Decision 13-12-043 December 19, 2013

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Adoption of Electric Revenue Requirements and Rates Associated with its 2014 Energy Resource Recovery Account (ERRA) and Generation Non-Bypassable Charges Forecast (U39E).	Application 13-05-015 (Filed May 31, 2013)

DECISION ADOPTING PACIFIC GAS AND ELECTRIC COMPANY'S 2014 ELECTRIC PROCUREMENT COST REVENUE REQUIREMENT FORECAST

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DECISION ADOPTING PACIFIC GAS AND ELECTRIC COMPANY'S 2014 ELECTRIC PROCUREMENT COST REVENUE REQUIREMENT FORECAST

1. Summary

This decision adopts the 2014 electric procurement cost revenue requirement forecast of $5,293.4 million for Pacific Gas and Electric Company (PG&E). In its Application filed May 31, 2013, PG&E forecasted that the requirement would be $5,386.3 million, a figure that was reduced by approximately $93 million following PG&E's November update of market conditions and year-end account balances. The total 2014 forecast of $5,293.4 million is approximately $756.3 million higher than the 2013 revenue requirement currently reflected in present rates.[1]

The $5,293.4 million forecast consists of PG&E's 2014 Energy Resources Recovery Account (ERRA)[2] revenue requirement forecast of $4,873.7 million, an Ongoing Competition Transition Charge (CTC)[3] revenue requirement forecast of

[1] Compared to the 2013 ERRA forecast of $4,537.1 million approved in Decision (D.)12-12-008 dated December 20, 2012.

[2] The ERRA records energy procurement costs associated with serving bundled electric customers. These costs include: (1) post-2002 contracted resource costs; (2) fuel costs of PG&E-owned generation resources; (3) qualifying facility and purchased power costs; and (4) other electric procurement costs such as natural gas hedging and collateral costs. The ERRA regulatory process includes: (1) an annual forecast proceeding to adopt a forecast of the utility's electric procurement cost revenue requirement and electricity sales for the upcoming year, and (2) an annual compliance proceeding to review the utility's compliance in the preceding year regarding energy resource contract administration, least cost dispatch, fuel procurement, and the ERRA balancing account.

[3] The Ongoing CTC forecast revenue requirement consists of the above-market costs associated with eligible contract arrangements entered into before December 20, 1995, and Qualifying Facility (QF) contract restructuring costs. CTC costs are recorded in the Modified Transition Cost Balancing Account.

$134.9 million, a Power Charge Indifference Amount (PCIA)[4] credit forecast of $6.7 million under D.06-07-030, a Power Charge Indifference Amount revenue requirement forecast of $46.4 million under D.04-12-048 and a Cost Allocation Methodology (CAM)[5] forecast revenue requirement of $245 million.

The assumptions underlying PG&E's forecast have been reviewed and analyzed by the Office of Ratepayer Advocates (ORA),[6] which concluded that they are reasonably accurate.

On the basis of its 2014 ERRA forecasts, PG&E proposes rate changes effective on January 1, 2014 to collect the additional required revenue. Today's decision approves PG&E's requested proposed rate increases. However, in

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[4] The PCIA is applicable to departing load customers that are responsible for a share of the Department of Water Resources (DWR) power contracts or new generation resource commitments. The PCIA is intended to ensure that: 1) the departing load customers pay their share of the above-market portion of the DWR contract or new generation resource costs, and 2) bundled customers remain indifferent to customer departures. The utilities provide data to the Commission's Energy Division, which then performs calculations and provides results back to the utilities.

[5] The CAM revenue requirement arises from D.10-12-035, in which the Commission adopted a "Qualifying Facility and Combined Heat and Power [QF/CHP] Program Settlement Agreement" that resolved outstanding QF issues and provided for a transition from the existing QF program to a new QF/CHP program. In that decision, the Commission adopted the CAM as a method of recovering QF/CHP program costs through non-bypassable charges.

[6] The Division of Ratepayer Advocates was renamed the Office of Ratepayer Advocates (ORA) effective September 26, 2013, pursuant to Senate Bill 96 (Budget Act of 2013: public resources), which was approved by the Governor on September 26, 2013. The statutory *mission of the ORA is to obtain the lowest possible rate for service consistent with reliable and safe service levels. In fulfilling this goal, ORA also advocates for customer and environmental protections. (See www.dra.ca.gov)*

compliance with D.12-12-033 in Rulemaking (R.) 11-03-012,[7] the Commission: 1) requires PG&E to use the 2014 forecast greenhouse gas (GHG) costs of $184 million described in the proposed Phase 1 Decision Adopting Cap-and-Trade Greenhouse Gas Program Cost and Allowance Revenue Forecasts for Incorporation into 2014 Electricity Rates, filed November 19, 2013 (GHG Cost and Revenue Proposed Decision) as the 2014 forecast GHG costs for purposes of this proceeding; 2) requires PG&E to continue to defer collection of both direct and indirect GHG costs of $184 million, and to remove these costs from the 2014 ERRA revenue requirement collected in rates, until implementation of GHG costs is finalized as set forth in D.12-12-033; and 3) directs PG&E to continue to defer 2013 GHG costs as directed in D.12-12-008.

