DRAFT FOR DISCUSSION PURPOSES ONLY -- 4/9/11
PG&E 2011 GRC (A.09-12-020)

PG&E'S APRIL 11, 2011 RESPONSE TO THE ENERGY DIVISION'S APRIL 7, 2011 REQUEST FOR INFORMATION CONCERNING THE TERM "COST-OF-SERVICE BASIS"

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.)?

PG&E Response: Under the terms of the October 15, 2010 settlement, there would be no sharing between shareholders and ratepayers as envisioned by this question during the 2011-2013 GRC period if PG&E offers a non-tariffed product and service (NTP&S) from the expanded catalog. This is because where NTP&S are treated on a "cost-of-service basis," the GRC revenue requirement includes an adopted forecast of both NTP&S revenues and costs for the test and attrition years. In the test year and the attrition years, if the costs are different than forecasted, the difference falls on the utility rather than its ratepayers. Similarly, if the revenues are different than forecasted, the difference also falls on the utility rather than its ratepayers. The utility is "at risk" for these forecasts. This "cost-of-service" ratemaking has been used for the NTP&S services under PG&E's existing NTP&S catalog since the late 1990s and the settlement does not propose to change that process.

If NTP&S continues on a cost-of-service basis in PG&E's 2014 GRC, PG&E would include a new forecast of costs and revenues in its showing; DRA, TURN and others could review and have the opportunity to challenge that showing; and the Commission would adopt a new forecast taking the various positions into account.

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?

PG&E Response: Under the terms of the October 15, 2010 settlement, no "net" revenue would be shared during PG&E's 2011-2013 GRC period for the expanded services. As explained in the response to item 1, to the extent a service offered from the expanded catalog produces "net" revenue, it would go to the utility during this period because the utility is "at risk" for both the forecasted revenues and expenses.

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?

PG&E Response: The OOR forecasts under the October 15, 2010 settlement include a forecast of the revenues for NTP&S in the 2011 test year. Please see the response to item 1.

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?

PG&E Response: The term "ratemaking" used in the settlement refers to the process described in response to item 1 and not to how rates will be set for the NTP&S services being offered. The price charged for NTP&S has always been set on a non-tariffed basis, even before the Commission embraced NTP&S sharing mechanisms in its decisions on affiliate transaction rules in the late 1990s. While concerns about competitive markets and anticompetitive behavior are valid, such concerns are the same as existed when the regulated utilities offered NTP&S prior to (or outside of) any adopted revenue sharing mechanism. Further, as explained in the Joint Opening Comments to which you refer, PG&E intends to address competitive issues for each expanded product or service in the proposed information-only report.

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?

PG&E Response: Please see the response to item 1, which describes how differences in overall costs or revenues would be treated. This same description could apply to any particular project or service.

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