

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Tel. No. (415) 703-1691



March 18, 2004

Advice Letter 2515-G/A/B

Ms Anita Smith, Rate Analyst
Pacific Gas and Electric Company
77 Beale Street, Mail Code 10B
San Francisco, CA 94177

Subject: February 1, 2004 noncore tariff revisions and rate changes to eliminate El Paso capacity charge, add Schedule G-COG

Dear Ms Smith:

Advice Letter 2515-G/A/B is effective February 1, 2004. A copy of the advice letter is returned herewith for your records.

Sincerely,

A handwritten signature in cursive script that reads "Paul Clanon".

Paul Clanon, Director
Energy Division



February 11, 2004

Advice 2515-G-B
(Pacific Gas and Electric Company ID U39G)

**Subject: Revisions to Gas Preliminary Statement – Gas Supply Portfolio
and Core Procurement Incentive Mechanism
(Decision 04-01-047)**

Public Utilities Commission of the State of California

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

Purpose

This supplemental filing revises the description in gas Preliminary Statement Part C—*Gas Accounting Terms and Definitions*, for the Gas Supply Portfolio and Core Procurement Incentive Mechanism (CPIM) in accordance with the Stipulation and Agreement entered into by PG&E and the Commission's Office of Ratepayer Advocates (ORA) and adopted by the Commission in the El Paso Turned Back Capacity Decision (D.) 04-01-047. In accordance with the adopted Stipulation and Agreement, the modifications to the CPIM adopted in D. 04-01-047 are effective for the CPIM year starting November 1, 2002.

Background

D. 04-01-047 adopted a Stipulation and Agreement between PG&E and ORA that modifies the CPIM effective with the CPIM year starting November 1, 2002. Modifications include: 1) all costs for existing interstate transportation and storage (including Transwestern) will be included in the CPIM; 2) the annual PG&E shareholder award is capped at the lower of 1.5 percent of total annual gas commodity costs or a "hard cap" limiting the total annual shareholder award to \$25 million; and 3) PG&E is allowed to engage in sales of natural gas within California, consistent with its ability to sell gas outside of the state or at the California border.¹

¹ This last provision was outlined in Advice 2441-G filed January 28, 2003. In accordance with the Stipulation, ORA withdrew its protest of Advice 2441-G on December 19, 2003. PG&E withdrew Advice 2441-G on February 11, 2004. D. 04-01-047 also adopted a Stipulation and Agreement between PG&E and TURN whereby all Transwestern costs will be fully recovered from core customers beginning July 1, 2003.

Karen A. Tomcala
Vice President
Regulatory Relations

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San Francisco, CA 94105

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Tariff Revisions

The Gas Supply Portfolio description in Gas Preliminary Statement Part C.7 is revised in accordance with the Stipulation and Agreement adopted in D. 04-01-047 to remove reference to "out of state" sales in accordance with the provision that gas sales to the wholesale market within California are now included in the gas supply portfolio. This revision is consolidated with the revision to the same section (Sheet 22207-G) that was filed in Advice 2515-G to remove reference to Transwestern Pipeline Company from the Gas Supply Portfolio in accordance with D. 04-01-047. Sheet 22258-G supersedes and replaces Sheet 22207-G filed in 2515-G.

The CPIM description in Gas Preliminary Statement Part C.13 is revised in accordance with D. 04-01-047, and obsolete language is deleted.

Effective Date

PG&E requests approval of this supplemental compliance filing effective **February 1, 2004**. In accordance with D. 04-01-047, these changes are effective for the CPIM year beginning November 1, 2002.

Protests

Anyone wishing to protest this filing may do so by sending a letter by **March 2, 2004**, which is 20 days from the date of this filing. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. Protests should be mailed to:

IMC Branch Chief – Energy Division
California Public Utilities Commission
505 Van Ness Avenue, 4th Floor
San Francisco, California 94102

Facsimile: (415) 703-2200
E-mail: jjr@cpuc.ca.gov

Protests also should be sent by e-mail and facsimile to Mr. Jerry Royer, Energy Division, as shown above, and by U.S. mail to Mr. Royer at the above address.

