

Decision 08-10-002 October 2, 2008

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 for the Record Period of January 1 through December 31, 2007.

Application 08-02-008
(Filed February 15, 2008)

DECISION ON COMPLIANCE REVIEW OF ENERGY RESOURCES RECOVERY ACCOUNT ACTIVITIES FOR 2007 RECORD PERIOD

1. Summary

This decision finds that Pacific Gas and Electric Company's utility retained generation fuel procurement, administration of power purchase agreements, and least-cost dispatch power activities for the period beginning January 1, 2007 and ending December 31, 2007 (Record Period) were reasonable and prudent. We also find PG&E's procurement-related revenue and expenses recorded in its Energy Resource Recovery Account balancing account during the Record Period reasonable and prudent. This proceeding is closed.

2. Procedural Background

On March 24, 2008, a protest was filed by the Division of Ratepayer Advocates (DRA). A reply was filed by Pacific Gas and Electric Company (PG&E) on April 2, 2008. Following a prehearing conference on April 8, a Scoping Ruling was issued on April 21, 2008. By letter dated June 30, 2008, DRA informed the assigned Administrative Law Judge (ALJ) that it had completed

review of the entries in PG&E's Energy Resource Recovery Account (ERRA) for the Record Period and found no items requiring adjustment. DRA stated that it did not oppose granting the relief PG&E seeks in its application. On July 10, 2008, there being no disputed issues of material fact remaining and no need for evidentiary hearing, by ruling of the ALJ, the proceeding was submitted for decision based on the pleadings as filed. There are no other Parties in this proceeding except PG&E and DRA.

3. Background

Decision (D.) 02-10-062 established the ERRA balancing accounts for several energy utilities, including PG&E, to track fuel and purchased power revenues against actual recorded costs. That decision also required PG&E to establish an annual ERRA fuel and purchased power revenue requirement forecast and an annual ERRA reasonableness review through the application process. The purpose of the application is to review the reasonableness of PG&E's utility retained generation (URG) fuel procurement, energy resource contract administration, least-cost dispatch, and ERRA balance for the Record Period. The application now before us covers the 2007 Record Period.

4. DRA's Review

DRA states that it conducted a thorough review of PG&E's application, supporting testimony, and workpapers. PG&E timely responded to DRA's nine data requests, which totaled over 110 questions. Additionally, on April 17, 2008, PG&E arranged a tour for DRA staff of The Geysers Geothermal Facilities, from which PG&E contracts energy with Calpine Corporation. The site visit provided DRA an opportunity to learn how PG&E manages its various generation resources. DRA staff also toured PG&E's energy trading floor on June 26, 2008,

to gain a better understanding of PG&E's daily activities related to its day-ahead and hour-ahead transactions and its obligations under least-cost dispatch.

DRA's findings are summarized below:

- **URG:** DRA reviewed generation outages, including the underlying factors for certain outages, to ensure that ratepayers do not suffer any economic losses due to unreasonable actions. Since there were no significant forced outages during the Record Period, DRA does not oppose PG&E's associated costs for replacement power. The team found PG&E's gas and fuel procurement activities reasonable and its URG operations satisfactory.

PG&E procures gas for two parts of its electric portfolio:

(1) PG&E's remaining thermal URG plants and;
(2) PG&E's allocated California Department of Water Resources tolling agreements. The Humboldt Bay Power Plant is PG&E's only owned and operated natural gas-fired generating facility in 2007. The team found that PG&E's average gas price was consistently lower than the average Gas Daily Index price during the Record Period. Furthermore, as a member of the Procurement Review Group, DRA is aware of PG&E's efforts to minimize gas and fuel costs. DRA, thus, does not oppose PG&E's gas expenditures during the Record Period.

- **Contract Administration:** During the Record Period, PG&E addressed: (1) the NERC/WECC reliability standards change from voluntary to mandatory under the 2005 Energy Policy Act adopted by Congress; and (2) contract amendments to arrange scheduling coordinators in preparation of the California Independent System Operator's (CAISO) Market Redesign and Technology Upgrade. PG&E's actions regarding these issues were reasonable and consistent with its duties to reasonably administer its contracts. Thus, DRA finds PG&E has reasonably administered and managed its Qualifying Facilities (QF) and non-QF contracts and related recorded costs.

