts. PG&E provided no information on the duration of BART's current contracts or how the proposed revision would affect the cost-of-ownership charge when, or if, BART's existing contracts are renewed.
2. BART in its protest also claimed replacement cost, less depreciation will overstate costs on existing facilities and lead to excessive returns. PG&E in its response to BART's protest claimed it would not lead to excessive returns. PG&E supplied no information to determine the revenue or rate impact of the proposed rules. In fact, PG&E provided no analysis that compared the current estimated installed cost with the proposed replacement cost new less depreciation.
3. PG&E, in Advice Letter 1564-E, did not explain why certain substations should have a different basis for cost-of-ownership charges than all other special facilities. PG&E's Rule 2, Section I, uses estimated installed cost as the basis of the monthly cost-of-ownership charge for existing facilities. This Advice Letter does not propose to modify that Rule. If the proposed tariff changes are approved cost-of-ownership charges for certain existing transformer facilities will be replacement cost less depreciation and cost-of-ownership charges for all other special facilities (including some transformer facilities) will be estimated installed cost. PG&E provides no rationale for the separate treatment of these transformers and the discriminatory pricing it engenders.
4. To further exacerbate this problem, two customers could end up with significantly different cost-of-ownership charges for identical facilities built at the same time if they were allocated as special facilities at different times. Assuming Customer 1 had the special facilities allocated at time of construction and Customer 2 had its transformer facilities allocated as special facilities ten years later. Customer 1's cost-of-ownership charges would be based on estimated installed cost at time of construction, while Customer 2's cost-of-ownership charges would be based on replacement cost new less depreciation. As a result, Customer 1's and Customer 2's cost-of-ownership charges could differ significantly.
5. The proposed rule change puts an exception to Rule 2, Section I (Special Facilities) into Section D (General Load Limitations). PG&E has provided no explanation for this structure. Normal tariff construction places exceptions in the same section as the general rule. The proposed placement makes the tariff hard to read and understand, undermining the public information function of the tariff. CACD believes any modification to the Special Facilities rules should be placed in the Special Facilities Section of the tariff.

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6. The proposed rule changes could have a significant affect on parts of PG&E's overall rate design. Changing the accounting treatment of existing plant has implications for all rates and revenue requirements. Adequate treatment of these issues may be beyond the scope of the advice letter process.

7. PG&E has not shown that BART and other similarly situated customers will not be harmed by this proposal. PG&E has not made a case supporting a different cost-of-ownership charge for one group of special facilities customers and not others. PG&E has also not supported its claim that replacement cost new less depreciation is more appropriate than the existing estimated installed cost. CACD believes the impact of these issues is beyond the scope of the advice letter process.

8. CACD recommends denial of PG&E's request because it is not adequately supported, because it would create two different cost-of-ownership charge methodologies for the same facilities, and because the issues go beyond those appropriate for an advice letter. CACD believes this issue should be addressed in a formal proceeding addressing other rate design issues.

9. The protest by BART should be granted.

FINDINGS

1. PG&E filed Advice Letter 1564-E on February 13, 1996, requesting a different special facility cost-of-ownership charge for transformer facilities dedicated to customers capable of receiving transmission level service through a dedicated substation, than is assessed against other special facilities.

2. On March 13, 1996, CACD received a protest from BART dated March 1, 1996 requesting denial of the advice letter because the proposed cost-of-ownership charge would unjustly increase the cost-of-ownership charges BART currently pays.

3. On March 20, 1996, PG&E responded to the protest, indicating the proposal would not affect current contracts.

4. PG&E's proposal would create two different cost-of-ownership charge methodologies for the same type of facilities.

5. In PG&E's proposal the cost-of-ownership charge for an existing facility allocated as a special facility after years of operation could be significantly higher than the cost-of-ownership charge for an identical facility built at the same time, but allocated as a special facility at construction.

6. PG&E Advice Letter 1564-E raises issues that are beyond the scope of the advice letter process.

7. PG&E Advice Letter 1564-E should be denied.

8. BART's protest should be granted.

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THEREFORE, IT IS ORDERED that:

1. Pacific Gas and Electric Company's Advice Letter 1564-E is denied. Advice Letter 1564-E shall be marked to show that it was denied by Resolution E-3453.
2. BART's protest is granted.
3. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on May 8, 1996. The following Commissioners approved it:


WESLEY FRANKLIN
Executive Director

P. GREGORY CONLON
President
DANIEL Wm. FESSLER
JESSIE J. KNIGHT, Jr.
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners