

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



June 12, 2012

Advice Letter 3297-G

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

**Subject: Core Procurement Incentive Mechanism Shareholder Award –
November 2008 to October 2009 (Year 16) and November 2009 to
October 2010 (Year 17)**

Dear Mr. Cherry:

Advice Letters 3297-G is effective June 3, 2012.

Sincerely,

A handwritten signature in cursive script that reads "Edward F. Randolph".

Edward F. Randolph, Director
Energy Division



Brian K. Cherry
Vice President
Regulation and Rates

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

Fax: 415.973.6520

May 4, 2012

Advice 3297-G

(Pacific Gas and Electric Company ID U 39 G)

Public Utilities Commission of the State of California

**Subject: Core Procurement Incentive Mechanism Shareholder Award –
November 2008 to October 2009 (Year 16) and November 2009 to
October 2010 (Year 17)**

Purpose

Pacific Gas and Electric Company (PG&E) hereby submits to the California Public Utilities Commission (Commission) its request for approval of two shareholder awards totaling \$8,918,618, achieved through its Core Procurement Incentive Mechanism (CPIM) for the period November 1, 2008 through October 31, 2009 (Year 16), and November 1, 2009 through October 31, 2010 (Year 17).

Background

The CPIM, which the Commission adopted in Decision (D.) 97-08-055, serves as a performance-based ratemaking mechanism for PG&E's core gas procurement portfolio. It compares PG&E's annual gas costs to an aggregate market-based benchmark, formed from a weighted average of published natural gas price indices at PG&E's purchase points, plus other costs such as pipeline transportation and storage. Total gas costs within a tolerance band, which is 99% to 102% of the commodity benchmark, are considered reasonable and are fully recovered in customers' rates. One-half of the costs above 102% of the benchmark are recoverable in customers' rates. PG&E's customers receive in their rates 80% of any savings resulting from PG&E's cost of natural gas that is less than 99% of the benchmark. The remaining gas cost savings (shareholder award) is retained by PG&E as incentive revenue.

PG&E's CPIM Year 16 and Year 17 Performance and Shareholder Awards

On March 5, 2010, PG&E submitted its Annual Performance Report for CPIM Year 16 to the Division of Ratepayer Advocates (DRA) and the Energy Division (confidential version) and parties to PG&E's Gas Transmission and Storage 2011 Rate Case (A.09-09-013) (non-confidential version). As measured against the market benchmark, PG&E's core gas procurement activities resulted in total savings over the November

2008 through October 2009 period of \$33.0 million.¹ As measured against the lower limit of the tolerance band (benchmark less 1.0% of commodity benchmark), total CPIM savings were \$23.1 million, resulting in a shareholder award of \$4.6 million.²

On March 16, 2011, PG&E submitted its Annual Performance Report for CPIM Year 17. As measured against the market benchmark, PG&E's core gas procurement activities resulted in total savings over the November 2009 through October 2010 period of \$33.6 million.³ As measured against the lower limit of the tolerance band, total CPIM savings were \$21.5 million, resulting in a shareholder award of \$4.3 million.⁴

Table 1 below illustrates PG&E's CPIM Year 16 and 17 core gas procurement costs compared to the benchmark.

Table I
CPIM Performance Summary
Years 16 and 17

CPIM Year	Total Commodity, Transportation and Storage Costs ⁵						
	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	Shareholder Award
Year 16	\$1,266,632,380	\$1,246,815,928	\$1,236,907,702	\$1,213,790,799	\$33,025,129	\$23,116,903	\$4,623,381
Year 17	\$1,504,892,048	\$1,480,687,740	\$1,468,585,586	\$1,447,109,402	\$33,578,338	\$21,476,184	\$4,295,237
Total							\$8,918,618

On April 30, 2012, DRA issued its Monitoring and Evaluation Report, which supported PG&E's CPIM calculations and its requested shareholder award for Years 16 and 17.⁶ No other parties commented on PG&E's CPIM Year 16 or 17 Reports. Therefore, PG&E's CPIM Year 16 and Year 17 core gas procurement costs are to be deemed

¹ See *Pacific Gas and Electric Company, Core Procurement Incentive Mechanism (CPIM), Application 96-08-043, November 1, 2008 through October 31, 2009, Annual CPIM Performance Report, CPIM Year 16* ("CPIM Report Year 16"), Table 1; and see also *Division of Ratepayer Advocates, Monitoring and Evaluation Report, November 1, 2008 through October 31, 2010, Pacific Gas and Electric Company's Core Procurement Incentive Mechanism Performance Results (CPIM Year 16 and 17)* ("DRA Monitoring and Evaluation Report"), Table 2-1.

² CPIM Report Year 16, Table 1 and DRA Monitoring and Evaluation Report, Table 2-1.

³ See *Pacific Gas and Electric Company, Core Procurement Incentive Mechanism (CPIM), Application 96-08-043, November 1, 2009 through October 31, 2010, CPIM Annual Performance Report, CPIM Year 17* ("CPIM Report Year 17"), Table 1; and see also DRA Monitoring and Evaluation Report, Table 3-1.

⁴ CPIM Report Year 17, Table 1 and DRA Monitoring and Evaluation Report, Table 3-1.

⁵ See DRA Monitoring and Evaluation Report, Table 2-1 (Year 16 amounts) and Table 3-1 (Year 17 amounts).

Because of immaterial rounding differences, PG&E's CPIM Report for Year 16 calculated a shareholder award of \$4,623,380, one dollar less than the award calculated by DRA. PG&E agrees to DRA's amount for purposes of recording its award.

