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Sent: 4/9/2011 1:37:49 PM
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Bcc:
Subject: PG&E 2011 GRC Phase 1 -- Energy Division Data request regarding NTP&S

PG&E 2011 GRC Phase I Settling Parties:

As you can see from the email below, the Energy Division has contacted PG&E, with copies to DRA, TURN and others, seeking clarification of the NTP&S provision in the October 15, 2010 settlement. Because the data request concerns how to interpret a provision of the settlement agreement, DRA, TURN and PG&E thought it best to circulate this draft for your review prior to responding.

DRA has contacted ALJ Fukutome for advice regarding how best to respond to this request and we hope to get that advice on Monday afternoon. In the meanwhile, we have prepared the attached draft response to the Energy Division's questions. This draft builds upon a version very helpfully provided by TURN that was previously reviewed by DRA, but PG&E has edited TURN's draft so if there are any errors in the draft at this point they should be considered PG&E's.

The Energy Division has asked for a response prior to Tuesday, so if you have any questions or concerns about these draft answers, please copy Bob Finkelstein of TURN, Jonathan Bromson of DRA and Ann Kim of PG&E by noon on Monday.

Thank you.

Steve Frank

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From: Fulcher, Jack [mailto:jack.fulcher@cpuc.ca.gov]
Sent: Thursday, April 07, 2011 12:57 PM
To: Frank, Steven (Law)
Cc: Murtishaw, Scott; Fukutome, David K.; bfinkelstein@turn.org; mark.pocta@cpuc.ca.gov
Subject: Data request regarding the term "cost-of-service basis" in PG&E GRC settlement

Hi Steve. Although we've spoken about this before, I still am uncertain about what is meant by the statement "the costs and revenues associated with the expansion of services shall be treated on a cost-of-service basis" found on p. 62 of the settlement (A.09-12-020). I thought I'd send a data request to you to see if you can help me understand what this means. Maybe the following questions will help to focus me better on this concept:

1. If a new non-tariffed product or service is provided, consistent with PG&E's request in its filing (exh. 4, chap. 12), what will be shared between the shareholders and ratepayers? Specifically, I assume that the revenues received for this new service will be reduced by some measure of the costs incurred. Exactly what costs will be subtracted from the revenues received? Do these costs include some allocation for indirect overheads (i.e., the common costs for the Division providing the service, such as the division head's salary, maintenance, janitorial, and security for the particular building used, that sort of thing)? Do costs include allocations for indirect and general overheads (some portion of the CEO's salary, allocated costs for the headquarters building, etc.)?
2. Whatever definition you give costs in this methodology, how is the resulting "net" revenue amount shared? Does it all go to shareholders? Ratepayers? Since no percentage split is mentioned in either the application or the settlement, I'm assuming all of it goes to either shareholder or ratepayer. Which is it?
3. Given that DRA uses a methodology to forecast costs and revenues for PG&E, and it apparently does so for everything it considers OOR (other operating revenue), under the proposed "cost-of-service basis," how does this affect your above responses? That is, what is the disposition of revenues received that are higher (or, similarly, costs that are lower) than the forecasted amounts? Is the difference retained by the utility, or is it shared with ratepayers?
4. In the Joint Opening Comments, footnote 7 on page 4 says that the settlement agrees to use "cost-of-service ratemaking" (my italics). The prices you charge for NTP&S services are not regulated, so this word confuses me. Are you really going to determine the prices you charge your NTP&S customers, in markets that are likely competitive, using this sort of cost-based ratemaking process? How can you ensure this will not be anticompetitive and drive out otherwise efficient incumbents?
5. Perhaps an example of how "cost-of-service" might be applied to a particular NTP&S project would be helpful. Could you give me an example?

Could you get back to me by Tuesday on this data request, Steve? I am copying TURN and DRA on this note in case they want to chime in with their own understandings on this issue.

Thanks, Steve. Let me know if you have questions. Jack