- **Least Cost Dispatch:** For the Record Period, DRA's review of least cost dispatch covers scheduling of PG&E's resources and the spot market transactions for sample days during the Record Period. These resources include PG&E's generating units, which are mainly hydro units, QF and non-QF contracts as well as DWR contracts. DRA found that the prices at which PG&E transacted in the day-ahead and hour-ahead markets during the Record Period were generally consistent with the prices in the Intercontinental Exchange and regional CAISO energy markets. DRA's review of sample data did not reveal any measurable deviation from least cost dispatch requirements.
- **Balancing Account Review:** DRA found no items that require adjustments to PG&E's ERRR balancing account. DRA noted no exceptions to the recovery requirements adopted by the Commission.

Based on its review, DRA does not oppose the relief PG&E is seeking in this application and does not believe evidentiary hearings are necessary.

5. Testimony and Exhibits

PG&E provided a public version of its prepared testimony and a confidential (unredacted) version submitted under Pub. Util. Code §§ 454.5(g) and 583. The public version is marked for identification as Exhibit 1 and the confidential version as Exhibit 1A. Exhibits 1 and 1A are received into the evidentiary record for this proceeding. Exhibit 1A, the confidential testimony, shall be Filed Under Seal and remain sealed for a period of three years from the effective date of this decision.

6. Discussion

As noted above, DRA conducted a thorough review of the application. Upon our own review of the evidentiary record, we agree with DRA's findings. We find that PG&E's URG fuel procurement, administration of power purchase agreements, and least-cost dispatch power activities for the Record Period were

reasonable and prudent. We also find PG&E's procurement-related revenue and expenses recorded in its ERRRA balancing account during the Record Period reasonable and prudent.

7. Categorization and Need for Hearings

In Resolution ALJ 176-3209, dated February 28, 2008, the Commission preliminarily categorized this application as Ratesetting, and preliminarily determined that hearings were necessary. Since no material issues of fact arose in the proceeding, no evidentiary hearings were needed and, the preliminary determinations made in Resolution ALJ 176-3209 should be modified accordingly.

8. Comments on Proposed Decision

The proposed decision of the Administrative Law Judge 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. No comments were filed.

9. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Bertram D. Patrick is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. PG&E's application was accompanied by detailed exhibits and testimony in support of the reasonableness of its URG fuel procurement, administration of power purchase agreements, and lease-cost dispatch power activities for the 2007 Record Period.
2. DRA conducted a thorough review of the application and testimony and found no items of a material nature requiring adjustment to PG&E's ERRRA.

Conclusions of Law

1. PG&E's URG fuel procurement, administration of power purchase agreements, and least-cost dispatch power activities for the period beginning January 1, 2007 and ending December 31, 2007 (Record Period) are reasonable and prudent.

2. PG&E's procurement-related revenue and expenses recorded in its ERRRA balancing account during the Record Period are reasonable and prudent.

3. PG&E's public (redacted) Exhibit 1 and confidential (unredacted) Exhibit 1A should be received into evidence in this proceeding. Confidential Exhibit 1A should be Filed Under Seal and remain sealed for a period of three years from the effective date of this decision.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company's (PG&E) utility retained generation fuel procurement, administration of its power purchase agreements, and procurement of Least-Cost Dispatch power activities for the period beginning January 1, 2007, and ending December 31, 2007 (Record Period) were reasonable and prudent.

2. PG&E's entries in its Energy Reserve Recovery Account for the Record Period are appropriate and are adopted for recovery.

3. PG&E has complied with its Long-Term Energy Procurement Plan in the areas of contract administration, economic dispatch of electric resources, and utility-retained generation fuel procurement activities for the Record Period.

4. PG&E's public exhibit (Exhibit 1) and confidential exhibit (Exhibit 1A) are received into the record for this proceeding. Exhibit 1A shall be Filed Under Seal

and remain sealed for a period of three years from the effective date of this decision. During that period, Exhibit 1A shall not be made accessible or disclosed to anyone other than the Commission staff except on the further order or ruling of the Commission, the assigned Commissioner, the assigned Administrative Law Judge (ALJ), or the ALJ then designated as law and Motion Judge. If PG&E believes that further protection of the information kept under seal is needed, it may file a motion stating the justification for further withholding of the information from public inspection, or for such other relief as the Commission's rules may then provide. This motion shall be filed no later than one month before the expiration date.

5. Resolution ALJ 176-3209 dated February 28, 2008, is modified to reflect that an evidentiary hearing was not required in this proceeding.

6. Application 08-02-008 is closed.

This order is effective today.

Dated October 2, 2008, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners

