Decision 05-11-007 November 18, 2005

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Review of Entries to the Energy Resource Recovery Account (ERRA) And Compliance Review of Electric Contract Administration, Economic Dispatch of Electric Resources, and Utility Retained Generation Fuel Procurement Activities. (U 39 E)	Application 05-02-014 (Filed February 15, 2005)

Robert B. McLennan, Attorney at Law, for Pacific Gas and Electric Company, applicant.
Regina DeAngelis, Attorney at Law, for the Office of Ratepayer Advocates.

OPINION ON THE REASONABLENESS AND PRUDENCE OF PACIFIC GAS AND ELECTRIC COMPANY'S ENERGY RESOURCE RECOVERY ACCOUNT

I. Summary

We find that Pacific Gas and Electric Company's (PG&E) administration of power purchase agreements and procurement of least cost dispatch power activities for the period beginning January 1, 2004 and ending December 31, 2004 (Record Period) were reasonable and prudent. We also find that procurement-related revenue and expenses PG&E recorded in its Energy Resource Recovery Account (ERRA) for that Record Period resulting in a $74.9 million undercollected ERRA balance at December 31, 2004 were reasonable and prudent. This total represents 3.4% of PG&E's total ERRA expenditures of $2.189 billion and fails to activate the five percent trigger in Pub. Util. Code § 454.5(d)(3).

II. Background

Decision (D.) 02-10-062 established an ERRA balancing account for the major energy utilities to track fuel and purchased power revenues against actual recorded costs. That decision required the major energy utilities to establish an annual ERRA fuel and purchased power revenue requirement forecast and an annual ERRA reasonableness review through the application process. A February 2005 filing date was set for PG&E to file its 2004 calendar year reasonable review application, pursuant to Ordering Paragraph 5 of D.04-01-050. That application involving PG&E's utility retained generation (URG), energy resource contract administration, least cost dispatch, and ERRA is now before us.

III. Utility Retained Generation

The reasonableness of PG&E's URG fuel costs, an includable component of the ERRA pursuant to D.02-10-062 was reviewed by the Office of Ratepayer Advocates (ORA) in this proceeding. As part of its review, ORA analyzed PG&E's underlying URG operations including planned and unplanned forced outages of its energy producing facilities to evaluate the reasonableness of PG&E's actual power purchases.

Although PG&E's 2004 forced outage rate of 1.29% was comparable to Southern California Edison Company's (SCE) 1.50% rate deemed reasonable by ORA,[1] ORA took exception to an unplanned forced outage at one of PG&E's hydro facilities, Rock Creek Powerhouse Unit 1. This exception was based on an ORA conclusion that the unplanned outage was due to neglectful maintenance[2]

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[1] Reporter's Transcript, p. 29, lines 1 through 3.

[2] Exhibit 3, p. 2-5.

and that ratepayers might have incurred higher replacement costs due to this forced outage.[3] ORA recommended a $2,170,000 disallowance due to a projected 42 gigawatt-hour generation loss from this unplanned outage.

PG&E explained that the unit was taken out of service as a planned outage to perform its annual maintenance on the unit. During the start-up testing of the unit upon completion of that planned maintenance, the unit's thrust and upper guide bearings failed. PG&E kept the unit out of service as an unplanned outage to replace the bearings rather than return the unit to service and place it at risk of more extensive damage. This repair required PG&E to substantially disassemble the 50-year old unit so that it could replace a thrust bearing designed to support the entire weight of the 490,000 pound turbine generator rotor and an upper guide bearing. This repair took two months, a typical time period for a unit of its size.[4]

PG&E also explained that its Rock Creek Powerhouse has two generating units, Unit 1 and Unit 2. While Unit 1 was out of service, all water available to the powerhouse passed through its Rock Creek Unit 2, which was operating at close to full capacity. Any water that would have otherwise been released through both Rock Creek units during the peak hours was shifted to the shoulder and off-peak hours. Based on market prices, the value of shifting energy to these other periods was $60,000. However, this shifting of energy due to the unplanned outage did not result in loss of any energy.[5] Based on this

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[3] *Id*.

[4] Exhibit 2, p. 5-5.

[5] Reporter's Transcript, p. 21, lines 1 through 9; and Exhibit 2, p. 5-8.

record, we conclude that PG&E prudently managed its energy source impacted by the unplanned outage and did not adversely impact its URG fuel cost.

PG&E's URG fuel costs for the Record Period were reasonable and recoverable. To the extent that ORA may take exception to the URG operations, maintenance or capital costs of PG&E, they are specifically excluded from and outside the scope of ERRA proceedings pursuant to D.02-10-062.[6] Any such exception should be addressed in a non-ERRA proceeding.

