

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION G-3445
DATE: August 12, 2010

R E S O L U T I O N

Resolution G-3445. Pacific Gas and Electric Company (PG&E) requests approval for revisions to its gas tariff Schedule G-CP for December 2009, January 2010 and February 2010 gas procurement rates for core customers.

Proposed Outcome:

PG&E's request is granted. PG&E shall submit an advice letter to address the methodology and process for future amortization of account credit or uncollected balances.

Estimated Annual Costs: None. As a component of its December 2009, January 2010, and February 2010 procurement rate revisions, PG&E already credited back to core gas customers a \$63 million overcollection of the Shrinkage Subaccount of the Purchased Gas Account.

By PG&E Advice Letter 3063-G filed November 20, 2009, PG&E Advice Letter 3072-G filed December 23, 2009 and PG&E Advice Letter 3085-G filed January 25, 2010.

SUMMARY

This Resolution grants PG&E's request to change the core gas procurement rates in Schedule G-CP for December 2009, January 2010 and February 2010.

The protests filed by the School Project for Utility Rate Reduction (SPURR), ABAG Publicly Owned Energy Resources (ABAG) and Tiger Natural Gas are denied. SPURR and ABAG question the accuracy and cause of the overcollection, and argue that the sizeable amount of the credit has a significant negative impact on the core customers who receive core aggregation service by sending inaccurate price signals to the core market.

PG&E shall submit an advice letter to address the methodology and process for future amortization of account credit balances.

BACKGROUND

In Decision (D.) 97-10-065, the Commission authorized PG&E to adopt a new core gas procurement rate tariff (Schedule G-CP) to provide for monthly revisions to rates through monthly advice letter filings. In addition, D.98-07-025 allowed the core procurement rate change to become effective no later than the fifth business day of the month.

The Commission concluded in D.97-10-065 that more frequent forecasts of gas procurement costs would reduce the difference between costs and rates, thus providing more accurate price signals. The Commission authorized PG&E to establish a new rate Schedule G-CP which consist of the following components, updated monthly, as appropriate: (a) a monthly forecast of PG&E's weighted average cost of gas, including storage withdrawals, when applicable; (b) a monthly amortization component for PG&E's core purchased gas account; (c) Canadian capacity charges; (d) shrinkage; (e) the core brokerage fee; (f) interstate capacity charges; and (g) an amount for franchise fees and uncollectible amounts. "Shrinkage" is the amount of gas used by the PG&E Gas Department in moving supplies on the system, as well as any lost and unaccounted for gas. The Commission also allowed PG&E to update Schedule G-CP by monthly advice letter filings. In D.98-07-025, the Commission allowed the core procurement rate change to become effective on the first day of the month.

PG&E submitted its monthly advice letters to revise the core procurement rates for December 2009, January 2010, and February 2010. These ALs included a significant credit to amortize an overcollection of the Shrinkage Subaccount.

On November 20, 2009, in compliance with D.97-10-065, PG&E filed Advice Letter 3063-G requesting changes to Schedule G-CP, PG&E's core end-use customer gas rates, effective December 1, 2009. The Schedule G-CP rates reflected a credit of \$0.04676 per therm from a \$63.1 million over-collection in the Shrinkage Subaccount of the Purchased Gas Account (PGA) to be amortized over four months. On December 23, 2009, PG&E filed Advice Letter 3072-G requesting changes to Schedule G-CP, effective January 1, 2010. The January Schedule G-CP rates reflected a credit of \$0.04573 per therm with \$43.3 million remaining in the Shrinkage Subaccount. On January 25, 2010, PG&E filed Advice

Letter 3085-G requesting changes to Schedule G-CP, effective February 1, 2010. As directed by Energy Division, the February Schedule G-CP reflected a credit of \$0.09905 per therm to amortize the entire remaining amount of \$27.6 million in the month of February. At the request of Energy Division, PG&E included a notation in the February bill informing customers that the G-CP rate included a credit for a past over-collection.