PG&E revenue requirements will be consolidated with the revenue requirement changes under other Commission decisions in the Annual Electric True-up process.

2. Background

Pacific Gas and Electric Company (PG&E) filed Application (A.) 13-05-015 on May 31, 2013, seeking Commission approval of its 2014 Energy Resource Recovery Account (ERRA) forecast. The ERRA is a balancing account in which utilities record and track energy procurement costs (fuel and purchased power) against recorded revenues (ERRA revenue requirement). In other words, it tracks the difference between the authorized revenues recovered in rates and the cost of power.

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[7] R.11-03-012 is developing rules regarding utility cost and revenue associated with California's GHG Cap-and-Trade Greenhouse Gas Program. D.12-12-033 and D.13-06-012 require the utilities to temporarily defer GHG costs from rates.

In its May 2013 application, PG&E forecasted 2014 energy procurement revenue requirements of $5,386.3 million, which represents an increase when compared to the revenue provided in present rates. PG&E contends that the increase was due to several factors, such as increases in generation from renewable sources in 2014, higher forecasted prices for natural gas, electricity and greenhouse gas allowances, resulting in anticipated 2013 year end under-collection in procurement costs for all three of the above. PG&E also cited increased procurement need due to higher customer demand and reduced energy production from hydroelectric sources as a result of less than anticipated precipitation.

PG&E's Application was accompanied by prepared testimony in Exhibits PG&E-1 and PG&E-1C, each consisting of eleven chapters.[8]

The Office of Ratepayer Advocates (ORA) filed a protest to the Application on July 3, 2013. On July 5, 2013, additional protests were filed by Marin Energy Authority (MEA), as well as by Alliance for Retail Energy Markets (AReM) and Direct Access Customer Coalition (DACC) jointly. The Merced and Modesto Irrigation Districts (MID) filed a joint "response" to the Application, which for all practical purposes served as an additional protest. PG&E filed a reply to the protests on July 15, 2013.

The parties filed prehearing conference statements on August 9, 2013. A prehearing conference (PHC) was held in San Francisco on August 26, 2013 to

[8] The public (redacted) version of the prepared testimony is denoted PG&E-1. The confidential (unredacted) version, submitted under Public Utilities Code sections 454.5(g) and 583 is denoted PG&E-1C. PG&E submitted declarations to describe its reasons for contending that PG&E-1C is subject to protection under D.06-06-066 and General Order 66-C.

establish the service list for the proceeding, discuss the scope of the proceeding, and to develop a procedural timetable for the management of the proceeding. Following the PHC, Power and Water Resources Pooling Authority (PWRPA) filed a Motion for Party status, which was granted August 27, 2013.

The Scoping Memo and Ruling of Assigned Commissioner (Scoping Memo) was issued September 12, 2013. On September 16, 2013, MEA served prepared testimony, and on September 20, 2013, PG&E served rebuttal testimony.

On September 24, 2013, PG&E informed the assigned Administrative Law Judge (ALJ) via electronic mail (e-mail) that all parties agreed that evidentiary hearings would not be required. In lieu of an evidentiary hearing, the Commission held a workshop on October 9, 2013, at which PG&E further explained the factors affecting its forecast. ORA explained the review and analyses it had undertaken to determine whether the forecast was reasonably accurate. The Energy Division prepared a workshop report.[9]

On November 5, 2013, PG&E filed an Update to its prepared testimony (Update), to reflect changes to market conditions and actual data through September 30, 2013. The Update reduces PG&E's original forecast by approximately $93 million (from $5,386.3 million to $5,293.4 million).

3. Party Positions

3.1. MEA

In its prehearing conference statement and filed testimony, MEA raised concerns about the vintaging methodology used by PG&E when extending

[9] The workshop report prepared by the Energy Division is attached to this Decision.

contracts, and whether PG&E's methods of calculating its forecast assumptions comply with Commission requirements.

3.2. MID

Merced Irrigation District and Modesto Irrigation District (MID) did not file testimony, but in their joint prehearing conference statement, explained that they sought to: 1) ensure that the CTC is calculated properly; 2) clarify whether PG&E proposed to impose any non-bypassable charges on municipal departing load customers, and if so, ensure that non-bypassable charges are calculated on a vintage basis, and 3) confirm that no CAM charge will be applied to municipal departing load customers. MID also proposes that the Commission set an end date or develop a plan for phasing out CTC.

3.3. AReM/DACC

Alliance for Retail Energy Markets (AReM) and Direct Access Customer Coalition (DACC) did not file testimony, but in their joint prehearing conference statement, expressed concerns similar to MID, *i.e.,* whether PG&E is permitted to charge costs associated with the CAM revenue requirement to direct access customers. It pointed out that, in prior ERRA proceedings, only PCIA and CTC charges were assessed to direct access customers.

