

Decision 11-12-031 December 15, 2011

**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 2012 Energy Resource Recovery Account (ERRA) and 2012 Generation Non-Bypassable Charges Forecasts. (U39E)

Application 11-06-004  
(Filed June 1, 2011)

**DECISION ADOPTING PACIFIC GAS AND ELECTRIC COMPANY'S 2012 ELECTRIC PROCUREMENT COST REVENUE REQUIREMENT FORECAST**

**1. Summary**

Today's decision adopts a 2012 electric procurement cost revenue requirement forecast of \$3,990.3 million for Pacific Gas and Electric Company (PG&E) as well as PG&E's 2012 forecast electric sales and rates subject to the Annual Electric True-up process. The total 2012 forecast of \$3,990.3 million is approximately \$76.2 million lower than the 2011 revenue requirement currently reflected in present rates. The \$3,990.3 million forecast consists of PG&E's 2012 Energy Resources Recovery Account revenue requirement forecast of \$3,515.6 million, an Ongoing Competition Transition Charge revenue requirement forecast of \$409.2 million, a Power Charge Indifference Amount credit of \$21.4 million, and the Cost Allocation Methodology revenue requirement of \$86.9 million. The rate changes will be effective on January 1, 2012. The 2012 revenue requirement will be consolidated with the revenue

requirement effects of other Commission decisions in the Annual Electric True-Up process.

## **2. Procedural Background**

Pacific Gas and Electric Company (PG&E) filed Application (A.) 11-06-004 on June 1, 2011, originally requesting Commission adoption of electric revenue requirements of \$4,467.7 million. The \$4,467.7 million includes an Energy Resource Recovery Account (ERRA) forecast amount revenue requirement of \$4,061.8 million, an Ongoing Competition Transition Charge (CTC) revenue requirement of \$344.2 million, a Power Charge Indifference Amount (PCIA) credit of \$18 million, and the Cost Allocation Methodology (CAM) revenue requirement of \$79.6 million. PG&E also requested adoption of its requested forecast of 2012 electric sales and rates, subject to the Annual Electric True-Up process.

Notice of A.11-06-004 appeared on the Daily Calendar on June 3, 2011. On June 17, 2011, and July 25, 2011, PG&E provided proof of compliance with Rules 3.2(c) and 3.2(d), respectively, of the Commission's Rules of Practice and Procedure<sup>1</sup> regarding public notice of the Application. On June 9, 2011, Resolution ALJ-176-3275 preliminarily determined that this proceeding was ratesetting and that hearings would be necessary.

On June 20, 2011, PG&E filed a motion to correct errors in its June 1, 2011 Application. On July 5, 2011, the Division of Ratepayer Advocates (DRA), Marin Energy Authority (MEA), the Alliance for Retail Energy Markets (AREM) and Direct Access Customer Coalition (DACC), and Energy Producers and Users

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<sup>1</sup> All references to Rules are to the Commission's Rules of Practice and Procedure unless otherwise noted.

Coalition (EPUC) filed protests; a motion to intervene and a protest was filed one day late by the City and County of San Francisco (CCSF), with the permission of the assigned Administrative Law Judge (ALJ). On July 18, 2011, PG&E filed a reply to the protests.

On July 11, 2011, a prehearing conference (PHC) took place in San Francisco to establish the service list for the proceeding, discuss the scope of the proceeding, and develop a procedural timetable for the management of the proceeding. In addition to PG&E, DRA, and EPUC, who were already parties, the assigned ALJ granted party status at the PHC to MEA, CCSF, the California Large Energy Consumers Association, and AReM/DACC.

On August 18, 2011, the Scoping Memo and Ruling of Assigned Commissioner (Scoping Memo) was issued.

On August 26, 2011, AReM/DACC served prepared testimony, and on September 8, 2011, PG&E served its rebuttal testimony.

