STATE OF CALIFORNIA — Edmund G. Brown Jr., *Governor*

PUBLIC UTILITIES COMMISSION

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December 12, 2012

Brian Cherry
Pacific Gas and Electric Company
Vice President, Regulation and Rates
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, California 94177

Joe Como, Acting Director
CPUC, Division of Ratepayer Advocates
505 Van Ness Avenue
San Francisco, CA 94102

Subject: Energy Division staff disposition of PG&E's Advice Letter 4087-E/-E-A/E-B

Dear Messrs. Cherry and Como:

On July 17, 2012, Pacific Gas and Electric Company filed advice letter AL 4087-E, in which PG&E requests to record revenue requirements for the Utility Owned Generation ("UOG") portion of the Photovoltaic Program ("PV Program") in its Utility Generation Balancing Account ("UGBA"), pursuant to Decision (D.)10-04-052. PG&E requests to record in the UGBA revenue requirements for the first operational year of three PV sites that became operational in June and July 2012, effective on the operational dates of the sites. These revenue requirements include $18.3 million each for the 20 MW Cantua and Huron sites which became operational on June 26 and June 28, 2012, respectively, and $9.15 million for the 10 MW Giffin site which became operational on July 2, 2012. These sites were installed during the second year of PG&E's PV program.

The Division of Ratepayer Advocates ("DRA") filed a protest on the advice letter on August 8, 2012. PG&E filed a reply to the protest on August 20, 2012. Since then, PG&E filed two supplements to the advice letter. Advice Letter 4087-E-A was filed on August 27, 2012 to make minor corrections to the revenue requirements for the Cantua and Huron sites which were revised from $18.330 million to $18.300 million. Advice Letter 4087-E-B was filed on September 26, 2012, to correct a typographical error, remove revenue requirements for the second operational year of the three PV sites, and submit workpapers showing how the revenue requirements were calculated.

As described below, Energy Division has determined that the advice letter, as supplemented, complies with D.10-04-052 and PG&E's Commission-approved tariffs. PG&E AL 4087-E, as supplemented by AL 4087-E-A, and AL 4087-E-B, is effective on June 26, 2012, as requested in the advice letter. Accordingly DRA's protest on AL 4087-E is rejected.

Basis of DRA's Protest

DRA protested the advice letter on the following grounds:

1) The revenue requirement calculation in the advice letter is inconsistent with D.10-04-052, stating that the decision required that the revenue requirement recorded into the UGBA be based on the actual cost of the PV projects. DRA states that the revenue requirement is calculated using the approved cost cap, which includes a 10% contingency, for the PV program.

2) PG&E should not include the contingency amount in the revenue requirement unless the contingency amounts were reasonably spent.

3) The advice letter is inappropriately filed as Tier 1 but should be filed as a Tier 2 advice letter.

Energy Division has determined that the revenue requirement PG&E proposes to record in the UGBA in AL 4087-E/E-A/E-B, which includes a 10% contingency, is in compliance with D.10-04-052.

In D.10-04-052, the Commission approved the revenue requirement methodology PG&E proposed in its PV program application, A.09-02-019, with some specific modifications. The revenue requirement calculations authorized by the decision also include embedding a 10 percent contingency amount into the approved revenue requirement. D.10-04-052 states:

> "This decision authorizes the proposed revenue requirement adjusted to reflect revisions to capital, operations & maintenance costs, the deployment schedule, and the rate of return, as described herein. This revenue requirement includes expenditures of up to $1.454 billion for the capital costs associated with the UOG portion of its PV Program. This amount is based on a 250 MW PV Program with an average capital cost (in constant 2009 dollars) of $4,312 per kW (DC) inclusive of a 10 percent contingency amount."[1]

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[1] D.10-04-052, mimeo, page 2

The revenue requirement calculations proposed by PG&E in its testimony are based on an estimated average revenue requirement per MW of installed capacity. PG&E's testimony states:

> "To allow for recovery of the costs of owning and operating the UOG PV facilities, PG&E requests that the Commission adopt an estimated average revenue requirement per MW of installed capacity for each year of the PV UOG Program, as shown in Table 6-3."[2]

Because the decision approves PG&E's proposed revenue requirement, with the adjustments noted above, and PG&E requests an estimated average revenue requirement per MW of installed capacity, the decision authorizes PG&E to recover its revenue through an estimated average revenue requirement per MW of installed capacity.