3.4. ORA

The protest filed by the ORA first sets forth the statutory authority for ERRA balancing accounts, then explains ORA's obligation (on behalf of ratepayers) to analyze the cost inputs and pricing utilized by PG&E in developing its forecast. ORA indicates that its analysis would focus upon PG&E's estimates of revenues and costs arising out of the implementation of the greenhouse gas (GHG) cap-and-trade program, PG&E's generation from renewable sources, PG&E's forecasted prices for natural gas, electricity and GHG allowances, and PG&E's increased procurement needs.

In addition, in its prehearing conference statement, ORA pointed out that PG&E's GHG costs should be excluded from the forecasted revenue requirement for 2014 and deferred pending implementation of Rulemaking (R.) 11-03-012, as ordered in D. 12-12-033.

3.5. PWRPA

In its Motion for Party status, Power and Water Resources Pooling Authority (PWRPA) stated that its motivation to participate in the case as a party was for the purpose of identifying, examining and addressing issues related to PG&E's calculation of PCIA and CTC charges to be paid by departing customers.

3.6. PG&E

In its reply to protests, prehearing conference statement, filed testimony and rebuttal testimony, PG&E asserts that the calculations underlying its forecasts comply with Commission decisions, but that, in any event, issues of methodology raised by the protests concerning the various calculations supporting its forecasts are outside of the scope of this ERRA proceeding. PG&E generally contends that the concerns about calculation methodology expressed by MEA and other parties should be taken up in a proceeding where methodology is under review, or the parties should file a petition to modify or clarify any prior Commission decision in which the Commission discussed calculation methodology or determined standards by which PG&E may vintage.

4. Discussion

The Scoping Memo acknowledges that the protesting parties request that the Commission examine the methodology for PCIA costs, including the vintaging of amended contracts, and the effects of vintaging on time frames within which PG&E may recover costs as part of this proceeding. However, as noted therein, PG&E is correct that challenges to the Commission's existing policy, including cost allocation methodologies, are beyond the scope of this proceeding. As noted in this Commission's recent D.13-08-023, "cost allocation and fee issues are appropriately addressed on a case by case basis"[10], however, the methodologies at issue here have been recently reviewed and modified or are currently still under review in other proceedings. Others, such as setting an end date for statutory CTC, are appropriately determined by the Legislature

No protesting party provided alternatives to the forecasted amounts proposed by PG&E in its ERRA forecast application.

In its workshop presentation on October 9, and in its Update, PG&E describes the components of the assumptions underlying its forecasts. PG&E's forecast of 2014 GHG costs in this proceeding does not provide the level of detail necessary to calculate the GHG cost deferral in 2014. GHG costs include both direct and indirect costs. PG&E's Update identifies forecast direct GHG costs, but indirect GHG costs are not separately identified in the forecast for procurement of power. Therefore, for purposes of calculating the 2014 forecast GHG direct and indirect costs that are to be deferred, PG&E should use the figure of $184 million authorized in the GHG Cost and Revenue Proposed Decision filed November 19, 2013.

5. Conclusion

Subject to the handling of GHG costs, as described above, PG&E's 2014 electric procurement forecast revenue request of $5,293.4 million, comprised of

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[10] D.13-08-023, at 16-17.

its ERRA revenue requirement forecast of $4,873.7 million, CTC revenue requirement forecast of $134.9 million, a PCIA credit forecast of $6.7 million, a PCIA revenue requirement of $46.4 million and a CAM forecast revenue requirement of $245 million, as described in PG&E's Update, should be adopted.

In addition, PG&E's forecast of electric sales and proposed associated electric rates, which are subject to the AET process,[11] should be adopted. These rates should be effective January 1, 2014.

We remind PG&E that its calculation of the 2014 forecast ERRA, CTC, PCIA, and CAM amounts must be in compliance with all applicable Commission decisions and regulations that address this issue.

6. Procedural Issues

6.1. Categorization and Need for Hearings

In Resolution ALJ 176-3316, dated June 27, 2013, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were necessary. As noted above, on September 24, 2013, PG&E notified the assigned ALJ that PG&E and the parties had reached agreement that hearings would not be necessary in this proceeding. In lieu of an

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[11] Pursuant to Commission Resolutions E-3906, E-3956, E-4032, E-4121, E-4217, E-4289, and E-4379, PG&E is required to file an advice letter by September 1st of each year with its preliminary forecast of electric rate changes expected to be effective January 1st of the following year. Pursuant to these resolutions, AET advice letter provides a preliminary estimate of PG&E's electric rates expected to be effective on January 1st of the upcoming year. These preliminary estimates of rates include: 1) the forecast of balancing account balances (for December 31st of the current year) that will be amortized in the upcoming year; and 2) electric rate changes being considered in pending proceedings and advice letters, as well as advice letters that have not yet been filed but are expected to be filed and approved by the last Commission meeting date of the current year; but exclude 3) rate impacts that are subject to pending legislation, which would result in changes to electric rates on January 1st of the upcoming year.

evidentiary hearing, the parties participated in a workshop held October 9, 2013 at which PG&E further explained its forecast and ORA explained its analyses and ultimate determination that PG&E's forecast was reasonable. Given these developments, we make a final determination here that the category is ratesetting, and that a public hearing is not necessary.

