July 18, 2000

ADVICE 2017-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 revised tariff sheets are listed on Attachment I and are attached hereto.

PG&E hereby seeks authorization from the Commission (Commission) for the establishment of a memorandum account to record costs associated with PG&E's purchase of energy and ancillary services in the bilateral market for delivery through the Power Exchange (PX) Day-Ahead or Day-Of markets. In addition, PG&E seeks authority to record costs associated with PG&E's purchase of capacity with associated energy as a hedging product.

On July 14, 2000, Southern California Edison Company (SCE) filed Advice 1469-E and 1470-E seeking similar authorization to use the bilateral option and capacity products offered by the PX. As explained by SCE, time is of the essence to allow both PG&E and SCE the ability to more fully hedge the risk faced by their customers from price spikes that are likely to occur this summer. Accordingly, PG&E respectfully requests that the Commission grant any necessary waivers and approve this advice filing at the **August 3, 2000**, Commission Meeting, effective that date.

California Trading Services Division (CTS) currently operates a forward market for monthly sales of energy and ancillary services with a variety of delivery periods and delivery locations. As originally conceived, the PX forward market was to be for a single on-peak product (6-by-16 delivery hours). In its May 26, 1999, order authorizing the PX Block-Forward Market (BFM), the Federal Energy Regulatory Commission (FERC) directed that the PX provide a bilateral delivery option for products purchased in the BFM. On April 25, 2000, FERC issued an order authorizing CTS to offer: a) ancillary service forward products; and b) a service for taking ancillary services purchased and sold in the bilateral market to delivery in the PX market.

The bilateral delivery option allows that the scheduling and delivery of bilateral transactions can be accomplished transparently through the PX Day-Ahead market. The PX acts as scheduling coordinator for the physical delivery into the

PX Day-Ahead market and performs other settlement and billing functions. The ancillary services bilateral option also allows a participant with both supply and demand the ability to designate its own supply to provide ancillary services for its loads. For those products that the PX's bilateral delivery service cannot accommodate, PG&E would require that the bilateral contract specify that the products go to physical delivery in the PX Day-Ahead or Day-Of markets or PG&E would procure transmission needed to physically deliver into the PX markets. In this instance, PG&E would make available to the PX on a confidential basis the terms of its contract for the purposes of allowing market monitoring.

PG&E also seeks to record costs associated with the purchase of capacity products. Such products are a hedge against price and quantity volatility, and can be customized to meet peak demands. PG&E believes that capacity products can be an extremely valuable product in hedging against load increases due to temperature and will also facilitate PG&E's efforts to arrange for and ensure sufficient generation for market reliability. In essence, energy associated with capacity products has the characteristics of energy from a peaking generation plant and can be used to cover demand when it is high or there is a unit outage. Capacity products, a traditional product that PG&E has used in the past, provide PG&E reserve capacity in a manner that potentially provides new supply in the California market and enhances market efficiency. The energy associated with the capacity product would be bid into the PX Day-Ahead markets.

On June 28, 2000, the ISO Board of Governors issued a motion on price caps, stating market performance indicates that during high load conditions the California Independent System Operator's real-time electricity, day-ahead and hour-ahead ancillary service markets are not workably competitive. The Board instructed ISO management, among other things, to work with responsible agencies and the legislature to streamline and accelerate the construction of other plants and transmission lines, and to <u>eliminate the constraints to hedging opportunities for the UDCs</u>.

Although PG&E previously has requested CPUC authorization to participate in the BFM energy and ancillary services market, PG&E has not, until now, requested CPUC authorization to use the bilateral option feature of the CTS.[1/] However, the PX

[1/]As described by Resolution E-3672, issued June 8, 2000, "The PX CTS proposed two categories of service enhancements relating to the availability of ancillary services. The first category is bilateral scheduling and delivery of ancillary services. The second category is a monthly forward market for physical ancillary services" and "PG&E's advice letter references only participation in the monthly forward market for physical ancillary services. PG&E makes no request to engage in bilateral scheduling and delivery of ancillary services." p. 2.

has continually enhanced its BFM, including the bilateral option. The bilateral option has evolved to the point where delivery may be accomplished through the PX Day-Ahead Market. Entering into appropriate bilateral transactions and providing delivery through the PX's bilateral delivery option can be extremely valuable in hedging against price spikes in the PX Day-Ahead and ISO spot markets while ensuring price transparency. The PX bilateral option would allow PG&E to make forward purchases in a manner that has the potential to attract new supply to the California market, and enhance market efficiency in several ways, as explained in SCE's filing dated July 14, 2000.

