

March 30, 2000

## **ADVICE 1986-E**

Public Utilities Commission of the State of California:

Pacific Gas and Electric Company (PG&E) hereby submits for filing revisions to its electric tariff sheets. The affected tariff sheets are listed on the enclosed Attachment I.

The purpose of this filing is to request authorization to participate and recover the costs of new ancillary service contracts proposed by the California Power Exchange (CalPX) in its February 17, 2000 application with the Federal Energy Regulatory Commission (FERC) in the block forward market (BFM). Additionally, PG&E requests to recover credit and collateral costs, and system costs associated with all BFM transactions, including the new ancillary service trades. In order to implement this filing, PG&E submits revisions to Schedule PX--*Power Exchange Energy Cost*, and new Preliminary Statement Part AF—*Block Forward Market Memorandum Account (BFMMA)*

### **Background**

In its application with FERC, CalPX proposed to offer, on a forward basis, new ancillary services through its California Trading Services Division (CTS) starting May 1, 2000. Initially, CTS will offer five physical ancillary service contracts in NP15 and SP15. Those five ancillary services are: regulation up, regulation down, spinning reserves, non-spinning reserves and replacement reserves. Contracts will initially be listed two to four months forward with delivery beginning on June 1, 2000.

In filing with FERC, CalPX notes that “CTS participants, the California Public Utilities Commission (“CPUC”) and the California Independent System Operator (“CAISO”) have strongly encouraged CTS to provide a market for ancillary services. The new market proposed by CTS will supplement the market for ancillary services currently offered by the CAISO. CTS and its participants believe that the availability of an additional market for ancillary services will attract additional supply and will benefit California consumers by making the overall market more competitive.”

CTS sellers will schedule their ancillary services sales through CTS into the CalPX Day Ahead Market. CalPX will report all CTS provided ancillary services to the CAISO.

### **Proposed trading limits**

In addition to the positive impact on the competitiveness of the market, PG&E believes that its participation in the ancillary services BFM would allow it to further hedge price risk for its bundled service customers. Ancillary services exhibited high prices in 1998 with price spikes of up to \$9,999 per MW in replacement reserves. Lower demand and market design changes have contributed to bringing ancillary prices to more reasonable levels in 1999 and 2000; however, the potential exists for these prices to increase along with other energy prices during the upcoming summer hours.

PG&E estimates that collectively, ancillary services capacity averages about 10 percent of total demand. Given its hedging objectives, PG&E requests that it be allowed to purchase ancillary service capacity from any of the five BFM ancillary services offered by CTS so that the sum of all ancillary service capacity does not exceed 5 percent of its historical hourly demand averaged over a given quarter.

Consistent with the term authorized for PG&E's participation in the BFM in Resolution E-3658, PG&E requests that it be allowed to participate in the ancillary services BFM through the end of its rate freeze as such authority may be superseded by the expected Post-Transition Electric Procurement- Phase II decision.

### **Schedule PX**

PG&E understands that the new ancillary service contracts, as well as the existing BFM energy contracts traded for delivery at external delivery points such as COB which are part of the enhanced BFM authorized in Resolution E-3658, settle at the BFM purchase or trade price, rather than at the difference between the trade price and the corresponding average day-ahead price. As a result, Schedule PX must be revised to include the total payment or revenue due for purchases or sales of ancillary services in the BFM.

### **Preliminary Statement Part AF**

The purpose of the BFMMA is to record costs incurred by PG&E to participate in the BFM that are not billed to PG&E by CalPX or CAISO. These costs include, but are not limited to: a) credit and collateral costs including surety bond fees, cash collateral account financing costs, and other fees associated with credit and collateral costs, and b) costs incurred in modifying or acquiring

systems needed to capture, track and settle block forward market transactions. PG&E proposes to recover the balance in the BFMMA through the Revenue Adjustment Proceeding (RAP) or other proceeding as authorized by the Commission. These costs will be collected as required by the Commission in its decisions in PG&E's pending 1999 RAP application, A. 99-08-023, and on PG&E's future application for a cost recovery mechanism to collect procurement costs, as required by D. 00-02-046.

In order to enable PG&E to use the new ancillary service BFM contracts for Summer 2000, PG&E respectfully requests that this filing become effective on **May 9, 2000**, which is 40 days after the date of filing.

This filing will not increase any rate or charge, cause the withdrawal of service, or conflict with any rate schedule or rule.

Anyone wishing to protest this filing may do so by sending a letter within 20 days of this filing. Protests should be mailed to:

IMC Branch Chief  
Energy Division  
California Public Utilities Commission  
505 Van Ness Avenue, Room 4002  
San Francisco, California 94102  
Facsimile: (415) 703-2200

Copies should also be mailed to the attention of the Director, Energy Division (address above), and Les Guliasi, Regulatory Relations Manager, 77 Beale Street, Mail Code B10C, P.O. Box 770000, San Francisco, California 94177, Facsimile (415) 973-7451. The protest should set forth the grounds upon which it is based and shall be submitted expeditiously. There are no restrictions on who may file a protest.

