

Decision 08-08-011 August 21, 2008

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Expedited Application of Pacific Gas and Electric Company (U39E) for Incremental Procurement Cost Recovery Under the Energy Resource Recovery Account (ERRA) Trigger Mechanism.

Application 08-06-010
(Filed June 10, 2008)

**DECISION GRANTING INCREMENTAL PROCUREMENT COST RECOVERY
UNDER THE ENERGY RESOURCE RECOVERY ACCOUNT
TRIGGER MECHANISM**

1. Summary

By this decision, we grant the application of Pacific Gas and Electric Company (PG&E) for a rate increase to recover the forecasted undercollection in its Energy Resource Recovery Account (ERRA) for the remainder of 2008. We authorize PG&E to update the amount to be amortized via a September 2008 advice letter filing to reflect the actual recorded balance in the ERRA through August 31, 2008. In addition, we authorize PG&E to notify the Commission through advice letter filings when its ERRA balances will exceed the trigger amount but do not require a change in ERRA rates.

This proceeding is closed.

2. Background

In Decision (D.) 02-10-062, we authorized the establishment of the ERRA balancing account for PG&E and two other utilities. In addition, that decision established an expedited application process for adjustments when the

overcollection or undercollection in the ERRA balance reaches 4%.¹ The 4% amount and the expedited application process are referred to as the trigger and trigger mechanism, respectively. Under the trigger mechanism, a decision on the request is to be adopted within 60 days of the filing of the trigger application.²

PG&E filed its ERRA trigger application on June 10, 2008. PG&E requests in its application that a decision be expedited in accordance with the process set forth in D.02-10-062.

The Commission's Division of Ratepayer Advocates (DRA) filed a response to the application. It did not oppose the application with the exception that it opposed the September update as discussed in Section 4.4 below.

3. Request

On January 23, 2008, PG&E filed an ERRA trigger application, Application (A.) 08-01-014, requesting recovery of \$531 million. In D.08-04-026, the Commission approved the application on an interim basis. However, it did not result in a rate increase because of another decision that offset the requested rate increase.

On April 30, 2008, PG&E's recorded ERRA undercollection was \$443.9 million, \$187.7 million greater than the undercollection forecast in A.08-01-014. Thus, PG&E was undercollected by 4.7% above and beyond the

¹ The Commission adopted the 4% trigger, instead of the 5% trigger as referenced in Pub. Util. Code § 454.5(d)(3), to allow time for processing the ERRA adjustment. (See D.02-10-062, p. 64, fn. 39.)

² This trigger mechanism was extended for an additional ten years or the length of the long-term contracts, whichever is longer, in Finding of Fact 70 in D.04-12-048.

undercollection forecast in A.08-01-014. In this application, PG&E forecasts that its ERRA will be under collected by \$482 million by the end of 2008.³

PG&E requests that the forecast undercollection be recovered over a 15-month period beginning October 1, 2008. PG&E also asks to be allowed to update the forecast December 31, 2008 ERRA balance, and the resulting revenue requirement, based on recorded data through August 31, 2008 via an advice letter filing in September 2008.

PG&E proposes to adjust rates in accordance with the revenue allocation and rate design methods adopted in its test year 2007 general rate increase application in D.07-09-004.

4. Discussion

4.1. Relationship to A.08-01-014

In A.08-01-014, PG&E requested that its 2008 ERRA forecast of procurement costs be increased by an additional \$531 million due to the December 7, 2007 decision of the California Department of Water Resources to restructure its 1,000 megawatt (MW) baseload power contract with Calpine Energy Services, L.P. and to replace it with a 180 MW peaking contract. In D.08-04-026, we authorized PG&E to recover on an interim basis an additional \$531 million in power procurement costs through its ERRA, subject to any adjustment that may result from the evidentiary hearings into these costs.

This present application was triggered based on costs in excess of those forecasted in A.08-01-014. Even if the rate increase granted in D.08-04-026 were reduced in a final decision, this application would still be triggered. Thus it is

³ The \$482 million includes franchise fees and uncollectibles.

appropriate to address the request in this application even though a final decision in A.08-01-014 has not been adopted.

4.2. Rate Increase

PG&E states that the increased undercollection is due to the following:

- As of April 14, 2008, the market price of natural gas was 26% higher than the market price forecast used in PG&E's November 2007 update to its 2009 ERRRA forecast application (A.07-06-006), and 31% higher than the market price used in PG&E's Calpine 2 trigger application (A.08-01-014).
- A.08-01-014 assumed normal precipitation. Based on precipitation in the first quarter of 2008, hydroelectric generation will be 83% of normal.
- PG&E forecasts increased sales due to additional direct access customers returning to bundled service and increased agricultural sales due to lower than normal hydro conditions.

