PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Item 38, ID#5085

ENERGY DIVISION **RESOLUTION G-3384**
November 18, 2005

R E S O L U T I O N

Resolution G-3384. Pacific Gas & Electric Company (PG&E) requests approval of its Winter Gas Savings Program (WGSP) for Residential and Small Commercial Gas Customers and its Winter Revenue Deferral Program (WRDP) and new gas tariff schedule G-10/20 – Winter Gas Savings Program.

The WGSP is approved and the WRDP is denied.

By Advice Letter (AL) 2675-G, filed on November 3, 2005.

SUMMARY

PG&E's proposal to encourage the conservation of natural gas by residential and small commercial customers during the upcoming winter is approved. The utility's proposal to defer the collection of $248 million in revenues until after winter is denied. The major elements of this resolution are summarized below.

1. PG&E seeks expedited Commission approval of two proposals intended to help its residential and small commercial customers cope with predicted high 2005/06 winter natural gas prices.

2. The WGSP is intended to encourage natural gas conservation by offering residential and small commercial customers a 20 percent rebate if they achieve a 10 percent year-over-year reduction in natural gas consumption from January through March 2006. An estimate $200 million in rebates is anticipated to be issued by PG&E under the plan.

3. The WRDP would provide residential and small commercial customers with a $0.20 per therm rate reduction on gas bills from December 2005 until early March 2006. An estimated $248 million in revenues is expected to be deferred by PG&E which would be recovered when the 2005/06 winter passes.

4. PG&E would collect WGSP and WRDP costs beginning April until early November 2006, a period when gas bills tend to be lower due to reduced natural gas demand.

5. This resolution approves the WGSP because it should stimulate increased natural gas conservation providing eligible customers with an opportunity to reduce their 2005/06 winter gas bills.

6. This resolution denies the WRDP as it will create interest costs, dilutes the amount of potential WGSP rebates, and distorts consumer price signals which provide an added incentive for natural gas conservation. Alternatively, PG&E currently offers a balanced bill payment plan providing customers with a tool to manage their utility bills.

7. The protest of the School Project for Utility Rate Reduction (SPURR) is approved. PG&E is directed to file a supplemental advice letter to implement a modification to the WGSP cost recovery methodology filed in AL 2675-G, as suggested by SPURR.

8. The protest of the Office of Ratepayer Advocates (ORA) is denied.

9. The protest of Commercial Energy of California (CE) is denied.

BACKGROUND

Natural gas prices are expected to remain at high levels during the 2005/06 winter.

It is a widely held view that natural gas prices will be at exceedingly high levels during the upcoming winter. This outlook stems in part from the well documented impact of Hurricanes Katrina and Rita on the Gulf Coast's considerable natural gas production and supply infrastructure.[1] These events caused a run-up in natural gas prices leading to heightened concerns about 2005/06 winter gas bills. Although prices have eased recently, the natural gas

[1] A description of these impacts is provided in Decision (D.) 05-10-015 (see pp. 6-8).

market remains particularly volatile with near-term price spikes a distinct possibility as the hurricanes' effects still linger and the winter approaches.

The Commission has adopted a number of measures aimed at mitigating the impact of potentially high 2005/06 winter natural gas prices.

The Commission, with the involvement of the state's gas utilities and other concerned parties, has taken a variety of actions to help mitigate the impact of anticipated high 2005/06 winter natural gas prices on consumers. On October 6, 2005, the Commission held a Full-Panel Hearing (FPH) to examine ways to reduce gas bill increases on low-income customers. In D.05-10-044, based on proposals submitted following the FPH, the Commission expanded the eligibility requirements for the California Alternative Rates for Energy (CARE) program[2], approved the acceleration of utility energy efficiency plans and adopted additional measures. Other important steps taken include approving PG&E's emergency application for a natural gas hedging plan[3] and the adoption of a similar plan for Southern California Gas and San Diego Gas and Electric[4] in order to protect their core customers from gas price spikes.