6.2. Admittance of Testimony and Exhibits into Record

Since hearings were not held in the current proceeding, testimony and exhibits are being admitted into the record pursuant to the rulings issued by the assigned Commissioner within the Scoping Memo, and by the assigned ALJ following the PHC.

Rule 13.8(d) of the Commission's Rules of Practice and Procedure[12] allows for testimony to be offered into evidence when hearings are not held.

We therefore receive both the public and confidential versions of PG&E's Application and testimony into evidence. The confidential nature of selected PG&E documents is addressed below. MEA's testimony is also received into evidence. (*See* Attachment A for a list of Exhibits received into the record.)

6.3. Motions to File Under Seal, for Confidential Treatment, and to Seal Evidentiary Record

On November 21, 2013, PG&E filed a motion in which it requested authority to file confidential material under seal, including the confidential versions of its Application, Testimony included with its Application,
Workshop Exhibits and Update to its Application, pursuant to Rule 11.4 and

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[12] For the remainder of this decision all references to Rules refer to the Commission's Rules of Practice and Procedure.

General Order (GO) 66-C. PG&E requests that the evidentiary record in this proceeding be sealed, pursuant to Rule 11.5, GO 66-C, and D.06-06-066, with respect to the above confidential materials. Rule 11.4 addresses a request to seal documents that have been filed, while Rule 11.5 addresses sealing all or part of an evidentiary record. GO 66-C provides definitions and guidance regarding public and confidential records provided to and requested from the Commission. By D.06-06-066, we implemented Senate Bill (SB) 1488[13] which required that we examine our practices regarding confidential information, as it applies to the confidentiality of electric procurement data (that may be market sensitive) submitted to the Commission.

6.4. Discussion - Confidential Treatment and Filing Under Seal

PG&E requests that Exhibit PG&E-1C and portions of its Update be kept confidential because they contain information, including market sensitive information such as forecasts of load, sales, and purchase power requirements, that if disclosed would put PG&E at a competitive disadvantage.

We have granted similar requests for confidential treatment in the past[14] and do so again herein. We therefore authorize the confidential treatment, pursuant to General Order 66-C and D.06-06-066, of PG&E's Exhibit PG&E-1C and the November 5, 2013 Update to Prepared Testimony, as set forth in the ordering paragraphs of this decision.

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13 Chapter 690, Stats. 2004.

14 *See* D.11-12-031.

7. Comments on Proposed Decision

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 14 days. Accordingly, comments were filed on December 9, 2013, and reply comments were filed on December 13, 2013.

Comments were filed by PG&E, MID and MEA. We have reviewed and considered the comments, and have incorporated comments by PG&E and MID in this Decision.

MEA contends that the ALJ commits significant legal and factual error by failing to investigate whether PG&E accurately reflects load departures due to formation and expansion of CCA programs in its forecasts and appropriately handles cost allocation issues. MEA further contends that possible changes in the methodology of calculating CAM determined in R.12-03-014, should be addressed in this proceeding. However, we do not agree with MEA.

As noted previously under Discussion, cost allocation methodologies are beyond the scope of this proceeding. Likewise, although MID argues that Pub. Util. Code § 367 gives the Commission authority to set an end date or plan for phasing out CTC , that issue is also beyond the scope of this proceeding.

8. Assignment of Proceeding

Michel Peter Florio is the assigned Commissioner and Patricia B. Miles is the assigned ALJ in this proceeding.

Findings of Fact

1. By Resolution ALJ 176-3316, dated June 27, 2013, A.13-05-015 was categorized as ratesetting with hearings needed.

2. Protests to the application were filed by ORA, MEA), jointly by AREM-DACC, and jointly by Merced Irrigation District and MID. The PWRPA did not file a protest but requested to be added as a party to the case, and stated that it agreed with protests by MEA.

3. After service of testimony, parties agreed that hearings were not necessary.

4. In lieu of hearings, the Commission convened a workshop on October 9, 2013. At the workshop, PG&E highlighted the drivers of its 2014 ERRA revenue requirement forecast application. ORA explained its review and analysis of the application in support of its conclusion that the PG&E forecast was reasonable. Energy Division prepared a workshop report.

5. PG&E's updated 2014 ERRA forecast revenue requirement, Ongoing CTC forecast revenue requirement, PCIA credit, CAM revenue requirement, and higher procurement cost forecasts are supported by its filed testimony, the workshop presentation (which are attached to this Decision as exhibits) and its November 5, 2013 update (which has been filed under seal as confidential).