The protest should be sent via both e-mail and facsimile to PG&E on the same date it is mailed or delivered to the Commission at the address shown below.



Pacific Gas and Electric Company
Attention: Brian Cherry
Director, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, California 94177

Facsimile: (415) 973-7226
E-mail: RxDd@pge.com

Notice

In accordance with General Order 96-A, Section III, Paragraph G, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list, and the parties on the service list for R. 02-06-041. Address changes should be directed to Sandra Ciach at (415) 973-7572. Advice letter filings can also be accessed electronically at: <http://www.pge.com/tariffs>

Vice President - Regulatory Relations

Attachments

cc: Service List – R. 02-06-041

**ATTACHMENT I
ADVICE 2515-G-B**

| <u>Cal. P.U.C. Sheet No.</u> | <u>Title of Sheet</u> | <u>Canceling Cal P.U.C. Sheet No.</u> |
|----------------------------------|--|---|
| 22258-G | Preliminary Statement Part C—Gas Accounting Terms and Definitions | 21698-G |
| 22259-G | Preliminary Statement Part C (Cont'd.) | 18314, 21976-G |
| 22260-G | Preliminary Statement Part C (Cont'd.) | 18315, 18316-G |
| 22261-G | Table of Contents – Preliminary Statements | 22244-G |
| 22262-G | Table of Contents | 22246-G |



PRELIMINARY STATEMENT

(Continued)

C. GAS ACCOUNTING TERMS AND DEFINITIONS (Cont'd.)

- 6. FRANCHISE FEES AND UNCOLLECTIBLE ACCOUNTS EXPENSE (F&U): F&U refers to that portion of rates designed to recover PG&E's authorized expenses for both the use of public rights-of-way (franchise fees) and bad debts (uncollectible accounts expense). Rates for retail customers include a component for F&U, as determined in PG&E's 1999 General Rate Case, Decisions 00-02-046 and 01-10-031. Rates for wholesale customers include a component for the franchise fees only, per Decision 87-12-039. Rates for UEG and cogeneration include uncollectibles expense and a reduced component for franchise fees. Since UEG is exempt from franchise fees, the franchise fee rate for UEG and cogeneration is reduced to account for the UEG franchise fee exemption while maintaining UEG/cogeneration parity in accordance with Public Utility Code 454.4.

The F&U factor is equal to.....1.01771

- 7. GAS SUPPLY PORTFOLIO: This portfolio includes the cost of gas procured by PG&E for its Core Portfolio (Core Procurement) customers. Gas Supply Portfolio costs are recovered through the Procurement Revenue Requirement described in Section C.10.d.

Costs incurred for the portfolio include the cost of volumetric transportation, incremental pipeline capacity costs, imbalance transactions, hub services, incremental storage services, voluntary diversions, and emergency flow order (EFO) and operational flow order (OFO) charges. These costs may be offset by revenue or gains from risk management tools such as derivative financial instruments (net of transaction costs), and other gas sales. Other transactions such as net revenue from imbalance transactions and byproducts extraction and expenses/losses from risk management tools are included in the portfolio.

(T)

(D)

The net cost of the "flowing supply" is the result of the transactions listed above. This portfolio also includes gas withdrawn from storage and excludes gas injected into storage for Core Procurement customers using the core storage reservation.

(Continued)



PRELIMINARY STATEMENT
(Continued)

C. GAS ACCOUNTING TERMS AND DEFINITIONS (Cont'd.)

12. PIPELINE DEMAND CHARGE CREDITS: When PG&E brokers interstate capacity it will receive conditional credits from interstate pipelines from other parties who have acquired PG&E's brokered capacity. These credits may include other items such as reversed credits previously given to PG&E and late charges assessed per the interstate's FERC-approved tariffs. (L)

13. CORE PROCUREMENT INCENTIVE MECHANISM: The Core Procurement Incentive Mechanism (CPIM) is designed to replace traditional reasonableness reviews for Gas Procurement Costs as defined in C.10, above. PG&E will report its procurement activities monthly to the CPUC's Energy Division and Office of Ratepayer Advocates (ORA) and will file an annual report outlining cost savings, reward or penalties under the CPIM. Incentive rewards and penalties are calculated annually and, upon Commission approval, will be recorded in the Core Subaccount of the Purchased Gas Account (PGA). (T)