PG&E is seeking Commission approval of two new programs intended to help it residential and small commercial customers deal with high 2005/06 winter natural gas prices.

In AL 2675-G, PG&E has put forth two new proposals intended to help residential and small commercial customers contend with 2005/06 winter gas bills. The utility seeks expedited approval of its request so it can begin program implementation before winter starts.

The WGSP would give a rebate to customers who achieve at least a 10 percent year-over-year reduction in their cumulative natural gas usage during January through March 2006. The amount of the rebate would be 20 percent of the

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[2] The CARE program provides eligible customers with a 20 percent discount off the gas bills.

[3] See D. 05-10-015.

[4] See D.05-10-043.

customer's total gas bill over the same three month period and be credited to gas bills issued after March 31, 2006. PG&E anticipates that the average residential gas customer would save approximately $90 under the program with $60 resulting from the WGSP rebate and the remainder due to reduced natural gas usage through conservation. A total of $200 million in rebates is expected to be issued. The utility indicates that the program is based on the electric 20/20 summer savings program initiated during the 2001 energy crisis when wholesale electricity prices were unreasonably high.

The WRDP is a $0.20 per therm reduction in PG&E's residential and small commercial customer transportation rates commencing in December 2005 and lasting until early March 2006. PG&E characterizes the WRDP as a way to hold down and smooth-out the level of winter gas bills. This gives customers the advantage of repaying the deferred revenues following passage of the high winter natural gas usage season. The total expected amount of the deferred revenues is $248.6 million and represents a 9 percent lowering of a typical winter gas bill for the affected customer classes.

The estimated combined costs of both programs including WGSP rebates, WDRP deferred revenues and start-up costs is $454 million. PG&E would recover this amount from residential and small commercial customers through a $0.39 per therm increase in their transportation rates beginning April 1, 2006 until early November 2006.[5] [6] As a result, the collection of the program costs will occur after the winter heating season when gas bills tend to be low due to reduced natural gas demand and, therefore, less financially burdensome on customers.

PG&E states that TURN supports the proposals in the AL.

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[5] AL 2675-G explains that any difference between the actual revenue deferral and the amounts recovered in rates will be recorded to Core Fixed Cost Account and trued-up in PG&E's annual true-up rate filing (see AL 2675-G, p. 4). Additionally, SPURR submitted a letter indicating that SPURR, PG&E and TURN reached an agreement concerning the ratemaking treatment of the WGSP costs, as discussed further below.

[6] We note that PG&E prepared additional rate analysis involving various scenarios of their proposal in response to an Energy Division data request.

NOTICE

Notice of AL 2675-G was made by publication in the Commission's Daily Calendar. PG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

On November 9, 2005, SPURR filed a protest concerning footnote 5 in AL 2675-G. This footnote states that PG&E will file an advice letter at a later date in order to assure that core transport customers (CTA) do not pay a disproportionate share of the WGSP rebates attributable to PG&E's procurement charges.

SPURR says that based on concerns they had about footnote 5 they reached an agreement with PG&E and TURN on the recovery of WGSP costs from PG&E's core transport customers. The agreed upon method is to collect 76 percent of the WGSP costs through PG&E's procurement rate with the remainder of the costs collected through the utility's transportation rates. PG&E's proposal filed in the AL was to recover these costs only through its transportation rate coupled with the possible adjustment stated in the footnote. SPURR asserts that this change will result in a more equitable treatment of the recovery of the costs by eliminating the unintended consequences of core transport customers paying for the WGSP costs although they are excluded from participating in the program.

On behalf of PG&E and TURN, SPURR requests in its letter that the Commission adopt their agreed upon WGSP cost recovery method and direct PG&E in the resolution to supplement their AL filing accordingly.

On November 10, 2005, ORA filed a protest to AL 2675-G not contesting the WRDP and opposing the WGSP.