PG&E understands that the PX's bilateral delivery option requires that the terms of the transaction be disclosed on a confidential basis to the PX. PG&E would also disclose all bilateral transactions that use the PX's bilateral delivery option to the Commission on a confidential basis. PG&E would be prepared to submit such a report on a monthly basis. For bilateral transactions that the PX's bilateral delivery option cannot accommodate, PG&E would propose requiring the contracts for such transactions to require physical delivery in the PX's day-ahead or day-of markets on a must-deliver, must-take basis, or procuring the transmission needed to be able to physically deliver in the PX markets.

By this filing, PG&E seeks Commission authorization to establish the Power Exchange Bilateral Option Memorandum Account (PXBOMA) to record costs associated with PG&E's participation in the bilateral option.

Term and Purchase Limits

Under the terms of Resolution (R.) E-3672, PG&E is currently authorized to participate in the PX forward markets for energy services, subject to quarterly trading limits, through the end of PG&E's rate freeze. R. E-3658 and R. E-3672 provided ratemaking and per se reasonableness of PG&E's participation in the PX forward markets for energy through the end of PG&E's rate freeze. Decision (D.) 00-06-034 further provides that PG&E's purchases in the energy markets are per se reasonable, even if delivery occurs after the end of the rate freeze, until such time as the Commission has considered the role of the UDC in the post-transition period and the need for a new procurement oversight mechanism.

In the interest of Commission consideration and approval of PG&E's request in time for the critical summer months, PG&E is not requesting an increase in the current purchase limits for the forward energy products, including capacity products at this time and would treat its capacity purchases under existing limits. However, PG&E requests an extension beyond the rate freeze end to December 31, 2003, to participate in the PX forward markets. PG&E believes such an extension is appropriate for several reasons: 1) to provide customers with some price stability following the end of the rate freeze, 2) to increase the potential amount of supplies available for bilateral purchases, and 3) because of the uncertainty regarding the exact date when the rate freeze will end. This request is consistent with D. 99-10-057, where the Commission states, "…the Commission has already ordered that the mandatory buy requirement will expire March 31, 2002." (p. 41).

Ratemaking

In D. 00-06-034 the Commission stated its belief that during the rate freeze period the utilities have an incentive to minimize the costs of procurement for bundled service customers due to the "headroom" concept and the residual calculation of the CTC. The Commission also found that, "…[a]ny procurement practices that unnecessarily increase the energy charge to customers will necessarily decrease the amount of headroom available, and thus, the amount of revenues available to apply to transition cost recovery."[2/] Therefore, PG&E has a strong incentive to prudently use the bilateral purchase and delivery option discussed in this advice letter. For example, if PG&E pays too much for a bilateral purchase, it would reduce the headroom available to pay off its transition costs and thereby jeopardize recovery of those costs. PG&E believes that this incentive creates alignment between the interests of PG&E and its customers and is sufficiently strong to obviate the need for any further reasonableness review of the transactions proposed in this Advice letter.[3/] As the Commission explained in D.00-06-034 (at 40-41), "…we find that UDCs may procure electricity through the CalPX day-ahead, day of and block forward markets and similar markets in qualified exchanges, and the ISO imbalance energy market, and deem the prices paid for these products as reasonable."

In view of the fact that this program is new and the Commission may wish to better understand the evolving nature and direction of the forward markets, PG&E agrees to make monthly filings providing the type of information specified by the Commission in R. E-3672.

To the extent the Commission needs further assurances that PG&E is prudent in its use the new program, PG&E proposes the following approach to determine prospectively whether a particular purchase meets a predefined reasonableness threshold. First, PG&E will meet with the Energy Division and the Office of Ratepayer Advocates (ORA) to identify ahead of time the specific sources of prices offered in

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[2/]D. 00-06-034, p.32.

[3/]After the rate freeze end, this incentive is eliminated. However, PG&E has no incentive to imprudently enter into bilateral transactions after the rate freeze ends and risk customer dissatisfaction with its service.

the market for energy, ancillary services and capacity products. For example, PG&E would use the weekly range of prices for energy services offered in the market in the same week that PG&E procured incremental bilateral energy purchases. Any purchases made within the approved price range will be per se reasonable. Second, as PG&E enters into new bilateral purchases, PG&E will determine the price range for the specific products being procured. The Energy Division and ORA will be able to validate the price range based on the same market price sources determined ahead of time. Moreover, PG&E will submit in its monthly reports an updated set of the agreed prices for determining the reasonableness threshold, along with detail trade information noted above for new bilateral transactions.

PG&E believes that its prospective reasonableness threshold approach is more appropriate than an after the fact reasonableness band proposed by SCE. However, in light of the urgent nature of this filing, PG&E is not opposed to this approach pending further development of a predefined reasonableness standard.
PG&E would propose that the first record period for bilateral transactions commence upon approval of this advice letter and end in June 2001 consistent with the Annual Transition Cost Proceeding (ATCP) record period. If the need for a reasonableness review is indicated because costs in excess of the agreed reasonableness threshold are included in the Power Exchange Bilateral Option Memorandum Account (PXBOMA), it could be conducted as part of PG&E’s ATCP, which is filed on September 1 each year. Costs incurred for PG&E's participation in the bilateral option will be recorded in the PXBOMA. If these costs are below the reasonableness threshold, PG&E shall seek recovery of these costs in the Revenue Adjustment Proceeding (RAP).

