

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF
CALIFORNIA**

Rulemaking into Transfer of Master-Meter/Submeter systems at Mobilehome parks and Manufactured Housing Communities to Electric and Gas Corporations.

R. 11-02-018

**REPLY BRIEF OF THE
WESTERN MANUFACTURED HOUSING COMMUNITIES ASSOCIATION
IN THE RULEMAKING INTO ISSUES CONCERNING TRANSFER OF
ELECTRIC AND NATURAL GAS MASTER-METERED SERVICE AT
MOBILEHOME PARKS AND MANUFACTURED HOUSING COMMUNITIES TO
DIRECT SERVICE BY ELECTRIC AND/OR NATURAL GAS CORPORATIONS**

Pursuant to the November 20, 2012 Joint Stipulation of the active parties in this proceeding, the Western Manufactured Housing Communities Association (WMA) files this reply brief to address the issues raised in the parties' Opening Briefs in this proceeding. WMA continues to support the positions taken as stated in its Opening Brief and whole-heartedly supports the comments of Pacific Gas & Electric (PG&E), Golden State Manufactured-Home Owners League (GSMOL), Southwest Gas Corporation (SWG) and the Coalition of California Utility Employees (CCUE), known as PG&E et al. WMA takes this opportunity to respond to the issues and arguments raised in the Parties' Opening Briefs below.

Our review of the Parties' Opening Briefs reveals a significant level of agreement that also is aligned with the desires of the Commission as stated in the initial Rulemaking. The Parties support of an ambitious forward-looking program for conversion of master metered mobilehome park (MM MHP) utility systems to direct service is crucial, particularly at this time when many MM MHP

systems are at the end of their useful life, as particularly noted by CCUE. CCUE Brief at page 1. New replacement systems can be expected to be used and useful at least the next 40 years based on the Commission's rate setting practices and state policy supports conversion to Investor Owned Utilities (IOU) ownership and operation of direct service to MHP residents statewide. As such, resolving this Rulemaking and the program that will result will be timely as never before.

The Parties also agree that failure of the past program represented by Public Utilities Code Section 2791 et seq. calls for comprehensive reform to meet the goals of establishing safe and reliable direct service to MM MHP residents and that such a program should be forward looking and address the current, unprecedented circumstances. There is also unanimous agreement that significant ratepayer funding is appropriate even though significant disagreement in the scope and funding level between the PG&E, et al. and the Joint Parties¹ remains. The Parties are also agreed that conversion to direct service should be achieved through replacement of existing systems and facilities beyond the meter, even though the Joint Parties would place substantial cost responsibility on the MHP owner and/or the residents. Further, all agree that MM MHP properties with safety concerns are among the highest priority conversions, if not the highest priority. Finally, the approach to ratemaking is unanimous.

¹ The "Joint Parties" are the Division of Ratepayer Advocates, The Utility Reform Network, Southern California Edison Company, San Diego Gas & Electric Company, Southern California Gas Company, PacifiCorp, Bear Valley Electric Service and California Pacific Electric Company, LLC. See Joint Parties' Opening Brief at page 1.

Four significant disagreements remain for Commission resolution: the relative importance of focusing on improved safety and reliability, the scope of the program given the goals of the Rulemaking, treatment of “beyond the meter” conversion, and the expected costs and ratepayer impacts. WMA wishes to provide a context for the Commission to make that decision.

1. The Joint Parties Do Not Provide the Full Context of Safety and Reliability Concerns for MHP Residents

In their Opening Brief, the Joint Parties appear to portray the current situation as one where safety with the MHPs really should be of little concern to the Commission and that the objectives of the OIR may be misplaced or overblown. (Joint Parties Brief at 3 et seq.) The Joint Parties refer to the underlying motives for the recent passage of AB 1694 which was passed in response to the San Bruno accident. In the key report outlining the policy responses to be incorporated in the legislation that resulted in AB 1694, the Commission has stated,