ORA does not oppose the WRDP yet notes some concerns and suggests an alternative. ORA says that the program could result in summer rates exceeding winter rates depending on prevailing natural gas prices, produce carrying costs, and cause some rate inequities. In consideration of these issues, ORA finds that making the WRDP voluntary may be preferable although implementation might be infeasible. As such, ORA says it may be more useful for PG&E to increase consumer awareness of its existing optional balanced bill payment program.

ORA strongly opposes the WGSP generally because it will not provide any net benefits to customers and shifts costs among the utility's customers. In specific, ORA identified 9 issues with the WGSP. A number of these issues draw upon ORA's experience with the electric 20/20 program and are briefly described as follows:

1. Customers are provided with appropriate natural gas price signals prompting conservation and do need additional incentives.

2. Natural gas prices will not be affected due to increased conservation.

3. The WGSP program causes inequities because of the asymmetrical 10/20 conservation to reward ratio.

4. No justification was provided for setting the 10/20 conservation to reward ratio.

5. Customers may turn to less efficient or hazardous ways to heat their homes to achieve a rebate.

6. Customers which have not observed conservation in the past may easily qualify for rebates.

7. Weather effects rather than true conservation may increase the amount of rebates issued.

8. The peak natural gas usage month of December was not included in the WGSP timeframe.

9. Justification for the $5.4 million marketing plan was not provided nor was there any discussion on how core transportation customers will be treated.

On November 10, 2005, CE filed a protest. CE is a CTA serving PG&E's core commercial customers. CE supports the WGSP cost recovery methodology expressed in SPURR's protest. They believe that PG&E's requested $5.4 million for WGSP start-up costs should be adequate. Further, CE states that the WRDP is laudable but is concerned about PG&E's proposed WRDP cost recovery method on small commercial customers. Specifically, CE says that the pattern of natural gas usage by their small commercial clients will result in these customers paying approximately 220 percent of the expected amount of the revenues that they will defer during the winter.

CE provides these four alternatives to address the WRDP concerns it raised: 1) allow CTAs to opt out of the WRDP on behalf of their clients; 2) limit recovery of the deferred revenues up to the actual amount deferred by the small commercial customer; 3) allow small commercial customers to opt out of the WRDP; and, 4) account for any deferred revenues by customer class to prevent any cross subsidies.

On November 14, 2005, PG&E filed its reply to the protests of SPURR, CE and ORA.

On the SPURR protest, PG&E recommends that the Commission adopt the agreement described by SPURR concerning CTA WGSP cost recovery.

On the CE protest, PG&E says that CE's proposal to exempt the entire small commercial class from the WRDP is feasible and not objectionable. Additionally, the utility notes that the Commission approved expanding its balanced bill payment program to small commercial customers.

On ORA's comments on the WRDP, PG&E notes that summer rates may be higher but because natural gas usage is less during this period, summer bills should be lower than the winter. The utility further notes that it is impractical to make the WRDP optional given the proposed start-up date of December 7, 2005.

On ORA's opposition to the WGSP, PG&E disputes the issues raised by ORA, as discussed below.

DISCUSSION

The Commission has acted to help mitigate the effects of anticipated high winter natural gas prices on consumers and stands ready to take additional beneficial steps.

The Commission is deeply concerned about the expected impact of high 2005/06 winter natural gas prices on consumers. Steps we have taken to date in this regard range from expanding CARE eligibility requirements to authorizing purchases of financial instruments to protect core customers from natural gas price spikes. It is important to recognize that these actions have involved the active participation of the state's gas utilities and other stakeholders in our proceedings and other forums. We remain focused on enacting additional measures that are responsive to the challenges of mitigating the effects of high natural gas prices and which serve the public interest. As such, we will consider two new programs submitted by PG&E.

Energy conservation is an important public policy goal and is an appropriate response to the aftermath of Hurricanes' Katrina and Rita on the natural gas market.

