BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company To Revise Its Electric Marginal Costs, Revenue Allocation, and Rate Design, including Real Time Pricing, to Revise its Customer Energy Statements, and to Seek Recovery of Incremental Expenditures. (U 39 M)	Application No. 10-03-014 (Filed March 22, 2010)

PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 M) REPLY TO COMMENTS OF THE LAMONT PUBLIC UTILITY DISTRICT IN OPPOSITION TO THE MOTION OF THE SETTLING PARTIES FOR ADOPTION OF AGRICULTURAL RATE DESIGN SUPPLEMENTAL SETTLEMENT AGREEMENT

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In accordance with Rule 12.2 of the Commission's Rules of Practice and Procedure, and the July 18, 2011 "Ruling Amending Schedule" issued by Administrative Law Judge Pulsifer, Pacific Gas and Electric Company (PG&E) responds to the August 1, 2011 Comments of the Lamont Public Utility District (Lamont) in opposition to the July 18, 2011 motion of settling parties for adoption of Agricultural Rate Design Supplemental Settlement Agreement (Agricultural Settlement). Agricultural Settling Parties, the California Farm Bureau Federation, the Agricultural Energy Consumers Association, South San Joaquin Irrigation District, and the Energy Producers and Users Coalition, have authorized PG&E to file this reply on their behalf. The California Large Energy Users Association and The Utility Reform Network[1/] also have authorized PG&E to file this reply on their behalf.

1/ TURN actively monitored the agricultural settlement process. TURN did not sign the Agricultural Settlement but satisfied itself that the Agricultural Settlement as drafted did not adversely affect TURN's position, so TURN does not oppose it. The treatment of the E-37 rate provided in the filed Agricultural Settlement was a critical element in TURN's decision not to oppose the Agricultural Settlement. TURN would have actively opposed a settlement if it contained the provisions that Lamont now wants to include.

I. SUMMARY OF THE PART OF THE AGRICULATURAL SETTLEMENT AT ISSUE AND LAMONT'S PROTEST

The Agricultural Settlement contains the following provision on next steps in response to Lamont's proposal:

> The Ag Settling Parties have agreed that the following steps should occur: (a) immediately close E-37 to new enrollment, (b) provide a one-way customer option for existing E-37's to migrate to A-10, A-10-TOU, or E-19/20, (c) require PG&E to study a new cost-based E-37 industrial schedule allocation for oil and non-Ag water and sewerage pumping accounts to be filed in the 2014 GRC Phase 2, and (d) consider in the 2014 GRC Phase 2 proceeding whether E-37 should be eliminated and whether a new cost-based pumping rate, including large non-Ag pumping should be offered. This compromise allows a more considered approach to ensure that reasonable, cost-based options are made available to non-Ag water pumping compared to simply expanding the use of a rate that was offered on a very limited basis only to oil pumping customers so that they would bring idle wells back into service as a source of domestic production.

(Agricultural Settlement, pages 11 to 12, emphasis added.)[2/3/] The Agricultural Settlement, including these provisions, should be approved. Contrary to Lamont's suggestion (page 2) that the proposal is "shelved" until 2014, the Agricultural Settlement requires a study be conducted and presented for consideration in the 2014 GRC.

Lamont's opposition to the Agricultural Settlement rests on its claim (advanced in its October 6, 2010 opening testimony) that non-agricultural water pumping accounts (urban/business water pumping accounts) with high load factors such as urban water agencies have lower costs of service than general service customers and should be eligible now for "lower pumping rates" on Schedule E-37 instead of general service commercial and industrial rate schedules. (Lamont Comments, page 1). Lamont claims that there is no evidence to approve the Agricultural Settlement's resolution of Lamont's proposal. On that basis Lamont asserts that approval of the Agricultural Settlement's resolution of Lamont's proposal would not meet the Commission's Rule 12.1 criteria, not be in the public interest and not be consistent with law. Lamont's position is in error.

2/ "Non-Ag water pumping" refers to the urban/business pumping activity that Lamont proposed to make eligible for E-37.

3/ The Agricultural Settlement was filed with the July 18, 2011 Motion of Settlement Parties for Adoption of Agricultural Rate Design Supplemental Settlement Agreement.

