

Decision 19-04-016 April 25, 2019

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
Southern California Edison Company
(U338E) for Approval of Greenhouse
Gas Cap-and-Trade Program Cost and
Revenue Allocation.

Application 13-08-002

And Related Matters.

Application 13-08-003
Application 13-08-005
Application 13-08-007
Application 13-08-008

ORDER MODIFYING DECISION 15-01-024, ATTACHMENT C

Summary

This decision modifies Decision 15-01-024 to amend the Weighted Average Cost (WAC) of Greenhouse Gas (GHG) compliance instruments methodology (WAC methodology) in Attachment C. The modified WAC methodology shall take effect for each utility's 2018 Record Year Energy Resource and Recovery Account compliance or 2020 Record Year Energy Cost Adjustment Clause application. The Commission will not require the utilities to pay for an independent audit of each utility's recorded GHG costs of the first three compliance periods following the end of the third compliance period.

This consolidated proceeding is closed.

1. Factual Background

A utility's direct recorded costs for Cap-and-Trade compliance instruments include two variables: emissions and costs of compliance instruments. Emissions are greenhouse gases (GHGs) released into the atmosphere from sources and processes in a facility, including from the combustion of transportation fuels such as natural gas and petroleum products. The emissions data is verified by the California Air Resources Board (ARB).¹

Under the Cap-and-Trade program, covered entities must surrender to ARB compliance instruments each year to cover their emissions. There are two types of compliance instruments: allowances and offsets.

Allowances are tradeable and each one authorizes the user to emit one metric ton of CO_{2e}. Allowances must be purchased at one of ARB's quarterly auctions or in secondary bilateral markets.

Carbon offset credits (offsets) represent GHG emission reductions or sequestered carbon amounts that meet ARB's regulatory criteria and are generated through implementation of an offset project for which ARB has adopted a compliance offset protocol. Covered entities may meet a small percentage (currently 8%, dropping to 4% in 2020) of their compliance obligations by purchasing offsets from accredited projects.

¹ The Joint Utilities, as mandatory reporters under the Cap-and-Trade regulation, are required to report annually to the ARB their GHG emissions data reports. These reports are subsequently verified each year by ARB-accredited verification bodies. These verified figures, as expressed in tons of CO_{2e} (carbon dioxide equivalent, a standard unit for measuring carbon footprints), constitute the emissions obligation for which any entity covered under Cap-and-Trade is responsible.

The Cap-and-Trade program is broken into triennial compliance periods, and each year covered entities are required to surrender compliance instruments equal to at least 30% of their verified emissions from the previous year to ARB. At the end of each triennial period, they are required to surrender the difference between what they have already surrendered and 100% of their compliance obligation for that compliance period.

In order to establish current-year GHG costs to calculate GHG revenue returns or establish GHG costs in rates, the Commission requires applicable utilities to use the Weighted Average Cost (WAC) of all compliance instruments in utility inventory that are valid for the current compliance period as a measure of the costs associated with direct emissions incurred each month. Since the utilities are only required to acquire and surrender yearly a portion of their compliance obligation, a WAC estimates what the annual cost would have been if the utility had turned in all compliance instruments at the end of the year. The WAC methodology provides the most accurate and least volatile proxy for actual annual compliance costs.

2. Procedural Background

Rulemaking (R.) 11-03-012 addressed GHG-related costs and allowance revenues for all electric utilities. In Decision (D.) 12-12-033 of R.11-03-012, the Commission ordered five investor-owned electric utilities to file applications² for

² Southern California Edison Company (SCE) (Application (A.) 13-08-002)
Pacific Gas and Electric Company (PG&E) (A.13-08-003)
San Diego Gas & Electric Company (SDG&E)(A.13-08-005)
PacifiCorp d/b/a Pacific Power (PacifiCorp) (A.13-08-007)
Liberty Utilities (CalPeco Electric) LLC (Liberty CalPeco) (A.13-08-008).

approval of forecast GHG costs and revenues, including administrative and customer outreach expenses, sufficient to calculate the GHG revenue return to customers for 2014. The Commission subsequently consolidated the five applications and reviewed the applications in two phases. In Phase 1, the Commission adopted Cap-and-Trade GHG cost and allowance revenue forecasts for incorporation into 2014 electricity rates.³

In Phase 2, the Commission adopted standard procedures for electric utilities to file GHG revenue and reconciliation requests, as ordered in D.14-10-033. In Attachment C of D.14-10-033, the Commission established the methodology for utilities to calculate the WAC of GHG compliance instruments (WAC methodology).

The Commission first corrected and replaced Attachment C in its entirety in D.14-10-055,⁴ in order to correct errors in D.14-10-033. The Commission subsequently corrected and replaced Attachment C in its entirety in D.15-01-024⁵ to correct errors in D.14-10-055.

Since the Commission established the WAC methodology in D.15-01-024, parties have challenged and disputed the interpretation and application of Attachment C in Energy Resource Recovery Account (ERRA) proceedings. Of note, SDG&E and Public Advocates Office (formerly the Office of Ratepayer Advocates) disputed the requirements and proper application of Attachment C in SDG&E's 2016 ERRA compliance proceeding (A.17-06-006). The Commission approved a joint settlement agreement wherein SDG&E and Public Advocates

³ D.13-12-041.

⁴ D.14-10-033 also replaced Attachment D in its entirety.

⁵ D.15-01-024 also replaced Attachments A and D in their entirety.

Office agreed to discuss their understanding of Attachment C, along with PG&E and SDG&E, to attempt to reach consensus on the utilities' appropriate showing for the WAC methodology. Under the settlement agreement, SDG&E agreed to submit a petition for modification (PFM) of D.15-01-024 Attachment C by August 1, 2018 on any consensus positions to the WAC methodology reached by PG&E, SCE, SDG&E (the Joint Utilities) and Public Advocates Office.⁶

Based on the aforementioned settlement agreement, SDG&E convened a working group with PG&E, SCE and the Public Advocates Office, which worked collaboratively over many sessions to develop consensus on the WAC methodology in Attachment C (Attachment C Working Group). The Attachment C Working Group reached consensus on many, but not all issues related to the WAC methodology.