We strongly support efforts promoting the efficient use of energy and the conservation of energy resources. In the recently issued jointly sponsored Commission and California Energy Commission Energy Action Plan (EAP) II, we reaffirmed our commitment to the goal of increased energy efficiency as a key step toward meeting California's energy needs.[7] Striving to minimize and use energy wisely serves to ensure adequacy of supply, maintain reasonable prices and reduce the likelihood and impact of price spikes.

We understand that there are times when we must heighten the public's awareness of the benefits of energy efficiency and conservation and spur increased energy savings to respond to acute adverse market conditions. During the 2001 energy crisis we enacted the electric 20/20 summer savings program.[8] As PG&E explained in its Energy Division (ED) data request response, this program was instrumental in significantly reducing electricity demand during the 2001 summer helping to reduce peak electricity demand and estimated total electric consumption by 8 percent. ORA and PG&E allude to other positive elements of the electric 20/20 plan in the comments on the AL. At present we are faced with the prospect of extremely high winter natural gas prices triggered by Hurricanes' Katrina and Rita. Given this experience with the 20/20 program, we believe that increased conservation and energy efficiency this winter will help to advance the Commission's natural gas demand reduction efforts.

[7] See http://www.cpuc.ca.gov/PUBLISHED/REPORT/50480.htm

[8] Under the electric 20/20 summer savings program, eligible utility customers achieving a year-over-year 20 percent reduction in electricity use during the summer receives a 20 percent rebate from the utility.

Significant demand reduction efforts across the United States could also have a beneficial impact on natural gas prices. We acknowledge that at the federal level conservation is being emphasized as an important response for consumers to mitigate the effects of the Gulf Coast calamities and we look to ways that Californians can make a meaningful contribution in this national effort.[9] Collectively working toward reducing the nation's demand for natural gas can put downward pressure on prices with overall benefits to consumers.

PG&E's WGSP should encourage residential and small commercial customers to conserve natural gas this winter.

PG&E's proposed WGSP, patterned after the electric 20/20 program, is intended to encourage the conservation of natural gas by residential and small commercial customers through the inducement of a rebate. The program will serve to benefit customers achieving the 10 percent conservation threshold in two ways. First, under the conditions of the plan, the qualifying customer will receive a 20 percent rebate based on the cumulative amount of their January 2006 through March 2006 gas bills. Second, their gas bill will be lower than it would otherwise be because the customer is consuming less billable natural gas. Since recovery of the WSGP costs are spread over all of PG&E's residential and small commercial customers, those that do receive a rebate will reduce the amount they paid for gas during the 2005/06 winter. Another attribute of the plan is the potential that first-time conservers prompted by the WGSP will realize the benefits of minimizing energy consumption and maintain this practice into the future.

In consideration of the aforementioned benefits of the program to consumers, we find that the WGSP will provide eligible PG&E customers with a strong incentive to conserve natural gas this winter and will result in tangible resource savings.[10] PG&E's experience with customer reactions to the electric 20/20 program serves to validate this view.

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[9] See October 3, 2005 US Department of Energy press release titled, "Energy Secretary Bodman Kicks Off National "Easy Ways to Save Energy" Campaign" at http://www.energy.gov.

[10] PG&E estimates in its data request response to ED that residential natural gas usage will be reduced up to 9 million decathems (dth) and small commercial natural gas usage by 3 million dth in response to the WGSP.

Possible drawbacks of the WGSP are outweighed by the potential of increased natural gas conservation and prospect of lowered winter gas bills.

ORA has identified several issues with the WGSP and recommend that it not be adopted. PG&E filed a response to these points. Below we will consider each argument raised by ORA and PG&E's reply and determine whether, on balance, the WGSP is in the interests of PG&E's customers.

<u>Issue #1: Price signals.</u>
ORA explains that the electric 20/20 program was instituted because consumers at the time did not receive price signals encouraging conservation because of the electricity price freeze; an incentive was needed to prompt conservation. In contrast, natural gas consumers will receive appropriate price signals through the utility's monthly gas procurement rate changes. Thus, there is no need for any additional financial incentives for promoting natural gas conservation.