Lamont's statements about the costs to serve urban/business water pumping accounts relative to the general service schedules and E-37 and AG-5B are entirely speculative. The Agricultural Settlement recognizes that a cost of service study for pumping accounts is needed to determine how pumping accounts should be treated for ratemaking. The factual basis for deferring consideration of Lamont's proposal while a cost of service study is conducted can be found by reviewing the decision approving E-37, D.97-09-047, 75 CPUC 2d 349, (1997) which discusses the Commission's analysis and reasons for this special oil pumping rate. Marginal cost information illustrating why Lamont arguments about cost of service for urban/business water pumping accounts are speculative also can be found in the April 8, 2011 Medium and Large Light & Power Rate Design Supplemental Settlement Agreement, at page 8, which incorporates the updated transmission and distribution marginal costs and generation marginal capacity costs presented in PG&E's January 7, 2011 GRC Phase 2 Update testimony. As demonstrated below, there is sufficient information in the record and in the prior decision to approve the Agricultural Settlement which is responsive to Lamont's proposal, does not foreclose Lamont's issue, and will provide a cost of service study necessary to evaluate the complete scope of a pumping tariff for urban/business customers, including oil pumpers.

II. D.97-09-047 ADOPTED SCHEDULE E-37 AS AN INCENTIVE TO RETURN SHUT-IN WELLS TO SERVICE AND IN RESPONSE TO LEGISLATION TO PROMOTE OIL INDUSTRY PRODUCTION THAT DO NOT INCLUDE URBAN WATER AGENCIES

In D.97-09-047 in PG&E's 1997 Rate Design Window (RDW) proceeding, the CPUC approved Schedule E-36 rates for small oil pumping accounts, and Schedule E-37 for larger oil pumping accounts. These new schedules were expressly targeted and eligible only to oil pumping and natural gas extraction accounts due to motivating legislation at the time. Lamont is inappropriately seeking to expand the applicability of Schedule E-37 to alternate end-uses never intended by the Commission or the motivating legislation.[4/]

4/ E-36 was subsequently consolidated with E-37 for rate simplification purposes in D.05-11-005, in PG&E's 2003 GRC Phase 2 proceeding.

At the time, oil prices were low and many California oil wells were shut-in. This situation was the impetus for E-37, including state legislation to incent returning the wells to production. D.97-09-047 explicitly recognized the state legislation to reactivate idle oil wells in approving Schedules E-36 and E-37 by referencing California State Senate Bill (SB) 2007 below:

> "PG&E estimates it currently has 1,050 oil pumping accounts classified in SIC 1311. These accounts serve approximately 60,000 active wells and 15,000 to 18,000 idle wells. PG&E estimates that Schedules E-37 and E-37 will result in approximately 1,200 idle wells being returned to operation. These accounts are located primarily in low-cost rural distribution planning areas, and have an average marginal cost of service of only three cents per kWh, as opposed to five cents per kWh for Schedule AG-5B, under adopted January 1, 1996 marginal costs of service.[5/]
>
> The California Independent Petroleum Association (CIPA) supports proposed Schedules E-36 ad E-37. According to CIPA, these schedules offer oil producers, PG&E, PG&E ratepayers, and the California economy a win-win situation.
>
> …Further, CIPA points out that for the estimated 1,200 idle wells that would be returned to service, the total revenue increase would be approximately $4.7 million annually…The amount of the net increase in revenue is estimated to be between $1.9 million and $2.2 million annually.
>
> The [Sate of California] Division of Oil, Gas, and Geothermal Resources points to Senate Bill (SB) 2007, which provides incentives to return long-term idle wells to production, and urges the Commission to adopt PG&E's proposal.
>
> We conclude that proposed Schedules E-36 and E-37 should be adopted and are consistent with Section 378.

(D.97-09-047, 75 CPUC 2d 347, pages 364-365.) In addition, the Commission found that implementation of E-37 would produce additional incremental revenues that would benefit other ratepayers. Finding of Fact 5 in the decision states:

> Schedules E-36 and E-37, optional oil pumping rate proposals, are estimated to result in about $2 million in net increased revenue, they further State and Federal objectives, and will benefit ratepayers and shareholders by accelerating collection of transition costs.

(*Id.* page 385.) It is apparent from D.97-09-047, that E-37 was created specifically to incent oil well production, in response to legislative concerns, among other reasons.

5/ SB 2007 was chaptered on September 16, 1996 as Ch. 537, Stats. 1996.