In accordance with Section III, Paragraph G of General Order 96-A, PG&E is mailing copies of this advice filing to the utilities and interested parties shown on the attached list. Address change requests should be directed to Nelia Avendano at (415) 973-3529.

Vice President – Regulatory Relations

Public Utilities Commission  
Advice 1986-E  
March 30, 2000  
Page 4

cc: California Independent System Operator  
California Power Exchange  
Electricity Oversight Board

Attachments



PRELIMINARY STATEMENT

(Continued)

AF. BLOCK-FORWARD MARKET MEMORANDUM ACCOUNT (BFMMA)

(N)

1. PURPOSE:

The purpose of the BFMMA is to record costs incurred by PG&E to participate in the Power Exchange's (PX's) Block-Forward Market that are not billed to PG&E by the PX or the Independent System Operator (ISO). These costs include, but are not limited to: a) credit and collateral costs including surety bond fees, cash collateral account financing costs, and other fees associated with credit and collateral costs, and b) costs incurred in modifying or acquiring systems needed to capture, track, and settle block forward market transactions.

2. APPLICABILITY:

The BFMMA shall apply to all customer classes, except for those specifically excluded by the Commission.

3. BFMMA RATES:

The BFMMA does not have a rate component.

4. ACCOUNTING PROCEDURE:

PG&E shall maintain the BFMMA by making entries at the end of each month as follows:

- a. A debit entry for monthly financing costs associated with maintaining the cash collateral account equal to the average monthly balance in the cash collateral account multiplied by one-twelfth the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, G.13 or its successor.
- b. A credit entry equal to monthly interest earned on the cash collateral account.
- c. A debit entry equal to fees associated with opening, maintaining or transacting in the cash collateral account.
- d. A debit entry equal to letter of credit fees.
- e. A debit entry equal to surety bond fees.
- f. A debit entry equal to start-up and operating costs of modifications to systems needed to capture, track and settle block forward market transactions.
- g. A debit entry equal to other costs directly resulting from PX requirements to participate in the Block-Forward Market. These shall not include any costs associated with non-utility legal counsel, consultants, or advisors.
- h. An entry equal to the interest on the average of the balance at the beginning of the month and the balance after entries 4.a. through 4.g. above, at a rate equal to one-twelfth the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, G. 13 or its successor.

PG&E shall request recovery of the balance in the BFMMA in the annual Revenue Adjustment Proceeding (RAP), or other proceeding expressly authorized by the Commission. These costs will be collected as required by the Commission in its decisions in PG&E's pending 1999 RAP application, A.99-08-023, and on PG&E's future application for a cost recovery mechanism to collect procurement costs, as required by D.00-02-046.

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SCHEDULE PX—POWER EXCHANGE ENERGY COST  
(Continued)

RATES: (Cont'd)

1. Development of hourly forward market costs (Cont'd)

The weighted average cost for these services shall be calculated for each hour as the sum of the costs in the day-ahead market in each zone, plus the costs in the hour-ahead market in each zone, plus the net gain or loss on transactions in the block forward market, which settle at the difference between the trade's matching price and the respective PX average day-ahead price, plus the net cost of block forward market ancillary service transactions which settle at the trade's matching price, all divided by the total kWh purchased in all zones in all forward energy markets for that hour. PG&E's block forward market transactions shall be limited to its net-short position, as defined in Resolution E-3658 for transactions which settle at the difference between the trades matching price and the respective PX average day-ahead price, and to 5 percent of PG&E's historical demand for ancillary service transactions. Furthermore, PG&E is guaranteed recovery of costs for its block forward market transactions for deliveries until the end of PG&E's rate freeze.

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2. Real-time Settlement Costs:

Real-time Settlement costs, representing the real-time costs (i.e., those costs not reflected in charges to customers based upon prices determined from the day-ahead and/or hour-ahead scheduling of load) for acquiring power for PG&E customers for the trading day 60 days or more earlier, is added to the cost derived in Part 1 of this section. This rate is determined by dividing the real-time cost amount (which is the dollar amount incremental to the cost described in Part 1 of this section) by the load scheduled by PG&E to be served by the PX. Two adjustments may eventually be implemented: one for all customers of PG&E and an incremental adjustment only for customers without real-time meters.

PG&E may make up to two real time settlement cost adjustments on a single day's hourly prices, in order to shorten the lag between the settlement adjustment and the trading day.