PG&E replies that ORA's premise that electric customers needed a financial stimulus to conserve because of pricing distortions is incorrect as it notes that the Commission adopted a 40 percent electric rate surcharge in early 2001. The utility further states that the current natural gas situation is akin to the soaring electricity rates facing consumers in 2001 and that, while price signals are beneficial, there is a point at which additional steps are needed.

We agree that the role of price signals is a critical factor influencing customer behavior. However, price signals are not the sole or necessarily preferred means to generate energy savings. The multi-year utility energy efficiency programs we adopt in pursuit of the objectives of EAP II embrace the notion that meaningful energy demand reductions are a pre-emptive measure working to curb high energy prices in the future.

Additionally, we understand that there are times when current market conditions dictate that more intensified, expedient actions are needed, as with the electric 20/20 program. We believe that the prospects of high natural gas prices during this winter calls for such supplemental measures. Additional measures we have already taken include the actions described above. The utilities have also undertaken other activities such as media campaigns announcing that winter gas bills may be potentially higher this year. The circumstances we face going into this winter demand more than a passive reliance on price signals to achieve increased levels of conservation and requires a more proactive approach such as the WGSP.

Issue # 2: System benefits.
ORA notes that the electric 20/20 program lead to an overall benefit to utility customers as the reduced electricity consumption lowered rates. Because the market for natural gas is set nationally, a reduction in California's usage will have little impact on natural gas prices.

PG&E replies that it is unproven whether the 20/20 electricity program effectively reduced prices and notes that by the summer of 2001 the state entered into numerous long-term electric contracts fixing electric rates and the spot market had stabilized. The utility challenges ORA's contention that a 10 percent reduction in natural gas demand will have no effect on prices, particularly if the upcoming winter is cold and available supplies scarce. In contrast, PG&E says that reduce demand may result in less high cost border or spot natural gas purchases and concludes that a 10 percent reduction in demand can be reasonably expected to reduce volatility at the California border or citygate.

We accept ORA's contention that California has limited influence over national natural gas prices even though California is a major consumer. However, as PG&E explains, marginally reducing natural gas demand can avoid the need for incremental utility purchases from alternative, less desirable sources of supply. It is not necessary for us to resolve the differing views on the effects of the electric 20/20 program to understand this. Additionally, as we noted above, a nationwide push to conserve energy and natural gas may have a moderating effect on natural gas prices. We find the potential of further demand reductions lowering PG&E's gas commodity costs supports the adoption of the WGSP.

Issue #3: Equity.
ORA explains that the asymmetrical 10/20 ratio of the WGSP, unlike the electric 20/20 plan, will cause the level of rebates to exceed the amount of conservation savings resulting in an increase and shifting of costs.

PG&E replies that the WGSP is equitable since all residential and small commercial customers will have an opportunity to participate. The utility further states that the goal of the 20/20 program was to avoid electricity outages during the 2001 summer (the utility cites a Lawrence Berkeley National Laboratory Study on this subject[11]) and an additional benefit was allowing customers to mange their electricity bills and magnify the electricity costs savings through conservation. The utility concludes that it believes 50 percent of eligible customers will be successful participants in the WGSP resulting in a 22 percent reduction in natural gas demand.

Without debating the goals of the electric 20/20 plan, we note that, as PG&E states, all eligible customers are provided a chance to achieve a lowering of their gas bill through the conservation program. We agree that the 20 percent offer of a rebate and the lowered conservation threshold will make the benefits of the program more available to PG&E's customers. If the 50 percent estimate provided by PG&E comes to fruition, a significant amount of natural gas should be conserved. We should not squelch the opportunity for this outcome to occur.

<u>Issue #4: Subsidies.</u>
ORA asserts that PG&E did not justify why it set the rebate amount (20 percent) at a level twice as much as the conservation threshold (10 percent). In contrast, the electric conservation program was based on a balanced 20/20 rebate to conservation ratio.

