

STATE OF CALIFORNIA

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

ARNOLD SCHWARZENEGGER, Governor

Tel. No. (415) 703-1691



April 19, 2006

Advice Letter 2713-G

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

REGULATORY RELATIONS	
M Brown	Tariffs Section
R Dela Torre	
B Lam	
APR 25 2006	
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cc to _____	

Subject: Year 11 Core Procurement Incentive Mechanism Award

Dear Ms de la Torre:

Advice Letter 2713-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

Mailing Address
Mail Code B10C
Pacific Gas and Electric Company
P.O. Box 770000
San Francisco, CA 94177

415.973.4977
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March 6, 2006

ADVICE 2713-G

(Pacific Gas and Electric Company ID U 39 G)

Public Utilities Commission of the State of California

Subject: Year 11 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 \$679,877, which corresponds to the Division of Ratepayer Advocates' (DRA's)¹ calculation of PG&E's portion of the shared savings achieved through the Core Procurement Incentive Mechanism (CPIM) Year 11, during the period of November 1, 2003, through October 31, 2004.

Background

PG&E's Year 11 CPIM Performance Report (CPIM Report) was submitted to the Commission's Energy Division and the DRA on May 18, 2005, and distributed to the Commission and all parties on the Gas Accord II Service List.² DRA performed an audit of PG&E's CPIM performance results and, on February 1, 2006, issued its Monitoring and Evaluation Report (Monitoring Report)³ 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. No other party commented on PG&E's Year 11 CPIM Report.

As further explained in the PG&E's Advice 2712-G, DRA's preference, as noted through its Monitoring Report, 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 11

¹ The Office of Ratepayer Advocates has changed its name to the Division of Ratepayer Advocates, effective January 1, 2006.

² A.01-10-011.

³ DRA Monitoring and Evaluation Report, November 1, 2003 through October 31, 2004 on Pacific Gas and Electric's Company's Core Procurement Incentive Mechanism (CPIM Year 11), Performance Results, Application 96-08-043.

CPIM results and reduced the PG&E calculated shareholder award from \$1,480,805 down to \$679,877. DRA recommends that the Commission authorize \$679,877 as PG&E's CPIM shareholder award for CPIM Year 11.

In accordance with DRA's CPIM Year 11 Monitoring Report, and shown again below, PG&E's annual gas costs for the period were \$1,682,490,119. As measured against the annual CPIM benchmark, PG&E's gas costs were \$17,615,560 below the benchmark, and were \$2,719,509 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 11 (November 2003 – October 2004) Total Commodity, Transportation and Storage Costs						
Zone of Reasonableness			Actual Costs			
Upper Tolerance Limit (Benchmark + 2.0% Commodity Benchmark)	Total Benchmark	Lower Tolerance Limit (Benchmark - 1.0% Commodity Benchmark)	Total Costs Incurred	Amount Under Benchmark	Amount Under Tolerance Band	Accrued Shareholder Award
\$1,729,897,781	\$1,700,105,679	\$1,685,209,628	\$1,682,490,119	\$17,615,560	\$2,719,509	\$679,877

Therefore, all gas costs are reasonable and are recoverable from PG&E gas customers as specified by the CPIM⁴, Chapter 2, Part III, Incentive Rewards and Penalties, and by PG&E's Commission-approved tariffs (See Gas Preliminary Statement Part C.14.).

Year 11 CPIM Results

Although PG&E disagrees with DRA's characterization of the capacity benchmark for reservation charges under CPIM as further explained in PG&E's CPIM Year 10 Advice 2712-G, 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.