IV. Contract Administration

PG&E's contract administration process consists of several activities, including exercising contract options in a prudent manner; verifying that the other party is complying with the contract terms, including credit support and collateral requirements; verifying that billing and payments are accurate and consistent with the terms of the contract; reviewing interruptions of service and force majeure events; renegotiating contract provisions due to changed circumstances or conditions; resolving disputes; purchasing natural gas fuel under certain types of contracts; and assigning, renewing or terminating contracts.

ORA conducted an independent review and analysis of PG&E's application, testimony, workpapers, data responses, and written description of PG&E's contract administration procedures. Based on that review, ORA concluded that PG&E's administration of its ERRA contracts was prudent and reasonable.[7]

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[6] *Mimeo*., p. 62.

[7] For standards of prudence adopted by the Commission, see D.02-10-062; D.02-12-069; D.02-12-074; D.03-06-067; D.03-06-074; D.03-06-076; and D.03-12-003.

However, ORA did recommend that PG&E include additional information in future ERRA applications to assist ORA's review of PG&E's contract management activities. That additional information included an assessment of using the "Enviance Task Management System" for administering contracts, details of its employee "Performance Incentive Plan," and updated information on its dispute logbooks.[8]

At the evidentiary hearing, PG&E concurred with the ORA recommendations and has committed to address these recommendations in its next ERRA filing.[9] Because PG&E agrees to provide the additional information in its next ERRA filing, this matter need not be addressed further.

V. Least Cost Dispatch

For PG&E, the main goal of least cost dispatch is to determine the most economical generation schedule for PG&E's own resources and dispatch contracts, taking into account potential spot trading opportunities at forecasted or observed energy and ancillary service market prices. Details of PG&E's least cost dispatch are set forth in its testimony and exhibits.

An independent examination of PG&E's least cost dispatch by ORA consisted of a review of the application and prior Commission decisions guiding the least cost dispatch process, review of day ahead and hour ahead transactions, meetings with PG&E staff, day-ahead and real-time trading floor tour during actual trading, and a review of internal PG&E Risk Management Committee meetings and data responses. From that independent examination of least cost

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[8] Exhibit 3, p. 4-1 and p. 4-2.

[9] Reporter's Transcript, Vol. 1, p. 8 at line 13 through p. 9, line 1.

dispatch activities, ORA concluded that PG&E had prudently performed its least cost dispatch activities during the Record Period. We concur.

VI. Energy Resource Recovery Account

Consistent with D.03-07-029, PG&E used its ERRA to record the difference between ERRA-related revenue and PG&E's URG fuel costs and purchased power-related expenses during the Record Period. Department of Water Resources (DWR) power contract expenses were excluded from the ERRA. Details of its ERRA activity for the Record Period resulting in a $74.9 million undercollected balance at December 31, 2004 were set forth in Table 2-1 of Exhibit 1. This total represents 3.4% of PG&E's total ERRA expenditures of $2.189 billion and fails to activate the five percent trigger in Pub. Util. Code § 454.5(d)(3).

An ORA audit of the entries PG&E recorded in its ERRA for the Record Period disclosed no material errors in the ERRA. However, ORA did find that PG&E understated its Record Period ERRA balance by $10,146 due to an inadvertent error in not applying a jurisdictional factor to its prior period adjustment. The ORA recommends and PG&E concurs that the ERRA balance should reflect the impact of applying a jurisdictional allocation to a prior period adjustment, including the cumulative interest effect. PG&E agrees to make that adjustment in its ERRA on a prospective basis.

PG&E's $74.9 million undercollected balance at December 31, 2004 and its procurement-related revenue and expenses recorded in its ERRA during the Record Period were reasonable and prudent.

VII. Confidential Information

PG&E tendered testimony as part of its Record Period reasonableness application to substantiate the prudence of its contract administration, least cost dispatch, and ERRA. Portions of PG&E's data and testimony deemed commercially sensitive were tendered under seal, pursuant to General Order 66-C. Due to the commercially sensitive, confidential, and proprietary information on PG&E's electric energy resources and its management of power resources to meet customers needs on a least cost basis, all such information deemed commercially sensitive was placed under seal pursuant to a March 9, 2005 Administrative Law Judge (ALJ) ruling.

Information placed under seal relates to certain purchased power contract terms and costs, individual power prices, net position cost assumptions and other information that might put PG&E at a competitive disadvantage, if revealed. Maintaining this information under seal is reasonable and consistent with the provisions of Pub. Util. Code § 454.5(g), which states the Commission shall adopt appropriate procedures to ensure the confidentiality of any market sensitive information submitted in an electrical corporation's proposed procurement plan. Therefore, all such information placed under seal should remain under seal for a period of one year from the effective date of this order except upon further order or ruling of the Commission or ALJ then designated as the Law and Motion Judge.