PG&E replies that it and TURN set the conservation threshold at 10 percent so that approximately 50 percent of eligible customers could achieve a rebate and that the 20 percent rebate will provide customers with greater relief on their winter gas bill.

We find it reasonable that the 10/20 ratio will induce more PG&E customers to save natural gas and qualify for a rebate. This will serve our goal of mitigating the effects of high winter gas prices on utility customers.

<u>Issue #5: Unintended consequences.</u>
ORA suggests that in the fervor to obtain a 20 percent rebate, customers may be inappropriately encouraged to heat their residences with firewood or electric

[11] See http://eetd.lbl.gov/ea/EMS/reports/49733.pdf

space heaters. This could result in using inefficient means to provide home heating, increased air pollution or introduce increased safety risks to consumers.

PG&E replies that ORA's claims are speculative and unsupported.

We believe that it is possible that customer could resort to the methods ORA suggests in an attempt to achieve a rebate. However, we believe that it is more credible that the preponderance of utility customers will make wise decisions concerning their use of natural gas in their attempts to qualify for a rebate. This view is based upon the numerous websites and utility media efforts to educate customers on how they can responsibly use natural gas more efficiently and conserve this resource. Additionally, the alternative heating methods mentioned by ORA are not without costs (e.g., firewood must typically be purchased) which may discourage the use of these alternative and less desirable heating methods.

<u>Issue # 6: High energy users.</u>

ORA explains that the WGSP may have the untended effect of benefiting customers which have not conserved in the past at the expense of more modest users. A profligate natural gas user during the past winter may reduce their usage 10 percent and qualify for a rebate without much sacrifice. As a result, stringent natural gas users unable to further reduce their consumption would be assessed a portion of the rebates that a less thrifty minded customer received.

PG&E replies that all natural gas consumers regardless of past usage should have the opportunity to realize reduced gas bills through increased conservation efforts. The utility notes that administratively it is not possible to identify customers that are constantly endeavoring to the conserve natural gas and those that are not.

While the situation described by ORA is certainly possible, as PG&E explains, we note that a heavy natural gas user will have the opportunity under the WGSP to conserve natural gas which is an objective of the program. Any reduction in natural gas usage is beneficial regardless of the source. While we do not wish to penalize long-practicing conservers of natural gas, we find PG&E's argument that it is administratively infeasible to distinguish among its customers those that do and do not conserve plausible. However, a 10 percent reduction, rather than a 20 percent reduction, makes it more probable that even conservation minded customers can qualify for a rebate.

It is also possible that the WGSP may prompt customers considering themselves as serious conservers to seek and be successful in finding further conservation savings. A situation PG&E indicates occurred under the electric 20/20 program. Additionally, as noted above, there is the possibility that wasteful customers will embrace the concept of conservation and maintain this practice as a result of taking advantage of the WGSP.

Issue #7: Potential windfalls.
Since winter natural gas usage is extremely weather sensitive, ORA states that customers might receive rebates if the 2005/06 winter is milder than the past winter rather than through determined efforts to conserve natural gas.

PG&E replies that if the 2005/06 winter is warm, the number of customers qualifying for a rebate may be great but the amount of the rebates would be lower due to less winter gas usage. Additionally, PG&E provided data indicating that the January through March 2005 period was relatively warm and that the probability that customers will benefit from a warmer period in 2006 is less than 33 percent.

We agree with ORA that the outcome it describes could happen. Alternatively, as PG&E indicates, it is probable that the 2005/06 winter may be colder than last winter making it more difficulty to conserve and qualify for a rebate. PG&E noted in its ED data request response that it has the capability to estimate weather-normalized reductions in 2005/06 winter natural gas consumption over last winter. However, the utility further stated that isolating the level of natural gas usage reductions solely attributable to customer conservation efforts is problematic. We find that potential weather effects on the WGSP do not support scrapping the proposal.

