

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

ITEM # 21
ID #12975
RESOLUTION E-4643 (Rev.1)
JUNE 12, 2014

R E S O L U T I O N

Resolution E-4643. Reasonableness review of Pacific Gas and Electric Company's (PG&E's) Schedule E-31 discounted rate contracts for years 2009 through 2012.

PROPOSED OUTCOME:

- This Resolution determines that the discounted rates PG&E charged its Schedule E-31 customers during the specified annual review periods were reasonable.

SAFETY CONSIDERATIONS:

- Customers who receive service under Schedule E-31 contracts are subject to all applicable local, state, and federal safety rules and regulations.
- These contracts have no incremental safety implications for the facilities or operations of PG&E.

ESTIMATED COST:

- Following this determination of reasonableness, PG&E is allowed to recover \$206,258 (the balance in the Distribution Bypass Deferral Rate Memorandum Account at the end of February 2014) from customers with loads greater than 20 kilowatts in its next Annual Electric True-Up.

By Advice Letters 3680-E, 3903-E, 4057-E, and 4243-E dated June 2, 2010, September 16, 2011, June 7, 2012, and June 27, 2013, respectively.

SUMMARY

Pursuant to Public Utilities (PU) Code Section 454.1 and Commission-approved tariffs, PG&E is allowed to offer discounts to retain or attract medium/large load electric customers within its service territory when an irrigation district provides, or is seeking to provide, similar service at lower rates. In Resolution E-4517, issued on December 20, 2013, we addressed Advice Letter (AL) 3524- E/E-A and determined that the discounted rates PG&E charged its customers during the first review period covering the years 2004-08 were reasonable, and authorized PG&E to recover \$1.8 million from customers with demand greater than 20 kilowatts (kW). In this resolution, we address the reasonableness review of Schedule E-31 discounted rate contracts during 2009-12.

Energy Division has reviewed PG&E's records for all customers who took service under Schedule E-31 discounted rate contracts during 2009-12, confirmed the accuracy of the calculations supporting the contract rates, and verified PG&E's compliance (with one noted exception) with required marginal cost floor price provisions. Based upon this review, we conclude that the discounted rates PG&E charged its Schedule E-31 customers during 2009-12 were reasonable. Accordingly, PG&E is authorized to recover \$206,258 (the costs associated with these discounts) from customers with demand greater than 20 kW.

BACKGROUND

PG&E entered into contracts with qualified customers following legislation and implementation tariffs allowing it to offer discounted rates, under certain conditions, to compete with irrigation districts. These contracts are subject to annual reasonableness review by the Commission.

In September 2000, Section 454.1 was added to the PU Code authorizing electric utilities to offer discounted rates, under specified circumstances, to customers with loads over 20 kW when those customers receive an offer for service from an irrigation district at rates lower than the utility's tariffed rates. To implement this legislation for PG&E, the Commission adopted Electric Schedule E-31 in August 2003 establishing provisions for discounted rate agreements.

From 2004 through 2007, PG&E entered into thirty contracts with various customers pursuant to Schedule E-31. These customers were located within a PG&E/Modesto Irrigation District (MID) mutual service area referred to as the

“Four Cities Area” of Ripon, Escalon, Oakdale, and Riverbank. In August 2007, MID filed a Complaint at the Commission alleging that PG&E’s offers of discounted service to these customers violated applicable laws and provisions of Schedule E-31. PG&E and MID ultimately reached a settlement agreement in March 2009 resolving all issues, and the Commission adopted the settlement agreement in Decision (D.) 09-06-025. Among other things, the settlement agreement provided that the Commission should review the reasonableness of PG&E’s Schedule E-31 contracts on an annual basis. Specifically, PG&E would submit annual reasonableness reviews by advice letter and the Commission’s Energy Division would conduct a rate and/or procedural review as appropriate.

In compliance with the provisions of the adopted settlement agreement, PG&E filed advice letters requesting reasonableness review of its Schedule E-31 contracts. In December 2013, the Commission addressed PG&E’s first advice letter and determined the discounted rates PG&E charged its Schedule E-31 customers during the initial review period were reasonable. PG&E has since incorporated these Commission-approved revisions into its outstanding advice letter filings covering subsequent review periods.

PG&E filed its first reasonableness review by AL 3524-E on September 16, 2009 for all Schedule E-31 contracts into which PG&E entered during the period 2004 through 2008¹. On June 2, 2010, PG&E filed AL 3680-E seeking its second annual reasonableness review of Schedule E-31 contracts for 2009. PG&E filed AL 3903-E on September 16, 2011 seeking its third annual reasonableness review of Schedule E-31 contracts for 2010. On June 7, 2012, PG&E filed AL 4057-E requesting its fourth annual reasonableness review of Schedule E-31 contracts for 2011 and for the months in 2012 that the last Schedule E-31 contract was in force. PG&E filed AL 4243-E on June 27, 2013 stating that no Schedule E-31 contracts were outstanding and that, subject to Commission determination that the contracts are reasonable in the prior advice letters, PG&E will make adjustments in its next Annual Electric True-Up to allocate the outstanding balance in the Distribution Bypass Deferral Rate Memorandum Account (the Memorandum Account) to customers with loads greater than 20 kW.