NOTICE

Notice of Advice Letters 3063-G, 3072-G and 3085-G was made by publication in the Commission's Daily Calendar. PG&E states that a copy of the Advice Letter was sent to parties shown on the attached service list of the Advice Letters.

PROTESTS

The School Project for Utility Rate Reduction (SPURR) and ABAG Publicly Owned Energy Resources (ABAG)¹ filed protests to PG&E's core gas procurement rate changes for the months of December, January and February. On December 2, 2009, Tiger Natural Gas² also filed a letter of support for the protest filed by SPURR and ABAG.

On November 24, 2009, SPURR and ABAG filed a protest to PG&E's Advice Letter 3063-G regarding PG&E's December 1, 2009 core procurement rate changes. On December 10, 2009, SPURR and ABAG filed a supplement to their protest. SPURR and ABAG oppose the inclusion of the Shrinkage Subaccount over-collection in the G-CP rates. SPURR and ABAG question the accuracy and cause of the over-collection.

¹ SPURR and ABAG are both joint powers authorities authorized pursuant to Government Code Section 6500, et seq., to secure energy supplies and related services on behalf of public entities. ABAG represents cities, counties and special districts within PG&E's service territory, providing energy management and energy procurement services, including core aggregation service. SPURR is a membership organization of public K-12 school districts, county offices of education, and community college districts. SPURR and ABAG each aggregate core customers on the PG&E distribution system.

² Tiger Natural Gas is a minority/women-owned retail gas supplier.

SPURR and ABAG allege that a \$63.1 million over-collection must have occurred due to material errors in PG&E's operational or computational processes. SPURR and ABAG argue that the sizeable amount of the Shrinkage Subaccount and its accompanying credit has a significant negative impact on the core customers who receive core aggregation service by sending inaccurate price signals to the core market, thus violating PG&E's commitment in the Gas Accord Settlement approved in D.97-08-055 which stated that PG&E would encourage greater customer choice among suppliers. SPURR and ABAG request the Commission to require PG&E to exclude the over-collection credit from the core procurement rate. The protestants argue that the Shrinkage Subaccount should be returned to core customers through a credit in the Annual Gas True-Up of the Gas Transportation Balancing Accounts (AGT).

PG&E filed a response to the SPURR and ABAG protest on December 16, 2009. PG&E states in the response that over the past several years, the core gas shrinkage subaccount balance was subject to considerable fluctuations. Shrinkage was previously calculated as the difference between the amount of gas forecast to be purchased and the amount of gas sold. PG&E claims that this calculation caused the subaccount balance to fluctuate due to load forecasting and operating imbalances. PG&E states that in 2008 the calculations underlying the core gas shrinkage subaccount were reviewed. Based on their 2008 analysis, PG&E revised its core shrinkage subaccount calculation using actual data instead of forecast data to minimize the month-to-month fluctuations. Since making this revision, PG&E states that the core shrinkage subaccount balance has not fluctuated significantly (+/- \$500,000) from the \$63 million over-collection amount.

PG&E argues that the protestants' proposal to credit the over-collection in the Annual Gas True-Up (AGT) is inappropriate and infeasible because the AGT is only a mechanism to consolidate previously approved gas transportation rate changes and balancing account amortizations for rates effective on January 1 of the following year.

On January 20, 2010, SPURR and ABAG again protested PG&E's Gas Core Procurement Rate change for January. On January 20, 2010, PG&E responded to the SPURR and ABAG protest to Advice Letter 3072-G.

On February 12, 2010, SPURR and ABAG protested PG&E's Gas Core Procurement Rate change for February. On February 23, 2010, PG&E responded

to the SPURR and ABAG protest to Advice Letter 3085-G. No significantly different arguments were made in either the protests or responses from those made in connection with the initial advice letter.

DISCUSSION

PG&E's request to change the core gas procurement rates in Schedule G-CP for December, January and February is granted. The protests filed by the School Project for Utility Rate Reduction, ABAG Publicly Owned Energy Resources and Tiger Natural Gas are denied.