“We have no evidence that existing MHP submetered service, taken as a whole, poses an imminent and serious safety risk.”[cite removed] In fact, a significant majority of MHP operators safely maintain their master-metered systems. This alone demonstrates that the Master Meter discount is sufficient to provide for such maintenance, and information from the Commission’s Consumer Protection and Safety Division (CPSD) shows that the vast majority of MHPs is sufficiently safe. (*need more of a reference*, p. 23)

However, the Joint Parties have misconstrued the intent of AB 1694. That legislation was not a response to a perceived improvement in MHP safety—it was a response to provide more resources for inspecting utility transmission pipelines. In other words, AB 1694 was enacted to address Commission

resource constraints and did not address assessment of MHP system safety and reliability.² As a result of this misinterpretation, the Joint Parties fail to understand the real issue that drives safety concerns—the aging of the vast majority of MM MHP systems.

More than 90 percent of MHPs are more than 30 years old according to Housing and Community Development Department data and the average age is substantially greater, and as evidenced by both the Commission staff survey, few of these systems have been replaced.³ The Commission is well aware that system safety and reliability declines with infrastructure age. What is true today about safety assessments will not be true tomorrow. The Commission recognized this situation when it instituted this Rulemaking, and WMA interprets this as the Commission’s intending to head off impending safety problems before they arise, instead of waiting until a serious safety issue occurs. The Commission should remain focused on the goals of proactively improving safety and reliability for MHP residents rather than be diverted as the Joint Parties are attempting to do.

² The Commission recognized these resource constraints in Report of the Independent Review Panel of the San Bruno explosion by noting:

California Laws on Mobile Home Parks and Propane Systems - Under California law, the CPUC must inspect all 3,200+ mobile home park and propane gas distribution systems at least once every five years, and in some cases more often. As a result, the CPUC commits substantial pipeline safety inspection resources on these systems. In 2008, the CPUC spent 43% of its inspection days on these facilities. Large private distribution systems took up another 40% and only 17% of inspection days were spent on transmission pipelines. In our interviews, the CPUC staff indicated it would prefer to spend more time on integrity management and transmission lines, but is hampered from doing so by California mobile home park and propane requirements, which focus limited resources elsewhere. Independent Review Panel San Bruno explosion, dated June 24, 2102, page 22. <http://www.cpuc.ca.gov/NR/ronlyres/85E17CDA-7CE2-4D2D-93BA-B95D25CF98B2/0/cpucfinalreportrevised62411.pdf>

2. The Commission Should Approve a Program to Achieve the Broadest Possible Participation.

The PG&E et al. proposal is the only program design proposed in this proceeding capable of achieving the broadest possible participation and achieving the stated goal of the Rulemaking. In contrast, the participation limitations imposed by the Joint Parties' proposal and arbitrary 10 percent eligibility cap are enough to discourage nearly all but the most financially capable and eager MHP owners.

The Joint Parties' frame their proposal as providing "an incentive to convert that exceeds what is provided under the current statutory transfer process," calling their proposal a "conversion credit incentive."⁴ As PG&E, WMA, CCUE and GSMOL have all pointed out, the Joint Parties' proposal provides an "incentive" in name only, not in substance, for the following reasons.

Their proposal fails to provide sufficient financial support to MM MHP owners for conversion of their systems to direct utility service and ownership, given the lack of access to capital by MHP owners sufficient to replace their systems to utility standards that will be safe and reliable, and used and useful, for the next 40 years. See PG&E Brief at page 10. Further, the Joint Parties never address the question of how it is appropriate for MM MHP owners to pay for entirely new systems that they will not own or operate themselves without being assured full (or even partial) cost recovery. They also fail to show any direct

³ "Summary of Responses: Questionnaire to Mobilehome Parks And Manufactured Housing Communities" August 10, 2011, responses to questions 2 and 12.

⁴ Id. at 2.

nexus between the dollar amount of the compensation cap and the Rulemaking's goal of conversion to direct utility service. WMA submits that there is no such nexus, and the "conversion credit incentive" is not based on any study or analysis of how to truly incent transfers – it seems to be based solely on a rough calculation of costs and the willingness of the Joint Parties to bear a share of those costs. WMA/McCann, Exhibit 6, at page 4 line 19 to page 5 line 21. While it is progress given the failure of the current approach to date, it simply does not address the Commission's desire to achieve as many transfers as possible.

