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Exhibit Number: ORA-
Commissioner: Liane Randolph
Admin. Law Judge: Jessica T. Hecht
ORA Project Mgr.: Ana Maria Johnson
ORA Expert Witness: Stacey Hunter



Office of Ratepayer Advocates

California Public Utilities Commission

**Office of Ratepayer Advocates Testimony
Regarding PG&E's Application for a CPCN to
provide Competitive Local Exchange Service –
the Revenue-Sharing Mechanism and the
Potential for Cross-Subsidization**

San Francisco, California
November 22, 2017

MEMORANDUM

This report was prepared by Stacey Hunter of the Energy Cost of Service and Natural Gas Branch of the Office of Ratepayer Advocates (“ORA”) under the general supervision of Program & Project Supervisor Ana Maria Johnson. A statement of qualifications from Ms. Hunter is presented in Attachment A to this testimony. ORA is represented in this proceeding by legal counsel Niki Bawa.

This testimony is comprised of the following chapters:

Chapter	Description
I	Introduction: An introduction to the issues covered in this testimony.
II	Summary of Recommendations: A summary of ORA’s recommendations regarding the revenue-sharing mechanism and the potential for cross-subsidization.
III	Discussion: A discussion of ORA’s recommendations.

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1 **I. INTRODUCTION**

2 On April 6 2017, Pacific Gas and Electric Company (“PG&E”) filed Application 17-04-
3 010 (“Application”) with the California Public Utilities Commission (“Commission”) for a
4 Certificate of Public Convenience and Necessity (“CPCN”) to provide full facilities-based and
5 resold competitive local exchange access and non-dominant interexchange (“CLEC”) services.
6 On May 15 2017, ORA protested PG&E’s Application over several issues including what an
7 appropriate split between ratepayers and shareholders for revenue sharing would be, and how the
8 costs of the CLEC business would be allocated.

9 PG&E proposed a mechanism for sharing the revenues and allocating the costs of the
10 CLEC services to be provided under the requested CPCN. PG&E claimed that it will use excess
11 capacity on its existing telecommunications network that it utilizes to support its core gas and
12 electric services in California, with shareholders funding any incremental costs associated with
13 deploying, providing and maintaining telecommunications service. PG&E proposed that after-
14 tax net revenues be split equally between shareholders and ratepayers, and that shareholders pick
15 up any shortfall if the CLEC business does not make a profit.¹

16 This exhibit presents ORA’s analyses and recommendations regarding PG&E’s proposed
17 revenue-sharing mechanism, and the potential for cross-subsidization.

¹ A.17-04-010, p. 19.

1 **II. SUMMARY OF RECOMMENDATIONS**

2 The following summarizes ORA's recommendations in this chapter:

- 3 • ORA's recommended revenue-sharing split of 75% to ratepayers and 25% to
4 shareholders of the after-tax net revenues should be adopted.
- 5 • PG&E's proposed internal controls, processes, and procedures appear to be
6 sufficient to ensure that cross-subsidization will not be a risk for ratepayers.

1 **III. DISCUSSION**

2 **A. PG&E’s PROPOSED REVENUE-SHARING MECHANISM**

3 **i. PG&E’s Proposal**

4 PG&E proposes... “that ratepayers and shareholders each receive a 50% share of the
5 after-tax revenues from the CLEC business, if the after-tax revenues are greater than zero.”²
6 PG&E claims that its proposed revenue-sharing mechanism is “good policy” for three reasons.
7 First, it is fair to both ratepayers and shareholders.³ PG&E claims that this approach has been
8 used in several recent leases of utility assets.⁴ Second, the mechanism is simple and easy to
9 understand and administer.⁵ PG&E claims that this meets the Commission’s goal of
10 “simplifying and streamlining” the regulatory process.⁶ And finally, an agreed-upon mechanism
11 will allow PG&E to know what regulatory treatment its future CLEC business opportunities will
12 have.⁷ PG&E claims this should result in more CLEC business opportunities.⁸

13 PG&E proposes the following method of calculating after-tax net revenues. From the
14 CLEC business’s gross revenues, the incremental costs will be deducted because these will be
15 covered by shareholders; these will include, but are not necessarily limited to, Information
16 Technology operations and maintenance expense, sales expense, general and administrative
17 expense, depreciation expense, and interest expense. Calculated tax expense will also be
18 deducted.⁹ ORA does not take issue with PG&E’s proposed method of calculating the after-tax
19 net revenues to be shared with ratepayers.

