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

Application of Pacific Gas and Electric Company (U 39 M), San Diego Gas & Electric Company (U 902 M), Southern California Edison Company (U 338 M), and Southern California Gas Company (U 904 G) for Authority to Increase Electric and Natural Gas Rates and Charges to Recover California Air Resources Board Assembly Bill 32 Cost of Implementation Fee

A.10-08-002

**REPLY OF PACIFIC GAS AND ELECTRIC COMPANY, SAN  
DIEGO GAS & ELECTRIC COMPANY, AND SOUTHERN  
CALIFORNIA GAS COMPANY TO PROTEST OF ENERGY  
PRODUCERS AND USERS COALITION AND  
COGENERATION ASSOCIATION OF CALIFORNIA**

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Dated: September 13, 2010

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

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COGENERATION ASSOCIATION OF CALIFORNIA**

Pursuant to Rule 2.6(e), Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Gas Company (“Joint Utilities”) reply to the September 1, 2010, protest of the Energy Producers and Users Coalition and Cogeneration Association of California (EPUC/CAC) to A.10-08-002, which would authorize an increase to the electric and gas rates and charges of each of the Joint Utilities in order to collect the reasonable level of revenue requirements to recover the costs of the legally-mandated California Air Resources Board (ARB) Assembly Bill (AB) 32 annual Cost of Implementation Fee from their respective end-use gas transportation and bundled electric generation customers.<sup>1</sup>

For the reasons stated below, EPUC/CAC’s protest is without merit and should be rejected. The Joint Utilities will make themselves available to informally engage with EPUC/CAC to attempt to resolve any remaining concerns EPUC/CAC have regarding the application.

**I. COST ALLOCATION**

EPUC/CAC express concern regarding whether the AB 32 Cost of Implementation Fee will be passed through in utility rates based on consumption of natural gas, consistent with ARB regulatory intent. PG&E is happy to provide clarification to EPUC/CAC on this issue. The AB

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<sup>1</sup> Counsel for SDG&E and SoCal Gas have authorized counsel for PG&E to file this joint reply on their behalf.

32 regulation is applicable to PG&E as both a public utility gas corporation (see Section 95201(a) (1)) and as a first deliverer of electricity (see section 95201 (a) (4)). In order to assure that the AB32 Cost of Implementation Fee for natural gas costs will be collected from Core and Noncore customers' gas consumption (excluding those paying the fee directly to ARB),<sup>2</sup> the fee will be allocated on an equal cent per therm (ECPT) basis. This resulting consumption based rate is exactly the same for all customer classes and is included in the total gas transportation rates for each customer class.

The ECPT allocation for the AB32 Cost of Implementation Fee is calculated as follows: The natural gas volumes for each class of Core and Noncore (excluding Wholesale<sup>2</sup>) customers adopted in a Biennial Cost Allocation Proceeding (BCAP), most recently in D.10-06-035 for PG&E, is reduced by the volume associated with electric generating customers that are required to pay the fee directly to the ARB based on emissions associated with megawatt-hours delivered to the California grid.<sup>3</sup> The annual AB32 Cost of Implementation Fee is then divided by the adjusted annual total volumes. The resulting per therm ARB AB32 Cost of Implementation Fee rate (which is the same for all customers) is included in the total transportation rate for each customer class. Customers that are required to pay the fee directly to ARB (and therefore are exempt from paying the fee associated with natural gas deliveries) are identified in the PG&E billing system and the ARB Cost of Implementation Fee rate component is excluded from their total transportation rate.

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<sup>2</sup> ARB will directly collect the AB32 Implementation Fee from the following customers: (a) wholesale customers; and (b) electric generating facilities that have a generating capacity of more than 1 MW or that emit more than 2,500 metric tons of CO2.

<sup>3</sup> In Section 95201 (a)(1)(A), the AB32 Cost of Implementation Fee Regulation notes that fees shall be paid for each therm of natural gas delivered to any end user in California, excluding natural gas delivered to electricity generation facilities.

The table below shows the AB32 Cost of Implementation Fee rate calculation for natural gas costs:

(A)	(B)	(C)	(D)	(E)
Adopted BCAP Volumes (D.10-06-035) Core and Noncore (excluding Wholesale) <sup>2</sup>	Volumes from customers required to pay the fee directly to ARB	Volumes Used for ECPT allocation	AB 32 Cost of Implementation Fee	AB 32 Cost of Implementation Fee Rate
		(C) = (A) – (B)		(E) = (D)/(C)
(Mth/yr)	(Mth/yr)	(Mth/yr)	(\$ 000/yr)	(\$/therm)
7,311,752	2,345,295	4,966,457	\$4,664*	\$0.00094

\*Estimated natural gas revenue requirement, to be updated upon ARB's issuance of its invoice