The Commission should bear in mind that it is appropriate for a utility that owns, operates and earns a rate of return on converted distribution systems that are used and useful utility property to pay for those systems, install them to their standards and fully recover the investment in rates. That essentially is the proposal of PG&E et al., but the Joint Parties never address this issue that is at the core of current reluctance to transfer systems by MHP owners. A utility that installs a new direct service distribution system in a formerly master metered MHP will retain the amount of the differential it would otherwise have paid to the MM MHP owner (and avoid payment of any line extension allowance it would be obligated to pay if the MM MHP owner financed and installed a replacement distribution system for direct utility service -- see Pub. Util. Code §2793(b)(1)). This fact seems lost on the Joint Parties. It should not be lost on the Commission.

As GSMOL pointed out, the Joint Parties' proposal fails to establish any nexus between the proposed 10 percent participation rate and the five year

program length and the safety, reliability and increased participation goals of state policy favoring direct utility service to MM MHP residents. See GSMOL Brief at page 4-5. And, as CCUE points out, it will fail to achieve its purported incentive goals that the systems most in need of replacement receive priority for conversion in the utilities' programs because the MM MHP owners that are best able to finance and implement a conversion are the only MM MHP owners that could afford a transfer under the limits of the Joint Parties' program design and also are the *most* likely to be able to already replace their system before it falls into disrepair. WMA/McCann, Exhibit 6, at page 7 lines 10-15. Under the Joint Parties' program, the most vulnerable and therefore, highest priority from a safety point of view, are not likely to even participate given the limited financial support and implementation risks involved. See CCUE Brief, at page 7. Thus, those most vulnerable, and therefore of greatest concern to the Commission and the Parties, are the *least* likely to benefit from the Joint Parties' program design.

For all these reasons, WMA supports the PG&E et al. proposal as it will certainly lead to the broadest participation possible and reach those MHPs that are in need of repair.

3. Costs “Beyond the Meter” Should Be Included.

WMA joins with the Parties in support of the PG&E et al. proposal to urge the Commission to approve a program where all costs, including those “beyond the meter,” are included in the recovery from all distribution ratepayers. As noted by GSMOL, to do otherwise is to saddle MHP residents with costs they cannot

afford to pay or with pass-through demands from MHP owners who are required to bear the burden of these costs if the utilities do not. Further, it results in the MM MHP owner not truly being “out of the utility business” which is the goal of this Rulemaking. See GSMOL Brief at page 6.

As further pointed out by CCUE, the Joint Parties’ refusal to include any “beyond the meter” replacement and cost recovery would make participation unaffordable for most MHP owners and their residents who would be left to pay for upgrades to interconnect with new, replaced utility systems or retain a new direct service system mismatched with outdated, inadequate customer interconnection facilities. CCUE Brief at pages 7 and 8. WMA reiterates this observation, pointing out that “beyond the meter” costs are not covered under the submeter discount now according to Decision 04-04-043 (Attachment A, Item 2 and Attachment B, Item 2), and at least a significant portion likely would have to be recovered through rents from current residents. MHP residents are already among the least economically-advantaged groups in the state as evidenced in the utilities’ Low Income Energy Efficiency annual reports, and such rent increases would be a large financial burden for many. Placing the burden of the “beyond the meter” costs on MHP owners would result in those owners needing to get some form of pre-approval or buy-in either from residents or a governing rent-control agency, further inhibiting participation as an additional regulatory hurdle.

As PG&E points out, the Joint Parties’ Proposal is tantamount to simply renewing the existing failed program especially in that it places too much

financial burden on the MHP owner without concurrently providing the financial resources to support the program. PG&E Brief at page 10. The Joint Parties' fail to address whether a program that assigns all cost and construction responsibility "beyond the meter" to the MHP owners/residents (depending on the interconnection equipment in question) could be implemented and if not, whether the failure to support "beyond the meter" costs in rates would in turn, lead to failure in the direct service conversion as a whole in parks requiring significant beyond the meter replacements. WMA anticipates, as GSMOL points out, that a program without support for "beyond the meter" conversion will lead to delays at best, lengthy disputes or program failure at worst. See GSMOL Brief at page 5.

