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Date of Issuance 12/5/2012

Decision 12-11-030 November 29, 2012

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California Pacific Electric Company, LLC (U933E) for Authority to Among Other Things, Increase Its Authorized Revenues for Electric Service, Update Its Energy Cost Adjustment Clause Billing Factors, Establish Marginal Costs, Allocate Revenues, And Design Rates, as of January 1, 2013.

Application 12-02-014
(Filed February 17, 2012)

DECISION ADOPTING AN ALL-PARTY SETTLEMENT IN A 2013 GENERAL RATE CASE FOR CALIFORNIA PACIFIC ELECTRIC COMPANY LLC

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**DECISION ADOPTING AN ALL-PARTY SETTLEMENT IN A 2013
GENERAL RATE CASE FOR CALIFORNIA PACIFIC
ELECTRIC COMPANY LLC**

1. Summary

This decision adopts an all-party settlement for the test year 2013 general rate case filed by California Pacific Electric Company, LLC., (CalPeco) as well as a post-test year adjustment mechanism for 2014 and 2015. The settlement resolves all issues identified in the application by CalPeco, or raised by the Division of Ratepayer Advocates, The Utility Reform Network, and the A-3 Customer Coalition in their active participation.

This was the first general rate case for CalPeco as an independent company. The settlement results in a 4.6% increase over current rates for test year 2013 and provides for formulaic post-test year adjustments to rates in 2014 and 2015. This decision also adopts the first rate base calculation of \$119.181 million for 2013 for CalPeco as an independent company; and a test year capital structure with a weighted average cost of capital of 7.75% which includes a return on equity of 9.875%.

This proceeding is closed.

2. Background

California Pacific Electric Company, LLC., (CalPeco) serves approximately 49,000 electric customers in California, in and around the Lake Tahoe Basin. CalPeco's California service territory differs greatly from the three major electric utilities in California. It is geographically compact and generally encompasses the western portions of the Lake Tahoe basin. CalPeco's California customers are located in portions of Placer, El Dorado, Nevada, Sierra, Plumas, Mono, and

Alpine Counties. Almost 80% of CalPeco's customers are located in the Lake Tahoe Basin. The biggest population center is the City of South Lake Tahoe.

This is the first general rate case for CalPeco which previously was a portion of Sierra Pacific Power Company. On February 17, 2012, CalPeco filed for authority to increase its authorized revenues for electric service, update its energy cost adjustment clause billing factors, establish marginal costs, allocate revenues, and design rates, as of January 1, 2013. CalPeco amended its application on February 29, 2012.

In its Amended Application, CalPeco requested an overall rate increase of 10.02% over the rates in effect at the time of the filing of its General Rate Case application, i.e., a revenue increase of \$7.501 million annually, effective January 1, 2013. CalPeco requested an increase in general rates of \$12.933 million annually and an offsetting reduction in Energy Cost Adjustment rates of \$8.728 million annually. CalPeco also requested authority to include a new separate line item in its customers' bills to separately identify the costs CalPeco would spend on its vegetation management program. CalPeco requested an annual increase over this general rate case cycle of \$3.296 million for vegetation management.

3. Summary of Settlement Terms

This decision adopts an all-party settlement for the test year 2013 general rate case as well as a post-test year adjustment mechanism for 2014 and 2015. (Appendix A.) The settlement includes a combined increase in both base rates and the Energy Cost Adjustment Clause of \$3.747 million in 2013; a test year rate base of \$121.206 million; a 2013 return on equity of 9.875%, based upon a capital structure of 48.5% debt and 51.5% equity, using a long-term debt cost of 5.54% and resulting in an overall rate of return of 7.75%. (Motion for Adoption of

Settlement at 5.) The proposed settlement also provides for a separate line item on customers' bills for vegetation management costs of \$2.5 million annually subject to a one-way or capped balancing account.¹ (*Id.* at 7.)