PG&E amortized the Shrinkage Subaccount over-collection credit in accordance with Commission rules, regulations and decisions. Since the approval of D.97-10-065 on October 22, 1997, PG&E has been amortizing the Shrinkage Subaccount from time to time as part of its monthly advice letter requests to the core procurement rate Schedule G-CP. PG&E has recently amortized the Shrinkage Subaccount three times: March-April 2007, February 2008 and May-June 2008. The amortization included in the three advice letter requests which are the subject of this resolution are not procedurally different from those earlier amortizations. D.97-10-065 Ordering Paragraph 2 specifically includes shrinkage as a component of Schedule G-CP to be updated monthly. Accordingly, PG&E has Commission authority to use the monthly advice letter process to balance the Shrinkage Subaccount using the core procurement rate, and the revised procurement rates are allowed to become effective on the first of the month by D.98-07-025.

SPURR and ABAG's request to exclude the Shrinkage Subaccount over-collection from PG&E's core procurement rates is denied.

In their protest, SPURR and ABAG requested that the Commission immediately require PG&E to adjust the December 2009 core procurement rate to exclude the \$0.04676 per therm credit as a result of the Shrinkage Subaccount over-collection. Because the three months of credits have already gone into effect, each time on five days' notice, granting the protestants' request would essentially require PG&E to recollect the credit from core customers and then redistribute the credit again. The credit was already delayed for a year and to continue to delay the amortization would be unnecessary and unfair to core ratepayers. According to D.98-07-025, PG&E is allowed to make the core procurement rate effective on the first of the month and has applied the credit consistent with D.98-07-025. The

Commission has reviewed the data and believes that PG&E acted according to Commission rules and orders. The additional costs and process to retrieve the credit and to later redistribute the credit through another mechanism not previously approved by the commission is unwarranted, burdensome, and would cause additional confusion for customers.

The Shrinkage Subaccount has stabilized since 2008. Substantial balances are not likely to accrue in the future given the revisions to the calculation methodology that PG&E has put in place. Through data requests to PG&E, Energy Division staff has reviewed the monthly balances in the core shrinkage subaccount since January 2007. The Shrinkage Subaccount balance varied widely from January 2007 through May 2008. Since May 2008 to December 2009, the Shrinkage Subaccount has not changed. SPURR and ABAG were also provided a copy of the data request which included a month by month account of the Shrinkage Subaccount balance dating back to January 2007.

Given the methodological revisions by PG&E to remedy the volatility of this subaccount, the proposed study requested by SPURR and ABAG is unnecessary. SPURR and ABAG's request to require PG&E to conduct a study of the Shrinkage Subaccount over-collection and the overall market impact it has on core customers is moot. As the data shows, PG&E has remedied the volatility issue by revising the methodology to more appropriately calculate and record the cost of in-kind shrinkage gas. PG&E's calculation now uses actual data in lieu of estimated forecast data. Energy Division staff has reviewed the study. The revised methodology will more appropriately calculate and record the cost of in-kind shrinkage gas. The revised methodology should significantly lessen the volatility in this shrinkage subaccount balance. With the amortization of the \$63.1 million credit, the balance is now close to zero and should remain relatively flat going forward. Another study of the Shrinkage Subaccount would be redundant.

We agree with the protestants that fluctuations of more than \$60 million in the shrinkage subaccount is too high. As stated in D.97-10-065, monthly gas procurement costs should provide consumers with accurate price signals, but we also acknowledge that forecasting usage is not an exact science.

SPURR and ABAG's proposal to credit the over-collection to core customer to the Annual Gas True-Up of the Gas Transportation Balancing Account (AGT) is inappropriate. As PG&E points out in its response, the AGT is not the

appropriate mechanism to credit the Shrinkage Subaccount over-collection. We agree. The AGT is a mechanism to consolidate approved gas transportation rate changes and not associated with gas procurement charges.