20 **ii. ORA’s Position**

21 Without an agreed-upon revenue-sharing mechanism, all of the revenues from PG&E’s
22 CLEC business would flow to ratepayers. This is because the CLEC business will be operated as
23 a line of business within the PG&E utility, and not as an affiliate or subsidiary.¹⁰ However,

² A.17-04-010, p. 19.

³ *Id.*

⁴ A.17-04-010, p. 20.

⁵ *Id.*

⁶ *Id.*

⁷ *Id.*

⁸ *Id.*

⁹ Ex. PG&E-01, p. 3-6, lines 17-23.

¹⁰ Ex. PG&E-01, p. 2-10, line 36 through p. 2-11, line 2.

1 because shareholders will be funding the incremental costs of the CLEC business¹¹ as well as
2 any shortfall¹² ORA agrees that in fairness there should be some sharing of the revenues created
3 by the CLEC business.

4 PG&E claims that a 50/50 sharing has been adopted in “recent” lease cases. This is
5 misleading. Of the five decisions that PG&E cites, all are at least twenty years old.¹³ More
6 recently, the Commission has authorized a 75/25 revenue share between ratepayers and
7 shareholders in at least two cases: the 2012 Test Year General Rate Case for San Diego Gas and
8 Electric Company,¹⁴ and the Electric Program Investment Charge Proposed 2012 through 2014
9 Triennial Investment Plan decision.¹⁵ In a more recent application, SDG&E has proposed a
10 75/25 revenue share between ratepayers and shareholders.¹⁶

11 Ratepayers should receive a higher share of the after-tax net revenues because ratepayers
12 have largely funded the facilities that are in place to allow PG&E to pursue the CLEC business
13 opportunity. PG&E’s testimony states that PG&E’s fiber network consists of 4,638 miles of
14 fiber optic cables. Of those, 838 miles are owned by PG&E and included in rate base.¹⁷ Another
15 2,042 miles on PG&E’s network are the result of leases and “fiber swaps,” in which two fiber
16 owners agree to exchange access to excess fiber along routes where one party needs access and
17 the other party has available fiber.¹⁸ Leases are an operating expense which is funded by
18 ratepayers, and the “swapped” miles for which PG&E receives access on other miles are
19 presumably either leased or owned by PG&E. The remaining 1,803 miles were installed by third
20 parties with PG&E taking bare legal title¹⁹ but ratepayers still fund the operational costs related
21 to these miles.²⁰ The existing rate recovery for owned miles and the existing operational costs
22 for leased miles and miles held in bare legal title are funded by ratepayers, and will continue to
23 be funded by ratepayers; only the incremental, i.e. new, costs will be picked up by shareholders.
24 Ratepayers are entitled to a greater share of the revenues than shareholders.

¹¹ A.17-04-010, p. 16.

¹² A.17-04-010, p. 19.

¹³ A.17-04-010, p. 20 cites D.97-10-020, D.97-10-015, D.96-12-024, D.96-07-058, and D.96-07-038.

¹⁴ D.15-05-010, p. 600.

¹⁵ D.13-11-025, pp. 82-83; *see also id.* at Ordering Paragraph 34.

¹⁶ A.17-03-019, p. 6.

¹⁷ Ex. PG&E-01, p. 2-1, lines 23-33.

¹⁸ Ex. PG&E-01, p. 2-2, lines 2-8.

¹⁹ Ex. PG&E-01, p. 2-1, lines 23-33.

²⁰ PG&E’s response to data request CCSF_001, question 2b. *See* Attachment B.

1 ORA proposes a 75/25 after-tax net revenue split between ratepayers and shareholders in
2 this application. This would be fair both to ratepayers, who would normally be entitled to 100%
3 of the revenue, and to shareholders, who would otherwise not be entitled to any share of the
4 revenue from the CLEC business. ORA’s proposal of a 75/25 split is as simple to understand
5 and as easy to administer as PG&E’s proposed 50/50 split. And any agreed-upon mechanism
6 that sets future regulatory treatment satisfies the Commission’s simplification goal, no matter the
7 split between ratepayers and shareholders.

8 **B. POTENTIAL FOR CROSS-SUBSIDIZATION**

9 **iii. PG&E’s Proposal**

10 PG&E proposes to maintain a separate budget with separate accounts for its CLEC
11 business to ensure that ratepayers do not fund the additional costs related to the CLEC business.
12 PG&E states that it will maintain its books and records in compliance with Generally Accepted
13 Accounting Principles and the FERC Uniform System of Accounts.²¹ PG&E also proposes to
14 establish a new CLEC business balancing account to track the revenues, expenses, and capital
15 expenditures of the CLEC business.²² These costs and revenues will be charged to unique order
16 numbers that will be created for and used exclusively by the CLEC business balancing account.²³

17 PG&E further explains how its internal controls, processes, and procedures will help to
18 ensure accurate and appropriate accounting, which include but are not limited to:²⁴

- 19 • Orders will be created using the specified unique order numbers.
- 20 • Orders will be monitored and reviewed on a regular basis to ensure actual costs
21 are captured.
- 22 • Internal controls will be established to ensure that the CLEC business costs are
23 accounted for separately.
- 24 • Budget owners and the Business Finance department will both review all costs on
25 a monthly basis to ensure that all reported costs are attributable only to the CLEC
26 business.