Decision 97-08-055 adopted a CPIM mechanism for Post-1997 performance as filed in Application 96-08-043, and as affirmed in D.03-12-061, and as modified by D.04-01-047. The modifications adopted in Decision 04-01-047 are effective for the CPIM year starting November 1, 2002. The CPIM will continue until either ORA or PG&E proposes modifications and those modifications are approved by the CPUC. (T)

The CPIM provides PG&E with a direct financial incentive to procure core gas and transportation services at the lowest reasonable cost by calculating rewards or penalties through comparing actual procurement costs to an aggregate market-based benchmark. (T)

The CPIM establishes both a standard benchmark, which applies to purchasing activities occurring under most operating and temperature conditions, and an alternate benchmark which applies only under extraordinary circumstances requiring economic and/or physical diversions of supplies and transportation resources held by other shippers on the interstate and intrastate transmission system. (D)

The CPIM standard benchmark is made up of three components: (1) the fixed transportation cost component, which includes both interstate and intrastate capacity reservation costs; (2) the variable cost component, which covers commodity costs and volumetric transportation costs; and (3) a storage cost component. (T)

The commodity and capacity benchmark components are calculated daily. At the end of each 12-month period, the daily benchmark components are added together to form a single annual benchmark budget. Actual incurred costs are compared to the benchmark. If actual gas commodity and capacity costs fall within a range (tolerance band) around the benchmark, costs are deemed reasonable, and are fully recoverable from ratepayers. If actual costs fall below the tolerance band, the savings (the difference between the lower limit of the tolerance band and actual recorded costs) are shared between ratepayers and shareholders according to the following procedure: (T)

a) 75 percent to ratepayers and 25 percent to shareholders. (N)

b) In addition, annual PG&E shareholder awards are capped at the lower of 1.5 percent of the total annual gas commodity costs, or \$25 million. (T)

Ratepayers and shareholders share equally any costs in excess of the upper limit of the tolerance band. (N)

(Continued)



PRELIMINARY STATEMENT
(Continued)

C. GAS ACCOUNTING TERMS AND DEFINITIONS (Cont'd.)

(D)

13. CORE PROCUREMENT INCENTIVE MECHANISM: (Cont'd.)

An alternate benchmark can be invoked by PG&E under certain extraordinary circumstances requiring economic and/or mandatory diversions of gas and transmission resources held by other shippers. All voluntary and involuntary diversion costs are compared to the highest value of the daily PG&E Citygate index range. There is no tolerance band for the alternate benchmark, and actual costs savings or overruns, relative to the benchmark, are shared 95 percent by ratepayers and 5 percent by shareholders.

(T)

(D)



TABLE OF CONTENTS
(Continued)