It would be overly burdensome and costly to determine exactly which customers contributed what amount to the Subaccount credit. SPURR and ABAG argue that customers who have switched from PG&E core customers to non-utility core aggregation since January 2008 are entitled to a credit from the Shrinkage Subaccount over-collection. While it may be possible that some core aggregation customers may have contributed to the Shrinkage Subaccount over-collection, it would be unduly burdensome and costly to do such tracking. The same argument would be true if a PG&E core customer moved out of the PG&E service territory during this time, but the reverse would be true if a core customer moved into the PG&E service territory recently and received the credit. Often when credits are issued for an over-collection in a balancing account, customers who moved out of a utility's service territory are not tracked down for the purpose of providing a credit to them. To attempt an exact accounting of which customers paid for what and to calculate the appropriate amount would be difficult and unnecessarily burdensome.

SPURR and ABAG's request for a formal proceeding with evidentiary hearings on these advice letters is denied. As stated previously, PG&E's actions on this matter have been in accordance with Commission rules, regulations and orders. PG&E has provided SPURR and ABAG with the information at issue in their protests, and there are no material issues of fact in dispute. Energy Division has reviewed the monthly shrinkage subaccount data as well as the previous and revised calculation methodology. SPURR and ABAG's objections are not about whether these advice letters comply with prior Commission orders; rather they raise issues concerning allocation between PG&E's core customers and core aggregation customers. D.97-10-065 established the advice letter process for the core gas procurement rate tariff as a routine monthly process. This advice letter process is intended to provide a quick and simplified review of a utility's proposed actions, such as to comply with Commission decisions. The advice letter process is generally not the appropriate vehicle to propose new rate design methodologies and mechanisms that the Commission has not previously considered and approved. SPURR and ABAG had the opportunity to address allocation issues at PG&E's prior Biennial Cost Allocation Proceeding (BCAP). The BCAP allows all PG&E's customers to participate in consideration of the allocation for all the various accounts as a whole in lieu of a piecemeal

methodology. SPURR and ABAG will again have the opportunity to address this issue in PG&E's next BCAP filing.

Although we find no reason to reject the three-month credit for PG&E's core gas shrinkage over-collection, we find that the process is in need of revision. We will require PG&E to propose a mechanism so that credits can be issued without extended delays.

We understand PG&E's decision to amortize the Shrinkage Subaccount during the winter months when gas bills tend to be at their highest. After one year of consistent data following implementation of the revised methodology, PG&E decided it was appropriate to return the over-collection to PG&E's core procurement customers, purposefully crediting the over-collection during the 2009-2010 winter months. PG&E reasons that spreading the credit over the four high usage winter months would provide its core procurement customers with more stable rates and bills. We agree that the benefits to the core customers would be the greatest during the winter months, but holding a \$63.1 million over-collection in the account for a year is excessive.

Due to the extended period of time that PG&E unnecessarily held this over-collection, Energy Division requested PG&E amortize the remaining balance in the month of February, typically a high winter usage month, and to avoid holding the account for another month. As specifically stated in D.97-10-065, the monthly forecasts of gas procurement costs should provide consumers with accurate price signals. A credit from a year-old over-collection of \$63.1 million account does not accomplish this goal.

PG&E should file an advice letter to address future subaccount balances and credits. PG&E currently does periodic reviews of subaccounts, but has no threshold or set routine for these reviews. To ensure future transparency and to maintain its commitment to reduce costs to customers and to expand core customer choice as noted in the Gas Accord Settlement approved by D.97-08-055, PG&E should file an advice letter to address the methodology and process for future amortizations of subaccount balances. In the advice letter, PG&E should 1) establish a definitive threshold amount for over- or under-collections in its subaccounts; 2) establish the length of time to amortize the balances; and 3) determine a method to inform customers of the credit or charge in a way that customers get accurate gas price signals as was intended by D.97-10-065.

COMMENTS

Public Utilities Code section 311(g) (1) provides that resolutions must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Accordingly, this draft resolution was mailed to parties for comments on July 12, 2010.

PG&E filed comments on the draft resolution on August 2, 2010. PG&E objects to Ordering Paragraph 5 of the resolution which orders the utility to develop a methodology and process for future amortizations of subaccount balances. PG&E argues that the current method is adequate and any new proposals for amortization should be addressed in PG&E's BCAP filing.