6. PG&E requests, pursuant to its Application and Update, that the Commission adopt a total 2014 electric procurement forecast of $5,293.4 million, which consists of PG&E's 2014 ERRA forecast revenue requirement of $4,873.7 million, its Ongoing CTC forecast revenue requirement of $134.9 million, its PCIA forecast revenue requirement credit of $6.7 million, its PCIA revenue requirement forecast of $46.4 million and its CAM forecast revenue requirement of $245.0 million.

7. PG&E's 2014 ERRA forecast revenue requirement includes a forecast of $184 million for 2014 GHG costs expected to be incurred as part of California's Cap-and-Trade program D.12-12-033 addresses rules regarding how GHG allowance revenue should be distributed to ratepayers. Pursuant to that

Decision, the recovery of GHG costs must coincide with the distribution of GHG revenues. All GHG costs must be deferred from recovery in rates until the Commission declares in R.11-03-012 that the GHG allowance revenue allocation methodology is ready for implementation. GHG allowance revenues will offset GHG costs for residential and small commercial customers.

8. The forecast figure of direct and indirect GHG costs for 2014 of $184 million used in the GHG Cost and Revenue Proposed Decision, shall be the figure used for purposes of PG&E's 2014 ERRA forecast revenue requirement in this proceeding.

9. No party provided alternatives to the 2014 forecasted amounts requested by PG&E for ERRA, Ongoing CTC, PCIA credit and forecast revenue requirement forecasts or CAM revenue requirement forecasts.

10. Through written protests, briefing, filed testimony and discussions during the Prehearing Conference, MEA, AREM-DACC and MID voiced concern about PG&E's methodology for calculating CTC and PCIA costs, as well as the effects of vintaging on time frames within which PG&E may recover these costs. The D.13-08-023, concluded that the Commission will continue to consider cost allocation methodologies in an ongoing fashion. However, because challenges to cost allocation methodologies have been, or are currently being, reviewed in other proceedings, those issues are beyond the scope of this proceeding and are not addressed by this Decision.

11. PG&E's Update reflects: 1) updated forward gas, electricity and greenhouse gas prices; 2) a final market price benchmark for certain non-bypassable charges; 3) a more recent estimate of year-end account balances; 4) modification of the load forecast to reflect more recent data on MEA's Community Choice Aggregation program; 5) updates the 12-month coincident

peak load values that are used in the New System Generation charge calculation; 6) modification of the list of CAM eligible contracts to include those executed or renewed since June 2013; 7) modification of the year-end ERRA, Modified Transition Cost Balancing Account and New System Generation Balancing Account balances to reflect recorded balances through September 30, 2013 and forecast costs from October 1 through December 31, 2013, and 8) addition of resource adequacy capacity contracts, issued in March 2013, as well as a contract with the Los Medanos Energy Center.

12. In its reply to the Protests to its Application dated July 15, 2013, PG&E states that it is using methodologies which have been approved by the Commission in its rate calculations in the current proceeding.

13. Rule 11.4 addresses a request to seal documents that have been filed.

14. Rule 11.5 addresses sealing all or part of an evidentiary record.

15. GO 66-C provides definitions and guidance regarding public and confidential records provided to and requested from the Commission.

16. By D.06-06-066, we implemented SB 1488 which required that we examine our practices regarding confidential information, as it applies to the confidentiality of electric procurement data (that may be market sensitive) submitted to the Commission.

17. PG&E requests that selected exhibits be given confidential treatment pursuant to GO 66-C and D.06-06-066.

18. We have granted similar requests for confidential treatment in the past.

19. PG&E requests that the confidential version of its Application, Testimony included with its Application, Workshop Exhibits and Update, be filed under seal pursuant to Rule 11.4.

20. PG&E requests that the confidential portions of the evidentiary record be sealed pursuant to Rule 11.5.

Conclusions of Law

1. PG&E's updated 2014 ERRA electric procurement revenue requirement forecast of $5,293.4 million, comprised of ERRA revenue requirement of $4,873.70 million, Ongoing CTC forecast revenue requirement of $134.9 million, PCIA credit forecast of $6.7 million, PCIA forecast revenue requirement of $46.4 million and CAM forecast revenue requirement of $245 million should be adopted. However, $184 million of 2014 GHG costs expected to be incurred as part of California's Cap-and-Trade program, as well as 2013 GHG costs, must be deferred from recovery in rates until the Commission declares in Rulemaking (R.) 11-03-012, that the GHG allowance revenue allocation methodology is ready for implementation.

2. PG&E's 2014 forecast of electric sales and associated rates should be adopted, subject to the AET process.

3. PG&E's calculation of the forecast 2014 ERRA, Ongoing CTC, PCIA, and CAM must be in compliance with all applicable Commission decisions and requirements.

4. PG&E's request that the public and confidential versions of its Application, Testimony and Exhibits included with its Application, Workshop presentation and Update be received into evidence should be granted.

5. MEA's request that its testimony be received into evidence should be granted.

6. PG&E's request for confidential treatment of redacted versions of PG&E's Application, Testimony and Exhibits included with its Application, Workshop

presentation and Update, should be granted pursuant to Rule 11.5, GO 66-C and D.06-06-066.