4. The Costs of the Proposed Program Will Not Significantly Impact Other Ratepayers, Contrary to the Incomplete Presentation by the Joint Parties.

With respect to the funding level, or "cost" issue, the Joint Parties' estimate that the PG&E, et al. proposal will amount to a \$7 to \$10 billion program statewide. It is not clear that this is true, even given the ample cost estimates presented in this proceeding as the Joint Parties have overestimated the likely potential costs. In aggregate, certainly, this total program cost is truly significant. However, even if it were a correct estimate, WMA submits this order of magnitude is entirely appropriate given the following considerations. This program will pay for new gas and electric distribution and interconnection facilities for an estimated 400,000 MHP resident homes that is expected to be

used and useful for at least 40 years and will be recovered in rates over the same amount of time.

When viewed in its proper proportion, WMA using the costs estimated by Dr. Richard McCann (Table 1) that exclude additional contingencies, the total cost over the multi-decade period of the program would be \$5.23 billion, shown in Table 1 here.⁵ Based cost of service factors reported in each utility's line extension rules that translates distribution extension costs into revenue requirements,⁶ the PG&E et al. program will translate roughly into an annual program cost of \$848 million/year across all utilities. Further, if the total program cost calculation includes an offset by the savings inherent in elimination of the discount that will then no longer be paid to MM MHP owners of \$62 million per annum, the net total program cost would drop to \$786 million/year. Based on the revenue requirements requested in each of the utilities' most recent General Rate Cases, ratepayers would see increases of 1.6 to 3.3 percent at the peak impact for the large IOUs, and less than 1 percent for the smaller utilities.

⁵ And this amount is not corrected for the time-value of money or the "net present value" which would make this smaller.

⁶ The cost of service factors for the smaller utilities are not available on their websites, so the value shown is the simple average for the four large utilities.

Table 1 – Total Expected Costs and Rate Impacts Based on Exhibit 1 Cost Estimates

<u>Cost/Space</u>	<u>SCE</u>	<u>PG&E</u>	<u>SoCalGas</u>	<u>SDG&E</u>	<u>SWGas</u>	<u>PacifiCorp</u>	<u>CalPeco</u>	<u>BVES</u>
<u>Electricity</u>								
To the Meter	11,862	8,011		5,029		4,918	6,204	NA
Beyond the Meter	6,242	3,805		5,877		2,574	NA	2,365
Total	18,104	11,816		10,906		7,492	6,204	2,365
<u>Gas</u>								
To the Meter		3,431	6,057	6,926	965			
Beyond the Meter		3,921	2,207	2,145	741			
Total		7,352	8,264	9,071	1,706			

Total Spaces	106,318	105,318	129,231	44,744	3,308			
Total Gas Only		17,288	129,231	9,853	3,308			
Total Electric Only	106,318	21,820		14,195		504	340	609
Total Gas & Electric		66,210		20,696				
Total \$ Gas Only		\$127,098,351	\$1,068,005,566		\$5,643,035			
Total \$ Electric Only	\$1,924,792,093	\$257,821,554		\$154,814,998		\$3,775,882	\$2,109,230	\$1,440,229
Total \$ Gas & Electric		\$1,269,090,874		\$413,443,613				
Total Costs	\$1,924,792,093	\$1,654,010,778	\$1,068,005,566	\$568,258,611	\$5,643,035	\$3,775,882	\$2,109,230	\$1,440,229

Rate Making Impacts

Cost of Service Factors	15.96%	16.80%	15.98%	16.19%	16.23%	16.23%	16.23%	16.23%
Annual Revenue Requirement	\$307,196,818	\$277,873,811	\$170,667,289	\$92,001,069	\$916,006	\$612,920	\$342,381	\$233,785
Retained Submeter Discount	(\$13,238,988)	(\$19,733,438)	(\$22,284,199)	(\$6,916,096)	(\$529,535)	(\$40,342)	(\$37,577)	\$0
Total Annual Revenue Requirements	\$11,240,000,000	\$16,201,504,000	\$4,478,000,000	\$4,065,231,000	\$160,960,306	\$113,290,456	\$77,965,000	\$22,410,000
Rate Increase	2.6%	1.6%	3.3%	2.1%	0.2%	0.5%	0.4%	1.0%