On August 1, 2018, the Joint Utilities filed a PFM for approval of the revised Attachment C (A.13-08-002 et al.) On August 31, 2018, the Public Advocates Office filed a response to the PFM. On September 14, 2018, the Joint Utilities filed a reply to the Public Advocates Office's response.

On February 8, 2019, Administrative Law Judge (ALJ) Kline issued a ruling requesting PacifiCorp and Liberty CalPeco affirmatively state any objections to the Commission's adoption of a modified WAC methodology for all named utilities in this consolidated proceeding within 10 days (ALJ Ruling). On February 19, 2018, PacifiCorp filed a response to the ALJ Ruling, while Liberty CalPeco requested an extension of time to file a response. On March 1, 2019, Liberty CalPeco filed a response to the ALJ Ruling.

⁶ D.18-10-006 at 17-18, Appendix A at 7 (section 2.1 of the settlement agreement).

3. The PFM Complies with Rule 16.4(d).⁷

Rule 16.4(d) requires petitioners to file and serve PFMs within one year of the effective date of a decision. If more than one year elapses before a petitioner files a PFM, the petitioner must explain why the petition could not have been presented within one year of the effective date of submission.

As discussed in section 1, the interpretation and applicability of D.15-01-024 Attachment C was the subject of longstanding dispute between the Public Advocates Office and the Joint Utilities in their respective ERRA proceedings. While the utilities jointly filed this PFM more than one year after the effective date of D.15-01-024, dated January 27, 2015, they filed this PFM according to the scope and schedule approved by the Commission in D.18-10-006, wherein the Commission similarly considered the dispute over D.15-01-024 Attachment C. Accordingly, this petition is justified and in compliance with Rule 16.4(d).

4. The Updated WAC Methodology in Proposed Attachment C is Adopted as Modified.

The Joint Utilities request the Commission adopt the modified Attachment C, which proposes a modified WAC of GHG compliance instruments methodology and sets out the GHG accounting methodology used to derive emissions costs. In adopting the proposed Attachment C, the Joint Utilities propose to replace D.15-01-024 Attachment C in its entirety.

The proposed modifications provide clarity and uniformity of the WAC methodology among the Joint Utilities. For example, the proposed Attachment C adds a glossary which defines key terms. It also makes the accounting treatment

⁷ All references to “Rule” or “Rules” in this decision refer to the Commission’s Rules of Practice and Procedure.

for WAC more specific by including, among other things, a monthly true-up for the WAC price rather than a quarterly true-up. Finally, the proposed Attachment C clarifies that the Joint Utilities' reporting and review of actual, recorded, GHG costs and the demonstration of compliance with Attachment C occurs in the Joint Utilities' respective ERRA compliance proceedings and not in their ERRA forecast proceedings.

The Public Advocates Office generally agrees with the revised WAC methodology in proposed Attachment C, with the exception of 1) occurrence of stranded costs as a result of the modified WAC methodology, 2) use of separate terms for "Surrender" and "Transfer" transactions, and 3) treatment of invalidated volumes by the ARB.

The Commission adopts the proposed changes to Attachment C as mutually agreed upon by the Joint Utilities and the Public Advocates Office, and as modified in Attachment A of this decision. This decision resolves the dispute regarding three remaining aspects of Attachment C as discussed below and reflected in Attachment A of this decision. Utilities shall use the modified WAC methodology starting in their Record Year 2018 ERRA compliance or Record Year 2020 ECAC applications. PG&E, SCE and SDG&E shall demonstrate compliance with the revised D.15-01-024 Attachment C adopted in this decision by filing supplemental testimony in existing Record Year 2018 ERRA compliance applications within 30 days of the issuance date of this decision, as needed.

4.1. Utilities May Recover Stranded Costs Not Accounted for by the WAC Methodology.

Public Advocates Office argues that the new monthly true-up mechanism adopted in the modified WAC methodology will allow more accurate accounting of GHG compliance instruments and eliminate any stranded costs in this category

of costs. They recommend moving the following sentence from Section 8 (C-1: Demonstration of WAC Calculations) to Section 1 (Purpose):

In no event shall the WAC and recorded calculations cause the utility to incur stranded costs associated with its procurement of instruments that the utility must obtain pursuant to legal or regulatory requirements.

and amending it to read:

The WAC calculation will ensure that ratepayers GHG charges are equal to utility GHG compliance instrument procurement costs, such that no stranded costs arise from the procurement of instruments that the utility must obtain pursuant to legal or regulatory requirements.

The Joint Utilities object to Public Advocates Office's suggested amendment because it alters the meaning of the sentence. As proposed in the PFM, the Joint Utilities contend the sentence, as originally adopted, directly reflects Pub. Util. Code § 454.5(d)(2) and (3)'s requirement that utilities fully recover all procurement-related costs, including any costs not covered by the modified WAC methodology.⁸ Though the Joint Utilities are not opposed to moving this sentence to Section 1, they object to Public Advocates Office's proposed wording as implying the utilities will not incur stranded costs if they follow the modified WAC methodology.⁹

The Commission finds it unlikely utilities will incur stranded costs as a result of a utility's application of the modified WAC methodology. However, the record is insufficient to show that utilities shall incur no stranded costs. In ERRA applications, the utilities typically list the stranded costs for each category of

⁸ Joint Utilities' Reply at 10; Pub. Util. Code § 454(d)(2) and (d)(3).

⁹ Joint Utilities' Reply at 10.

expense as franchise fees & uncollectibles, which the utilities recover in addition to the requested revenue requirement. The decision declines to impose more restrictive conditions than allowed by utilities in previous ERRA and ECAC applications, and adopts the language as shown in revised Attachment C section 8.