7. This Decision should be effective immediately so that it may be reflected in rates effective January 1, 2014.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company is authorized to recover a total 2014 electric procurement cost revenue requirement forecast of $5,293.4 million, consisting of its 2014 Energy Resource Recovery Account forecast revenue requirement of $4,873.7 million, an Ongoing Competition Transition Charge forecast revenue requirement of $134.9 million, a forecast Power Charge Indifference Amount credit of $6.7 million, a forecast Power Charge Indifference Amount revenue requirement of $46.4 million and a Cost Allocation Methodology forecast revenue requirement of $245 million.

2. Pacific Gas and Electric Company 's forecast is subject to the requirements in Rulemaking (R.)11-03-012, and inclusion of Greenhouse Gas costs in rates must coincide with the distribution of Greenhouse Gas revenues. Pacific Gas and Electric Company, therefore, is required to defer collection of Greenhouse Gas costs, and associated franchise fees and uncollectables, until the Commission declares in R.11-03-012 that the Greenhouse Gas allowance revenue allocation methodology is ready for implementation.

3. For purposes of calculating the deferred amount of Greenhouse Gas costs from its 2014 forecast, Pacific Gas and Electric Company shall use the forecast figure of $184 million referenced in the proposed Phase 1 Decision Adopting

Cap-and-Trade Greenhouse Gas Program Cost and Allowance Revenue Forecasts for Incorporation into 2014 Electricity Rates, filed November 19, 2013 (Greenhouse Gas Cost and Revenue Proposed Decision).

4. Pacific Gas and Electric Company's requested 2014 forecast of electric sales and associated rates are adopted, subject to the Annual Electric True-up process.

5. Pacific Gas and Electric Company shall consolidate the revenue requirement and sales forecast adopted in this order with the revenue requirement effects of other recent Commission decisions through the Annual Electric True-Up process.

6. Pacific Gas and Electric Company's calculation of the forecast Energy Resource Recovery Account forecast, forecast Ongoing Competition Transition Charge, forecast Power Charge Indifference Amount, and forecast Cost Allocation Methodology must be in compliance with all applicable Commission decisions and requirements.

7. Pacific Gas and Electric Company's request that the public and confidential versions of its testimony be received into evidence is granted (*see* Attachment A).

8. Marin Energy Authority's request that its testimony be received into evidence is granted (*see* Attachment A).

9. Pacific Gas and Electric Company's motion to file the confidential version of its Application, Testimony and Exhibits included with its Application, Workshop presentation and Update to its Prepared Testimony under seal is granted, pursuant to Rule 11.4 of the Commission's Rules of Practice and Procedure.

10. Pacific Gas and Electric Company's (PG&E) confidential versions of its Application, Testimony and Exhibits included with its Application, Workshop presentation and Update to its Prepared Testimony are granted confidential

treatment for a period of three years from the date of this order. During this three-year period, this information may not be viewed by any person other than Commission staff, except as agreed to in writing by Pacific Gas and Electric Company, or on the further order or ruling of the Commission, the assigned Commissioner, the assigned Administrative Law Judge (ALJ), the Assistant Chief ALJ, the Chief ALJ, the ALJ then designated as Law and Motion Judge, or as ordered by a court of competent jurisdiction. If PG&E believes that it is necessary for this information to remain under seal for longer than three years, PG&E may file a motion providing a justification for a further extension at least 30 days before the expiration of the three-year period granted by this order.

11. The confidential portions of the record, consisting of Pacific Gas and Electric Company's Application, Testimony and Exhibits included with its Application, Workshop presentation and Update to its Prepared Testimony are sealed, pursuant to Rule 11.5 of the Commission's Rules of Practice and Procedure.

12. Hearings are not necessary.

13. Application 13-05-015 is closed.

This order is effective today.

Dated December 19, 2013, at San Francisco, California.

MICHAEL R. PEEVEY
President
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
MARK J. FERRON
CARLA J. PETERMAN
Commissioners

ATTACHMENT A

Exhibit List

Exhibit No.	Sponsor/ Witness	Description/Title of Exhibit
Application	PG&E	Application of PG&E for 2014 ERRA and Generation Non-Bypassable Charges Forecast
Application – C	PG&E	Application of PG&E for 2013 ERRA and Generation Non-Bypassable Charges Forecast **Confidential Version**
PG&E – 1	PG&E	Prepared Testimony – 2014 ERRA and Generation Non-Bypassable Charges Forecast
PG&E – 1C	PG&E	Prepared Testimony – 2014 ERRA and Generation Non-Bypassable Charges Forecast **Confidential Version**
PG&E – 2	PG&E	Rebuttal Testimony – 2014 ERRA and Generation Non-Bypassable Charges Forecast
PG&E – 3	PG&E	November 5, 2013Update to 2014 ERRA and Generation Non-Bypassable Charges Forecast
PG&E – 3C	PG&E	November 5, 2013Update to 2014 ERRA and Generation Non-Bypassable Charges Forecast **Confidential Version**
PG&E – 4	PG&E	Pacific Gas and Electric Company Workshop Presentation Slides dated October 9, 2013
MEA – 1	MEA	Testimony of MEA on PG&E's Application for 2014 ERRA and Generation Non-Bypassable Charges Forecast
A	Energy Division	October 9, 2013 Workshop Report by California Public Utilities Commission Energy Division
B		October 9, 2013 Workshop Agenda
C		Office of Ratepayer Advocate Workshop Presentation Slides dated October 9, 2013