Issue #8: Application to a non-peak month.
ORA questions why PG&E used the January through March 2006 timeframe for determining the level of conservation under the WGSP. It notes that this period does not match the three traditional peak winter months of December through February.

PG&E replies that ORA is correct in noting that the WGSP does not correlate precisely with the traditional peak winter natural gas usage months. However, the utility says that it would be impossible for the Commission to authorize the program and have the utility implement it by December 1, 2005. Additionally, PG&E comments that cold weather can occur during the month of March, impacting natural gas prices.

Based upon the date of our approval, we find PG&E's reasons why it chose not to include December in the WGSP timeframe reasonable.

Issue #9: Justification of media and start-up costs:
ORA states that PG&E did not justify the reasonableness of its $5.4 million request for WGSP marketing and start-up costs nor address the manner in which CTAs will be treated under the program.

PG&E replies that it is planning an integrated media campaign to promote the WGSP and educate its customers about conservation. The costs of the media campaign are comparable to those incurred for the electric 20/20 program.

We find PG&E's explanation justifying the estimated costs of its proposed WGSP media campaign and related costs acceptable and cap the amount recoverable from ratepayers for these endeavors at the requested $5.4 million.[12] We note that PG&E responded to the CTA concerns by endorsing the proposal presented by SPURR.

In consideration of these arguments, we find that potential benefits of the WGSP outweigh any possible drawbacks of the program. PG&E's request to implement the WGSP is therefore approved.

The WRDP is denied since it will result in even higher gas costs during the non-winter months and dampen the incentive to conserve natural gas. Furthermore, PG&E has a balanced bill payment plan available to customers that seek to smooth-out the level of their gas bills.

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[12] In PG&E's reply to ED's data request, the utility provided a breakdown of its spending plans.

The WRDP reduces PG&E's residential and small commercial customer gas transportation rates by $0.20 per them for a three month period during the 2005/06 winter. The estimated $248 million in revenues accumulated through the rate reduction would be collected from these customers following the winter when natural gas usage is generally lower. PG&E describes this program as a way to smooth out the impacts of high gas bills during the middle of winter.

Protestants have raised several concerns with the WRDP. ORA, while not opposed to the program, notes that it might raise summer gas rates in excess of winter gas rates, cause additional costs and result in some inequities. CE expounds on an inequity it may create for small commercial customers. These customers will be paying gas rates during the summer elevated by the recovery of the deferred revenues yet can not off set this through lowered natural gas consumption. This is because, unlike residential consumers, small commercial natural gas demand is generally not temperature sensitive with more level usage throughout the year. These protestants provide various alternatives in response to these concerns including making the revenue deferral program optional.

We find the protestants' concerns valid. Deferring the revenues will create unavoidable carrying costs that ratepayers must absorb.[13] Additionally, as CE suggests, it is likely that the WRDP will cause some disparate impacts on customers due to natural gas consumption patterns. Mitigating these effects may be administratively difficult. A related concern is the amount of PG&E's deferred revenues and the WGSP rebates that would be recovered after winter. At some point, pushing the recovery of these costs into summer will have a noticeable impact on summer gas bills. A plus for the WGSP is that it has the added benefit of encouraging natural gas conservation although elevating summer gas rates.

Additionally, the WRDP has an inherent conflict with the goal of conserving natural gas. Price signals are an important factor influencing consumer behavior, as discussed above. This is why we instituted monthly utility procurement rate adjustments reflecting current natural gas prices. By reducing rates during the winter, the WRDP will lessen the impetus for customers to conserve. A related

[13] In its response to an ED data request, PG&E estimated these carrying costs at $5 million.

impact is that the reduced winter gas rates will also reduce the amount of the WGSP rebates given to qualifying customers.

Given the concerns discussed above and the fact that PG&E currently offers customers with a method to balance the level of their gas bills, we deny PG&E's request to implement the WRDP.

Cost recovery of the WGSP as proposed by SPURR is approved.

We find that the agreement presented by SPURR is acceptable as the customers of CTA's are not eligible to participate in the WGSP.

