

STATE OF CALIFORNIA

ARNOLD SCHWARZENEGGER, Governor

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298

Tel. No. (415) 703-1691



April 19, 2006

Advice Letter 2712-G

Ms Rose de la Torre  
Pacific Gas and Electric Company  
77 Beale Street, Room 1088  
Mail Code B10C  
San Francisco, CA 94105

|                           |                 |
|---------------------------|-----------------|
| <b>REGULATORY MATTERS</b> |                 |
| M Brown                   | Tariffs Section |
| R De la Torre             | Poster          |
| B Lam                     | Barriaya        |
| APR 25 2006               |                 |
| Return to _____           | Record _____    |
| File _____                |                 |

Subject: Year 10 Core Procurement Incentive Mechanism Award

Dear Ms de la Torre:

Advice Letter 2712-G is effective April 5, 2006. A copy of the advice letter is sent herewith for your records.

Sincerely,

Sean H. Gallagher  
Director  
Energy Division



**Brian K. Cherry**  
Director  
Regulatory Relations

77 Beale Street, Room 1087  
San Francisco, CA 94105

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Mail Code B10C  
Pacific Gas and Electric Company  
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March 6, 2006

**ADVICE 2712-G**

(Pacific Gas and Electric Company ID U 39 G)

Public Utilities Commission of the State of California

**Subject: Year 10 Core Procurement Incentive Mechanism Award**

**Purpose**

Pacific Gas & Electric Company (PG&E) hereby requests California Public Utilities Commission (Commission or CPUC) approval of a shareholder award of \$6,385,791, which corresponds to the Division of Ratepayer Advocates' (DRA's)<sup>1</sup> calculation of PG&E's portion of the shared savings achieved through the Core Procurement Incentive Mechanism (CPIM) Year 10, for the period of November 1, 2002, through October 31, 2003.

**Background**

PG&E's Year 10 CPIM Performance Report (CPIM Report) was submitted to the Commission's Energy Division and DRA on April 15, 2004, and distributed to the Commission and all parties on the Gas Accord II Service List.<sup>2</sup> DRA performed an audit of PG&E's CPIM performance results and, on November 22, 2005, issued its Monitoring and Evaluation Report (Monitoring Report)<sup>3</sup> supporting PG&E's calculations, with the exception of PG&E's calculation of an El Paso Natural Gas Pipeline (El Paso) discounted capacity contract, as explained below. No other party commented on PG&E's Year 10 CPIM Report.

In its annual CPIM Report, PG&E described its Commission-ordered acquisition of El Paso capacity in compliance with Decision (D.) 02-07-037. The CPIM was modified to accommodate this increase in interstate capacity. Those and other

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<sup>1</sup> The Office of Ratepayer Advocates changed its name to the Division of Ratepayer Advocates, effective January 1, 2006.

<sup>2</sup> Application 01-10-011

<sup>3</sup> DRA Monitoring and Evaluation Report, November 1, 2002 through October 31, 2003 on Pacific Gas and Electric's Company's Core Procurement Incentive Mechanism (CPIM Year 10), Performance Results, Application 96-08-043.

modifications to PG&E's core portfolio cost recovery mechanisms were adopted by the Commission in D. 04-01-047, and are provided in PG&E's CPIM report.

In acquiring the El Paso capacity, PG&E achieved a significant discount compared to El Paso's maximum firm reservation tariff rate for capacity to California.<sup>4</sup> DRA acknowledged the discount in its Monitoring Report. However, DRA disagrees with PG&E's method of attributing a portion of the savings derived by PG&E's hard fought negotiation with El Paso to PG&E's shareholders, in a manner consistent with CPIM treatment of gas commodity purchases discounted to published indices. DRA asserts that PG&E's method of calculating the capacity benchmark costs associated with the discounted El Paso contract is unauthorized and serves to increase PG&E's shareholder award. DRA's preference is to reduce the capacity benchmark costs by an amount equal to the El Paso discount, thereby lowering both the total benchmark and PG&E's shareholder award. Accordingly, DRA recalculated PG&E's Year 10 CPIM results and reduced the PG&E calculated shareholder award from \$7,545,802 down to \$6,385,791. DRA recommends that the Commission authorize \$6,385,791 as PG&E's CPIM shareholder award for CPIM Year 10.

In accordance with DRA's CPIM Year 10 Monitoring Report, and shown again below, PG&E's annual gas costs for the period were \$1,524,349,558. As measured against the annual CPIM benchmark, PG&E's gas costs were \$39,277,158 below the benchmark, and were \$25,543,162 below the lower limit of the tolerance band. PG&E's costs and performance results were verified by DRA's audit and confirmed in its Monitoring Report.