This resolution does not change the basic methodology or process established in D.97-10-065 or D.98-07-025. The requirements ordered in this resolution only attempt to clarify the current advice letter process for core procurement rates, and continue to allow procurement rate changes to occur in an efficient manner.³ The Commission has previously established an over- or under-collection imbalance rule in another proceeding. In D.98-07-068, the Commission authorized Southern California Gas Company to establish a Core Purchased Gas Account (PGA) Imbalance Band equal to $\pm 1\%$ of the actual annual gas commodity purchases in the prior 12-month period ending on March 31 of any year, wherein adjustments are made to the core procurement rate when the balance falls outside the band.

³ Accordingly, by directing PG&E to propose a methodology for amortizing over- or under-collections we are simply requiring PG&E to add a few details to an existing methodology. More specifically, we expect PG&E to propose a maximum amount of over- or under-collection before amortization is required, an amortization period, and some brief language to inform consumers about the reason for the adjustment to the core procurement rate. In contrast, the two matters that protestants want to have addressed by advice letter, which we find more appropriate to be addressed in a BCAP, require: i) a more thoroughgoing review of the allocation of credits or charges between PG&E core gas customers and core aggregation customers, and ii) the development of a new methodology and reconsideration of whether amortization should be allowed by advice letter.

PG&E does not dispute either the resolution's statements that \$60 million in the shrinkage subaccount is too high or that holding \$60 million for a year is too long. Clearly this situation is not adequate.

The School Project for Utility Rate Reduction and ABAG Publicly Owned Energy Resources filed comments on the draft resolution on August 2, 2010. SPURR and ABAG continue to support the rejection of Advice Letters 3063-G, 3072-G and 3085-G based on their arguments presented in their protests. SPURR and ABAG also request that additional items be included in the Advice Letter to be filed by PG&E to address future amortizations. First, SPURR and ABAG propose that PG&E develop a method to determine whether over- or under-collection charges or credits may significantly affect price signals to customers and market competition, and whether such credits should be implemented through the advice letter process. Addressing whether a credit is significantly affecting price signals and market competition, and whether the credit is even appropriate for an advice letter filing, strikes us as too burdensome and would be more appropriately addressed in PG&E's next BCAP filing.

Second, SPURR/ABAG request that PG&E establish a process to permit stakeholders to provide input before significant adjustments to G-CP rate go into effect. This proposal could cause PG&E to hold a subaccount for an unnecessarily lengthy time period in order to seek stakeholder input. D.97-10-065 established the gas procurement rate in order to provide consumers with more accurate price signals. Excessive subaccount balances held for long periods of time contribute to inaccurate price signals and contribute to monthly price volatility. Holding excessive subaccount balances for too long is precisely what we are trying to avoid in ordering PG&E to propose a method to address significant over- or under-collections. In addition, we believe that discussions with stakeholders can occur without having them formally incorporated into the advice letter process.

Finally, SPURR and ABAG also request that over- or under-collection charges or credit be separately identified on customer invoices. Although we find PG&E's billing system to be somewhat outdated given the availability of today's technologies, we understand the cumbersome process of making changes to customer bills using this archaic system. Nevertheless, we are requiring PG&E to propose a method to inform customers of significant credits or charges in a way that customers get accurate gas price signals, as was intended by D.97-10-065.

FINDINGS

1. On November 20, 2009, PG&E filed Advice Letter 3063-G requesting changes to Schedule G-CP, PG&E's core end-use customer gas rates, effective December 1, 2009.
2. SPURR and ABAG filed a protest to PG&E's Advice Letter 3063-G on November 24, 2009. On December 10, 2009, SPURR and ABAG filed a supplement to their protest.
3. On December 2, 2009, Tiger Natural Gas filed a letter of support for the protests filed by SPURR and ABAG.
4. On December 16, 2009, PG&E filed a response to the protests of SPURR, ABAG and Tiger Natural Gas.
5. On December 23, 2009, PG&E filed Advice Letter 3072-G requesting changes to Schedule G-CP, PG&E's core end-use customer rates effective January 1, 2010.
6. On December 23, 2009, SPURR and ABAG filed a protest to PG&E's Advice Letter 3072-G.
7. On January 20, 2010, PG&E filed a response to the protest of SPURR and ABAG.
8. On January 25, 2010, PG&E filed Advice Letter 3085-G requesting changes to Schedule G-CP, PG&E's core end-use customer rates effective February 1, 2010.
9. On February 12, 2010, SPURR and ABAG filed a protest to PG&E's Advice Letter 3085-G.
10. On February 23, 2010, PG&E filed a response to the protest of SPURR and ABAG.
11. The Commission authorized PG&E to adopt a new core gas procurement rate tariff through monthly advice letters in D.97-10-065.