In R. E-3637, the Commission recognized that costs (e.g. collateral costs) may be incurred by PG&E which will not be billed by the PX or ISO, and thus authorized the establishment of the Block Forward Market Memorandum Account (BFMMA). If such costs are incurred by PG&E as a result of its use of the bilateral option for energy and ancillary services, these costs will also be tracked in the BFMMA for future Commission review.

Schedule PX

To incorporate the cost of these new purchases in PG&E’s energy charge to bundled customers (an amount which is also credited to direct access customers), PG&E proposes to modify its Schedule PX—*Power Exchange Energy Cost*, to allow for the inclusion of energy costs and gains and losses on bilateral purchases which are invoiced by entities other than the PX and ISO in the calculations described on that schedule. Specifically, PG&E envisions two types of transactions if the Commission approves this advice filing.

In the first type of transaction, the physical delivery will be made through the PX Day-Ahead market and all financial settlements and invoicing functions will be performed by the PX. PG&E believes that the costs of such transactions can be incorporated under the current structure of Schedule PX, but has added clarifying language to that effect. Under the second type of transaction, the physical delivery will be made through the PX Day-Ahead market and PG&E will be invoiced by the PX for such deliveries. However, in this case, the financial settlement between PG&E and the counter-party to the bilateral contract will not be handled by the PX. PG&E has modified Schedule PX to allow for inclusion of the net gains and losses invoiced by the counter party in Schedule PX.

This advice filing will not increase any rate or charge, cause the withdrawal of service, or conflict with any schedule or rule. No cost information is required for this advice filing.

Effective Date

PG&E requests that the Commission approve this advice filing at its **August 3, 2000**, Commission Meeting, effective that date. Time is of the essence in getting Commission approval. This is especially the case given that there are no other Commission meetings scheduled in August.

In order to accomplish this objective, PG&E proposes the following schedule, which incorporates reductions to the normal protest period and to the review and comment period on a resolution:

Action	**Due Date**
File Advice Letter	7/18/2000
Protests to Advice Letter	7/24/2000
Reply to Protests	7/26/2000
Draft Resolution	7/28/2000
Comments on Draft Resolution	7/31/2000
Reply to Comments	8/2/2000
Final Resolution	8/3/2000

In order to act by **August 3, 2000**, the Commission must reduce the 20-day protest period, as well as the review and comment period for the draft resolution. The Commission may reduce the 30-day draft resolution comment period provided by PU Code § 311(g)(1) in accordance with its rules adopted pursuant to PU Code § 311(g)(3). Pursuant to Rule 77.7 (f)(9), PG&E requests that the Commission reduce the 30-day comment period due to public necessity. Time is of the essence to allow PG&E the ability to more fully hedge the risk faced by its customers from price spikes that are likely to occur this summer.

Notice

Anyone wishing to protest this advice filing may do so by sending a letter by facsimile or electronically, either of which must be received by PG&E no later than 8 days after the date of this advice filing. Protests should be mailed to:

IMC Program Manager
Energy Division
California Public Utilities Commission
505 Van Ness Avenue, Room 4002
San Francisco, California 94102
Facsimile: (415) 703-2200
email: jjr@cpuc.ca.gov

Copies should also be mailed to the attention of the Director, Energy Division, Room 4004 (same address above). In addition, protests and all other correspondence regarding this advice letter should also be sent by letter and transmitted via facsimile to the attention of:

Pacific Gas and Electric Company
Attention: Les Guliasi
Manager, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177
Facsimile: (415) 973-7226

There are no restrictions on who may file a protest, but the protest shall set forth specifically the grounds upon which it is based and shall be submitted expeditiously.

In accordance with Section III, Paragraph G, of General Order No. 96-A, PG&E is mailing copies of this advice filing to the interested parties shown on the attached advice letter mailing list and A.99-01-016. Address change requests for the advice letter mailing list should be directed to Nel Avendano at (415) 973-3529

Vice President - Regulatory Relations

Attachments

cc: Service List—A. 99-01-016

PRELIMINARY STATEMENT
(Continued)

BW. POWER EXCHANGE BILATERAL OPTION MEMORANDUM ACCOUNT (PXBOMA) (N)

1. PURPOSE:

The purpose of the PXBOMA is to record net costs incurred by PG&E in procuring energy, ancillary services, capacity products, and transmission related services needed to use the bilateral option offered by the California Trading Services (CTS) Division of the California Power Exchange (PX) or for delivery through the PX Day-Ahead or Day-Of markets.

