STATE OF CALIFORNIA ARNOLD SCHWARZENEGGER, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

April 7, 2010

Advice Letter 3092-G

Jane K. Yura
Vice President, Regulation and Rates
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10B
P.O. Box 770000
San Francisco, CA 94177

Subject: Revision of Gas Preliminary Statement Part C

Dear Ms. Yura:

Advice Letter 3092-G is effective March 15, 2010.

Sincerely,

Julie A. Fitch, Director
Energy Division

Pacific Gas and Electric Company®

Brian K. Cherry
Vice President
Regulatory Relations

Pacific Gas and Electric Company
77 Beale St., Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177

415.973.4977
Fax: 415.973.7226

February 12, 2010

Advice 3092-G
(Pacific Gas and Electric Company ID U 39 G)

Public Utilities Commission of the State of California

Subject: **Revision of Gas Preliminary Statement Part C**

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

PG&E proposes to revise Preliminary Statement Part C, section 14, to reflect modifications to its Core Procurement Incentive Mechanism (CPIM), as adopted in Decision (D.) 10-01-023.

Background

In D. 97-08-055 (and subsequently affirmed in D. 03-12-061), the California Public Utilities Commission (Commission) approved the CPIM for PG&E. The CPIM provides PG&E a direct financial incentive to procure core gas and transportation services at the lowest reasonable cost by calculating rewards or penalties through a comparison of actual procurement costs to an aggregate market-based benchmark.

In D. 10-01-023, the CPUC approved a Settlement that modified the CPIM to include (1) 80 percent of the net realized gains or losses and associated transaction costs for PG&E's core gas winter hedging activities in the CPIM Commodity Benchmark and (2) 100 percent of the net gains or losses and associated transaction costs for PG&E's core gas winter hedging activities in the cost side of the CPIM. In addition, D.10-01-023 eliminated the $25 million cap on shareholder awards under the CPIM.

Tariff Revisions

Based on D.10-01-023, PG&E proposes the following tariff revisions to Preliminary Statement Part C, Section 14, as follows (revision in *italics*):

> 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. Modifications adopted in D. 04-01-047 are effective for the CPIM year starting November 1,

2002. Modifications adopted in D. 07-06-013 are effective for the CPIM year starting November 1, 2007. *Modifications adopted in D. 10-01-023 are effective for the CPIM year starting November 1, 2010.* The CPIM will continue indefinitely until modified or terminated by the CPUC. ~~No costs and payouts for CPUC authorized Core Gas Hedging Plans, pursuant to D.05-10-015 (effective October 6, 2005), D.06-08-027 (effective August 24, 2006), and D.07-06-013 (effective June 7, 2007), are included in the CPIM.~~

The CPIM standard benchmark is made up of three components: (1) the fixed transportation cost component, which includes interstate, backbone transmission system, and upstream Canadian capacity reservation costs; (2) the variable cost component, which covers commodity costs, *80 percent of winter hedging transaction premiums and settlement net gains and losses in the month of related gas flow*, and volumetric transportation costs; and (3) a storage cost component.

The ~~commodity and capacity~~ *CPIM* 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 customers. 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 customers and shareholders according to the following procedure:

a) 80 percent to customers and 20 percent to shareholders per D.07-06-013; and
b) ~~In addition,~~ *A*nnual PG&E shareholder awards are capped at ~~the lower of~~ 1.5 percent of the total annual gas commodity costs. ~~or \$25 million.~~

Protests

Anyone wishing to protest this filing may do so by letter sent via U.S. mail, by facsimile or electronically, any of which must be received no later than **March 4, 2010**, which is 20 days after the date of this filing. Protests should be mailed to:

CPUC Energy Division
Tariff Files, Room 4005
DMS Branch
505 Van Ness Avenue
San Francisco, California 94102

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

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

The protest also should be sent via U.S. mail (and by 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:

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

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

Effective Date

PG&E requests that this advice filing become effective on regular notice, **March 15, 2010**, which is 31 calendar days after the date of filing.

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. Address changes to the General Order 96-B service list and all electronic approvals should be sent to PGETariffs@pge.com. Advice letter filings can also be accessed electronically at: http://www.pge.com/tariffs.