4.2. Utilities Shall Distinguish the Type of Transaction as Either a “Surrender” or “Transfer” Consistent with ARB’s Classification.

The Joint Utilities propose to use the term “Surrender” to refer to both 1) retirement to ARB and 2) transfers to tolling partners, reasoning it creates a more streamlined reporting process.¹⁰ Public Advocates Office recommends using the term “Surrender” to refer to transactions that retire to ARB and the term “Transfer” to refer to transactions that transfer to tolling partners.¹¹ Public Advocates Office argues that the separate definition for “Transfer” is warranted because it allows for a more granular review of the recorded transactions underlying the WAC methodology. The Joint Utilities object to Public Advocates Office’s proposal because the utilities already treat the two types of transactions the same way for the purposes of GHG accounting.

The Commission adopts Public Advocates Office’s proposal to distinguish the terms “Surrender” and “Transfer” as separate transactions types. Distinguishing these terms is consistent with ARB’s definition of those terms and represents an existing method of classification the utilities already report and track under, as shown in revised Attachment C section 2.

¹⁰ *Id.* at 10-11.

¹¹ Public Advocates Office Response at B-2.

4.3. The Commission Adopts Clarifying Language Related to “Invalidated Volumes” as Modified.

The Joint Utilities include a footnote in their proposed WAC methodology which specifies the cost recovery for invalidated volumes, which reads as follows:

The invalidated volume¹² will be expensed to ERRA in the month of the invalidation at the current WAC. In the event that insurance was purchased for the invalidated volume, the proceeds will be recorded in ERRA utilizing the accrual basis of accounting.

The Joint Utilities propose this language to clarify the treatment method for invalidated volumes in the WAC methodology.¹³ Public Advocates Office objects to resolving the cost recovery of invalidated GHG offsets through this PFM, but do not propose another venue for reviewing the cost recovery issue.¹⁴

The Commission adopts the Joint Utilities language, with a modification clarifying that the Commission shall review the reasonableness of the invalidated volumes as part of the ERRA or ECAC review of procurement compliance obligations, as shown in revised Attachment C section 6.

5. This Commission adopts Public Advocates Office’s Proposed Modification to D.14-10-033 in this Decision.

The Public Advocates Office requests the Commission clarify the language in D.14-10-033 to make it consistent with the proposed changes in D.15-01-024 Attachment C and to clarify that the WAC methodology applies equally to ERRA compliance and ECAC applications. The Joint Utilities do not object to the changes in D.14-10-033 which clarify that the WAC methodology should be

¹² An invalidated volume refers to a purchased offset which ARB does not certify. The offset is therefore invalidated for the purpose meeting an entity’s GHG compliance obligation.

¹³ Joint Utilities Reply at 11-12.

¹⁴ Public Advocates Office Response at B-2.

applied in the ERRA compliance proceeding, though they see it as unnecessary.¹⁵ They acknowledge that differing interpretations regarding D.14-10-033 Ordering Paragraph (OP) 10 and OP 13 have led to longstanding discovery disputes, but argue that the revised Attachment C, as proposed in the PFM, addresses the Public Advocates Office's concerns without further need for modification to D.14-10-033.¹⁶

The Joint Utilities do not support Public Advocates Office's proposed modifications to clarify how the WAC methodology should apply to the ECAC. They point out that PacifiCorp and Liberty CalPeco did not participate in the Attachment C Working Group.¹⁷

The Commission generally adopts Public Advocates Office's proposed changes to D.14-10-033's Findings of Fact (FOFs), Conclusions of Law (COLs) and OPs regarding WAC methodology in this decision rather than D.14-10-033. Upon service to the parties, a modified decision shall have the same effect as an original order or decision, rendering further changes to D.14-10-033 unnecessary.¹⁸ D.14-10-033's reference to ERRA and ECAC applications collectively as forecast revenue and reconciliation (FF&R) applications did not allow distinction between differing compliance obligations in the ERRA forecast and the ERRA compliance proceedings, an ambiguity which led to differing interpretations of utilities' compliance obligations. This decision clarifying the Joint Utilities separate filing

¹⁵ Joint Utilities Reply at 4-5.

¹⁶ *Id.* at 5-8.

¹⁷ *Id.* at 6.

¹⁸ Pub. Util. Code § 1708.

obligations in the ERRA forecast and ERRA compliance proceeding sufficiently addresses the ambiguity in D.14-10-033.

PacifiCorp and Liberty CalPeco shall adopt the modified WAC methodology in their ECAC applications. Compliance with the WAC methodology is an existing obligation for PacifiCorp and Liberty CalPeco, and the Commission sees no reason to bifurcate the WAC methodology compliance obligation. While PacifiCorp and Liberty CalPeco did not participate in the Attachment C Working Group, PacifiCorp and Liberty CalPeco supported the revised WAC methodology in response to the ALJ Ruling dated February 8, 2019. Accordingly, this decision modifies the methodology in Attachment C to reflect PacifiCorp and Liberty CalPeco's obligation to adopt the modified WAC methodology in their ECAC applications.

6. The Commission Declines to Order a Comprehensive Audit of Utility Recorded GHG Compliance Costs.

Public Advocates Office requests the Commission order PG&E, SCE and SDG&E to pay for an independent audit of recorded direct GHG compliance costs at the end of the third compliance period to allow the Commission and stakeholders to consider whether the adopted framework could be improved in the future.¹⁹ As such, they request changes to D.14-10-033 FOF 28,²⁰ COL 15²¹ and OP 21.²²

¹⁹ Public Advocates Office Response at 11.

²⁰ *Id.* at A-4.

²¹ *Id.* at A-5.

²² *Id.* at A-9 to A-10.