On August 31, 2011, PG&E submitted revised testimony (Revised Testimony) that replaces in its entirety PG&E's June 1, 2011 testimony as well as testimony submitted with PG&E's June 20, 2011 motion to correct errors in its Application. In addition to incorporating the corrections submitted in PG&E's June 20, 2011 motion, PG&E's August 31, 2011 Revised Testimony also revised its 2012 forecast to exclude MEA Phase 2A load and to remove costs for complying with Assembly Bill (AB) 32 Greenhouse Gas (GHG) emission reduction targets, which were originally anticipated to begin on January 1, 2012.

PG&E revised its original \$4,467.6 million forecast to \$4,331.4, consisting of a 2012 ERRA revenue requirement forecast of \$3,907.9 million, an Ongoing CTC revenue requirement forecast of \$363.6 million, a PCIA credit of \$19 million, and a CAM revenue requirement of \$78.9 million.

On September 8, 2011, PG&E filed a Gas Price Sensitivity Analysis for changes in gas prices as requested in the Scoping Memo. On September 8, 2011, PG&E also notified the assigned ALJ that PG&E had reached agreement with all active parties that hearings would not be necessary in this proceeding.

PG&E requested that the confidential version of its Gas Price Sensitivity Analysis be given confidential treatment pursuant to Decision (D.) 06-06-066 and D.08-04-023, and pursuant to Public Utilities Code (Pub. Util. Code) Sections 454.5(g) and 583.

PG&E filed its Opening Brief on September 30, 2011. No other Party filed Opening Briefs, and no Reply Briefs were filed.

On November 4, 2011, PG&E served an update to its application (Update) requesting adoption of a total 2012 electric procurement revenue requirement forecast of \$3,990.3. This total is approximately \$76.2 million lower than the 2011 revenue requirement currently reflected in present rates. The \$3,990.3 million consists of PG&E's 2012 ERRA forecast revenue requirement of \$3,515.6 million, Ongoing CTC forecast revenue requirement of \$409.2 million, a PCIA credit of \$21.4 million, and a CAM revenue requirement of \$86.9 million. According to PG&E, these updates reflect 1) updated forward electric and gas prices and 2) an update to the final market price benchmark.<sup>2</sup> PG&E states that "the decrease in costs from the November ERRA update compared to revenues at present rates can be attributed to a decrease in electric and gas prices and over-collection in the ERRA balancing account."<sup>3</sup>

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<sup>2</sup> Exhibit 1c at 3.

<sup>3</sup> Exhibit 1c at 1.

PG&E's November 4, 2011 Update is identified as Exhibit 1c and received into evidence. The confidential version of PG&E's Update is identified as Exhibit 2c, is granted confidential treatment as discussed below in Section 8 of this decision, and is received into evidence.

### **3. PG&E's 2012 ERRA, Ongoing CTC, PCIA, and Sales Forecasts**

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.

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.

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.

As PG&E noted in its Opening Brief, the methodology used to determine the PCIA was currently undergoing review in the Direct Access Reopening Rulemaking (R.) 07-05-025, and would include a refinement to the benchmark calculation used to determine the PCIA. (See PG&E Exhibit 1b at 1-3, lines 11-15). On December 1, 2011, the Commission adopted D.11-12-018, which adopted modifications to the methodology used to calculate this benchmark. The new methodology requires that the utilities provide data to the Commission's Energy Division, which then performs calculations and provides results back to the utilities. Under this modified methodology, PG&E cannot revise its calculation of the 2012 PCIA and Ongoing CTC until the RPS Adder data ordered in D.11-12-018 to be calculated by the Energy Division is provided to PG&E. Therefore, PG&E shall file a Tier 2 Advice Letter that presents revised 2012 revenue requirements, associated rates, and supporting workpapers showing all underlying calculations, for all affected revenue requirements within 30 days after the Energy Division has provided PG&E necessary data to calculate the 2012 Market Price Benchmark. In the meantime, in order to avoid creating customer confusion or unnecessary rate volatility for customers, PG&E should keep its current 2011 PCIA rates in place until updated values based on D.11-12-018 can be implemented. Finally, consistent with D.11-12-018, PG&E shall track the difference between the 2011 PCIA versus the PCIA amounts that would result from using the updated 2012 PCIA until the updated PCIA values based on D.11-12-018 are implemented. Upon the implementation of the updated 2012 PCIA rates, these amounts shall be refunded to Direct Access and Community Choice Aggregator customers.