(Continued)



TABLE OF CONTENTS  
(Continued)

PRELIMINARY STATEMENTS

SCHEDULE	TITLE OF SHEET	CAL P.U.C. SHEET NO.
Part A	Description of Service Area & General Requirements .....	12081 to 12090,15715-E
Part B	Not Being Used	
Part C	Not Being Used	
Part D	Energy Efficiency California Energy Commission Memorandum Account.....	16551-E
Part E	CPUC Reimbursement Fee .....	11994-E
Part F	Helms Adjustment .....	11995-E
Part G	Catastrophic Event Memorandum Account .....	15716,11740-E
Part H	Interest .....	10579-E
Part I	Rate Schedule Summary.....	16810-E
Part J	Income Tax Component of Contributions Provision .....	11752,11503-E
Part K	Energy Commission Tax .....	10880-E
Part L	Electric Restructuring Costs Accounts .....	16515 to 16517-E
Part M	California Alternate Rates for Energy Account.....	15091-E
Part N	Transition Revenue Account.....	16518,16175,16603-E
Part O	Demand-Side Management Tax Change Memorandum Account.....	15094-E
Part P	Customer Energy Efficiency Adjustment.....	15104,15095,15097,15105,15106-E
Part Q	Competition Transition Charge Responsibility .....	14028-E
Part R	Not Being Used	
Part S	Hazardous Substance Mechanism.....	15719,15720,13540,13419 to 13421-E
Part T	Qualifying Facility Contribution in Aid of Construction Memorandum Account.....	13426-E
Part U	Not Being Used	
Part V	Arbitration Memorandum Account.....	13360-E
Part W	Not Being Used	
Part X	Not Being Used	
Part Y	Electric and Magnetic Field Measurement Policy.....	13399-E
Part Z	Electric Vehicle Balancing Account.....	15099,16251-E
Part AA	Electric Deferred Refund Account.....	14274-E
Part AB	Independent System Operator Memorandum Account.....	14259-E
Part AC	Power Exchange Memorandum Account.....	14260-E
Part AD	Transition Cost Audit Memorandum Account.....	15917-E
Part AE	Generation Divestiture Transaction Costs Memorandum Account.....	14169-E
Part AF	Block-Forward Market Memorandum Account.....	16974-E
Part AG	Competition Transition Charge Exemptions Memorandum Account.....	14277,14278-E
Part AH	Industry Restructuring Memorandum Account..	16644,16645,14282,14382 to 14386,16646-E
Part AI	Not Being Used	
Part AJ	System Safety and Reliability Enhancement Funds Balancing Account	14787,14788,15100-E

(N)

(Continued)



TABLE OF CONTENTS  
(Continued)

RATE SCHEDULES

SCHEDULE	TITLE OF SHEET	CAL P.U.C. SHEET NO.
<b>LIGHTING RATES</b>		
LS-1	PG&E-Owned Street and Highway Lighting .....	15393,16853,15395,15936,16490,16324-E
LS-2	Customer-Owned Street and Highway Lighting .....	15398,16854,15400 to 15403,16491-E
LS-3	Customer-Owned Street and Highway Lighting Electrolier Meter Rate .....	16855,15406,15407,16492-E
TC-1	Traffic Control Service .....	16856,15410,16493-E
OL-1	Outdoor Area Lighting Service.....	16857,15413,15414,16494-E
<b>OTHER</b>		
S	Standby Service.....	16858,16859,16860,15419,16200,15421,16201,16202,15424,15425,16203,16204,16205,16206,16495,16336-E
E-DEPART	Departing Customers .....	15905-E
E-EXEMPT	Competition Transition Charge Exemption .....	16068 to 16073-E
E-TD	Transmission and Distribution Bypass Deferral Rate .....	15694 to 15696,16496-E
E-TDI	Incremental Sales Rate for New Customers .....	15698,15699,16497-E
E-RRB	Rate Reduction Bonds Bill Credit and Fixed Transition Amount Charge .....	14798,14799-E
E-NEM	Net Energy Metering Service.....	16091,16092-E
<b>AGRICULTURAL RATES</b>		
AG-1	Agricultural Power .....	16861,15446 to 15449,16498,15451 to 15453-E
AG-R	Split-Week Time-of-Use Agricultural Power .....	15454,16862,15456,15457,15458,15459,16449,16340,15462,15463,15464-E
AG-V	Short-Peak Time-of-Use Agricultural Power .....	15465,16863,15467,15468,15469,15470,16500,16342,15473,15474,15475-E
AG-4	Time-of-Use Agricultural Power .....	15476,16864,16865,15479 to 15483,16501,16345,15486,15487,15488-E
AG-5	Large Time-of-Use Agricultural Power .....	15489,16866,16867,15492 to 15496,16502,16348,15499,15500,15501-E
AG-6	Large Agricultural Power .....	15502,16868,15504,15505,15506,16350-E
AG-7	Experimental Tiered Time-of-Use Agricultural Power .....	15701,15702,16869,16870,15705,15706,15707,15708,16503,16353-E
AG-8	Deferral of Gas and Diesel Engine-Driven Pumping Facilities .....	15710,15711,16504-E
<b>POWER EXCHANGE RATES</b>		
PX	Power Exchange Energy Cost.....	16905,16975,16871,16597,15795,15521,15522-E (T)
<b>DIRECT ACCESS</b>		
E-CREDIT	Revenue Cycle Services Credits .....	16567-16578-E
E-DASR	Direct Access Services Request Fees .....	14847-E
E-ESP	Service to Energy Service Providers.....	16109,15828,15829,15830,16221-E
E-ESPNSF	Energy Service Provider Non-Discretionary Service Fee .....	16535,16536-E
E-EUS	End User Services.....	14852,14853,14854-E