III. LAMONT'S MARGINAL COST OF SERVICE CONCLUSIONS ARE BASED ON UNSUPPORTED SPECULATION

It is also clear from D.97-09-047 that E-37 was based on specific marginal cost information. In the first quote from D.97-09-47, the Commission specifically noted

> These accounts are located primarily in low-cost rural distribution planning areas, and have an average marginal cost of service of only three cent per kWh, as opposed to five cents per kWh for Schedule AG-5B, under adopted January 1, 1996 marginal costs of service

(Id. page 364.) However, Lamont wants to extend E-37 to urban/business water pumping customers: "Non-Agricultural Pumping accounts ("NAPAs") pump water for residential and business consumption. Urban water agencies, such as the District are the typical NAPA customers." (Lamont Comments, page 3, emphasis in original.) Lamont makes broad generalizations that these customers have costs of service comparable to E-37, but does not present any actual cost of service study.

The fact that Lamont wants urban/business customers to get rates on a schedule that has been based on agricultural costs of service demonstrates that Lamont is wrong. These urban/business customers are spread throughout PG&E's service territory, often in heavily populated urban rather than rural areas. So their cost of service is going to be higher than for "low-cost rural distribution planning areas".[6/] In this proceeding, Marginal Distribution Capacity Costs (MDCC) differentiated across PG&E's 18 operating divisions are presented in Appendix A to the April 8, 2011 Medium and Large Light and Power Rate Design Supplemental Settlement Agreement in this proceeding.[7/] Not only are there some very high Appendix A Table 4 MDCC figures in those operating divisions likely to have heavy concentrations of water agency

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6/ In D.97-09-047, the Commission found that the oil pumping accounts were located in low-cost rural distribution planning areas. The Commission also found that Schedule E-37 was consistent with PUC § 378, confirming that Schedule E-37 was found to be consistent with applicable cost of service analysis. In contrast, Lamont has not provided a cost of service analysis for urban/business pumping customers.

7/ The Medium and Large Light and Power Rate Design Supplemental Settlement Agreement was filed in this docket with the Commission on April 8, 2011 with the Motion of the Settling Parties for Adoption of Medium and Large Light & Power Rate Design Supplemental Settlement Agreement.

accounts, but the Marginal Customer Access Costs (MCAC) for Schedule E-19 are well above those for the agricultural class.[8/]

Thus, there is ample record evidence in this case demonstrating that Lamont's assertions about marginal costs for urban/business customers relative to E-37 oil pumpers are erroneous speculation. Furthermore, the record supports proceeding with a study for the next GRC 2 case, as the Agricultural Settlement provides.[9/]

IV. LAMONT'S PROPOSAL WILL CREATE REVENUE SHORTFALLS TO BE BORNE BY OTHER CUSTOMERS

One reason cited in D.97-09-047 for approving E-37 was the additional incremental revenue it would produce by bringing shut-in wells back into production. The estimated amount in D.97-09-047 was about a net revenue increase of $2 million. Lamont's proposal applies to existing urban/business customers who would be able to migrate from general service rate schedules to the lower E-37 rate. This migration will produce revenue shortfalls that will impact other customers. Lamont has calculated a revenue shortfall caused by the migration of urban/business pumping customers to E-37 of approximately $18.4 million. (Lamont Comments, page 5.) The Commission need not accept this estimate as the definitive impact, but it can find that there will certainly be an adverse dollar impact on other ratepayers since customers like Lamont will not migrate to E-37 unless their bills will be lower. Moreover, there is no indication that Lamont's proposal will cause inactive accounts to return to service, which is contrary to the purpose for which E-37 was approved, i.e. returning shut-in wells to the system.

Since Lamont has not included any size limitation, its proposal apparently would extend to small, medium and large customers who use 70 percent of their energy for pumping and have

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8/ Table 3 in Appendix A indicates that the MCAC for Schedule E-19 secondary is $9,251.70 per customer-year, more than 11 times higher than the $822.68 per customer-year for Agricultural B rate schedules.

9/ The Agricultural Settlement also closes E-37 while oil pumping costs of service are studied as part of the pumping customer cost of service study for the next GRC 2 proceeding. Reevaluating oil pumping costs of service is appropriate now because the royalty waiver incentive under SB 2007, which became section 3238 of the Public Resources Code, cease after 10 years.

a 50 percent annual load factor.[10/] Allowing migration to E-37 that would create revenue shortfall burdens on other customers would not be appropriate since there is no cost of service basis for Lamont's proposal. Moreover, determining what would be appropriate requires a cost of service study such as the Agricultural Settlement proposes and the Commission relied upon in D.97-09-047. Adopting Lamont's proposal now would also be inconsistent with the customer class delineations and associated customer class sales forecasts and revenue allocation results in the March 14, 2011 Marginal Cost Revenue Allocation (MCRA) settlement filed in this proceeding.[11/]