The Joint Utilities strongly object to the proposed audit as premature and unsupported.²³ They point out that GHG compliance is regulated by the ARB and independent information is available from the Compliance Instrument Tracking System Service administered by the Western Climate Initiative.²⁴ PacifiCorp and Liberty CalPeco also object to the audit.²⁵

The Commission declines to impose an audit requirement on the Joint Utilities, PacifiCorp or Liberty CalPeco at the end of the third compliance period. There is insufficient evidence to justify the cost of the audit at this time. While the Public Advocates Office explains that, due to ongoing discovery issues, it was difficult to ascertain the accuracy of the WAC methodology, they fail to explain why the modified WAC methodology as adopted in Attachment A of this decision does not address their concerns. Accordingly, Public Advocates Office's proposal to include FOF 28, COL 15 and OP 21 in D.14-10-033 is denied.

7. Mailing and Comments on Decision

The proposed decision of the ALJ was mailed to the parties in accordance with Section 311 of the Pub. Util. Code and comments were allowed under Rule 14.3. Comments were filed on April 11, 2019 by the Joint Utilities and the Public Advocates Office, and reply comments were filed on April 16, 2019 by the Joint Utilities. The Joint Utilities also filed a correction to their reply comments on April 18, 2019.

²³ Joint Utilities Reply at 4-5.

²⁴ *Id.* at 8.

²⁵ PacifiCorp Response to ALJ Ruling at 3-4; Liberty CalPeco Response to ALJ Ruling at 2.

This decision reflects revisions in response to comments as noted throughout. Where the comments merely repeat contentions made earlier in the proceeding, those comments on the proposed decision are not addressed further in this decision.

The proposed decision directed the utilities to use the modified WAC methodology in their “next” ERRA compliance or ECAC application. Both the Joint Utilities and the Public Advocates Office’s office requested clarification regarding which Record Year the term “next” applied. In the Joint Utilities’ PFM, dated August 1, 2018, the Joint Utilities requested to demonstrate compliance with the modified WAC methodology beginning in 2019 for Record Year 2018 ERRA compliance applications, and urged adoption of the revised D.15-01-024 Attachment C by the end of December 2018.²⁶ In comments on the proposed decision, PG&E indicated it is already implementing the modified WAC methodology in its 2018 ERRA compliance application (A.19-02-018), filed on February 28, 2019. Similarly, SDG&E indicates implementation of the modified WAC methodology in its 2018 ERRA compliance application, expected June 1, 2019, is “workable.”²⁷ SCE, which filed its 2018 ERRA compliance application on April 1, 2019, however, requests the Commission allow SCE to implement the modified WAC methodology in its 2019 ERRA compliance application, which SCE will file in 2020. The Public Advocates Office requests PG&E, SCE and SDG&E all use the modified WAC methodology in their 2018 ERRA compliance applications.

²⁶ PFM at 2,13.

²⁷ Joint Utilities Comments on Proposed Decision at 2.

Since only SCE indicates it has yet to implement the modified WAC methodology and it filed its application very recently, we find it reasonable to require PG&E, SCE, and SDG&E to use the modified WAC methodology in their 2018 Record Year Erra compliance applications, and revise this decision accordingly. PG&E, SCE and SDG&E shall file supplemental testimony in its 2018 Erra compliance application (A.19-04-001) in conformance with the modified WAC methodology adopted in this decision within 30 days of the issuance date of this decision, as needed.

With respect to clarifying the “next” ECAC applications, we noted that PacifiCorp’s 2019 ECAC application (A.18-08-001) was approved by the Commission on December 13, 2018 in D.18-12-007. We also note that Liberty CalPeco filed a consolidated 2019 ECAC and General Rate Case application (A.18-12-001) on December 3, 2018. Considering that PacifiCorp’s 2019 ECAC application is approved and Liberty CalPeco’s 2019 ECAC application is ongoing, we shall not require PacifiCorp or Liberty CalPeco to use the modified WAC methodology until their 2020 ECAC applications, and modify this decision accordingly.

Parties’ comments on the proposed decision sought additional clarification on five additional points, as discussed below. First, this decision adopts the Joint Utilities’ recommendation to add additional language in Attachment A of this decision to further effectuate the proposed decision’s distinction of the terms “Surrender” and “Transfer.”

Second, this decision declines to adopt the Public Advocates Office’s recommendation to delete the sentence on page C-3 on stating:

In addition, in the month that compliance instruments are surrendered, the accrual is trued-up so that costs recorded to the

balancing account reflect the actual final cost of compliance instruments surrendered.

This decision declines to adopt the Public Advocates Office request to delete this sentence as an agreed-upon change since the Joint Utilities indicate in reply comments to the proposed decision that they do not agree with removing this sentence.

Third, this decision adopts the Public Advocates Office's request to clarify that it requested an independent audit for PG&E, SCE and SDG&E, but not Liberty CalPeco or PacifiCorp.

Fourth, this decision declines to adopt additional ordering paragraphs proposed by the Public Advocates Office. While this decision clarifies the utilities' initial showing for their WAC methodology, it does not prejudice the reasonableness of additional data requests or discovery disputes in future ERRA proceedings.

Finally, this decision does not adopt the Public Advocates Office's recommendation to clarify that PG&E, SCE and SDG&E's methodology for allocating the cost of invalidated volumes is "proposed" rather than "existing." This decision acknowledges the utilities' unopposed methodology for the purpose of clarification, and the Commission may consider the appropriate methodology for allocating the costs of invalidated volumes in a future proceeding.

8. Assignment of Proceeding

Michael Picker is the assigned Commissioner and Zita Kline is the assigned ALJ in this proceeding.

Findings of Fact

1. The WAC methodology was subject to ongoing discovery disputes between several parties to ERRA proceedings.

2. The Joint Utilities filed this PFM to D.15-01-024 over one year after D.15-01-024 issued in response to ongoing discovery disputes related to the WAC methodology in Attachment C.

3. The Joint Utilities and Public Advocates Office worked collaboratively to develop the modified Attachment C according to the terms of the settlement agreement adopted by the Commission in D.18-10-006.

4. PG&E, SCE and SDG&E each file two separate ERRA applications, an annual ERRA compliance application and an annual ERRA forecast application.