12. As specifically stated in D.97-10-065, the monthly forecasts of gas procurement costs should provide consumers with accurate price signals.
13. D.97-10-065 specifically included shrinkage as a component in the monthly core gas procurement rate.
14. D.98-07-025 allowed the core procurement rate change to become effective no later than the fifth business day of the month.
15. There are no material disputed issues of fact relevant to whether these advice letters comply with prior Commission requirements and decisions.
16. PG&E amortized the Shrinkage Subaccount over-collection credit in accordance with Commission rules, regulations and decisions.
17. SPURR and ABAG's request to retrieve the credit and redistribute the credit would be costly and detrimental to core ratepayers as well as cause additional confusion.
18. SPURR and ABAG's request to require PG&E to conduct a study of the Shrinkage Subaccount over-collection and the overall market impact is not necessary because substantial balances are not likely to accrue in the future given the revisions to the calculation methodology that PG&E has put in place.
19. In 2008, PG&E reviewed the calculations underlying the core gas shrinkage subaccount and revised the calculation, thus decreasing the fluctuations significantly.
20. From May 2008 to December 2009, the Shrinkage Subaccount held a \$63 million over-collection.
21. The AGT is a mechanism to consolidate approved gas transportation rate changes and not associated with gas procurement charges.
22. The AGT is not the appropriate mechanism to credit the Shrinkage Subaccount over-collection.

23. PG&E should file an advice letter to address the methodology and process for future amortizations of subaccount credits, so as to avoid excessive delays in future amortizations.
24. Monthly gas procurement cost should provide consumers with accurate price signals.
25. SPURR and ABAG's objections are not about whether these advice letters comply with prior Commission orders; rather they raise issues concerning allocation between PG&E's core customers and core aggregation customers.
26. The advice letter process is generally not the appropriate vehicle to propose new methodologies and mechanisms that the Commission has not considered and approved.
27. SPURR and ABAG will again have an opportunity to address alternative methodologies for dealing with core gas procurement over- or under-collections in PG&E's next BCAP filing.

THEREFORE IT IS ORDERED THAT:

1. Pacific Gas and Electric Company (PG&E)'s request to apply a credit of \$0.04676 per therm to the December core procurement rate in Schedule G-CP in Advice Letter 3063-G is approved.
2. PG&E's request to apply a credit of \$0.04573 per therm to the January core procurement rate in Schedule G-CP in Advice Letter 3072-G is approved.
3. PG&E's request to apply a credit of \$0.09905 per therm to the February core procurement rate in Schedule G-CP in Advice Letter 3085-G is approved.
4. The protests filed by the School Project for Utility Rate Reduction (SPURR), ABAG Publicly Owned Energy Resources (ABAG) and Tiger Natural Gas are denied.
5. Within 60 days of the effective date of this resolution, PG&E shall submit an advice letter to address the methodology and process for future amortization of subaccount balances, which shall include a) a definitive threshold amount for over- or under-collections in its subaccounts; b) a length of time to amortize the balances; and c) a method to inform customers of the credit or charge in a way that customers get accurate gas price signals, as was intended by Decision 97-10-065.

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 August 12, 2010, the following Commissioners voting favorably thereon:

/s/ Paul Clanon

Paul Clanon
Executive Director

MICHAEL R. PEEVEY
PRESIDENT
DIAN M. GRUENEICH
JOHN A. BOHN
TIMOTHY ALAN SIMON
NANCY E. RYAN
Commissioners