### **DRA's Adjusted CPIM Performance (from DRA's Table 2-1, page 2-3)**

| CPIM Year 10 (November 2002 – October 2003) Total Commodity, Transportation and Storage Costs |                 |   |                      |                        |                             |                            |
|---|-----------------|---|----------------------|------------------------|-----------------------------|----------------------------|
| Zone of Reasonableness  |                 |   | Actual Costs         |                        |                             |                            |
| Upper Tolerance Limit<br>(Benchmark + 2.0% Commodity Benchmark)                               | Total Benchmark | Lower Tolerance Limit<br>(Benchmark - 1.0% Commodity Benchmark) | Total Costs Incurred | Amount Under Benchmark | Amount Under Tolerance Band | Accrued Share-holder Award |
| \$1,591,094,708   | \$1,563,626,716 | \$1,549,892,720   | \$1,524,349,558      | \$39,277,158           | \$25,543,162                | \$6,385,791                |

Therefore, all gas costs are reasonable and are recoverable from PG&E gas customers as specified by the CPIM<sup>5</sup>, Chapter 2, Part III, Incentive Rewards and

<sup>4</sup> PG&E acquired approximately one-third of its El Paso capacity at 56 percent of the turned back rate, and acquired the remainder of capacity at maximum tariff rate per the turn back process, but with other value-added benefits, including an associated favorable gas supply arrangement at discounted commodity prices (PG&E's Annual CPIM Compliance Report, April 15, 2004, page 13).

<sup>5</sup> PG&E's Gas Accord Application 96-08-043, Supplemental Report Describing the Post-1997 Core Procurement Incentive Mechanism (CPIM), October 18, 1996.

Penalties, and by PG&E's Commission-approved tariffs (see Gas Preliminary Statement Part C.14).

### **Year 10 CPIM Results**

Although PG&E disagrees with DRA's characterization of the capacity benchmark for reservation charges under CPIM, PG&E reluctantly accepts DRA's reduced shareholder award recommendation without prejudice, but not without comment. PG&E believes that strong, consistent incentives for the entire gas procurement function, including the acquisition of capacity, lead to improved utility performance. In contrast, DRA would prefer to apply incentive treatment on commodity purchases, but not on the acquisition of pipeline transportation. DRA's partial approach is incomplete and inconsistent with the spirit of incentive regulation, which is to share the benefits of all informed, rational decisions which yield positive results. Furthermore, DRA's approach provides no incentive for utilities to bargain hard for discounts on pipeline capacity. PG&E elaborates on this and other issues raised by DRA in its Monitoring Report, in a separate letter to DRA and the Commission staff.<sup>6</sup> PG&E expects to continue to engage in discussions with DRA to further clarify the goals of the CPIM.

### **PG&E's Request**

PG&E requests Commission approval for PG&E's shareholder award equal to 25 percent of the savings below the lower limit of the tolerance band as prescribed by the incentive formula in the CPIM, Part III, b, Sharing Outside the Tolerance Band, as modified by the ORA – PG&E Stipulation, adopted by D. 04-01-047. In accordance with that formula, PG&E's award is \$6,385,791. PG&E's gas customers realized their share of savings in the form of lower gas procurement costs. Upon Commission approval of this filing, PG&E will record the incentive award in the core subaccount of the Purchased Gas Account.

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

### **Effective Date**

PG&E requests that this filing be approved on regular notice, **April 5, 2006**, which is thirty (30) days after the date of this filing.

### **Protests**

Anyone wishing to protest this filing may do so by sending a letter by **March 27, 2006**, which is 21 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

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<sup>6</sup> Filed concurrently with this Advice Letter.

impact, and should be submitted expeditiously. Protests should be mailed to:

CPUC Energy Division  
Attention: Tariff Unit, 4<sup>th</sup> Floor  
505 Van Ness Avenue,  
San Francisco, California 94102

Facsimile: (415) 703-2200  
E-mail: [jjr@cpuc.ca.gov](mailto:jjr@cpuc.ca.gov) and [jnj@cpuc.ca.gov](mailto:jnj@cpuc.ca.gov)

Copies of protests should also be mailed to the attention of the Director, Energy Division, Room 4004, at the address shown above.