²¹ Ex. PG&E-01, p.3-5, lines 18-23.

²² Ex. PG&E-01, p.3-5, lines 24-26.

²³ Ex. PG&E-01, p.3-5, lines 26-28.

²⁴ Ex. PG&E-01, p.3-6, line 1 through p. 3-7, line 5.

- 1 • The CLEC business balancing account will track the ratepayer share of after-tax
2 net revenues for annual disbursement through the Distribution Recovery
3 Adjustment Mechanism.

4 **iv. ORA's Position**

5 ORA has reviewed PG&E's proposed internal controls, processes, and procedures. It
6 appears that they are sufficient to ensure that cross-subsidization will not be a risk for ratepayers.

ATTACHMENTS

ATTACHMENT A

STATEMENT OF QUALIFICATIONS

STACEY HUNTER

Q.1 Please state your name and address.

A.1 My name is Stacey Hunter. My business address is 505 Van Ness Avenue, San Francisco, California.

Q.2 By whom are you employed and in what capacity?

A.2 I am employed by the Office of Ratepayer Advocates (ORA) as a Public Utilities Regulatory Analyst IV in the Energy Cost of Service and Natural Gas Branch.

Q.3 Briefly describe your educational background and work experience.

A.3 I received a Bachelor of Sciences degree in Accounting from Golden Gate University.

I joined the Commission in the Division of Ratepayer Advocates in January 2003. I have prepared Human Resources testimony in recent Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas & Electric Company and Southern California Edison Company General Rate Cases. I have prepared other types of testimony in many other proceedings. I also review certain advice letter filings on behalf of ORA.

Q.4 What is your area of responsibility in this proceeding?

A.4 I am responsible for this exhibit, which addresses PG&E's proposed revenue-sharing mechanism and the potential for cross-subsidization.

Q.5 Does that conclude your statement of qualifications?

A.5 Yes, it does.

ATTACHMENT B

PG&E's response to data request CCSF_001

**PACIFIC GAS AND ELECTRIC COMPANY
Competitive Local Exchange Carrier (CLEC)
Application 17-04-010
Data Response**

PG&E Data Request No.:	CCSF_001-Q02		
PG&E File Name:	CLEC_DR_CCSF_001-Q02		
Request Date:	October 16, 2017	Requester DR No.:	001
Date Sent:	October 30, 2017	Requesting Party:	City and County of San Francisco
PG&E Witness:	Aaron August	Requester:	William K. Sanders

QUESTION 2

In Chapter 2, section A.2 of PG&E’s Prepared Testimony, PG&E states that its fiber network consists of 4,638 miles. With regard to that testimony, please answer the following:

- a. How many of those 4,638 miles of fiber facilities are within CCSF?
- b. How many of those miles within CCSF does “PG&E own[] and include[] in rates”?
- c. How many of those miles within CCSF contain fiber facilities that “were installed in PG&E infrastructure by third parties with PG&E taking bare legal title to the fiber cable”?
- d. How many of those miles within CCSF contained fiber facilities used by PG&E pursuant to leases or “fiber swaps”?
- e. How many of PG&E’s available and unrestricted “Fiber Miles” are within CCSF?
- f. How many of PG&E’s available and unrestricted “Cable Miles” are within CCSF?

ANSWER 2

- a) Of the 4,638 miles of cable, approximately 269 miles are located within CCSF. These approximately 269 miles are assumed to be “those miles” referenced in questions b, c, and d.
- b) Approximately 92 miles of fiber cable are owned and were constructed by PG&E, and an additional approximately 148 miles were installed by third parties and bare title was transferred to PG&E. Any operational costs associated with the additional 148 miles are included in rates.
- c) Approximately 148 miles.
- d) Approximately 29 miles of fiber cable.
- e) There are approximately 9,207 miles total available unrestricted fiber miles within CCSF. Note that the “Available Unrestricted Fiber Miles” entry in table 2-1of PG&E’s Prepared Testimony is in error and will be corrected. The entry

inadvertently omitted the fiber miles associated with fiber cable installed and owned by PG&E (included in rates).

- f) Approximately 175 miles.