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

⁴ PG&E's Gas Accord Application 96-08-043, Supplemental Report Describing the Post-1997 Core Procurement Incentive Mechanism (CPIM), October 18, 1996.

accordance with that formula, PG&E's award is \$679,877. PG&E's gas customers realized their share of savings in the form of lower gas procurement costs. Upon Commission approval, 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 impact, and should be submitted expeditiously. Protests should be mailed to:

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

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

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/>

Brian K. Cheryla

Director, Regulatory Relations

cc: Angela 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) #: **2713-G**

Subject of AL: Year 11 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 AL¹: _____

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 proposed¹: 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 and 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

¹ 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	Douglass & Liddell	Palo Alto Muni Utilities
Accent Energy	Downey, Brand, Seymour & Rohwer	PG&E National Energy Group
Aglet Consumer Alliance	Duke Energy	Pinnacle CNG Company
Agnews Developmental Center	Duke Energy North America	PITCO
Ahmed, Ali	Duncan, Virgil E.	Plurimi, Inc.
Alcantar & Elsesser	Dutcher, John	PPL EnergyPlus, LLC
Anderson Donovan & Poole P.C.	Dynergy Inc.	Praxair, Inc.
Applied Power Technologies	Ellison Schneider	Price, Roy
APS Energy Services Co Inc	Energy Law Group LLP	Product Development Dept
Arter & Hadden LLP	Energy Management Services, LLC	R. M. Hairston & Company
Avista Corp	Enron Energy Services	R. W. Beck & Associates
Barkovich & Yap, Inc.	Exelon Energy Ohio, Inc	Recon Research
BART	Exeter Associates	Regional Cogeneration Service
Bartle Wells Associates	Foster Farms	RMC Lonestar
Blue Ridge Gas	Foster, Wheeler, Martinez	Sacramento Municipal Utility District
Bohannon Development Co	Franciscan Mobilehome	SCD Energy Solutions
BP Energy Company	Future Resources Associates, Inc	Seattle City Light
Braun & Associates	G. A. Krause & Assoc	Sempra
C & H Sugar Co.	Gas Transmission Northwest Corporation	Sempra Energy
CA Bldg Industry Association	GLJ Energy Publications	Sequoia Union HS Dist
CA Cotton Ginners & Growers Assoc.	Goodin, MacBride, Squeri, Schlotz &	SESCO
CA League of Food Processors	Hanna & Morton	Sierra Pacific Power Company
CA Water Service Group	Heeg, Peggy A.	Silicon Valley Power
California Energy Commission	Hitachi Global Storage Technologies	Smurfit Stone Container Corp
California Farm Bureau Federation	Hogan Manufacturing, Inc	Southern California Edison
California Gas Acquisition Svcs	House, Lon	SPURR
California ISO	Imperial Irrigation District	St. Paul Assoc
Calpine	Integrated Utility Consulting Group	Stanford University
Calpine Corp	International Power Technology	Sutherland, Asbill & Brennan
Calpine Gilroy Cogen	Interstate Gas Services, Inc.	Tabors Caramanis & Associates
Cambridge Energy Research Assoc	IUCG/Sunshine Design LLC	Tansev and Associates
Cameron McKenna	J. R. Wood, Inc	Tecogen, Inc
Cardinal Cogen	JTM, Inc	TFS Energy
Cellnet Data Systems	Kaiser Cement Corp	Transcanada
Chevron Texaco	Luce, Forward, Hamilton & Scripps	Turlock Irrigation District
Chevron USA Production Co.	Manatt, Phelps & Phillips	U S Borax, Inc
Childress, David A.	Marcus, David	United Cogen Inc.
City of Glendale	Masonite Corporation	URM Groups
City of Healdsburg	Matthew V. Brady & Associates	Utility Cost Management LLC
City of Palo Alto	Maynor, Donald H.	Utility Resource Network
City of Redding	McKenzie & Assoc	Wellhead Electric Company
CLECA Law Office	McKenzie & Associates	Western Hub Properties, LLC
Commerce Energy	Meek, Daniel W.	White & Case
Constellation New Energy	Mirant California, LLC	WMA
CPUC	Modesto Irrigation Dist	
Cross Border Inc	Morrison & Foerster	
Crossborder Inc	Morse Richard Weisenmiller & Assoc.	
CSC Energy Services	Navigant Consulting	
Davis, Wright, Tremaine LLP	New United Motor Mfg, Inc	
Defense Fuel Support Center	Norris & Wong Associates	
Department of the Army	North Coast Solar Resources	
Department of Water & Power City	Northern California Power Agency	
DGS Natural Gas Services	Office of Energy Assessments	