PRELIMINARY STATEMENTS

| SCHEDULE | TITLE OF SHEET | CAL P.U.C. SHEET NO. |
|----------|--|---|
| Part A | Description of Service Area & General Requirements..... | 14615 to 14623, 18797-G |
| Part B | Default Tariff Rate Components | 22221, 22222, 22223, 22224, 22225, 22226, 22227, 22228, 20889, 22015, 22016, 22017, 22018, 22019, 22020, 22021, 22022, 22023, 22024-G |
| Part C | Gas Accounting Terms and Definitions | 22025, 22026, 22027, 22258, 22028, 20845, 22029, 20443, 20027, 22030, 22259, 22260-G (T) |
| Part D | Purchased Gas Account | 20847, 20445, 20848-G |
| Part E | Not Being Used | |
| Part F | Core Fixed Cost Account | 20849, 20850-G |
| Part G | Not Being Used | |
| Part H | Not Being Used | |
| Part I | Noncore Brokerage Fee Balancing Account..... | 18061-G |
| Part J | Noncore Customer Class Charge Account | 20851, 20852, 20853-G |
| Part K | Enhanced Oil Recovery Account | 17360-G |
| Part L | Balancing Charge Account | 22031, 22032-G |
| Part M | Core Subscription Phase-Out Account | 18456-G |
| Part N | Not Being Used | |
| Part O | CPUC Reimbursement Fee | 22033-G |
| Part P | Income Tax Component of Contributions Provision..... | 21054, 13501-G |
| Part Q | Affiliate Transfer Fees Account..... | 19459-G |
| Part R | Not Being Used | |
| Part S | Interest..... | 12773-G |
| Part T | Tax Reform Act of 1986 | 12775-G |
| Part U | Core Brokerage Fee Balancing Account | 18065-G |
| Part V | California Alternate Rates For Energy Account | 20794-G |
| Part W | Not Being Used | |
| Part X | Natural Gas Vehicle Balancing Account | 20952, 20953-G |
| Part Y | Customer Energy Efficiency Adjustment..... | 18551, 18552, 18553-G |
| Part Z | Energy Efficiency California Energy Commission Memorandum Account..... | 20797-G |
| Part AA | Not Being Used | |
| Part AB | Not Being Used | |
| Part AC | Catastrophic Event Memorandum Account | 14178, 14179-G |
| Part AD | Not Being Used | |
| Part AE | Core Pipeline Demand Charge Account..... | 21361, 20447, 21362-G |
| Part AF | Not Being Used | |
| Part AG | Core Firm Storage Account | 20031-G |
| Part AH | Air Quality Adjustment Clause | 14928 to 14930-G |
| Part AI | Applicant Installation Trench Inspection Deferred Account | 19533-G |
| Part AJ | Applicant Installation Trench Inspection Memorandum Account | 19534-G |
| Part AK | Low Income Energy Efficiency Memorandum Account..... | 21244-G |
| Part AL | Not Being Used | |
| Part AM | Not Being Used | |

(Continued)



TABLE OF CONTENTS

| | <u>CAL P.U.C. SHEET NO.</u> | |
|--------------------------------------|---------------------------------|-----|
| Title Page | 11271-G | |
| Table of Contents: | | |
| Rate Schedules | 22262,22245-G | (T) |
| Preliminary Statements | 22261,21381-G | (T) |
| Rules | 22090-G | |
| Maps, Contracts and Deviations | 20922-G | |
| Sample Forms | 21643,21753,21538,22089,21292-G | |

RATE SCHEDULES

RESIDENTIAL

| <u>SCHEDULE</u> | <u>TITLE OF SHEET</u> | <u>CAL P.U.C. SHEET NO.</u> |
|-----------------|---|---------------------------------|
| G-1 | Residential Service | 22229,18597-G |
| GM | Master-Metered Multifamily Service | 22230,21028,18599-G |
| GS | Multifamily Service | 22231,21030,18601-G |
| GT | Mobilehome Park Service | 22232,21032-G |
| G-10 | Service to Company Employees | 11318-G |
| GL-1 | Residential CARE Program Service | 22233,18603-G |
| GML | Master-Metered Multifamily CARE Program Service | 22234,21035,18605-G |
| GSL | Multifamily CARE Program Service | 22235,21037,18607-G |
| GTL | Mobilehome Park CARE Program Service | 22236, 22237,18608-G |
| G-MHPS | Master-Metered Mobilehome Park Safety Surcharge | 22034-G |

NONRESIDENTIAL

| | | |
|-------|---|---|
| G-NR1 | Gas Service to Small Commercial Customers | 22238,18980-G |
| G-NR2 | Gas Service to Large Commercial Customers | 22239,18981-G |
| G-CP | Gas Procurement Service to Core End-Use Customers | 22240-G |
| G-NT | Gas Transportation Service to Noncore End-Use Customers | 22035,22036,22037,22038-G |
| G-COG | Gas Transportation Service to Cogeneration Facilities | 22039,20857,18114,18985-G |
| G-EG | Gas Transportation Service to Electric Generation | 22040,22041-G |
| G-30 | Public Outdoor Lighting Service | 22241,17050-G |
| G-WSL | Gas Transportation Service to Wholesale/Resale Customers | 22043,22044,22045-G |
| G-BAL | Gas Balancing Service for Intrastate Transportation Customers | 22046, 21549,20034,22047,22048,20037,20038,20039,22049,22050,20042,20043,20044,22051-G |