5. PacifiCorp and Liberty CalPeco each file single ECAC applications, which reconcile recorded fuel-related costs and revenues from prior years with their forecasted costs.

6. Evaluation of PG&E, SCE and SDG&E's GHG cost forecasts will be more efficient if they include their Cap-and-Trade forecast reporting as a chapter or section of their ERRA forecast applications.

7. Evaluation of PG&E, SCE and SDG&E's GHG recorded costs will be more efficient if they include their Cap-and-Trade compliance reporting as a chapter or section of their ERRA compliance applications.

8. Evaluation of PacifiCorp and Liberty CalPeco's GHG recorded costs and cost forecasts will be more efficient if they include their Cap-and-Trade forecast reporting and Cap-and-Trade compliance reporting as a chapter or section in their ECAC applications.

9. The evidentiary record is insufficient to show whether utilities will incur unaccounted for, or "stranded," costs when applying the modified WAC methodology.

10. Transactions which are retired to the ARB or transferred to tolling partners are treated the same for the purposes of calculating the WAC.

11. The ARB classifies a “Surrender” as a transaction which is retired to ARB and a “Transfer” as a transaction which is transferred for a tolling partner.

12. Utilities distinguish between “Transfers” and “Surrenders” as defined by the ARB to meet their ARB compliance obligations.

13. The utilities’ methodology for allocating the cost for invalidated volumes is to expense the invalidated volume to ERRR or ECAC in the month of the invalidation at the current WAC methodology.

14. The modified WAC methodology requires utilities to include template C-1 from Appendix C and D-2 from Appendix D in their ERRR compliance or ECAC applications.

15. The revised WAC methodology clarifies the utilities’ showing requirements for ERRR compliance and ECAC applications.

16. PG&E, SCE and SDG&E’s existing methodology for allocating the cost for invalidated volumes is to expense the invalidated volume to ERRR in the month of the invalidation at the current WAC. In the event that insurance was purchased for the invalidated volume, the proceeds are recorded in ERRR utilizing the accrual basis of accounting.

17. D.14-10-033’s reference to FF&R applications does not distinguish between differing compliance obligations in the ERRR forecast and the ERRR compliance proceedings, an ambiguity which led to differing interpretations of utilities’ compliance obligations.

18. An audit of the utilities’ recorded GHG costs in the first three compliance periods is not supported by a sufficient showing of need or benefit in comparison to the cost of conducting an audit.

Conclusions of Law

1. The Commission should find that this PFM was justified even though it was filed more than one year since the issuance of D.15-01-024.

2. PG&E, SCE, SDG&E, PacifiCorp and Liberty CalPeco should use the modified WAC methodology in their respective ERRA compliance and ECAC applications.

3. The modified WAC methodology should take effect in the 2018 ERRA or ECAC compliance year.

4. The utilities' methodology for allocating the cost for invalidated volumes is to expense the invalidated volume to ERRA or ECAC in the month of the invalidation at the current WAC methodology, which should be subject to the utilities' existing standard for ERRA and ECAC compliance review.

5. D.15-01-024 Attachment C should be replaced in its entirety.

6. Upon notice and opportunity to be heard, the Commission may alter or amend a previous decision or order.

7. A decision altering or amending the previous decision or order should have the same effect as the original decision or order.

8. The Commission should not order an independent audit of the first three compliance periods in this proceeding.

9. A.13-08-002, A.13-08-003, A.13-08-005, A.13-08-007 and A.13-08-008 should be closed.

O R D E R

IT IS ORDERED that:

1. Decision 15-01-024 Attachment C is replaced in its entirety as shown in Attachment A of this decision.
2. The utilities are not required to perform independent audits of greenhouse gas compliance instruments at the end of the third compliance period.
3. Pacific Gas and Electric Company; Southern California Edison Company; San Diego Gas & Electric Company; PacifiCorp d/b/a Pacific Power; and Liberty Utilities (CalPeco Electric) LLC shall begin using the modified weighted average cost (WAC) of greenhouse gas compliance instruments methodology in their next or pending Energy Cost Adjustment Clause (ECAC) or Energy Resource Recovery Account (ERRA) compliance application, whichever is sooner. PG&E, SCE and SDG&E shall demonstrate compliance with the revised D.15-01-024 Attachment C adopted in this decision by filing supplemental testimony in existing Record Year 2018 ERRA compliance applications within 30 days of the issuance date of this decision, as needed.
4. Applications (A.) 13-08-002, A.13-08-003, A.13-08-005, A.13-08-007, and A.13-08-008 are closed.

This order is effective today.

Dated April 25, 2019, at San Francisco, California.

MICHAEL PICKER

President

LIANE M. RANDOLPH

MARTHA GUZMAN ACEVES

CLIFFORD RECHTSCHAFFEN

A.13-08-002 et al. ALJ/ZK1/mph

GENEVIEVE SHIROMA
Commissioners

Attachment A

REVISED ATTACHMENT C

Calculation of Weighted Average Cost of Greenhouse Gas Compliance Instruments

1. PURPOSE

The purpose of Attachment C is to set forth the methodology that the utilities, Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas and Electric Company (SDG&E), PacifiCorp d/b/a Pacific Power and Liberty Utilities (CalPeco Electric) LLC, shall use in their respective Energy Cost Adjustment Clause (ECAC) and Energy Resource Recovery Account (ERRA) compliance proceedings for calculating the Weighted Average Cost (WAC) of Greenhouse Gas (GHG) compliance instruments for the purpose of allowing for regulatory review of each utility's WAC and providing for full cost recovery of the GHG compliance instruments in ERRA and ECAC proceedings, consistent with Pub. Util. Code § 454.5(a) et seq. The WAC calculation will ensure that ratepayer GHG charges are equal to utility GHG compliance instrument procurement costs. This attachment also sets forth the GHG accounting methodology to be used in deriving emissions costs recorded in the balancing accounts.