The CAM revenue requirement is a new item in PG&E's ERRA forecast. In D.10-12-035, the Commission adopted a "Qualifying Facility and Combined Heat and Power [CHP] Program Settlement Agreement" that resolved outstanding QF issues and provides for a transition from the existing QF program to a new QF/CHP program. In that decision, the Commission also addressed cost recovery and cost allocation of the new CHP program costs. The CAM was adopted in Ordering Paragraph 3, which provided that QF/CHP program costs can be recovered through non-bypassable charges. PG&E's testimony states that its forecasted CAM revenue requirement is based on an assumption that the QF/CHP Settlement will be effective no later than October 1, 2011. In its testimony, PG&E describes generally the calculation methodology used to determine the CAM charge and presents the resulting CAM revenue requirement and the resulting CAM rate.<sup>4</sup>

#### **4. Issues to be Resolved**

The Scoping Memo listed seven issues identified by PG&E as within the scope of this proceeding:

1. Should the Commission adopt PG&E's 2012 ERRA forecast of \$4,061.8 million?
2. Should the Commission adopt PG&E's 2012 Ongoing CTC forecast of \$344.2 million?
3. Should the Commission adopt PG&E's proposed PCIA credit of \$18 million?
4. Should the Commission adopt PG&E's proposed new Cost Allocation Methodology charges of \$79.6 million?

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<sup>4</sup> The effective date of the settlement was November 23, 2011.

5. Should the Commission adopt PG&E's 2012 electric sales forecast?
6. Should the Commission adopt PG&E's proposed total electric revenue requirements of \$4,467.7 million, subject to an update in early November 2011?
7. Should the Commission approve PG&E's rate proposals associated with its proposed total electric procurement-related revenue requirements to be effective in rates on January 1, 2012?

In addition, the Scoping Memo identified several issues raised in protests as within the proceeding:

- PG&E's inclusion of 2012 GHG compliance costs and revenues;
- The accuracy of PG&E's 2012 forecast of MEA Community Choice Aggregation load; and
- The sensitivity of PG&E's natural gas price forecast.

## **5. Parties' Positions**

Part of determining whether PG&E's forecasts should be adopted involves verification that the methods and inputs used by PG&E in calculating its forecasts, such as its forecast of 2012 electric sales and rates, were in compliance with applicable Commission decisions. No party provided alternatives to PG&E's forecasted figures. This is reflected in the discussion below.

## **6. Discussion**

With respect to the seven issues identified in the Scoping Memo and by PG&E as within the scope of this proceeding, no party provided alternatives to (1) PG&E's requested 2012 ERRR forecast, (2) its CTC forecast, (3) its PCIA credit forecast, (4) its CAM revenue requirement, or (5) the forecast inputs of 2012 electric sales and rates. In its testimony, AReM/DACC requested PG&E to explicitly identify each individual contract that is afforded CAM treatment and for which costs have been included in the CAM revenue requirement. As part of

its rebuttal, PG&E provided this information to AReM/DACC and other interested parties. AReM/DACC did not pursue the issue further.

With respect to the additional issues identified in the Scoping Memo, each was resolved, or addressed by PG&E, following the issuance of the Scoping Memo. First, PG&E's Revised Testimony revised its 2012 forecast to exclude MEA Phase 2A load, based upon conversations between PG&E and MEA. This resolved the first additional issue identified in the Scoping Memo. Second, PG&E's Revised Testimony removed its previously forecast costs for complying with AB 32 GHG emission reduction targets, which were originally anticipated to begin on January 1, 2012. This resolved the second additional issue identified in the Scoping Memo. Third, PG&E provided the Gas Price Sensitivity Analysis requested in the Scoping Memo, in compliance with the third additional requirement identified in the Scoping Memo.