## II. DUPLICATIVE FEE PAYMENTS

The Joint Utilities do not agree with EPUC/CAC that the current approach for assessing the fee will result in double imposition of the fee. EPUC/CAC describes a large industrial site with three transactions: (a) the purchase of natural gas for an industrial end-use; (b) the purchase of electricity for an industrial end-use at one part of the site; and (c) excess electricity production and sales at another part of the site. Just like all other gas customers, the industrial site will pay for the AB32 Cost of Implementation Fee associated with the natural gas end-use through its gas transportation rate, as described in the previous section. Similarly, like all other electric customers, the industrial site will pay the costs incurred by electric generators via a higher electricity rate (specifically, a higher rate for the generation component of the total bundled rate) for the electricity it purchases. To the extent that the industrial site has a qualifying facility (QF) that sells electricity, the sales price will include compensation for the AB32 Cost of Implementation Fee consistent with the QF pricing and contractual requirements applicable to those particular sales. To summarize:

- The industrial site will pay the AB32 Cost of Implementation Fee based on terms purchased for its use of natural gas, which is the same fee paid by all other end use customers except those that are directly paying the ARB.
- The industrial site will pay the AB32 Cost of Implementation Fee through higher PG&E rates for electricity purchases, just as all other electricity customers will.
- The industrial site will be compensated for electricity sold to the grid through the

short run avoided cost (SRAC) formula adopted in D. 07-09-040 and Resolution E-4246. As discussed in more detail below, since the AB32 Cost of Implementation Fee, a component of the G-EG rate schedule, is included in the calculation of the SRAC price, the SRAC payment will provide compensation of the implementation fee.

### **III. IMPACT ON COMPETITION**

EPUC/CAC express concern that allowing the utilities to pass through their AB 32 Cost of Implementation Fee costs will unfairly advantage utility-owned generation over other generation. EPUC/CAC request that the utility ratemaking be conditioned on a similar pass-through provision for non-utility generators.

The Joint Utilities disagree. First, the AB32 Cost of Implementation Cost Fee will be assessed through the gas transportation rate in the G-EG rate schedule. The G-EG rate schedule is a component of the SRAC adopted per Decision (D.) 07-09-040 and Resolution E-4246. Therefore, to the extent that non-utility generation facilities are QFs that export to the grid and are paid SRAC, they will get reimbursed for the AB32 Cost of Implementation Fee in the manner approved by the Commission. No additional ratemaking requirements or conditions are necessary.

Second, if EPUC/CAC is requesting that the Commission condition approval of utility cost recovery on a new form of ratemaking for QF costs that is different or inconsistent with existing QF contractual provisions and CPUC QF decisions, that would be outside the scope of this application. In this application, the Joint Utilities are solely requesting ratemaking recovery for utility costs; no QF costs or QF decisions are at issue in this proceeding. If EPUC/CAC believe that the imposition of the AB 32 Cost of Implementation Fee on them would require a change to Commission-approved QF ratemaking policies or decisions, they are free to raise those issues directly in the relevant QF proceeding or docket.

#### IV. CONCLUSION

Joint Utilities respectfully request that EPUC/CAC's protest be denied as without merit. Joint Utilities will make themselves available to work with EPUC/CAC informally to resolve any additional questions or concerns regarding this response.

Respectfully Submitted,

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By: \_\_\_\_\_ /s/

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Dated: September 13, 2010

CERTIFICATE OF SERVICE BY ELECTRONIC MAIL OR U.S. MAIL

I, the undersigned, state that I am a citizen of the United States and am employed in the City and County of San Francisco; that I am over the age of eighteen (18) years and not a party to the within cause; and that my business address is Pacific Gas and Electric Company, Law Department B30A, Post Office Box 7442, San Francisco, CA 94120.

On the **13<sup>th</sup>** day of **September, 2010**, I served a true copy of:

**REPLY OF PACIFIC GAS AND ELECTRIC COMPANY,  
SAN DIEGO GAS & ELECTRIC COMPANY, AND  
SOUTHERN CALIFORNIA GAS COMPANY TO PROTEST  
OF ENERGY PRODUCERS AND USERS COALITION AND  
COGENERATION ASSOCIATION OF CALIFORNIA**

- [XX] By Electronic Mail – serving the enclosed via e-mail transmission to each of the parties listed on the official service list for **A.10-08-002** with an e-mail address.
- [XX] By U.S. Mail – by placing the enclosed for collection and mailing, in the course of ordinary business practice, with other correspondence of Pacific Gas and Electric Company, enclosed in a sealed envelope, with postage fully prepaid, addressed to those parties listed on the official service list for **A.10-08-002** without an e-mail address.

I certify and declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on this 13<sup>th</sup> day of September 2010, at San Francisco, California.

\_\_\_\_\_  
/s/  
TAUVELA U'U

# THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA SERVICE LIST

Last Updated: September 7, 2010

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**THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA  
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Last Updated: September 1, 2010

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