¹ To ensure full compliance with its obligations under Schedule E-31 and terms of the settlement agreement, PG&E filed modifications on April 5, 2013 in supplemental AL 3524-E-A.

In Resolution E-4517, issued on December 20, 2013, we addressed AL 3524-E/E-A and determined that the discounted rates PG&E charged its customers during the first review period covering the years 2004-08 were reasonable, and authorized PG&E to recover \$1.8 million from customers with demand greater than 20 kW. Per directives in D.09-06-025, our review included only a rate review because all procedural issues were resolved in the settlement agreement. Following the issuance of Resolution E-4517 and to address issues raised by the Energy Division, PG&E modified certain elements in the worksheets supporting its outstanding reasonableness review advice letters covering the years 2009-12, and provided revised confidential attachments on February 14, 2014 and April 1, 2014.

NOTICE

The advice letters addressed in this Resolution were noticed in the Daily Calendar and served on parties in accordance with General Order 96-B directives.

Notices of AL 3680-E, AL 3903-E, AL 4057-E, and AL 4243-E were made by publication in the Commission's Daily Calendar. PG&E states that a copy of each advice letter was mailed and electronically distributed to parties in accordance with General Order 96-B.

PROTESTS

None of the advice letters addressed in this Resolution were protested.

The Energy Division did not receive any protests for AL 3680-E, AL 3903-E, AL 4057-E, or AL 4243-E.

DISCUSSION

This Resolution addresses the reasonableness of PG&E's Schedule E-31 contract rates for annual review periods 2009-12.

As discussed above, PG&E has filed advice letters requesting Commission review of the reasonableness of its Schedule E-31 contracts. We addressed the first advice letter filing covering the period 2004-08 in Resolution E-4517.

PG&E's subsequent advice letters covering service under Schedule E-31 contracts during 2009, 2010, 2011, and a few months of 2012 are outstanding and are the subject of this Resolution. PG&E states that it conducted its review and found that the revenues it received from customers taking service under Schedule E-31 during these years exceeded the contract floor price, as required by tariff, and are reasonable. PG&E's advice letter filings contained supporting customer data and detail for each annual review period.²

PG&E has not entered into any new Schedule E-31 contracts since those in existence and reviewed in Resolution E-4517. Thus, pursuant to D.09-06-025, only a rate review (and not a procedural review) is required for those customers who took service under Schedule E-31 contracts during the 2009-12 review periods.

Ratepayers did not pay for discounts given in 2009 to customers with expired contracts.

During the 2004-08 reasonableness review of PG&E's Schedule E-31 contracts addressed in Resolution E-4517, MID correctly identified that PG&E had allowed six customer accounts to continue to receive rate discounts for almost three years after their respective contract expiration date, resulting in a shortfall of revenues. PG&E was able to demonstrate that this shortfall, however, was not collected from ratepayers; thus, no financial harm was incurred.

Because these same customer accounts took service until August 2009, we stated in Resolution E-4517 that our 2009 reasonableness review should also include analysis of the accounts through the date that the customers received discounts under Schedule E-31. As was the case in the 2004-08 review, PG&E has demonstrated that its shareholders have borne the expenses associated with the 2009 discounts for the expired contracts and necessary adjustments have been made to the Memorandum Account. Therefore, ratepayers have not been negatively impacted.

² Because much of the data necessary for the reasonableness review is customer-specific information and confidential, PG&E submitted it under seal in accordance with Section 583 of the PU Code. MID was not entitled to review such information. Certain confidential documents and lists were served on MID, pursuant to provisions 4.4 (a), 4.4 (b), and 4.4(c) of the settlement agreement adopted in D.09-06-025.

In 2012, the annual revenue for one customer account was below the contract floor price. Per Schedule E-31 provisions, PG&E must back bill this customer account for the shortfall amount.

Per Sections 7 and 8 of the Schedule E-31 agreement, PG&E has to annually compute the total contract revenue it has collected from each customer to ensure that PG&E has collected, at a minimum, the annual revenue associated with the floor price³. If the revenue collected during the preceding calendar year falls below the amount associated with the floor price (i.e. a negative contribution to margin), the customer has to pay PG&E a lump sum equal to the shortfall amount.