PG&E's testimony further clarifies its proposed ratemaking mechanism. It states:

> "... PG&E requests that the Commission adopt the average revenue requirements/MW in Table 6-2. As PV facilities are installed, PG&E will accrue revenues in UGBA equal to the installed capacity multiplied by the average $/MW in Table 6-2."[3]

D.10-04-052 also approved PG&E's proposed ratemaking mechanism, which gives PG&E authority to calculate its revenue requirement by multiplying the approved installed capacity by the revenue requirement per MW.

PG&E uses the same methodology to calculate the revenue requirement it proposed in AL 4087-E-B. The revenue requirement calculations that PG&E provided in supplemental AL 4087-E-B is consistent with the authority given in D.10-04-052.

Furthermore, D.10-04-052 explicitly allows PG&E to book the authorized revenue requirement into the UGBA. The decision states:

> "The authorized revenue requirement shall be booked in its Utility Generation Balancing Account (UGBA) and a memorandum account shall be used to track the difference between its actual capital costs and the revenue requirement entered into its UGBA."[4]

The memorandum account operates to ensure that ratepayers will pay only the actual capital costs of the PV program.

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[2] PG&E testimony, A.09-02-019, PG&E-1, page 6-3

[3] PG&E testimony, A.09-02-019, PG&E-1, page 6-8

[4] D.10-04-052, mimeo, pp. 33-34; see also Ordering Paragraphs 4a and 4b of D.10-04-052.

The ratepayers will pay only the actual capital costs of the five-year PV program, which began in October 2010. The decision ordered PG&E to create a memorandum account to track the difference between the authorized revenue requirement recorded in the UGBA and the actual revenue requirement based on PG&E's recorded capital costs of the program. Ratepayers will be refunded the difference if the actual costs of the program are less than the authorized revenue requirement recorded in the UGBA, at the end of the 5-year PV program. If the actual revenue requirement based on PG&E's recorded capital costs is greater than the authorized revenue requirement at the end of the 5-year program, the excess costs will be subject to a reasonableness review. This is confirmed in PG&E's tariffs. The memorandum account that PG&E established pursuant to D.10-04-052 is the Photovoltaic Program Memorandum Account ("PVPMA"). The PVPMA tariff, filed by PG&E's in AL 3692-E and made effective on July 30, 2010 in compliance with D.10-04-052, states:

> "The purpose of the Photovoltaic Program Memorandum Account is to track the difference between the revenue requirement associated with the capital costs incurred as a result of PG&E's PV Program and the authorized revenue requirement set forth for this Program in Decision (D.) 10-04-052."

The tariff further states that should the actual revenue requirement based on recorded capital costs of the PV Program exceed the authorized revenue requirement at the end of the 5-year program, these costs will be subject to a reasonableness review per Decision 10-04-052, and that:

> "Should the authorized revenue requirement exceed the actual revenue requirement at the end of the 5-year program, the difference between the authorized revenue requirement and the actual costs will be refunded back to the ratepayers via a debit entry to the PVPMA and a credit entry to the UGBA"..[5]

The memorandum account operates to ensure that ratepayers will pay only the actual capital costs of the PV program. But the determination of whether PG&E's actual revenue requirement of the PV Program, based on PG&E's recorded capital costs, is less than the authorized revenue requirement will not be made until the end of the 5-year program, when all of PG&E costs are known.

In sum, Energy Division has determined that PG&E's revenue requirement proposed to be recorded in the UGBA in AL 4087-E complies with D.10-04-052.

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[5] PG&E tariffs, Electric Preliminary Statement Part FJ, Photovoltaic Program Memorandum Account (PVPMA), emphasis added.