CalPeco and the settling parties prepared and filed a summary of revenue impact after allowing for the 2012 post-test year change in base rates which was not included in the rate proposals at the time this general rate case was filed. After adjusting for the 2012 base rate change, the settlement increases rates by 47.2%. In addition, the settlement reduces revenues 18% for the Energy Cost Adjustment Clause (energy costs) and amortizing the outstanding balance in the account. The weighted effect of these changes is a 4.6% increase to revenue requirement.² (Appendix B.)

4. Standard of Proof

CalPeco bears the burden of proof to show that the regulatory relief it requests is just and reasonable. In order for the Commission to consider the proposed settlement in this proceeding as being in the public interest, the Commission must be convinced that the parties had a sound and thorough understanding of the underlying issues. Factual Record and Timing of Why There Was a Settlement

¹ A typical or full balancing account recovers all reasonable costs incurred so that over-collections are refunded and under-collections are recovered by the utility; whereas a "one-way" balancing account only allows a refund for over-collections when the authorized amount is not fully expended, and if the utility spends more than the authorized amount, it may not recover the excess spending.

² CalPeco has no large-value capital investments like a power plant, therefore its energy costs recovered through its Energy Cost Adjustment Clause are a very high percentage of total costs. The seemingly small reduction of 18% in energy cost-related rates in fact offsets a large portion of the 47.2% increase in non-energy or "base" rates which results in a net change to revenue requirement of only 4.6%.

This settlement comes before the Commission after service of testimony and rebuttal but before any evidentiary hearings. Based upon the intervening parties' discovery, review, and prepared testimony they were able to agree upon a settlement with CalPeco. Therefore we must rely on the settlement's factual recital by the settling parties of the circumstances which lead us to the findings in today's decision. Based on this recital, which, along with all filed and served documents, forms our factual record, we find the settlement is consistent with the facts as summarized in the testimony of the applicant and the intervenors. (Rule 12.1(d).)

5. Proposed Settlement is Reasonable

Based on our review of all filed information and a careful review of the proposed settlement between the parties, as discussed below, we find the proposed settlement was offered by competent and adequately prepared parties able to make informed choices in the settlement process. Nothing in the settlement violates any existing law or order of this Commission or precludes or limits in any way the Commission's ability to regulate the rates or terms and conditions of service by CalPeco now or in the future. No item settled in this proceeding is dispositive of the appropriate rate treatment in subsequent proceedings. (Rule 12.5.) We can find, as required by Rule 12.1 of the Commission's Rules of Practice and Procedure (Rules), the proposed settlement is reasonable in light of the whole record, consistent with law, and in the public interest.³ We therefore adopt the settlement.

³ This set of three factors, reasonable in light of the whole record, consistent with law, and in the public interest, is sometimes referred to as the "three-pronged test" for approving a settlement.

6. Vegetation Management

There was one new and unique request by CalPeco to establish a separate billing line item and rate for vegetation management costs. CalPeco proposed uniform cents per kWh rate for all classes of customers. As noted elsewhere, and shown in more detail in the Settlement (Section 4.14), the parties agreed to a uniform rate for all classes, except the A-3 class, which will pay a flat monthly charge.

By Ruling dated April 23, 2012, the assigned Administrative Law Judge (Judge) requested additional testimony and alternative scenarios for vegetation management cost recovery including a flat rate option for all customer classes. The underlying concern which led to the Ruling was that vegetation management appears not to be dependent upon consumption – i.e., customers do not require or consume more vegetation management services as their consumption rises – it could instead be a cost that results simply by having facilities in place ready to serve customers. Thus it could be viewed as a fixed charge.

The proposed settlement adopted herein does not address the nature of vegetation management costs, nor is a settlement precedential (Rule 12.5). Therefore, rather than disturb this settlement now we will instead only require that in the next general rate case CalPeco must provide an alternative for vegetation management costs which assigns costs to each customer class and develops a fixed or flat rate charge for each class. We note the settlement adopted a fixed charge for the A-3 customer class while leaving a volumetric rate in place for all other customer classes. We therefore do not disturb this settlement for the duration of this rate case cycle and have not modified the settlement (Rule 12.4).