This Attachment C supersedes entirely the version of Attachment C contained in Decision (D.) 14-10-033, as corrected by D.14-10-055 and D.15-01-024, by clarifying numerous terms, concepts and procedures relevant to the WAC calculation for GHG compliance instruments. It makes more specific the accounting treatment that utilities shall utilize in calculating the WAC and promotes uniformity in how utilities account for and report their respective WAC accounting.

Further, to better align the regulatory reporting and review of recorded, actual GHG costs with well-established ERRA processes and applications dealing separately (and annually) with forecasted and recorded procurement-related costs, inclusive of the costs of GHG compliance instruments, and to eliminate unnecessary duplication and redundancy in these ERRA processes and applications, this Attachment C modifies D.14-10-033 and specifies that the reporting and review of actual, recorded GHG costs, and the demonstration of compliance with this Attachment C and the WAC methodology, occurs in the PG&E, SCE and SDG&E's ERRA compliance proceedings and not in their ERRA forecast proceedings, beginning as early as 2019 for Record Year 2018. In the interim, for ECAC and ERRA Compliance applications filed prior to the adoption of this modified WAC methodology, D.15-01-024 Attachment C remains in effect.

2. GLOSSARY

- GAAP – Generally Accepted Accounting Principles.
- GHG Compliance Instrument Inventory (Inventory) – An accounting measurement that represents the volume or corresponding balance of compliance instruments purchased and delivered for a given compliance period that have not otherwise been sold or transferred to an entity or surrendered to the California Air Resources Board (ARB).
- Direct Monthly Emissions – The utility's estimated or verified monthly emissions using the best available data for which the utility has a compliance obligation to ARB or to a tolling partner.
- Eligible Compliance Instruments – For the purposes of calculating the WAC price, all delivered allowances with

vintages within or before the compliance period of the GHG emissions obligation and all delivered ARB Offsets.

- Surrender – The act of compliance instrument retirement by ARB to meet the utility’s compliance obligation (usually occurs in November).
- Transfer – The act of moving compliance instruments from a utility’s Holding Account into a tolling partner’s Holding Account based on contractual obligations to provide compliance instruments at zero cost to the tolling partner.
- Holding Account – The account which holds the utility compliance instruments as defined in the Cap-and-Trade regulation.
- Compliance Account – The account which holds compliance instruments that the utility has committed for retirement as defined in the Cap-and-Trade regulation.

3. GHG ACCOUNTING METHODOLOGY OVERVIEW

Cap-and-Trade compliance instruments are retired annually up to two years and 10 months after the compliance year ends. A utility’s recorded direct costs include two variables: emissions and costs of compliance instruments. Recorded year direct GHG costs represent the accrued costs for utility-owned generation, imports, tolls and other contracts for which the utility has responsibility for Cap-and-Trade costs based on the best available data at the time of each accounting period’s month-end close as further discussed in Sections 6 and 7.

Each month, a utility records its GHG costs to its respective balancing account based on the accrual method of accounting. Physical compliance obligation costs are calculated as the WAC price of Eligible Compliance Instruments held in Inventory at the end of a month multiplied by the quantity of emissions generated in that month. Financially settled tolling agreements for which a utility records a direct GHG cost should be based on actual contract settlement, not on the WAC price.²⁸ The accrued costs will be trued-up in subsequent months as described in Section 7. In addition, in the month that compliance instruments are surrendered or transferred to a tolling partner, the accrual is trued-up so that costs recorded to the balancing account reflect the actual final cost of compliance instruments surrendered or transferred to a tolling partner. The recorded direct costs for the year are the sum of the monthly GHG expense entries for the year.

Under California's Cap-and-Trade program, a covered entity must surrender one compliance instrument (an allowance or an offset) for each metric ton of GHG emissions. Allowances are designated with a vintage year. An entity may bank allowances from previous vintage years, but not borrow from future vintage years, to meet a compliance obligation. For example, if a utility holds a vintage year 2013 allowance in its Inventory, it can surrender the allowance to meet its 2013 obligation, or bank the allowance to surrender in

²⁸ The calculations for financially settled transactions occur outside of the WAC calculation. Please see template D-2 lines 7 and 17.

future years. The use of offsets to meet a compliance obligation, however, is not restricted by vintage year.²⁹

4. PURCHASES OF COMPLIANCE INSTRUMENTS

When a utility purchases or otherwise receives compliance instruments, it records:

- Transaction date;
- Transaction type (purchase);
- Vintage (if applicable);
- Quantity of compliance instruments for transaction;
- Transaction price: for purchases, cost per compliance instrument, including transactions fees, if applicable;
- Total cost of compliance instruments for this transaction calculated as the quantity multiplied by the cost;
- The new Inventory balance in dollars as modified by the new transaction;
- The new compliance instrument quantities in the Inventory as modified by the new transaction; and
- The new WAC price derived from the new Inventory balance in dollars divided by the compliance quantity of Eligible Compliance Instruments.

Other Inventory Costs - Any other subsequent fees or premiums paid to third-parties relating to the purchase of compliance instruments not included in the initial transaction price should be recorded as a cost in a utilities' compliance inventory. These costs should be true-up consistent with the methodology described in section 7.2 (True-Ups of Prior Recorded Direct GHG Costs_{month}), including true-ups to allocate a proportional share of these costs to any

²⁹ ARB. Regulatory Guidance Document, Chapter 3. April 2013.
<http://www.arb.ca.gov/cc/capandtrade/guidance/20130419%20Guidance%20Document%20Ch%203%20posting.pdf>.

compliance instrument transfers that may have occurred after the original transaction.)

In the event of an unintentional omission or data entry error, the correct amounts shall be recorded in the current month regardless of original transaction date and trued-up consistent with the methodology described in section 7.2 (True-Ups of Prior Recorded Direct GHG Costs_{month}).