No party contested any amount proposed by PG&E. We find them reasonable and adopt PG&E's updated ERRA forecast revenue requirements.

## **7. Conclusion**

For all of the foregoing reasons, PG&E's updated ERRA revenue requirement forecast of \$3,515.6 million, a CTC revenue requirement forecast of \$409.2 million, a PCIA credit forecast of \$21.4 million, and a CAM revenue requirement of \$86.9 million should be adopted.

We remind PG&E that its calculation of the 2012 ERRA, CTC, PCIA and CAM amounts must be in compliance with all applicable Commission decisions and regulations that address this issue.

In addition, PG&E's forecast of electric sales and proposed associated electric rates, subject to the Annual Electric True-Up (AET) process, should be adopted. These rates should be effective January 1, 2012.

## **8. Request to File Under Seal**

PG&E requested that Exhibits 2, 2b, 4, 6, and the confidential version of its Update (identified as Exhibit 2c) be given confidential treatment under D.06-06-066, and pursuant to Pub. Util. Code §§ 454.5(g) and 583. These exhibits contain forecasts of items such as PG&E's load, utility owned generation, and purchase power requirements, which, pursuant to D.06-06-066, may be provided confidential treatment. We therefore order the confidential treatment of PG&E's Exhibits 2, 2b, 2c, 4, and 6 as set forth below.

## **9. Categorization and Need for Hearings**

In Resolution ALJ 176-3275, dated June 9, 2011, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were necessary. As noted above, on September 8, 2011, PG&E notified the assigned ALJ that PG&E had reached agreement with all active parties that hearings would not be necessary in this proceeding. On September 9, 2011, the assigned ALJ issued an e-mail to all parties cancelling previously scheduled hearings. Given these developments, we make a final determination here that the category is ratesetting, and a public hearing is not necessary.

## **10. Comments on Proposed Decision**

The proposed decision/alternate of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on December 5, 2011 by PG&E and AReM, DACC and MEA (the "Competitive Retail Parties"); the California Municipal Utilities Association also filed comments along with a Motion for Party Status. Reply comments were filed on December 12, 2011 by PG&E. We have

considered the comments and reply comments, and revised the proposed decision to simplify the steps we order PG&E to take to update its revenue requirements and associated rates in order to incorporate the revised methodology, ordered in D.11-12-018, that shall be used to determine the Power Charge Indifference Amount (PCIA) and the Ongoing Competition Transition Charge (Ongoing CTC).

### **11. Assignment of Proceeding**

Michel P. Florio is the assigned Commissioner and Stephen C. Roscow is the assigned ALJ in this proceeding.

#### **Findings of Fact**

1. By Resolution ALJ 176-3275, dated June 9, 2011, A.11-06-004 was categorized as ratesetting with hearings needed.
2. Protests to the application were filed by DRA, MEA, AReM/DACC, EPUC and CCSF.
3. No party requested evidentiary hearings after service of testimony.
4. PG&E's updated 2012 ERRRA forecast revenue requirement, Ongoing CTC forecast revenue requirement, PCIA credit, CAM revenue requirement, sales forecast and associated rates, are supported by exhibits and filed documents.
5. PG&E's Application, as updated on November 4, 2011, requests the Commission to adopt a total 2012 electric procurement forecast of \$3,990.3 million, which consists of PG&E's 2012 ERRRA forecast revenue requirement of \$3,515.6 million, its Ongoing CTC forecast revenue requirement of \$409.2 million, its PCIA credit forecast of \$21.4 million, and its CAM revenue requirement of \$86.9 million.

6. No party provided alternatives to the 2012 forecasted amounts requested by PG&E for ERRA, Ongoing CTC, PCIA credit, CAM revenue requirement, and electric sales and rates.