The protests of ORA and CE are denied.
As discussed above, the issues that ORA has raised about PG&E's proposals have been considered and found unpersuasive. Although we find that CE described valid points on the WRDP plan, their request that the Commission adopt one of the alternatives they put forth is denied. However, the position we have taken in this resolution should adequately address CE's concerns.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(3) provides that this 30-day period may be reduced/waived by Commission adopted rule.

The 30-day comment period has been reduced by a decision where the Commission has determined that public necessity, as defined in Rule 77.7(f)(9), requires reduction/waiver of the 30-day period.

FINDINGS

1. PG&E filed AL 2675-G requesting expedited Commission approval of two new programs intended to help residential and small commercial customers during the 2005/06 winter.
2. Natural gas prices during the 2005/06 winter may be significantly higher than last winter.

3. The WGSP should encourage eligible customers to conserve natural gas leading to lower gas bills.
4. The WRDP will shift significant gas costs for ratepayers to the non-winter months and possibly hamper conservation by affecting consumer price signals.
5. ORA, CE and SPURR filed a protest to PG&E AL 2675-G.
6. The agreement presented by SPURR concerning the treatment of WGSP costs recovered from CTAs is reasonable.
7. The public interest is served by issuing this resolution under a reduced public comment period.

THEREFORE IT IS ORDERED THAT:

1. PG&E's WGSP is approved.
2. PG&E's WRDP is denied.
3. PG&E shall file an advice letter within 20 days of the effective date of this resolution requesting implementation of the agreement presented by SPURR. This advice letter is subject to Energy Division review and approval.
4. The protests of ORA and CE are denied.

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 November 18, 2005; the following Commissioners voting favorably thereon:

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STEVE LARSON
Executive Director

November 15, 2005

RESOLUTION G-3384
November 18, 2005 Commission Meeting
AGENDA ID # 38

TO: Parties to Pacific Gas and Electric Company (PG&E) Advice Letter 2675-G.

Enclosed is draft Resolution G-3384 of the Energy Division. It will be on the agenda at the Commission's November 18, 2005 meeting. The Commission may then vote on this Resolution or it may postpone a vote until later.

When the Commission votes on a draft Resolution, it may adopt all or part of it as written, amend, modify or set it aside and prepare a different Resolution. Only when the Commission acts does the Resolution become binding on the parties.

Parties may submit comments on the draft Resolution. An original and two copies of the comments, with a certificate of service, should be submitted to:

Jerry Royer
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Fax: 415-703-2200

A copy of the comments should be submitted **in electronic format** to:

Eugene Cadenasso
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
email: cpe@cpuc.ca.gov

Any comments on the draft Resolution must be received by the Energy Division by November 16, 2005. Those submitting comments must serve a copy of their comments on 1) the entire service list attached to the draft Resolution, 2) all Commissioners, and 3) the Director of the Energy Division, on the same date that the comments are submitted to the Energy Division.

Comments shall be limited to five pages in length plus a subject index listing the recommended changes to the draft Resolution, a table of authorities and an appendix setting forth the proposed findings and ordering paragraphs.

Comments shall focus on factual, legal or technical errors in the draft Resolution. Comments that merely reargue positions taken in the advice letter or protests will be accorded no weight and are not to be submitted.

Replies to comments on the draft Resolution will not be considered.

Late submitted comments will not be considered.

Richard A. Myers
Energy Division

Enclosure: Service List
Certificate of Service

CERTIFICATE OF SERVICE

I certify that I have by e-mail this day served an electronic copy of Draft Resolution G-3384 on all parties in these filings or their attorneys as shown on the attached list.

Dated November 15, 2005 at San Francisco, California.

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Eugene Cadenasso

NOTICE

Parties should notify the Energy Division, Public Utilities Commission, 505 Van Ness Avenue, Room 4002 San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the Resolution number on the service list on which your name appears.

RESOLUTION G-3384
SERVICE LIST

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