Energy Division has confirmed that for 2009-11, the annual revenues collected from all customer accounts were above each of the respective customer's floor price. In 2012, the revenue collected for one customer account was \$976 below its floor price. Accordingly, PG&E must back bill this customer this shortfall amount. Per the contract provisions, PG&E should have notified this customer of the lump sum payment obligation as soon as possible after it completed its 2012 annual review. However, due to the ongoing reasonableness reviews at the Commission and potential for possible adjustments, PG&E has been awaiting further directives.

PG&E has updated confidential attachments to the advice letters to incorporate revisions approved in Resolution E-4517 and to correct items raised by Energy Division.

Pursuant to D.09-06-025, and the settlement agreement approved therein, Energy Division is required to perform a rate review of any Schedule E-31 contract in existence during any portion of the time period since the last review. This rate review is to confirm both the "the accuracy of PG&E's calculations and the

³ For the Schedule E-31 agreements within this review, the floor price equals 120 percent of PG&E's total distribution planning area-specific, marginal transmission and distribution cost.

attendant E-31 rates on which its E-31 contracts are based, including, without limitation, compliance with the marginal cost floor price”.⁴

In attachments to AL 3680-E, AL 3903-E, and AL 4057-E, PG&E submitted detailed monthly customer billing data for all Schedule E-31 customer accounts for 2009-12. PG&E also provided workbooks with spreadsheets containing supporting calculations for the corresponding marginal cost floor prices and the annual contribution-to-margin (CTM) calculations. PG&E updated the confidential advice letter attachments to incorporate changes approved in Resolution E-4517 and to correct a few data entry errors in the spreadsheets that were discovered by Energy Division during its review. Specifically, PG&E made modifications to: 1) remove Nuclear Decommissioning revenues from non-commodity revenues for 2009 and 2010, 2) link billing data to CTM calculations and revise otherwise applicable rate schedules/marginal costs for 2009-12, 3) correct marginal transmission and distribution capacity cost calculations for 2012, and 4) update the Memorandum Account balance to reflect accounting changes and disposition of the prior balance in Resolution E-4517.

With the exception of one customer having been charged less than the contract floor price, the discounted rates PG&E charged its Schedule E-31 customers during the 2009-12 review periods were reasonable. Accordingly, PG&E should make adjustments in its next Annual Electric True-Up to assign the Memorandum Account balance to customers with demand greater than 20 kW.

Energy Division has reviewed all of PG&E’s revised worksheets submitted with the 2009-12 advice letter reasonableness reviews, and has confirmed that PG&E’s calculations are accurate. With the exception of one customer account in 2012, the annual revenues PG&E received from customers taking service under Schedule E-31 exceeded the contract floor prices, as required by tariff. We direct PG&E to back bill the respective customer account \$976 to collect the revenue shortfall that occurred in 2012. As discussed in Resolution E-4517, this payment should be credited to distribution revenues and flow through to all ratepayers through the Distribution Revenue Adjustment Mechanism (DRAM). With this

⁴ See Sections 4.1 and 4.2 of March 19, 2009 MID/PG&E Joint Motion for Approval of Settlement Agreement (Attachment A of D.09-06-025).

adjustment, we determine that the rates PG&E charged its Schedule E-31 customers during the 2009-12 review periods were reasonable.

Following approval of this Resolution, the balance in the Memorandum Account will be amortized through the Annual Electric True-Up. This account was specifically established to allow PG&E to record the amounts associated with discounted revenues resulting from Schedule E-31 for later recovery from customers with loads over 20 kW. Discounts given to retain existing PG&E customers are recorded as a debit in the Memorandum Account. In situations where PG&E attracts an irrigation district's customer, a credit is recorded in the Memorandum Account for the difference between the amount of revenue received under Schedule E-31 and the marginal cost of serving that customer.

Energy Division has reviewed the amounts entered into the Memorandum Account and has determined that the February 2014 balance of \$206,258 is accurate. Accordingly, PG&E should allocate this amount in its next Annual Electric True-Up to ensure that only customers with demand greater than 20 kW are responsible for this amount. Specifically, PG&E is directed to assign this balance to all customers except those served under residential schedules and Schedules A-1, A-6, and A-15.⁵

We suspend the annual reasonableness review requirement until PG&E enters into any new Schedule 31-contract(s).

In AL 4243-E, PG&E notified the Commission that it has not entered any new Schedule E-31 contracts since those previously submitted for reasonableness review. PG&E stated that should it enter into any new contracts, PG&E will comply with its obligations under Schedule E-31 and the settlement agreement adopted in D.09-06-025 that requires it to file annual advice letter reasonableness reviews. If there are no new Schedule E-31 contracts, PG&E states that it will not file annual advice letters.