7. The total 2012 electric procurement forecast of \$3,990.3 is approximately \$76.2 million lower than the 2011 revenue requirement currently in present rates.

8. PG&E cannot revise its calculation of the 2012 PCIA and Ongoing CTC until the RPS Adder data ordered in D.11-12-018 to be calculated by the Energy Division is provided to PG&E.

9. PG&E requested that Exhibits 2, 2b, 2c, 4, and 6 be given confidential treatment under D.06-06-066, and pursuant to Pub. Util. Code §§ 454.5(g) and 583.

### **Conclusions of Law**

1. PG&E's updated 2012 ERRA forecast revenue requirement of \$3,515.6 million, Ongoing CTC forecast revenue requirement of \$409.2 million, PCIA credit forecast of \$21.4 million, and CAM revenue requirement of \$86.9 million should be adopted.

2. PG&E's 2012 forecast of sales and associated rates should be adopted, subject to the AET process.

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

4. PG&E should update its calculation of the 2012 PCIA and Ongoing CTC based on D.11-12-018, which revised the methodology used to calculate the market price benchmark that is used to determine the PCIA and Ongoing CTC.

5. PG&E's request that Exhibits 2, 2b, 2c, 4, and 6 be granted confidential treatment should be granted. Pursuant to D.06-06-066, this information should

remain under seal for a period of three years after the date of this order unless otherwise modified by the Commission, the assigned Commissioner, or the assigned ALJ.

6. This decision should be effective immediately so that it may be reflected in rates effective January 1, 2012.

## **O R D E R**

**IT IS ORDERED** that:

1. Pacific Gas and Electric Company is authorized to recover a total 2012 electric procurement cost revenue requirement forecast of \$3,990.3 million, consisting of its 2012 Energy Resource Recovery Account forecast revenue requirement of \$3,515.6 million, an Ongoing Competition Transition Charge forecast revenue requirement of \$409.2 million, a Power Charge Indifference Amount credit of \$21.4 million, and a Cost Allocation Methodology revenue requirement of \$86.9 million.

2. Pacific Gas and Electric Company's requested 2012 forecast of electric sales and associated rates is adopted, subject to the Annual Electric True-up process.

3. The revenue requirement and sales forecast adopted in this order shall be consolidated with the revenue requirement effects of other recent Commission decisions through the Annual Electric True-Up process.

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

5. Pacific Gas and Electric Company (PG&E) shall file a Tier 2 Advice Letter that presents revised 2012 revenue requirements, associated rates, and

supporting workpapers showing all underlying calculations, for all affected revenue requirements within 30 days after the Energy Division has provided PG&E necessary data to calculate the 2012 Market Price Benchmark.

6. Pacific Gas and Electric Company shall keep its current 2011 Power Charge Indifference Amount rates in place until updated values based on D.11-12-018 can be implemented.

7. Consistent with Decision 11-12-018, Pacific Gas and Electric Company shall track the difference between the 2011 Power Charge Indifference Amount (PCIA) versus the PCIA amounts that would result from using the updated 2012 PCIA until the updated PCIA values based on D.11-12-018 are implemented. Upon the implementation of the updated 2012 PCIA rates, these amounts shall be refunded to Direct Access and Community Choice Aggregator customers.

8. Exhibits 2, 2b, 2c, 4, and 6 are granted confidential treatment. Pursuant to Decision 06-06-066, this information should remain under seal for a period of three years after the date of this order unless otherwise modified by the Commission, the assigned Commissioner, or the assigned Administrative Law Judge.

9. Hearings are not necessary.
10. Application 11-06-004 is closed.

This order is effective today.

Dated December 15, 2011, at San Francisco, California.

MICHAEL R. PEEVEY  
President  
TIMOTHY ALAN SIMON  
MICHEL PETER FLORIO  
CATHERINE J.K. SANDOVAL  
MARK J. FERRON  
Commissioners