The protest should also be sent via U.S. mail (and facsimile and electronically, if possible) to PG&E at the address shown below on the same date it is mailed or delivered to the Commission:

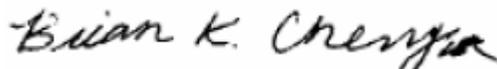
Pacific Gas and Electric Company  
Attention: Brian Cherry  
Director, Regulatory Relations  
77 Beale Street, Mail Code B10C  
P.O. Box 770000  
San Francisco, California 94177

Facsimile: (415) 973-7226  
E-mail: [PGETariffs@pge.com](mailto:PGETariffs@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. A copy of this request has been served on parties to the Service List in the Gas Accord II Application (A.) 01-10-011. Address changes should be directed to Rose de la Torre at (415) 973-4716. Advice letter filings can also be accessed electronically at:

<http://www.pge.com/tariffs/>



Director, Regulatory Relations

cc: Angela K. Minkin, Chief Administrative Law Judge  
Sean Gallagher, Director, Energy Division  
Richard Meyers, Energy Division  
Wendy Phelps, Energy Division  
Mark Pocta, Division of Ratepayer Advocates  
Ramesh Ramchandani, Division of Ratepayer Advocates  
Jacqueline Greig, Division of Ratepayer Advocates  
Tom Daub, Division of Ratepayer Advocates  
William A. Scott, Division of Ratepayer Advocates  
Gas Accord II Service List – A.01-10-011

# 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 U39M

Utility type:

ELC

GAS

PLC

HEAT

WATER

Contact Person: Shilpa Ramaiya

Phone #: (415) 973-3186

E-mail: srrd@pge.com

### EXPLANATION OF UTILITY TYPE

ELC = Electric

GAS = Gas

PLC = Pipeline

HEAT = Heat

WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: **2712-G**

Subject of AL: Year 10 Core Procurement Incentive Mechanism Award

Keywords (choose from CPUC listing): Core Procurement, PBR

AL filing type:  Monthly  Quarterly  Annual  One-Time  Other \_\_\_\_\_

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution:

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL \_\_\_\_\_

Summarize differences between the AL and the prior withdrawn or rejected AL<sup>1</sup>: \_\_\_\_\_

Resolution Required?  Yes  No

Requested effective date: **4-5-2006**

No. of tariff sheets: 0

Estimated system annual revenue effect: (%): Unknown

Estimated system average rate effect (%): Unknown

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<sup>1</sup>: See advice letter

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

**Protests 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**

**Attention: Tariff Unit**

**505 Van Ness Ave.,**

**San Francisco, CA 94102**

**[jjr@cpuc.ca.gov](mailto:jjr@cpuc.ca.gov) and [jnj@cpuc.ca.gov](mailto:jnj@cpuc.ca.gov)**

**Utility Info (including e-mail)**

**Attn: Brian K. Cherry**

**Director, Regulatory Relations**

**77 Beale Street, Mail Code B10C**

**P.O. Box 770000**

**San Francisco, CA 94177**

**E-mail: [PGETariffs@pge.com](mailto:PGETariffs@pge.com)**

<sup>1</sup> Discuss in AL if more space is needed.

**PG&E Gas and Electric 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  
Anderson Donovan & Poole P.C.  
Applied Power Technologies  
APS Energy Services Co Inc  
Arter & Hadden LLP  
Avista Corp  
Barkovich & Yap, Inc.  
BART  
Bartle Wells Associates  
Blue Ridge Gas  
Bohannon Development Co  
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  
Cellnet Data Systems  
Chevron Texaco  
Chevron USA Production Co.  
Childress, David A.  
City of Glendale  
City of Healdsburg  
City of Palo Alto  
City of Redding  
CLECA Law Office  
Commerce Energy  
Constellation New Energy  
CPUC  
Cross Border Inc  
Crossborder Inc  
CSC Energy Services  
Davis, Wright, Tremaine LLP  
Defense Fuel Support Center  
Department of the Army  
Department of Water & Power City  
DGS Natural Gas Services  
Douglass & Liddell  
Downey, Brand, Seymour & Rohwer  
Duke Energy  
Duke Energy North America  
Duncan, Virgil E.  
Dutcher, John  
Dynergy Inc.  
Ellison Schneider  
Energy Law Group LLP  
Energy Management Services, LLC  
Enron Energy Services  
Exelon Energy Ohio, Inc  
Exeter Associates  
Foster Farms  
Foster, Wheeler, Martinez  
Franciscan Mobilehome  
Future Resources Associates, Inc  
G. A. Krause & Assoc  
Gas Transmission Northwest Corporation  
GLJ Energy Publications  
Goodin, MacBride, Squeri, Schlotz &  
Hanna & Morton  
Heeg, Peggy A.  
Hitachi Global Storage Technologies  
Hogan Manufacturing, Inc  
House, Lon  
Imperial Irrigation District  
Integrated Utility Consulting Group  
International Power Technology  
Interstate Gas Services, Inc.  
IUCG/Sunshine Design LLC  
J. R. Wood, Inc  
JTM, Inc  
Kaiser Cement Corp  
Luce, Forward, Hamilton & Scripps  
Manatt, Phelps & Phillips  
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  
North Coast Solar Resources  
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  
Praxair, Inc.  
Price, Roy  
Product Development Dept  
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  
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  
Transcanada  
Turlock Irrigation District  
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