5. REMOVAL OF COMPLIANCE INSTRUMENTS

When a utility sells, Transfers, Surrenders, or otherwise removes compliance instruments from its Inventory, it records:

- Transaction date;
- Transaction Type (sale, Transfer, Surrender, etc.);
- Vintage (if applicable);
- Quantity of compliance instruments for transaction;
- Transaction Price: For sales, Transfers and Surrenders, the Transaction Price is the current month's WAC price;
- Total Cost removed from the Inventory is calculated as quantity of compliance instruments for the transaction multiplied by the Transaction Price.
- The new WAC Price;
- Inventory balance in dollars as modified by the new transaction;
- The new compliance instrument quantities in the Inventory as modified by the new transaction; and
- The new WAC price derived from the new Inventory balance in dollars divided by the compliance quantities of that compliance period to date.

In the event of an unintentional omission or data entry error, the correct amounts shall be recorded in the current month regardless of original transaction date and trued up consistent with the methodology described in section 7.2 (True-Ups of Prior Recorded Direct GHG Costs_{month}).

In the event of an offset invalidation by ARB or another governing body, the invalidated volume will be removed from Inventory.³⁰

6. CALCULATION OF THE WAC PRICE OF COMPLIANCE INSTRUMENTS

When a utility calculates the WAC price of compliance instruments, it shall include all Eligible Compliance Instruments for the applicable compliance period. Specifically, the calculation shall include all allowances with a vintage year within or before the compliance period and all ARB Offsets. For example, 2015 monthly WAC Prices are calculated based on eligible Inventory of allowances with vintage years 2013 through 2017 and all ARB Offsets, which comprise the Eligible Compliance Instruments. Allowances with vintages 2018 or later are not eligible for 2015 monthly WAC calculations since they belong to later compliance periods.

When a utility purchases compliance instruments, it records them in Inventory at the purchase price. When a utility procures additional compliance instruments, its Inventory increases and its WAC price may change. The cost of a utilities' Inventory also increases when it pays fees or premiums related to its compliance instruments. At any point in time, the WAC price is calculated as the total cost, inclusive of fees and premiums, of Eligible Compliance Instruments in Inventory, divided by the total quantity of Eligible Compliance Instruments in Inventory.

³⁰ The invalidated volume will be expensed to Erra or Ecac in the month of the invalidation at the current WAC, and is subject to Erra or Ecac compliance review. In the event that insurance was purchased for the invalidated volume, the proceeds will be recorded to Erra or Ecac utilizing the accrual basis of accounting.

Note that as a new compliance period begins, true-ups, as described in detail in Section 7, from a given compliance period may utilize a WAC price that includes compliance instruments from a later compliance period. This is due to the timing of WAC price calculation compared to WAC price utilization. WAC price calculations, by definition, only include Eligible Compliance Instruments while being calculated. However, WAC price utilization for true-ups, Surrenders and Tolling Transfers that take place after their originating compliance period will necessarily use a WAC price that contains compliance instruments from any later compliance periods. For example, 2017 volumes that are surrendered in November 2018 would necessarily utilize the November 2018 WAC price whose calculation includes compliance instruments from the third compliance period (2018-2020).

For purposes of the WAC price calculation, when compliance instruments are sold, Transferred or Surrendered, they are taken out of Inventory at the WAC price in effect when they are removed from Inventory. These transactions do not change the WAC price of the remaining compliance instruments held in the Inventory. If the compliance instruments, inclusive of any applicable transaction fees and premiums, are sold at a higher (lower) price than the WAC price, the utility will record, in its balancing account (ERRA or ECAC), a gain (loss) on the sale. For WAC calculation purposes, compliance instruments remain as Inventory (current or noncurrent) until Surrendered, Transferred or sold.

7. METHODOLOGY FOR CALCULATING DIRECT GHG COSTS, INCLUDING TRUE-UPS, AND RECORDING COSTS INTO BALANCING ACCOUNTS

As discussed in Section 3, each month a utility records its GHG costs to its respective balancing account based on the accrual method of accounting using

the best available emissions quantities and WAC price at the time the emissions costs are recorded. The accrual amount will continue to be trued-up in subsequent months as new or additional information becomes available for emission quantities and for WAC price changes. The following formula details the two components of GHG costs comprising a utilities' total monthly recorded direct GHG costs:

$$\begin{aligned} \text{Recorded Direct GHG Costs}_{\text{month}} = \\ \text{Direct GHG Costs}_{\text{month}} + \text{True - Ups of Prior Recorded Direct GHG} \\ \text{Costs}_{\text{month}} \end{aligned}$$

7.1 Direct GHG Costs_{month}

After purchases, including applicable transaction fees and premiums, and sales have been reflected in the Inventory and the WAC price for a given month, the utility will calculate direct GHG costs for the month as follows:

$$\text{Direct GHG Costs}_{\text{month}} = \text{WAC Price}_{\text{month}} \times \text{Direct Emissions Quantity}_{\text{month}}$$

Where:

“WAC Price” is defined in Section 6.

“Direct Emissions Quantity” is the direct emissions for the entire month calculated in accordance with ARB standards, regardless of whether compliance instruments have been Surrendered for these emissions. The emissions quantity is updated on at least a quarterly basis based on best available information.

Emissions from financially settled tolling agreements should not be included in Direct Emissions Quantity for purposes of this calculation.

7.2 True-Ups of Prior Recorded Direct GHG Costs_{month}

True-ups of prior recorded direct GHG costs are necessary to update previously recorded emissions quantities as updated quantities become known and to reflect WAC price changes. These updates will continue until the compliance instruments for those emissions quantities are Surrendered and removed from the Inventory. These true-ups also ensure that the cost of the compliance instruments Surrendered and removed from Inventory are properly recorded in the ERRA account or ECAC. As noted above, true-ups of prior recorded direct GHG costs include updating emission quantities (updating previously recorded quantities for subsequent volumetric updates at the current WAC price) and WAC price true-ups (updating all previously recorded Direct Monthly Emissions quantities that have Eligible Compliance Instruments remaining in Inventory to the current WAC price). Following is an example illustrating these true-ups.