Brian Cherry / Omt

Vice President, Regulatory Relations

Attachments

cc: Service List R.08-06-025

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 M)**

Utility type:	Contact Person: Linda Tom-Martinez
☑ ELC ☑ GAS	Phone #: (415) 973-4612
☐ PLC ☐ HEAT ☐ WATER	E-mail: lmt1@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) #: **3092-G** **Tier:** 2

Subject of AL: **Revision of Gas Preliminary Statement Part C**

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

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

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: D.10-01-023

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[1]: ____________________

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: **March 15, 2010** No. of tariff sheets: 3

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: Gas Preliminary Statement Part C

Service affected and changes proposed[1]: 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
jnj@cpuc.ca.gov and mas@cpuc.ca.gov

Pacific Gas and Electric Company
Attn: Brian K. Cherry
Vice President, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177
E-mail: PGETariffs@pge.com

ATTACHMENT 1
Advice 3092-G

Cal P.U.C. Sheet No.	Title of Sheet	Cancelling Cal P.U.C. Sheet No.
28063-G	GAS PRELIMINARY STATEMENT PART C GAS ACCOUNTING TERMS & DEFINITIONS Sheet 14	25093-G
28064-G	GAS TABLE OF CONTENTS Sheet 1	28050-G
28065-G	GAS TABLE OF CONTENTS Sheet 4	28045-G

GAS PRELIMINARY STATEMENT PART C
GAS ACCOUNTING TERMS & DEFINITIONS

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

14. 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 Division of Ratepayer Advocates (DRA) and will file an annual report outlining cost savings, rewards or penalties under the CPIM. Incentive rewards and penalties are calculated annually and, upon Commission approval, will be recorded in the Core Sales Subaccount of the Purchased Gas Account (PGA).

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. Modifications adopted in D.04-01-047 are effective for the CPIM year starting November 1, 2002. Modifications adopted in D.07-06-013 are effective for the CPIM year starting November 1, 2007. Modifications adopted in D.10-01-023 are effective for the CPIM year (T) starting November 1, 2010. The CPIM will continue indefinitely until modified or terminated by the CPUC. (T) (D)

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.

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.

The CPIM standard benchmark is made up of three components: (1) the fixed transportation cost component, which includes interstate, backbone transmission system, and upstream Canadian capacity reservation costs; (2) the variable cost component, which covers commodity costs, 80 percent of winter (T) hedging transaction premiums and settlement net gains and losses in the month of related gas flow, and (T) volumetric transportation costs; and (3) a storage cost component. (T)

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

a) 80 percent to customers and 20 percent to shareholders per D.07-06-013; and

b) Annual PG&E shareholder awards are capped at 1.5 percent of the total annual gas commodity (T) costs. (T)

Customers and shareholders share equally any costs in excess of the upper limit of the tolerance band.

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 customers and 5 percent by shareholders.

GAS TABLE OF CONTENTS

Sheet 1

(Continued)

GAS TABLE OF CONTENTS

Sheet 4

(Continued)

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

Aglet
Alcantar & Kahl
Ameresco
Anderson & Poole
Arizona Public Service Company
BART
BP Energy Company
Barkovich & Yap, Inc.
Bartle Wells Associates
Boston Properties
C & H Sugar Co.
CA Bldg Industry Association
CAISO
CLECA Law Office
CSC Energy Services
California Cotton Ginners & Growers Assn
California Energy Commission
California League of Food Processors
California Public Utilities Commission
Calpine
Cameron McKenna
Casner, Steve
Chamberlain, Eric
Chris, King
City of Glendale
City of Palo Alto
Clean Energy Fuels
Coast Economic Consulting
Commerce Energy
Commercial Energy
Consumer Federation of California
Crossborder Energy
Davis Wright Tremaine LLP
Day Carter Murphy
Defense Energy Support Center
Department of Water Resources
Department of the Army
Dept of General Services
Division of Business Advisory Services
Douglass & Liddell
Downey & Brand
Duke Energy
Dutcher, John
Economic Sciences Corporation
Ellison Schneider & Harris LLP
FPL Energy Project Management, Inc.
Foster Farms
G. A. Krause & Assoc.
GLJ Publications
Goodin, MacBride, Squeri, Schlotz & Ritchie
Green Power Institute
Hanna & Morton
International Power Technology
Intestate Gas Services, Inc.
Los Angeles Dept of Water & Power
Luce, Forward, Hamilton & Scripps LLP
MBMC, Inc.
MRW & Associates
Manatt Phelps Phillips
McKenzie & Associates
Merced Irrigation District
Mirant
Modesto Irrigation District
Morgan Stanley
Morrison & Foerster
New United Motor Mfg., Inc.
Norris & Wong Associates
North Coast SolarResources
Occidental Energy Marketing, Inc.
OnGrid Solar
Praxair
R. W. Beck & Associates
RCS, Inc.
Recon Research
SCD Energy Solutions
SCE
SMUD
SPURR
Santa Fe Jets
Seattle City Light
Sempra Utilities
Sierra Pacific Power Company
Silicon Valley Power
Silo Energy LLC
Southern California Edison Company
Sunshine Design
Sutherland, Asbill & Brennan
Tabors Caramanis & Associates
Tecogen, Inc.
Tiger Natural Gas, Inc.
Tioga Energy
TransCanada
Turlock Irrigation District
U S Borax, Inc.
United Cogen
Utility Cost Management
Utility Specialists
Verizon
Wellhead Electric Company
Western Manufactured Housing Communities Association (WMA)
eMeter Corporation