Table 6-3 in PG&E's work papers shows that, for PV facilities installed during the second year of the program, the average revenue requirement/MW is $915 for the first year of service.[6]

Table 6-3 (Revised)(1) Pacific Gas and Electric Company 250 MW PV UOG Program Average $/MW by Program Year (thousands of Nominal dollars)							
Line No.			2010	2011	2012	2013	2014
1	2010 Projects		991	829	777	725	685
2	2011 Projects			915	775	728	680
3	2012 Projects				880	748	702
4	2013 Projects					858	730
5	2014 Projects						850

D.10-04-052 authorizes PG&E to record a revenue requirement equal to the amount of MW installed multiplied by the average revenue requirement per MW installed in the UGBA. PG&E installed a total of 50 MWs, served by three different facilities. Multiplying the 50 MWs by $915/MW yields a revenue requirement of $45.75 million, as was requested in the advice letter. Hence, PG&E's requested revenue requirement to be recorded in the UGBA complies with D.10-04-052.

AL 4087-E is appropriately filed as Tier 1.

DRA also contends that the advice letter should be filed as Tier 2 but the advice letter is filed as Tier 1. Energy Division has determined that the advice letter is appropriately filed as Tier 1.

DRA argues that the advice letter should be Tier 2 because it proposes "a rate or revenue requirement update for performance-based ratemaking as approved by the Commission for the Utility submitting the update."[7] Under General Order 96-B, Section 5-2, such advice letters should be categorized as Tier 2. Energy Division has determined that the revenue requirement calculation used in the advice letter is not an update for performance-based ratemaking. Therefore, the condition raised by DRA does not apply to AL 4087-E.

[6] The first year of the PV program began in October 2010 pursuant to Ordering Paragraph 2 of D.10-06-028, which made a correction to D.10-04-052. Thus, the second year of the program began in October 2011 and ended in October 2012. In AL 4087-E, PG&E requests to record the revenue requirements associated with the three PV sites for the second program year, which were installed in June and July of 2012.

[7] General Order 96B, Section 5-2

AL 4087-E is appropriately filed as Tier 1. General Order 96B, Section 5-1, states that the advice letter should be Tier 1 if the issue is

> "A change in a rate or charge pursuant to an index or formula that the Commission has approved for use in an advice letter by the Utility submitting the advice letter, not including the first time the Utility uses that index or formula. This Industry Rule does not cover a change in a methodology, such as a methodology approved by the Commission for use by a Utility for performance-based ratemaking."[8]

This advice letter satisfies the above stated condition, and thus should be filed as Tier 1. First, the ratemaking methodology used in the advice letter was approved by the Commission in D.10-04-052. Second, this is not the first time PG&E used this method in calculating the revenue requirement to be recorded into the UGBA for the Solar PV program, after its adoption by the Commission. AL 3920-E, filed by PG&E in 2011, used the same methodology as was proposed in this advice letter to calculate the revenue requirement for the first year of program and was approved by the Commission. Therefore, AL 4087-E should not be a Tier 2 advice letter, but is appropriately categorized as a Tier 1 advice letter.

Further, PG&E's ratemaking proposal adopted in D.10-04-052 provides that PG&E begin accruing revenues in the UGBA as of the operational date of the PV facility. The effective date of the AL 4087-E, as supplemented by AL 4087-E-A and AL 4087-E-B, must be June 26, 2012, the operational date of the Cantua site, addressed in the advice letter. Since the advice letter was filed after that operational date, a Tier 1 advice letter is appropriate. A Tier 2 advice letter would become effective no earlier than thirty days after the advice letter filing date, which would conflict with the ratemaking proposal adopted by D.10-04-052.[9]

If you have any questions, please contact Elaine Lau of the Energy Division (415-703-5621).

Sincerely,

Edward Randolph
Director, Energy Division
California Public Utilities Commission

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[8] General Order 96B, Section 5-1

[9] See General Order 96-B, General Rules 7.3.1, 7.3.3 and 7.3.4

Pacific Gas and Electric Company

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Regulatory Relations

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August 27, 2012

Advice 4087-E-A
(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: **Supplemental: Implementation of PG&E's 2012 through 2013 Revenue Requirement Adjustments for the Photovoltaic Program**

Pacific Gas and Electric Company ("PG&E") hereby submits this supplemental advice filing to revise values in the Advice Letter section of Advice 4087-E.

Purpose

PG&E is submitting this supplemental advice filing to revise values on page 2 of Advice 4087-E. In PG&E's Advice Letter 4087-E filed on July 17, 2012, PG&E included incorrect first year annual revenue requirement amounts for two of the three new solar Photovoltaic (PV) sites placed into operation in 2012.

