PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION E-3507
DECEMBER 3, 1997

RESOLUTION

RESOLUTION E-3507. PACIFIC GAS AND ELECTRIC COMPANY REQUESTS APPROVAL OF AN AGREEMENT FOR THE INSTALLATION OF A 115 kV TRANSMISSION LINE SERVING MEYER COOKWARE'S VALLEJO FACILITY, INCLUDING A DEVIATION FROM TARIFF RULES 2, 15 AND 16 TO USE A CONTRIBUTION TO MARGIN CALCULATION WHEN DETERMINING CUSTOMER PAYMENT FOR CONSTRUTION. APPROVED.

BY ADVICE LETTER 1626-E, FILED ON NOVEMBER 27, 1996.

SUMMARY

1. By Advice Letter (AL) 1626-E, Pacific Gas and Electric Company (PG&E) requests approval of an agreement to install a 115 kV transmission line facility to Meyer Cookware (Meyer). In the agreement PG&E used a Contribution to Margin calculation, rather than the tariff's Base Annual Revenue calculation, to determine what customer charges should be assessed.

2. No protests were received.

3. This Resolution approves AL 1626-E with one clarification.

BACKGROUND

1. PG&E filed AL 1626-E, on November 27, 1996, seeking approval of "Agreement for the Installation of 115 kV Transmission line Facilities from Carquinez Substation to Meyer Cookware," dated September 23, 1996. The proposed line was constructed and energized on May 3, 1995. Meyer began using the service in September 1995. Service was initially under Rate Schedule E-19 Transmission Firm, but since May 1996 has been under Rate Schedule E-20 Transmission Non-Firm.

2. The line was installed in accordance with PG&E's Electric Tariff Rate Schedules, and Rules 2, 15, and 16. PG&E will own, operate, and maintain the line. The cost of installation was approximately $355,000.

3. Under PG&E's tariff, customers receive an allowance for the cost of installation. If the line costs more than the allowance, the customer pays the difference plus cost of ownership and

an income tax component, in advance. The allowance is calculated using the customer's estimated usage and base rate (from Part I. of the Preliminary Statement). The estimated allowance is trued-up using actual usage. If the trued-up allowance differs from the estimate, the customer's contribution to installation costs is revised resulting in a refund or additional payments.

4. The rules for calculating allowances for transmission level customers may no longer be appropriate due to changes in rate schedules (mainly increasing customer charges and decreasing volumetric rates) and a shareholder financed "Economic Stimulus Credit". The 1997 Total Base Rate for Rate Schedule E-20 Transmission Non-Firm is negative for 3 of the 5 rate periods: on-peak during Period A (Summer), and both partial and off peak during Period B (Winter). Under the current tariff rules Meyer's allowance would be negative (i.e., they would owe more than the cost of construction after 3 years), assuming 3rd year usage is the same as second year actual usage. In addition, Meyer would owe a monthly cost of ownership charge.

5. PG&E proposes to deviate from the tariffs and use a contribution to margin calculation to determine Meyer's allowance. Contribution to margin is defined as the capital supporting revenues received from electricity sales to Meyer, exclusive of any applicable taxes or surcharges, minus the marginal costs to provide service to Meyer. The allowance is calculated using the contribution to margin from the first three years of the agreement. Estimating the 3rd year to be the same as the second, Meyer's allowance would be approximately $240,000. PG&E's proposal does not include a monthly ownership charge if the allowance does not cover the full cost of construction.

6. The proposed line complies with General Order (GO) 131-C. It was constructed under GO 131-C rather than GO 131-D because Decision 94-06-014 "grandfathered" to GO 131-C this and other projects scheduled to be completed before December 31, 1995.

NOTICE

1. Notice of AL was made by publication in the Commission's Daily Calendar on December 6, 1996 and by mailing copies of the filing to adjacent utilities and interested parties

PROTEST

1. No protests were filed on AL 1626-E.

DISCUSSION

1. This filing raises several procedural issues. Meyer began taking service over the line extension in September 1995 and yet did not make an initial payment to cover the cost of construction as required by the tariff. PG&E's work papers estimate that no customer payment is needed using the contribution to margin method, but that agreement was not signed until September 1996, one year after service had commenced. The advice letter requesting deviation from tariff rules and adoption of the agreement was not filed until November 1996. In addition, the estimated contribution to margin numbers in the agreement and the advice letter do not agree with the actual first year contribution to margin numbers provided in the workpapers (Agreement $256, 679, Actual $43,663). The provision of a deviation to a tariff without Commission authorization is a violation of the Public Utilities Code and Commission orders. PG&E is subject to sanction and fines for such violations. In this instance the customer was not harmed, other classes of customers were not impacted, there were no anti-competitive affects, and system safety and reliability were not jeopardized. In no way, however, do these factors waive the Commissions authority to fine or sanction PG&E. PG&E should consider this admonishment as a stern warning. If procedural lapses of this type occur in the future, we will initiate a penalty action.

2. The substantive issue of this filing is whether the tariff method of calculating a customer's allowance on a transmission line extension is reasonable and if not is PG&E's proposal reasonable. The tariff's method of calculating allowances results in negative allowances. It is unreasonable to charge customers more than the actual cost, including taxes and cost of ownership. In the interest of fairness another method must be found. PG&E's proposal is to use a customer's first three years contribution to margin as the allowance. In this case, using contribution to margin is acceptable, but PG&E should consider filing tariff rules for transmission line extensions especially considering the imminent electric restructuring changes.

3. The proposed agreement states "At such time as the customer is served under separate supply and delivery tariffs pursuant to electric rate unbundling, the revenues and marginal costs for this contract shall become those associated with such service." In this statement it is not clear if supply (i.e. generation) revenues will be used in calculating the contribution to margin. It is unreasonable, in an unbundled environment, for a contribution to margin derived from generation revenues to be used as part of an allowance for a transmission facility. Revenues and costs should be assigned to the service components that cause them. Therefore, once rate unbundling occurs only the contributions to margin derived from transmission revenues shall be used in calculating Meyer's allowance.

FINDINGS

1. PG&E filed AL 1626-E on November 27, 1996 requesting approval of an Agreement to install a 115 kV transmission line, including a deviation from Rules 2, 15, and 16.

2. PG&E did not follow proper procedures by not requiring a customer contribution toward the cost of construction, failing to file for a deviation until 14 months after service had commenced, and not using the most current information in its advice letter filing.

4. The current method for determining the customer allowance for a transmission line extension is does not provide a satisfactory result.

5. PG&E's proposed, contribution to margin, method of determining the customer allowance is reasonable if clarified to ensure unbundled generation revenues are not used to support a transmission facility.

THEREFORE IT IS ORDERED THAT:

1. PG&E Advice Letter 1626-E is approved as clarified in Discussion Paragraph 3.

2. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 3, 1997. The following Commissioners approved it:

Wesley Franklin

WESLEY FRANKLIN
Executive Director

P. Gregory Conlon, President
Jessie J. Knight
Henry M. Duque
Josiah L. Neeper
Richard A. Bilas
Commissioners