(Continued)



TABLE OF CONTENTS

	<u>CAL P.U.C. SHEET NO.</u>	
Title Page.....	8285-E	
Table of Contents:		
Rate Schedules .....	16978,16977-E	(T)
Preliminary Statements .....	16976,16734-E	(T)
Rules, Maps, Contracts and Deviations .....	16735-E	
Sample Forms .....	15617,16094,16546,16196,16197,14767-E	

RATE SCHEDULES

SCHEDULE	TITLE OF SHEET	CAL P.U.C. SHEET NO.
<b>RESIDENTIAL RATES</b>		
E-1	Residential Service .....	16814,15237,16462-E
EE	Service to Company Employees .....	15239-E
EM	Master-Metered Multifamily Service .....	16815,15241,15242,16463-E
ES	Multifamily Service .....	16816,15245,15246,16464,16262-E
ESR	Residential RV Park and Residential Marina Service .....	16817,15249,15250,16465-E
ET	Mobilehome Park Service .....	16818,15253,15254,16466,16266-E
E-7	Residential Time-of-Use Service .....	16655,16819,15257,16467-E
E-A7	Experimental Residential Alternate Peak Time-of-Use Service ..	16657,16820,15260,16468-E
E-8	Residential Seasonal Service Option .....	16821,16469-E
E-9	Experimental Residential Time-of-Use Service for Low Emission Vehicle Customers .....	15264,16822,16823,15267,15268,16470-E
EL-1	Residential CARE Program Service .....	16824,15274,16471-E
EML	Master-Metered Multifamily CARE Program Service .....	16825,15277,16472,16473-E
ESL	Multifamily CARE Program Service .....	16826,15280,15281,16474,16281-E
ESRL	Residential RV Park and Residential Marina CARE Program Service .....	16827,15284,15285,16475-E
ETL	Mobilehome Park CARE Program Service .....	16828,15289,15290,16476,16285-E
EL-7	Residential CARE Program Time-of-Use Service .....	16659,16829,15293,16477-E
EL-A7	Experimental Residential CARE Program Alternate Peak Time-of-Use Service .....	16661,16830,15296,16478-E
EL-8	Residential Seasonal CARE Program Service Option.....	16831,16479-E
<b>COMMERCIAL/INDUSTRIAL</b>		
A-1	Small General Service .....	16832,16480-E
A-6	Small General Time-of-Use Service .....	15302,16833,16481,16295-E
A-10	Medium General Demand-Metered Service .....	16834,15307,15308,16482,16297-E
A-T	Nondomestic Interruptible Service .....	11862-E
A-RTP	Experimental Real-Time-Pricing Service .....	15313,16483-E
A-15	Direct-Current General Service .....	16835,16484-E
E-19	Medium General Demand-Metered Time-of-Use Service .....	16410,15316,15317,16836, 16837,16838,15321,15322,15323,15324,16411,16412,16413,15328,16414,15330,16839, 16840,16841,16416,16417,16418,16419,16420,16539,16540,16541,16306,16307-E
E-20	Service to Customers with Maximum Demands of 1,000 Kilowatts or More .....	16425,15344,16842,16843,16844, 15348,15349,15350,15351,16426,16427,16428,15355,16429,16430,15358,16845,16846, 16847,16432,16433,16434,16435,16436,16486,16438,16542,16543,16544,16314-E
E-25	Restricted Variable-Peak-Period Time-of-Use Service to Water Agencies .....	15372,16848,16849,16850,15376 to 15379,16487,16318-E
E-36	Small General Service to Oil and Gas Extraction Customers .....	16851,16488,16320-E
E-37	Medium General Demand-Metered Time-of-Use Service to Oil and Gas Extraction Customers .....	15687,15688,16852,15690,15691,15692,16489-E
ED	Experimental Economic Development Rate .....	15390,15391-E
E-CARE	CARE Program Service for Qualified Nonprofit Group-Living and Qualified Agricultural Employee Housing Facilities .....	15392-E

(Continued)