(END OF ATTACHMENT A)

Final Report
October 9, 2013 Workshop
Pacific Gas and Electric Company's
2014 Energy Resource Recovery Forecast Application
A.13-05-015

California Public Utilities Commission
Energy Division
Elaine Lau

November 18, 2013

Table of Contents

I. BACKGROUND

On May 31, 2013, Pacific Gas and Electric Company (PG&E) filed application (A.) 13-05-015 for approval of electric revenue requirement and rates associated with its 2014 Energy Resource Recovery Account (ERRA) and Generation Non-Bypassable Charges Forecast. In the application, PG&E requests Commission approval of its forecasted 2014 energy procurement revenue requirements of $5,386 million, to be effective in rates on January 1, 2014. The parties to the proceeding stipulated that evidentiary hearings are not needed. In lieu of evidentiary hearings, the Commission held a workshop to review PG&E's request and the analysis of PG&E's application conducted by the Commission's Office of Ratepayer Advocates (ORA).

The workshop was held on Wednesday, October 9, 2013 from 10 am to 12 pm in Hearing Room D at the California Public Utilities Commission's (CPUC) San Francisco office. The workshop agenda is included in Attachment A.

In attendance were Commissioner Michael Florio, Rachel Peterson (Advisor to Commissioner Florio), Administrative Law Judge Patricia Miles, CPUC Energy Division staff, and representatives from ORA, PG&E, the Marin Energy Authority, the Alliance for Retail Energy Markets, and the Energy Producers & Users Coalition. Joining the workshop via telephone conference were representatives from San Diego Gas and Electric Company, the Power and Water Resources Pooling Authority, and Modesto and Merced Irrigation District.

During the workshop, PG&E gave a presentation that highlights the drivers of its 2014 ERRA revenue requirement forecast application and anticipated changes to the forecasted costs in the November 2013 ERRA update filing. ORA also gave a presentation to discuss ratepayers' interests in the proceeding. ORA explained the review and analyses that it conducted on PG&E's ERRA forecast. Both PG&E and ORA held question and answer (Q&A) discussions after their presentations.

A draft of this report was sent to the service list in A.13-05-015 on November 6, 2013 for comments. Comments were due on November 15, 2013. No comments were submitted on the draft report.

II. PG&E'S PRESENTATION

A. Summary:

The presentation that PG&E made at the workshop is included as Attachment B to this report. In its presentation, PG&E gave an overview of its application, explained its revenue request, and described the drivers that have contributed to higher energy procurement costs. The ERRA forecast application seeks approval for the revenue requirement associated with PG&E's forecast of electric procurement-related costs and non-bypassable charges. For bundled customers, the ERRA forecast application will only affect generation revenues. For departed load customers, such as Community Choice Aggregation customers and Direct Access customers, the forecast proceeding sets the Non-Bypassable Charges, such as Ongoing Competition Transition Charge (CTC), Power Charge Indifference Adjustment (PCIA) and Cost Allocation Mechanism (CAM).

PG&E's 2014 ERRA revenue requested in the application is $5.386 billion, which is a $993 million increase compared to its revenues at present rates. A breakdown of the revenue requirement is as follows:

Energy Resource Recovery Account	$4,915.9 M
Ongoing Competition Transition Charge	$181 M
Power Charge Indifference Adjustment	$28.0 M
Cost Allocation Mechanism	$261.5 M
Total	$5.386 billion

The drivers of the increase in the revenue requirement are:

Driver	Cost increase

	($ million)
High Procurement Need	$130
Market Prices & Portfolio Changes	$130
Renewable Portfolio Standard	$320
Deferred 2013 GHG Costs	$180
2013 Balancing Account Undercollection	$233
Total	$993

- Higher procurement costs are projected due to a higher load forecast (projected to increase by 1.5% in 2014), a projected decrease in hydro generation, and a decrease in nuclear production at Diablo Canyon which will have 2 refueling outages in 2014.
- An increase of $130 million in costs is forecasted as result of higher Market Prices and Portfolio Changes. The forward prices of gas, Green House Gas (GHG), and power are expected to increase. There is also a change in the energy portfolio in that many contracts with older fossil units are expected to end in 2013 and will be replaced with contracts with brand new facilities.
- An increase of $320 million results from an additional 3000 GWh of new Renewable Portfolio Standard (RPS) generation, which will come online in 2014. This leads to a 17% increase in RPS generation compared to 2013.