VIII. Procedural Matters

PG&E requested that this matter be categorized as ratesetting. By Resolution ALJ 176-3148, dated February 24, 2005, the Commission preliminarily determined that this was a ratesetting proceeding and that hearings may be necessary. There was no objection to the ratesetting categorization.

Notice of the application appeared in the Commission's Daily Calendar of February 18, 2005. An evidentiary hearing was held on August 18, 2005 and this matter was submitted upon the receipt of reply briefs on September 16, 2005.

IX. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Pub. Util. Code § 311(d) and Rule 77.1 of the Rules of Practice and Procedure. Comments and reply comments were timely filed and received from PG&E. ORA's late filed comments, submitted late due to its oversight, were received in accordance with an ALJ November 10, 2005 ruling. No changes were made to the ALJ's Proposed Decision.

X. Assignment of Proceeding

Dian M. Grueneich is the Assigned Commissioner and Michael J. Galvin is the assigned ALJ in this proceeding.

Findings of Fact

1. The application was filed on February 15, 2005, and appeared in the Commission's Daily Calendar on February 18, 2005.

2. PG&E provided detailed exhibits and testimony on its administration of power purchase agreements, procurement of least cost dispatch power activities, and procurement-related revenue and expenses recorded in its ERRA for the Record Period beginning January 1, 2004 and ending December 31, 2004.

3. ORA provided testimony on the results of its independent examination of PG&E's administration of power purchase agreements, procurement of least cost dispatch power activities, and ERRA.

4. PG&E's 1.29% forced outage rate is comparable to the 1.50% rate of SCE deemed reasonable by ORA.

5. The Rock Creek Powerhouse Unit 1 is a 50-year old unit.

6. Unit 1's thrust and upper guide bearings failed during the start-up testing of the unit upon completion of planned maintenance.

7. Replacement of a thrust and upper guide bearings required a substantial disassembly of Unit 1.

8. The Rock Creek Powerhouse Unit 2 was operating at close to capacity during the time Unit 1 was out of service.

9. The shifting of Rock Creek Powerhouse water to the shoulder and off-peak hours that would have otherwise been released during an unplanned outage of its Unit 1 resulted in no loss of energy.

10. A review of URG operations, maintenance and capital costs is specifically excluded from and outside of the scope of ERRA proceedings pursuant to D.02-10-062.

11. ORA and PG&E concurred that PG&E would provide specific additional information to assist ORA's review of PG&E's contract management activities, as part of its next ERRA application.

12. ORA scrutinized the source of entries recorded in PG&E's ERRA during the Record Period through its review of contract administration and least cost dispatch activities during the Record Period.

13. An ORA audit of the entries PG&E recorded in its ERRA for the Record Period disclosed no material errors.

14. Information that would place PG&E in a competitive disadvantage if disclosed was placed under seal.

Conclusions of Law

1. PG&E's administration of its ERRA contracts during the Record Period was reasonable and prudent.

2. Least cost dispatch activities during the Record Period were prudently performed.

3. PG&E's unplanned repairs of its Rock Creek Powerhouse Unit 1 did not adversely impact its URG fuel costs.

4. Information placed under seal should remain sealed, as provided in this order.

5. This decision should be effective today in order to allow the docket to be closed expeditiously.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company's (PG&E) administration of its power purchase agreements and procurement of least cost dispatch power activities for the period beginning January 1, 2004 and ending December 31, 2004 (Record Period) were reasonable and prudent.

2. PG&E's $74.9 million Energy Resource Recovery Account (ERRA) undercollected balance at December 31, 2004 and its procurement-related revenue and expenses recorded in its ERRA in that Record Period were reasonable and prudent.

3. All information placed under seal shall remain sealed for a period of one year from the effective date of this order except upon further order or ruling of the Commission or Administrative Law Judge then designated as the Law and Motion Judge. If PG&E believes that further protection of sealed information is needed beyond one year after the effective date of this order, it may file a motion stating the justification for further withholding of the sealed information from public inspection, or for such other relief as the Commission may provide. This motion shall be filed no later than 30 days before the expiration of the one-year period specified in this ordering paragraph.

4. Application 05-02-014 is closed.

This order is effective today.

Dated November 18, 2005, at San Francisco, California.

MICHAEL R. PEEVEY
President
GEOFFREY F. BROWN
SUSAN P. KENNEDY
DIAN M. GRUENEICH
JOHN A. BOHN
Commissioners