⁶ DRA's Monitoring and Evaluation Report, Table 1-1.

reasonable and recoverable from PG&E gas customers as specified by the CPIM⁷ and by PG&E's gas tariffs.⁸ In addition, because PG&E's CPIM Year 16 and Year 17 core gas procurement costs fall below the lower limit of the CPIM tolerance band, PG&E is eligible to receive a shareholder award equal to 20 percent of the savings below the lower limit of the tolerance band (\$4,623,381 for Year 16 and \$4,295,237 for Year 17).

Upon approval of this advice letter, PG&E will record the shareholder incentive award of \$8,918,618 to the Core Sales Subaccount of the Purchased Gas Account (PGA).

Protests

Anyone wishing to protest this filing may do so by sending a letter to the address below by **May 24, 2012**, which is twenty (20) days from 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: EDTariffUnit@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:

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

Facsimile: (415) 973-6520
E-mail: PGETariffs@pge.com

⁷ PG&E's Gas Accord Application (A.) 96-08-043, Supplemental Report Describing the Post-1997 Core Procurement Incentive Mechanism (CPIM), Chapter 2, Part III, Incentive Rewards and Penalties, October 18, 1996.

⁸ Gas Preliminary Statement Part C, Gas Accounting Terms and Definitions, Section 14.

Effective Date

PG&E requests approval of this Tier 2 filing by the Commission by June 3, 2012, which is 30 days after the date of filing.

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

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.09-09-013. Address changes to the General Order 96-B service list should be directed to email 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. Send all electronic approvals to PGETariffs@pge.com. Advice letter filings can also be accessed electronically at <http://www.pge.com/tariffs>.



Vice President, Regulation and Rates

cc: Richard A. Myers - Energy Division
Franz Cheng - Energy Division
Belinda Gatti - Energy Division
Gregory Reisinger – Energy Division
Jonathon Bromson - Legal Division
R. Mark Pocta - Division of Ratepayer Advocates
David Peck - Division of Ratepayer Advocates
Nancy Gonzales – Division of Ratepayer Advocates
Pearlie Sabino - Division of Ratepayer Advocates
Marcel Hawiger - The Utility Reform Network
Service list for A.09-09-013

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 G)**

Utility type:

ELC GAS
 PLC HEAT WATER

Contact Person: Kimberly Chang

Phone #: (415) 973-5472

E-mail: kwcc@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) #: **3297-G**

Tier: **2**

Subject of AL: **Core Procurement Incentive Mechanism Shareholder Award – November 2008 to October 2009 (Year 16) and November 2009 to October 2010 (Year 17)**

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

AL filing type: Monthly Quarterly Annual One-Time Other _____

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: D. 97-08-055

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 3, 2012**

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

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

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

AT&T	Dept of General Services	North America Power Partners
Alcantar & Kahl LLP	Douglass & Liddell	North Coast SolarResources
Ameresco	Downey & Brand	Occidental Energy Marketing, Inc.
Anderson & Poole	Duke Energy	OnGrid Solar
BART	Economic Sciences Corporation	Praxair
Barkovich & Yap, Inc.	Ellison Schneider & Harris LLP	R. W. Beck & Associates
Bartle Wells Associates	Foster Farms	RCS, Inc.
Bloomberg	G. A. Krause & Assoc.	Recurrent Energy
Bloomberg New Energy Finance	GLJ Publications	SCD Energy Solutions
Boston Properties	GenOn Energy, Inc.	SCE
Braun Blaising McLaughlin, P.C.	Goodin, MacBride, Squeri, Schlotz & Ritchie	SMUD
Brookfield Renewable Power	Green Power Institute	SPURR
CA Bldg Industry Association	Hanna & Morton	San Francisco Public Utilities Commission
CLECA Law Office	Hitachi	Seattle City Light
CSC Energy Services	In House Energy	Sempra Utilities
California Cotton Ginners & Growers Assn	International Power Technology	Sierra Pacific Power Company
California Energy Commission	Intestate Gas Services, Inc.	Silicon Valley Power
California League of Food Processors	Lawrence Berkeley National Lab	Silo Energy LLC
California Public Utilities Commission	Los Angeles Dept of Water & Power	Southern California Edison Company
Calpine	Luce, Forward, Hamilton & Scripps LLP	Spark Energy, L.P.
Casner, Steve	MAC Lighting Consulting	Sun Light & Power
Center for Biological Diversity	MBMC, Inc.	Sunrun Inc.
Chris, King	MRW & Associates	Sunshine Design
City of Palo Alto	Manatt Phelps Phillips	Sutherland, Asbill & Brennan
City of Palo Alto Utilities	Marin Energy Authority	Tabors Caramanis & Associates
City of San Jose	McKenzie & Associates	Tecogen, Inc.
City of Santa Rosa	Merced Irrigation District	Tiger Natural Gas, Inc.
Clean Energy Fuels	Modesto Irrigation District	TransCanada
Coast Economic Consulting	Morgan Stanley	Turlock Irrigation District
Commercial Energy	Morrison & Foerster	United Cogen
Consumer Federation of California	Morrison & Foerster LLP	Utility Cost Management
Crossborder Energy	NLine Energy, Inc.	Utility Specialists
Davis Wright Tremaine LLP	NRG West	Verizon
Day Carter Murphy	NaturEner	Wellhead Electric Company
Defense Energy Support Center	Navigant Consulting	Western Manufactured Housing Communities Association (WMA)
Department of Water Resources	Norris & Wong Associates	eMeter Corporation