- An increase of $180 million results from GHG costs that were deferred from 2013. The GHG costs were incurred as part of California's cap and trade program.
- An increase of $233 million results from undercollections in the ERRA, Modified Transition Cost Balancing Account, and the New System Generation Balancing Account. The undercollections are a result of lower actual hydro generation in 2013 than what was included in the 2013 forecast and higher actual energy market prices in 2013 than forecasted.

B. Additional Notes from PG&E's Q&A Discussion:

1) 2014 Revenue Request: PG&E's $5.386 billion revenue request includes a forecast of 2014 GHG costs.
2) Cost driver relating to higher procurement need: The reopening of Direct Access has a relatively small effect on PG&E's 2014 Direct Access load forecast.
3) GHG Cost Recovery:

- Pursuant to D.12-12-033, the recovery of GHG costs must coincide with the distribution of GHG revenues.

- GHG revenues will offset GHG costs for residential and small commercial customers.

4) November 2013 Update:

- PG&E will use the same methodology for forecasting ERRA costs in its ERRA update application. The update will reflect changes in forecasted market prices.

5) Hydro forecasting:

- PG&E considers reservoir carry over in forecasting hydro generation. It is assumed that weather will return to normal conditions in 2014, but hydro generation is expected to be below average because there will be limited reservoir carry-over into 2014.
- Pumped storage hydro generation is generally not affected by dry hydro conditions.

6) Market Prices and Economic Dispatch Modeling

- PG&E uses forward electricity and natural gas prices for a single day to simulate economic dispatch using a Monte Carlo simulation model.

III. ORA'S PRESENTATION

A. Summary:

ORA's presentation is included in Attachment C. ORA highlights some of the analyses it conducted for PG&E's application. In comparison to PG&E's 2013 ERRA forecast revenue requirement of $4.54 billion approved in D.12-12-008, PG&E's 2014 forecast revenue requirement of $5.34 billion is in an increase of $849 million or 19%. The main reasons for the increase are an increase in RPS costs, an increase in gas prices, increased load, decreased hydro and nuclear generation, and an increase in GHG costs. Through data requests to PG&E, ORA reviewed the cost drivers causing the revenue requirement increase, the calculations of key inputs such as fuel and GHG prices, and historical trends of comparing forecast and actual revenue requirements since 2003. When reviewing the application, ORA also checked the accuracy of PG&E's forecasts with external sources, such as checking forecasted gas prices with public sources.

ORA's presentation shows that the $849 million revenue requirement increase in 2014 includes a $581 million increase in procurement costs and an increase of $254 million as a result of balancing account undercollections in 2013. The $581 million increase in procurement costs is a result of three cost drivers: increasing RPS generation (resulting a $320M increase), higher market prices of gas and

GHG costs and portfolio changes (resulting a $130M increase), and higher procurement volumes as a result of a combination of lower hydro and nuclear generation and higher load (resulting a $130M increase).

ORA will analyze PG&E's November 2013 ERRA update filing and will review key inputs such as gas prices and GHG prices included in the update.

<u>B. Additional Notes from ORA's Q&A Discussion:</u>

During the presentation, ORA emphasized that, in reviewing the ERRA forecast application, ORA's goal is to ensure that the forecast is reasonably accurate by closely examining the forecast assumptions and cost drivers in the application. Ensuring that the forecast ERRA application is reasonably accurate allows ORA to proactively prevent an ERRA trigger application. An ERRA trigger application could be filed if the ERRA balance is overcollected or undercollected by 5% of PG&E's actual recorded generation revenues for the prior calendar year. ORA indicated that PG&E's ERRA balance historically, on average, has an undercollection of 1.2%.

After reviewing PG&E's 2014 ERRA Forecast application, ORA concluded that PG&E's forecast and underlying assumptions are reasonably accurate. ORA will look closely at PG&E's compliance ERRA application to be filed in February 2014 to examine the actual procurement costs PG&E incurred in 2013.

ORA'S review of PG&E's ERRA application and analyses of PG&E's request includes:

- ORA looked at PG&E's ERRA requests made in prior years and analyzed the cost drivers resulting in the increases requested.
- In some of the past ERRA forecast proceedings, ORA has had some disagreements with utilities. These disagreements typically result from divergent views of forecast elements, such as gas prices, and forecast methodologies.
- ORA analyzed PG&E's fuel price forecasts. ORA looked at gas prices at PG&E's city gate and determined that PG&E did not over-forecast gas prices in 2014.
- ORA analyzed the reasons for the balancing account under-collections.
- ORA found that existing RPS contracts contribute more to the increase in RPS generation in 2014 than new RPS contracts coming on line in 2014.

- ORA will review PG&E's November 5, 2013 update, including updated GHG prices, and gas prices.

IV. Attachment A:

Agenda to the Workshop

(Provided Upon Request)

V. Attachment B:

PG&E's Presentation Slides

(Provided Upon Request)

V. Attachment C:

ORA's Presentation Slides

(Provided Upon Request)