V. LAMONT ERRS BY REFERRING TO PUMPING RATES AS A SEPARATE END-USE WITH SEPARATE RATE SCHEDULES

Lamont's comments refer to "pumping rates" for PG&E that are available for agricultural pumping and oil pumping. (Lamont Comments, *passim.*) Lamont's reference is a misnomer. PG&E does not have pumping rates except for E-37 and AG-ICE.[12/] Lamont ignores the fact that PG&E agricultural tariffs have much wider applicability than agricultural pumping. PG&E's tariffs specify that agricultural schedules AG-1, AG-4, AG-5, AG-R and AG-V can be used by agricultural customers, where agricultural end-uses consist of (a) growing crops, (b) raising livestock; (c) pumping water for irrigation of crops; or (d) other uses which involve production for sale, if the agricultural end-uses performed prior to the First Sale satisfy the tariff definitions. (PG&E tariffs, applicability, Electric Schedules AG-1, AG-4, AG-5, AG-R and AG-V.)

10/ Schedules which presumably could see migration to E-37 would include PG&E schedules A-1, A-6, A-10, E-19, E-20, and their variants, if customers have interval or SmartMeters.

11/ See also, PUC § 378's requirement to accurately reflect loads, locations, conditions of service, cost of service, and market opportunities.

12/ In addition to requiring the customer to be an agricultural customer, the AG-ICE tariff's eligibility provision reads "To be eligible for service under this rate schedule, a customer must meet all of the following conditions: ... (3) demonstrate to PG&E's satisfaction that the customer is currently using an internal combustion engine-driven agricultural irrigation pump that is rated equal to or greater than 50 horsepower and was installed and operational prior to September 1, 2004..." D.05-06-016 approved AG-ICE to provide an incentive for agricultural customers using diesel engines for irrigation pumping to convert to electric pumping due to air quality issues. Thus AG-ICE is not relevant to Lamont's proposal.

Lamont states: "Agricultural Pumping and Oil Pumping accounts currently are eligible for service on 'pumping rates' that are designed for pumping operations. These pumping rates tend to better align with the marginal cost to serve pumping loads. . ." (Lamont Comments, page 4.) As discussed herein, Lamont's statement is incorrect and misleading. Agricultural customers with pumping load involved in their agricultural activities can use agricultural rate tariffs for that pumping load. However, the tariffs are for all the agricultural activities listed and the marginal costs for PG&E's agricultural tariffs are not specific to pumping.

Further, service on PG&E's agricultural schedules is only for agricultural end-uses. For the first time, however, Lamont's comments suggest that "allowing NAPAs (urban/business pumping) to be served on Agricultural Pumping Schedule AG-5B would be equally effective since, by Commission order, Schedule AG-5B is identical to Schedule E-37." (Lamont Comments, page 5.) In essence, what Lamont wants is an agricultural rate, which is lower than general service rates, to be available for urban/business pumping. This is contrary to the Agricultural Class Definition Settlement approved in D.06-11-030. Moreover, AG-5B is for large accounts ("single motor installations rated 35 horsepower or more, to multi-load installations aggregating 15 horsepower or kilowatts or more, and to overloaded motors" from Applicability section of Electric Schedule AG-5 tariff). Thus the cost of service for large AG-5B agricultural customers will manifestly be different than the cost of service for urban/business customers that could be migrating to AG-5B from PG&E's general service tariffs for small, medium and large customers. Similarly, since the E-37 rate is based on AG-5B (and the E-37 customers are large, as pointed out in footnote 8 of Lamont's comments), the cost of service underlying E-37 likely will be very different than for the small, medium and large urban/business customers under Lamont's amorphous proposal.

Lamont also refers to Southern California Edison (SCE) tariffs that make agricultural and pumping rates available to all types of pumping accounts, including sewage pumping.[13/]

13/ According to its website, SCE has eight agricultural and pumping tariffs, including SCE's version of AG-ICE.

(Lamont comments, pages 4 to 5.) Lamont apparently thinks that the existence of SCE's eight agricultural and pumping tariffs means that PG&E should make all urban/business pumping on its system eligible for the E-37 tariff. That does not work. Presumably SCE's agricultural and pumping tariffs are based on a cost of service analysis using its system data, with related rates reflected in the energy, demand, and significant customer charges in SCE tariffs. For PG&E's system, a robust pumping cost of service study is needed to assess what may be appropriate for a general pumping tariff(s). The Agricultural Settlement provides for the needed study and should be approved.