In response to the additional testimony in this proceeding, the parties argued that any fixed charge for vegetation management would increase the total service charge to such an extent that it would exceed the percentage goals of the rate design split between fixed and volumetric rates. The parties erred in assuming the charge could only be incremental to any other fixed service charge. Therefore, in its next general rate case CalPeco must present the fixed charge option and assume it to be the first dollars in the service charge and not the last incremental dollars. This must be calculated as a fully allocated charge to all classes and thus not necessarily the identical fixed charge applied to all classes of customers. Thus the overall service charge in this required option must have two components: vegetation management and other fixed costs.

CalPeco may also file for any other preferred alternative form of rate recovery for vegetation management in addition to this required fixed charge option.

7. Procedural Background

After the application there were timely protests and a scoping memorandum was timely issued on April 19, 2012 after a prehearing conference on April 2, 2012. As a result of settlement there were no evidentiary hearings. Applicant timely held a settlement conference and in all ways complied with the Commission's settlement rules. The settlement was filed on September 28, 2012 and was unopposed. CalPeco filed a response to the request by the Judge for additional information regarding the settlement on October 4, 2012. This proceeding is completed within all statutory deadlines.

8. Reduction of Comment Period

Pursuant to Rule 14.6(b) of the Commission's Rules of Practice and Procedure, all parties stipulated to reduce the 30-day public review and

comment period required by Section 311 of the Public Utilities Code to 28 days. Pursuant to the parties' stipulation, timely comments were filed on November 14, 2012, by DRA, and no reply comments were filed on.

9. Assignment of Proceeding

Michel Peter Florio is the assigned Commissioner and Douglas M. Long is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. There is an adequate record composed of all filed and served documents.
2. The all-party settlement is based on the record.
3. CalPeco proposed a new and unique separate bill line item and balancing account for vegetation management costs.
4. Vegetation management cost was not shown here to be either dependent upon consumption or a fixed cost as a part of standing ready to serve.

Conclusions of Law

1. Applicant bears the burden of proof to show that the proposed settlement is reasonable.
2. The proposed settlement is reasonable in light of the whole record, consistent with law, and in the public interest, therefore the Commission may adopt it. There was no need for a hearing on the unopposed settlement adopted in this decision.
3. The Commission has the discretion and authority to order additional specific testimony in the subsequent general rate case.

4. This decision should be effective today.
5. This proceeding should be closed.

O R D E R

IT IS ORDERED that:

1. The settlement between California Pacific Electric Company, LLC., (CalPeco) and the Division of Ratepayer Advocates, The Utility Reform Network, and the A-3 Customer Coalition is adopted. It is attached as Appendix A to this decision. CalPeco must file a tier 1 advice letter within 30 days of the effective date for today's decision to implement the adopted test year 2013 revenue requirement and rate design. CalPeco must also timely file tier 1 advice letters to implement its post-test year rate adjustments for 2014 and 2015.
2. California Pacific Electric Company, LLC., (CalPeco) must include in its next general rate case application a vegetation management rate proposal which is a fixed charge option. CalPeco must assume in this proposal the vegetation management charge to be the first dollars in the customer service charge and not the last incremental dollars. This fixed charge must be calculated as a fully allocated charge to all classes and thus not necessarily the identical fixed charge applied to all classes of customers. Therefore the overall service charge in this required option must have two components: vegetation management and other fixed costs. CalPeco may also file for any other preferred alternative form of rate

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recovery for vegetation management in addition to this required fixed charge option.

Application 12-02-014 is closed.

This order is effective today.

Dated November 29, 2012, at San Francisco, California.

MICHAEL R. PEEVEY

President

TIMOTHY ALAN SIMON

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

MARK J. FERRON

Commissioners