Further, the Joint Parties total cost estimates are at or even beyond the upper bounds of expectations. Both the Joint Parties' and the analysis presented here exclude savings attributable to joint trenching of utilities when possible at the majority of MM MHPs. The full comparable costs at two actual MHP transfers presented in Exhibit 1 in this proceeding, pages 57 to 59, were less than one-half of the costs presented by the utilities. For SoCalGas, the costs for these two MHP systems were 43 and 44 percent of the utility's estimate before contingencies for a single park; and for SCE, these were 29 and 37 percent. If these costs differences compared to the single-MHP template are typical, program costs fall to \$1.5 billion and rate increases will amount to 1 percent or less. The contingencies already include any potential for higher costs across the program, so the Joint Parties' claim of costs reaching \$10 billion are speculative and unsupported, essentially adding a contingency upon a contingency.⁷

For these reasons and assuming proper cost containment guidelines, such as joint trenching when possible and relying on applicant contractors where appropriate, WMA submits that the PG&E et al. program design is just and reasonable and clearly in the public interest.

5. Data Collection Is Not Required as a Precursor to a Full Program.

WMA also takes issue with the Joint Parties' justification that data collection is required. This position overstates the uncertainty in construction and

⁷ Finally for SDG&E, the count of eligible MM MHPs is probably too high as SDG&E's GRC and TCAP filings show substantially fewer MM MHPs than the OIR filings. (SDG&E may have included master-

cost estimates, since the utilities all have experience directly serving MHPs in their territories, and all install new distribution systems for the fully diverse range of residential customers throughout their service territories both for existing homes and new construction. While MM MHPs are unique from one another, they are not qualitatively different from other single-family homes throughout the utilities' service territories. Additionally, IOUs typically directly serve about one-fifth of the MHP residents with their service territories. And the system replacement program is not qualitatively different than the Rule 20 undergrounding programs managed by the electric IOUs for two decades, where a parallel system is constructed among existing utilities and structures and then switched over and energized. Ratepayers expect that the IOUs possess particular expertise in construction, design and operation of distribution service since the IOU's are given a monopoly franchise within their service territories to provide that service. As PG&E also points out, it is unnecessary and in any case, an unjustified cost and administrative burden, without any guarantee of yielding greater accuracy than actual program implementation. PG&E Brief at page 15. Finally, WMA agrees with CCUE that even if data collection were needed, the Joint Parties' Proposal would result in a biased data sample that would not reflect the expected costs of converting future systems. CCUE Brief at page 9.

metered recreational vehicle and apartment systems that are not addressed in this OIR.)

6. The Consumer Protection and Safety Division of the CPUC (CPSD) Should Be the Responsible Party to Prioritize Transfers.

While the Joint Parties' would give priority to gas systems with safety concerns, WMA supports PG&E's proposal to allow CPSD to prioritize the conversion queue with the proviso that those MHP owners in a state of financial and operational readiness be given concurrent priority with others and not face delay within the program. WMA believes that in this manner, safety and reliability would be enhanced. The Joint Parties' proposal does not provide any guidance on how its priority system will work given that it is the MHPs that must approach the utilities about converting their systems. Neither the utilities nor the Commission can compel MHPs to convert their systems under existing state and federal laws. To do so would create a program of inverse condemnation and open the Commission to court challenge. PG&E's proposal fits within the legal constraints that such a program must meet.

7. Conclusion.

WMA is pleased that the Commission has before it a proposal that will reach its goals of safety and reliability, but also encourage the transfers of MM MHP systems to the serving utility. The PG&E et al. proposal is the only one that surmounts the financial and regulatory hurdles that have impeded these transfers to date. The Commission has a chance to finally and completely address these issues with nominal impact to ratepayers. For the above reasons, WMA encourages the Commission to adopt the proposal presented by PG&E et al.