Specifically, on page 2 of Advice 4087-E:

1) The first year annual revenue requirement for the Cantua PV site is corrected from $18.330 million to $18.300 million.
2) The first year annual revenue requirement for the Huron PV site is corrected from $18.330 million to $18.300 million.
3) The total first year annual revenue requirement from all three PV sites is corrected from $45.810 million to $45.750 million.

Below, PG&E provides an updated chart of PV sites placed into operation in 2012 as well as the corresponding operative dates and annual revenue requirements for Years 1 through 2 by site:

	Operative		**(Amounts in millions)**	
PV Site	**Date**	**MWs**	**Year 1**	**Year 2**
Cantua	6/26/2012	20	$18.300	$15.500
Huron	6/28/2012	20	18.300	15.500
Giffen	7/02/2012	10	9.150	7.750
Total			**$45.750**	**$38.750**
$ Per MW			**$915**	**$775**

No correction has been made to Attachment 1 of Advice 4087-E because the Cantu and Huron first year annual revenue amounts are properly reflected as $18.300 million.

A corrected page 2 of Advice 4087-E is attached to this supplemental filing. Please disregard page 2 of the previously submitted Advice 4087-E.

Protests

Given the limited scope of this supplemental filing (i.e. correct typographical error), PG&E believes that pursuant to Section 7.5.1 of General Order 96-B, the protest period should not be re-opened.

Effective Date

PG&E requests that this Tier 1 supplemental advice, upon Energy Division approval, become effective concurrent with the requested effective date for Advice 4087-E filing, which is **June 26, 2012**.

Notice

In accordance with General Order 96-B, Section IV, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list and the service list for A. 09-02-019. Address changes to the General Order 96-B service list and all electronic approvals should be directed to PGETariffs@pge.com. For changes to any other service list, please contact the Commission's Process Office at (415) 703-2021 or at Process_Office@cpuc.ca.gov. Advice letter filings can also be accessed electronically at http://www.pge.com/tariffs/.

Brian Cherry /IG

Vice President – Regulatory Relations

cc: Service List A. 09-02-019

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY
ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **Pacific Gas and Electric Company (ID U39 E)**

Utility type:	Contact Person: Igor Grinberg
☑ ELC ☐ GAS	Phone #: (415) 973-8580
☐ PLC ☐ HEAT ☐ WATER	E-mail: ixg8@pge.com

EXPLANATION OF UTILITY TYPE			(Date Filed/ Received Stamp by CPUC)
ELC = Electric	GAS = Gas		
PLC = Pipeline	HEAT = Heat	WATER = Water	

Advice Letter (AL) #: **4087-E-A** **Tier: 1**

Subject of AL: **Supplemental: Implementation of PG&E's 2012 through 2013 Revenue Requirement Adjustments for the Photovoltaic Program**

Keywords (choose from CPUC listing): Compliance, Agreements, Balancing Account

AL filing type: ☐ Monthly ☐ Quarterly ☐ Annual ☑One-Time ☐ Other ______________________________

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: D.10-04-052

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: No

Summarize differences between the AL and the prior withdrawn or rejected AL: ____________________

Is AL requesting confidential treatment? If so, what information is the utility seeking confidential treatment for:

Confidential information will be made available to those who have executed a nondisclosure agreement: ☐ Yes ☐ No

Name(s) and contact information of the person(s) who will provide the nondisclosure agreement and access to the confidential information: ____

Resolution Required? ☐Yes ☑No

Requested effective date: **June 26, 2012 (Concurrent with Advice 4087-E)** No. of tariff sheets: N/A

Estimated system annual revenue effect (%): N/A

Estimated system average rate effect (%): N/A

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: N/A

Service affected and changes proposed: N/A

Pending advice letters that revise the same tariff sheets: N/A

Protests, dispositions, and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division
Tariff Files, Room 4005
DMS Branch
505 Van Ness Ave.,
San Francisco, CA 94102
E-mail: EDTariffUnit@cpuc.ca.gov

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PG&E Gas and Electric
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General Order 96-B, Section IV

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