⁵ PG&E notes that PU Code Section 454.1 states that reallocation of revenue differences shall not be imposed on residential customers or on commercial customers less than 20 kW. Since eligibility for PG&E's rates is not defined at 20 kW, PG&E asserts that this set of schedules would be used to implement this legislative provision.

We confirm that PG&E need not file annual reasonableness review advice letters until such time that it enters into any new Schedule E-31 contract(s).

COMMENTS

Per statutory requirement, a draft resolution was mailed for comment at least 30 days prior to a vote of the CPUC.

PU Code Section 311(g)(1) generally requires resolutions to be served on all parties and subject to at least 30 days public review and comment prior to a vote of the CPUC. Accordingly, a draft resolution was served on PG&E, and was issued for public review and comment no later than 30 days prior to a vote of the CPUC.

No comments on the draft resolution were submitted.

FINDINGS AND CONCLUSIONS

1. The settlement agreement adopted in D.09-06-025 requires that PG&E file annual advice letters to request Commission reasonableness review of the discounted rate contracts under Schedule E-31.
2. In Resolution E-4517, the Commission addressed PG&E's first reasonableness review of Schedule E-31 contracts for the period 2004-08.
3. PG&E filed AL 3680 seeking its second annual reasonableness review of existing Schedule E-31 contracts for 2009 on June 2, 2010.
4. PG&E filed AL 3903-E on September 16, 2011 seeking its third annual reasonableness review of existing Schedule E-31 contracts for 2010.
5. On June 7, 2012, PG&E filed AL 4057-E requesting its fourth annual reasonableness review of the existing contracts for 2011 and for the months in 2012 that the last Schedule E-31 contract was in force.
6. PG&E filed AL 4243-E on June 27, 2013 stating that no Schedule E-31 contracts were outstanding and that, subject to Commission determination that the contracts are reasonable in the prior advice letters, PG&E will make adjustments in its next Annual Electric True-Up to allocate the outstanding balance in the Memorandum Account to customers with loads greater than 20 kW.
7. Following the issuance of Resolution E-4517 and to address issues raised by the Energy Division, PG&E provided revised confidential attachments to its reasonableness review advice letters covering the years 2009-12.

8. Per directives in D.09-06-025, Energy Division must conduct a rate and procedural compliance review for any new E-31 contracts entered into since the last review and a rate review only of any contracts in existence during any portion of the time period since the last review.
9. PG&E has not entered into any new Schedule E-31 contracts since those in existence and reviewed in Resolution E-4517. Thus, only a rate review is required for those customers who took service under Schedule E-31 contracts during the 2009-12 review periods.
10. As part of its rate review, the Energy Division must evaluate and confirm the accuracy of PG&E's calculations and the attendant rates on which the E-31 contracts are based, including, without limitation, compliance with specified marginal cost floor price provisions.
11. Energy Division has reviewed all of PG&E's worksheets submitted with the 2009-12 advice letter reasonableness reviews, and has confirmed that PG&E's marginal cost and annual CTM calculations are accurate.
12. The 2009 review included analysis of six customer accounts that received discounts under expired Schedule E-31 contracts.
13. PG&E has demonstrated that its ratepayers have not borne the expenses associated with the 2009 discounts given under expired contracts and necessary adjustments have been made to the Memorandum Account.
14. For 2009-11, the annual revenues collected from all customer accounts were above each of the respective customer's floor price.
15. The revenue collected for one customer account in 2012 was \$976 below its floor price. PG&E should back bill this customer for this shortfall amount.
16. PG&E should submit written verification of its back-billing to the Energy Division within 30 days.
17. The discounted rates PG&E charged its Schedule E-31 customers during the 2009-12 review periods were reasonable.
18. Energy Division has reviewed the amounts entered into the Memorandum Account and has determined that the February 2014 balance of \$206,258 is accurate.
19. PG&E should make adjustments in its next Annual Electric True-Up to assign the Memorandum Account balance to customers with demand greater than 20 kW.
20. PG&E need not file annual reasonableness review advice letters until such time that it enters into any new Schedule E-31 contract(s).

THEREFORE IT IS ORDERED THAT:

1. Pacific Gas and Electric Company shall back bill the customer account which was under-charged in the amount of \$976 in 2012 resulting in a revenue shortfall, and shall provide the Energy Division with written verification of its back-billing within thirty days from today's date.
2. The discounted rates Pacific Gas and Electric Company charged its Schedule E-31 customers during the 2009 through 2012 review periods were reasonable.
3. Pacific Gas and Electric Company is allowed to recover \$206,258 (the February 2014 balance in the Distribution Bypass Deferral Rate Memorandum Account) from customers with loads greater than twenty kilowatts in its Annual Electric True-Up advice letter.
4. Pacific Gas and Electric Company need not file annual reasonableness review advice letters until such time that it enters into any new Schedule E-31 contract(s).
5. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on June 12, 2014; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director