**PGE Gas Advice Filing
List
General Order 96-A, Section III(G)**

ABAG Power Pool
Accent Energy
Aglet Consumer Alliance
Agnews Developmental Center
Ahmed, Ali
Alcantar & Elsesser
Applied Power Technologies
Arter & Hadden LLP
Avista Corp
Barkovich & Yap, Inc.
BART
Blue Ridge Gas
BP Energy Company
Braun & Associates
C & H Sugar Co.
CA Bldg Industry Association
CA Cotton Ginners & Growers Assoc.
CA League of Food Processors
CA Water Service Group
California Energy Commission
California Farm Bureau Federation
California Gas Acquisition Svcs
California ISO
Calpine
Calpine Corp
Calpine Gilroy Cogen
Cambridge Energy Research Assoc
Cameron McKenna
Cardinal Cogen
Chevron USA Production Co.
Childress, David A.
City of Glendale
City of Palo Alto
City of Redding
CLECA Law Office
Constellation New Energy
CPUC
Creative Technology
Cross Border Inc
Crossborder Inc
CSC Energy Services
Davis, Wright Tremaine LLP
Davis, Wright, Tremaine, LLP
Defense Fuel Support Center
Department of the Army
Department of Water & Power City
DGS Natural Gas Services
DMM Customer Services
Downey, Brand, Seymour & Rohwer
Duke Energy
Duke Energy North America
Duncan, Virgil E.
Dutcher, John
Dynegy Inc.
Ellison Schneider
Energy Law Group LLP
Enron Energy Services

Exelon Energy Ohio, Inc
Exeter Associates
Foster Farms
Foster, Wheeler, Martinez
Franciscan Mobilehome
Future Resources Associates, Inc
G. A. Krause & Assoc
GLJ Energy Publications
Goodin, MacBride, Squeri, Schlotz &
Grueineich Resource Advocates
Hanna & Morton
Heeg, Peggy A.
Hogan Manufacturing, Inc
House, Lon
Integrated Utility Consulting Group
International Power Technology
Interstate Gas Services, Inc.
J. R. Wood, Inc
JTM, Inc
Kaiser Cement Corp
Korea Elec Power Corp
Luce, Forward, Hamilton & Scripps
Marcus, David
Masonite Corporation
Matthew V. Brady & Associates
Maynor, Donald H.
McKenzie & Assoc
McKenzie & Associates
Meek, Daniel W.
Mirant California, LLC
Modesto Irrigation Dist
Morrison & Foerster
Morse Richard Weisenmiller & Assoc.
Navigant Consulting
New United Motor Mfg, Inc
Norris & Wong Associates
Northern California Power Agency
Office of Energy Assessments
Palo Alto Muni Utilities
PG&E National Energy Group
Pinnacle CNG Company
PITCO
Plurimi, Inc.
PPL EnergyPlus, LLC
Price, Roy
Product Development Dept
Provost Pritchard
R. M. Hairston & Company
R. W. Beck & Associates
Recon Research
Regional Cogeneration Service
RMC Lonestar
Sacramento Municipal Utility District
SCD Energy Solutions
Seattle City Light
Sempra
Sempra Energy

Sequoia Union HS Dist
SESCO
Sierra Pacific Power Company
Silicon Valley Power
Simpson Paper Company
Smurfit Stone Container Corp
Southern California Edison
SPURR
St. Paul Assoc
Stanford University
Sutherland, Asbill & Brennan
Tabors Caramanis & Associates
Tansev and Associates
Tecogen, Inc
TFS Energy
TJ Cross Engineers
Transwestern Pipeline Co
U S Borax, Inc
United Cogen Inc.
URM Groups
Utility Cost Management LLC
Utility Resource Network
Wellhead Electric Company
Western Hub Properties, LLC
White & Case
WMA