PG&E's application supports its request and the application is unopposed except as discussed below. The resulting rate increase will be made consistent with the revenue allocation and rate design method adopted in D.07-09-004. For these reasons, we authorize the requested rate relief.

4.3. Advice Letter Trigger Filing

PG&E requests authority to notify the Commission through advice letter filings when its ERRRA balances will exceed the trigger amount but do not require a change in ERRRA rates. We authorized this procedure for Southern California Edison Company (SCE) and San Diego Gas and Electric Company (SDG&E) in D.06-06-051 and D.07-05-008, respectively, and do so here.

4.4. September 2008 Advice Letter Update

PG&E requests that it be allowed to update the amount to be amortized via a September 2008 advice letter filing to reflect the actual recorded balance in

the ERRA through August 31, 2008. We interpret this to mean that the \$482 million forecast undercollection, as of December 31, 2008, would be increased or decreased by the amount the recorded undercollection as of August 31, 2008 exceeds or is less than the balance forecast for that date in this application. The rate adjustment would reflect this difference. Thus this adjustment would be merely an arithmetic adjustment based on recorded data and not an entirely new forecast.

DRA opposes the use of an advice letter to update the forecast. Instead, it recommends that a new application be filed.

DRA has had an opportunity to review the application, including the forecast methodology and results, and does not object to the forecast. The update would merely be an arithmetic adjustment based on recorded data and not an entirely new forecast. It could increase or decrease the resulting revenue requirement. Since the result would be an arithmetic adjustment to the existing application, rather than a new rate request, the request is reasonable and will be granted.

Our granting of this one-time authority to update this application by advice letter is not intended to be a substitute for a trigger filing or a way to circumvent the trigger filing process.

5. Categorization and Need for Hearings

In Resolution ALJ 176-3215, dated June 12, 2008, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were not necessary. Although DRA filed a response to the application, it did not request hearings. Thus, a public hearing is not necessary, and it is not necessary to disturb the preliminary determinations.

6. Comments on Proposed Decision

The proposed decision of the Administrative Law Judge (ALJ) in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on August 11, 2008 by PG&E.

7. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Jeffrey P. O'Donnell is the assigned ALJ in this proceeding.

Findings of Fact

1. This application was triggered based on costs in excess of those forecasted in A.08-01-014. Even if the rate increase granted in D.08-04-026 were reduced in a final decision, this application would still be triggered.

2. PG&E's forecast ERRA undercollection of \$482 million by the end of 2008 is reasonable.

3. PG&E's request to update the amount to be amortized via a September 2008 advice letter filing to reflect the actual recorded balance in the ERRA through August 31, 2008 would be an arithmetic adjustment based on recorded data and not an entirely new forecast.

4. We authorized SCE in D.06-06-051 and SDG&E in D.07-05-008 to notify the Commission through advice letter filing, instead of an expedited application, when the ERRA balance exceeds its trigger point and the utility does not seek a change in rates.

Conclusions of Law

1. It is appropriate to address the request in this application even though a final decision in A.08-01-014 has not been adopted.

2. PG&E's request to recover the forecast \$482 million ERRA undercollection over a 15-month period, beginning October 1, 2008, should be granted.

3. PG&E's request to update the amount to be amortized via a September 2008 advice letter filing to reflect the actual recorded balance in the ERRA through August 31, 2008 is reasonable and should be granted.

4. PG&E should be authorized to notify the Commission through advice letter filing, instead of an expedited application, when the ERRA balance exceeds its trigger point and it does not seek a change in rates in the manner authorized in D.06-06-051 and D.07-05-008.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E) is authorized to recover its forecast \$482 million Energy Resource Recovery Account (ERRA) undercollection over a 15-month period, beginning October 1, 2008.

2. PG&E is authorized to update the amount to be amortized via a September 2008 advice letter filing to reflect the actual recorded balance in the ERRA through August 31, 2008, subject to the approval of the Commission's Energy Division.

3. PG&E is authorized to notify the Commission through an advice letter filing, instead of an expedited application, when the ERRA balance exceeds its trigger point and it does not seek a change in rates, if the ERRA balance will self-correct below the trigger within 120 days of filing.

4. PG&E shall include necessary documentation to support its advice letter filings.

5. Energy Division staff disposition of PG&E's advice letter requests, which satisfy the criteria described in Ordering Paragraph (OP) 3 of this decision, is authorized in accordance with General Order 96-B.

6. PG&E shall continue to file an expedited application in those instances where the ERRA balance exceeds the trigger and rate changes are necessary to amortize the balance. If the Energy Division rejects an advice letter authorized in OP 3 of this decision, PG&E shall file an application within 15 days after rejection.

7. Application 08-06-010 is closed.

This order is effective today.

Dated August 21, 2008, at San Francisco, California.

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