2. APPLICABILITY:

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

3. PXBOMA RATES:

The PXBOMA does not have a rate component.

4. ACCOUNTING PROCEDURE:

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

a. A debit or credit entry for paym ents to or receipts from, respectively, third parties for energy, ancillary services, capacity products, and transmission related services.

b. A credit entry equal to monthly revenues received from the PX for bilateral energy, ancillary services, and capacity products.

c. A debit entry for scheduling and settlement fees invoiced by the PX for use of the bilateral delivery option.

d. 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.c. 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 PXBOMA in the annual Revenue Adjustment Proceeding (RAP), or other proceeding expressly authorized by the Commission. The PXBOMA amounts authorized by the Commission in the RAP shall be included in the PX credit calculation. (N)

(Continued)

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, 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 as defined in Resolution E-3658, and modified pursuant to subsequent Commission decisions and resolutions. 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. (D)

2. Estimate of Real-time Settlement Costs:

   An estimate of real-time settlement costs for the trading day will be calculated hourly and added to the cost derived in Part 1 of this section on the trading day, or as soon thereafter as practicable. This rate is determined by dividing the estimate of the real-time cost amount, including spinning reserve, non-spinning reserve, replacement reserve, regulation, and imbalance energy, by PG&E's estimate of the load to be served by the PX.

3. Real-time Settlement Costs True-Up:

   A real-time settlement cost true-up, representing the real-time costs not yet reflected in charges to customers for the trading day 60 days or earlier, is added to the cost derived in Parts 1 and 2 of this section. This rate is determined by dividing the real-time cost amount (which is the dollar amount (either positive or negative) incremental to the cost described in Parts 1 and 2 of this section) by PG&E's estimate of the load 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 true-ups on a single day's hourly prices, in order to shorten the lag between the real-time settlement cost true-up and the trading day.

(Continued)

SCHEDULE PX—POWER EXCHANGE ENERGY COST
(Continued)

RATES: (Cont'd.)

4. Post Real-Time Settlement Costs:

Adjustments for incentive payments made to customers taking service under Schedule E-BID, costs recorded in the E-BIDMA (Preliminary Statement Part BS), costs recorded in the PXBOMA (Preliminary Statement Part BW) (N) approved for recovery, black start capability, long term voltage support, PX (N) administration costs, ISO grid management charges, and amounts resulting from dispute resolution may be required after the real-time settlement cost adjustment is incorporated into PX prices. PX charges including, but not limited to, these adjustments which are available after the real-time settlement cost adjustment has been implemented for a specific hour, will be accrued once a month and applied to adjust PX prices in the next full calendar month. Once the total accrued amounts are summed, the total will be divided by the number of days in the next full calendar month to develop a daily amount. The daily amount will be divided by the sum of PG&E's estimate of the 24 hourly loads for the day to determine an adjustment ($/MW) for the day.

5. Adjustments for Distribution Loss Factors (DLFs) and Uncollectibles:

The average hourly cost at the transmission/distribution interface, as determined by the sum of the average costs described in Parts 1, 2, 3 and 4 of this section, is multiplied by the DLF and an uncollectible factor to determine the appropriate price to be paid by end-use customers served at each voltage level. DLFs will be calculated by PG&E based on the forecast hourly PG&E UDC Service Area Load (Direct Access, plus Bundled Service, including Hourly PX Pricing Option Service) per Decision 97-08-056. The hourly DLFs will be broken out by service voltage level and made available each day to market participants during the day-ahead market. PG&E will calculate the hourly DLFs based on samples of hourly service area load by applying the approach approved in Decision 92-12-057. The uncollectible factor is equal to 1.002456.

BUNDLED SERVICE OR DIRECT ACCESS SERVICE:

1. Calculation of PX charges for Bundled Service and Hourly PX Pricing Option Customers and PX credits for Direct Access and Hourly PX Pricing Option Customers:

For purposes of determining PX charges for Bundled Service Customers and the PX credit for Direct Access and Hourly PX Pricing Option Customers, an average for each schedule (or TOU period) is developed through the use of a statistical load profile which represents the average load profile for all customers (both Direct Access and Bundled Service) on a given rate schedule. For Agricultural, Traffic Control, Streetlighting, and Outdoor Lighting rate schedules, the statistical load profiles are "static" and are determined hourly for the entire year based on average historical data for three recorded years. These latter static statistical load profiles are updated each calendar year based on available data for the previous three years. For all remaining rate schedules, the statistical load profile is determined "dynamically," using the most current load research information available. This current data will become available and will be posted approximately seven days from the date of occurrence.

The sum of the products of the (1) average hourly costs, including adjustments, and (2) the hourly loads, divided by the use associated with the statistical load profile (expressed as a fraction of the profile period use allocated to each hour) will yield an average cost for a specific customer group and TOU period. These average PX costs will be updated weekly.

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