Assume a utility has monthly direct GHG emissions volumes as shown in the following table in row (a). For the month of January and February, the direct GHG costs shown in row (c) of \$720 and \$600, respectively, are derived by multiplying the emission volumes in row (a) by the WAC price of Inventory ("WAC") in row (b). In March, the WAC increased to \$12.25 from February's WAC of \$12.00 to reflect new purchases of compliance instruments during the month. As a result, direct GHG costs incurred during March, shown in row (c), equal \$551.25 (45MT * \$12.25). Also, assume in March that January volumes of 60MTs were updated to 70MTs. As a result, a true-up of prior recorded direct GHG costs for \$122.50 is recorded, shown in row (d), which reflects 10MT (70MT-60MT) of additional emission volumes at the current WAC of \$12.25. An additional true-up of prior recorded direct GHG costs for \$27.50, shown in row (e), is also necessary in March because of the change in the WAC, which requires revaluing all prior recorded compliance instruments still remaining in Inventory from the prior WAC of \$12.00 in February to March's WAC of \$12.25. True-ups of prior recorded direct GHG costs in March total \$150, shown in row (f). In April, direct GHG costs of \$625, shown in row (c), are incurred. Since the WAC increased to \$12.50 in April from March's WAC of \$12.25, shown in row (b), a true-up of prior recorded direct GHG costs for \$41.25, shown in row (e), is necessary to revalue all of the prior recorded compliance instruments remaining in Inventory for the increase in the WAC price. Finally, the total direct GHG costs, shown in row (c), plus total true-ups of prior recorded direct GHG costs for volume and WAC price changes, shown in row (f), are recorded in the ERRA or ECAC, shown in row (g).

Month	January	February	March	April
Direct GHG Costs				
(a) Direct Emissions Quantity _{month} in Metric Tons (MT)	60	50	45	50
(b) WAC Price _{month} (\$/MT)	\$12.00	\$12.00	\$12.25	\$12.50
(c) = (a) * (b) Direct GHG Costs _{month} (\$)	\$720.00	\$600.00	\$551.25	\$625.00
True-Ups of Prior Recorded Direct GHG Costs				
(d) January emissions of 60 MT updated to 70 MT in March at the current month WAC price (\$)	N/A	N/A	10MT * \$12.25 = \$122.50	N/A

(e) = (Prior months' Direct Monthly Emissions quantities that have Eligible Compliance Instruments still in ³¹ Inventory) * (Current month WAC Price – Prior month's WAC Price) Note: WAC Price true-ups to update all previously recorded Eligible Compliance Instruments still in Inventory to the current WAC price (\$)	N/A	$((\text{January MT}) 60 - 0 \text{ MT Surrendered}) * (\$12.00 - \$12.00) = \0 \$0.00	$((\text{January MT}) 60 + (\text{February MT}) 50 - 0 \text{ MT Surrendered}) * (\$12.00 - \$12.25) = \27.50 \$27.50	$((\text{January MT}) 70 + (\text{February MT}) 50 + (\text{March MT}) 45 - 0 \text{ MT Surrendered}) * (\$12.25 - \$12.50) = \41.25 \$41.25
(f) = (d) + (e) True-Ups of Prior Recorded Direct GHG Costs_{month} (\$)	N/A	\$0.00	\$150.00	\$41.25
(g) = (c) + (f) Recorded Direct GHG Costs_{month} (as recorded in ERRR or ECAC) (\$)	\$720.00	\$600.00	\$701.25	\$666.25

Note that this example is illustrative and a utility may combine or use different combinations of these steps in arriving at the same total direct GHG costs recorded in the ERRR or ECAC. At a minimum, and as discussed below in

³¹ Note that prior month quantities still in inventory means that the calculation needs to be reduced by all previously Surrendered volumes.

Section 10, each utility will submit a spreadsheet that fills out Template C-1 in their respective ERRA compliance or ECAC applications.

8. TEMPLATE C-1: DEMONSTRATION OF WAC CALCULATIONS

When a utility files its GHG showing within the ERRA Compliance or ECAC Application, it shall use Template C-1 to show its WAC calculations. Each utility will use Template C-1, below, to develop a calculation worksheet for each applicable compliance period. The application should also show a calculation of direct costs based on the WAC price formula in Section 6 above and should show monthly true-ups as described in Section 7 above. GHG emissions from financially settled tolling agreements should NOT be included in this calculation. In no event shall the WAC and recorded calculations cause the utility to incur stranded costs associated with its procurement of instruments that the utility must obtain pursuant to legal or regulatory requirements.

If the Total Quantity in the Inventory at the end of a month is equal to zero, the utility shall use the most recent ARB allowance auction clearing price instead of the WAC price to calculate that month's emissions cost. The utility will record this number in place of the "End of Month WAC" to calculate that month's costs.

10. REGULATORY REVIEW OF WAC METHODOLOGY

Each utility shall demonstrate in its annual ERRA compliance or ECAC application that it followed this Attachment C. This review shall not be part of ERRA forecast proceedings.

A utility's demonstration of compliance with this Attachment C is satisfied by submission of the utility's WAC table, Template C-1, discussed above, for the record year within its annual ERRA compliance or ECAC filing, along with testimony, as necessary, reporting on the utility's compliance instrument transactions executed within the record year, free allowances received, sold and associated revenues for the record year, and the emissions for the record year.

Additionally, utilities are required to provide a portion of Attachment D in their ERRA compliance or ECAC application to demonstrate compliance with this Attachment C. The modified portions of Attachment D are as follows:

- Template D-2: Annual GHG Emissions and Associated Costs Recorded columns for the Record Year and Prior Year; Lines 1-8 and 15-17 only.

In sum, a utility's annual demonstration of compliance with the WAC methodology set forth in this Attachment is met by providing portions of Template D-2 as noted above and a completed Template C-1, consistent with the methodology provided in this Attachment C.

(END OF ATTACHMENT A)