VI. THE AGRICULTURAL SETTLEMENT IS IN THE PUBLIC INTEREST

Rule 12.1(d) requires settlements to be reasonable, consistent with law, and in the public interest. The Agricultural Settlement recognizes that Lamont's proposal to provide an option for urban/business customers with pumping load by "simply expanding the use of a rate that was offered on a very limited basis only to oil pumping customers so that they would bring idle wells back into service as a source of domestic production" (Agricultural Settlement, page 12) is problematic in the absence of a cost of service study. PG&E's reply to Lamont's comments uses information and analysis from the Commission's D.97-09-047 on E-37, PG&E's agricultural tariffs, SCE's agricultural and pumping tariffs, marginal cost information in the Medium and Large Light & Power Supplemental Settlement, and Lamont's own comments to establish that Lamont's broad assertions about marginal costs for the urban/business pumping loads relative to marginal costs for large agricultural load associated with AG-5B and E-37 are not correct.

The Agricultural Settlement's provision to conduct a cost of service analysis for pumping loads, in response to Lamont's proposal, is in the public interest and consistent with law because the record lacks the cost of service information needed to decide if an urban/business pumping rate would be justified. If so, customer class delineations and corresponding sales

forecasts, revenue allocations, and cost of service would be commensurately realigned in PG&E's 2014 GRC 2 showing, rather than subverting the March 14, 2011 MCRA filed in this 2011 GRC 2. Moreover, there is adequate information available in the record and in other documents that the Commission can reference (such as D.97-09-047 and the tariffs) to support approval of the Agricultural Settlement without further hearing in this case.

Lamont complains that the Agricultural Settlement defers, rather than resolves, Lamont's proposal and that urban/business pumping interests were not represented by the Settling Parties. (Lamont Comments, pages 11 to 12.) Neither of these assertions would be reason to withhold approval of the Agricultural Settlement, particularly since the deferral until the next GRC 2 proceeding is needed in order to perform a robust cost of service study to determine whether a special tariff for pumping load would be appropriate.

Lamont further argues that the Settlement is not reasonable because it does not reflect a fair balancing of interests. However, the Settlement does reflect a fair balancing of interests among all parties by linking changes in tariff eligibility to a cost of service analysis. Adopting Lamont's proposal without such a study would have unfairly favored Lamont's interests over the interests of other customers that could have been required to bear additional costs in order to subsidize Lamont's proposal. The fact that the Agricultural Settlement provides for this cost of service study to evaluate Lamont's proposal demonstrates that the Agricultural Settling Parties considered Lamont's interests and balanced them with the interests of other ratepayers.

Furthermore, Lamont's proposal is on its face too vague to be adopted at this time, and additional study is needed. For example, it appears to encompass all urban/business pumpers, yet its cursory "analysis" of load factors appears to be for water pumpers only and does not look at other types of pumping (e.g. sewage pumping). The proposal can thus be summarily dismissed (without prejudice) as failing to meet a proponent's burden of proof, in favor of the Agricultural Settlement's approach of studying the matter. The type of analysis needed cannot be properly conducted in the timeframe available for testimony and hearings if a final decision is to be issued in time for the new rates to be effective January 1, 2012.

The Agricultural Settlement takes constructive steps to reflect consideration of the urban/business pumping interests. Lamont's attitude, in contrast, appears to be that the Agricultural Settlement is unreasonable and unfair because it did not accept Lamont's E-37 proposal.[14/] However, the Agricultural Settlement does not have to capitulate to the poorly conceived and over-reaching Lamont proposal to be reasonable and consistent with Rule 12.1.[15/]

VII. CONCLUSION

For the foregoing reasons, PG&E requests that the Commission rule on the July 18, 2011 Motion of Settlement Parties for Adoption of Agricultural Rate Design Supplemental Settlement Agreement and approve the Agricultural Settlement, without directing further testimony or hearings. The course of action in the Agricultural Settlement on Lamont's proposal is the only way to determine the cost of service for urban/business pumping load and whether a special pumping tariff for pumping customers would be reasonable.

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14/ The rate schedules currently available to Lamont are cost-based Schedules E-19 and E-20 that reward **all** customers who have high load factors with lower average rates.

15/ Moreover, given that Lamont's proposal benefits only urban/business pumping customers at the expense of all other customers, granting its proposal is unlikely to be viewed by all to be in the public interest.

Respectfully submitted,

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