

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



July 28, 2014

**Advice Letter 3488-G**

Brian Cherry  
Vice President, Regulation and Rates  
Pacific Gas and Electric Company  
P.O. Box 770000  
San Francisco, CA 94177

**SUBJECT: CORE PROCUREMENT INCENTIVE MECHANISM SHAREHOLDER AWARD -  
NOVEMBER 2010 TO OCTOBER 2011 (YEAR 18) AND NOVEMBER 2011 TO  
OCTOBER 2012 (YEAR 19)**

Dear Mr. Cherry:

Advice Letter 3488-G is effective as of July 25, 2014.

Sincerely,

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

Edward Randolph  
Director, Energy Division

June 25, 2014

**Advice 3488-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 2010 to October 2011 (Year 18) and November 2011 to October 2012 (Year 19)**

**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 \$10,328,623 under its Core Procurement Incentive Mechanism (CPIM) for the period November 1, 2010 through October 31, 2011 (Year 18), and November 1, 2011 through October 31, 2012 (Year 19).

**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. Costs above the tolerance band are shared between customers and shareholders. To the extent actual costs fall below the tolerance band, PG&E's customers and shareholders share in the savings, with shareholders receiving an award equal to 20% of these extra savings and the remaining 80% of these savings benefiting customers.

**PG&E's CPIM Year 18 and Year 19 Performance and Shareholder Awards**

On May 11, 2012, PG&E submitted its Annual Performance Report for CPIM Year 18 to the Office of Ratepayer Advocates (ORA) 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 2010 through October 2011 period of \$37.1 million.<sup>1</sup> As measured against the lower limit of the tolerance band (benchmark less 1.0% of commodity benchmark), total CPIM savings were \$26.3 million, resulting in a shareholder award of \$5.3 million.<sup>2</sup>

On May 17, 2013, PG&E submitted its Annual Performance Report for CPIM Year 19. As measured against the market benchmark, PG&E's core gas procurement activities resulted in total savings over the November 2011 through October 2012 period of \$32.4 million.<sup>3</sup> As measured against the lower limit of the tolerance band, total CPIM savings were \$25.3 million, resulting in a shareholder award of \$5.0 million.<sup>4</sup>

Table 1 below illustrates PG&E's CPIM Year 18 and 19 core gas procurement costs compared to the benchmark.

**Table I**

CPIM Performance Summary  
Years 18 and 19

CPIM Year	Total Commodity, Transportation and Storage Costs <sup>5</sup>						
	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 18	\$1,387,202,439	\$1,365,599,041	\$1,354,797,342	\$1,328,468,057	\$37,130,984	\$26,329,285	\$5,265,857
Year 19	\$1,016,001,485	\$1,001,814,255	\$994,720,639	\$969,406,810	\$32,407,445	\$25,313,829	\$5,062,766
Total							\$10,328,623

<sup>1</sup> See *Pacific Gas and Electric Company, Core Procurement Incentive Mechanism (CPIM), Application 96-08-043, November 1, 2010 through October 31, 2011, Annual CPIM Performance Report, CPIM Year 18* ("CPIM Report Year 18"), Table 1; and see also *Office of Ratepayer Advocates, Monitoring and Evaluation Report, November 1, 2010 through October 31, 2012, Pacific Gas and Electric Company's Core Procurement Incentive Mechanism Performance Results (CPIM Year 18 and 19)* ("ORA Monitoring and Evaluation Report"), Table 2-1.

<sup>2</sup> CPIM Report Year 18, Table 1 and ORA Monitoring and Evaluation Report, Table 2-1.

<sup>3</sup> See *Pacific Gas and Electric Company, Core Procurement Incentive Mechanism (CPIM), Application 96-08-043, November 1, 2011 through October 31, 2012, CPIM Year 19* ("CPIM Report Year 19"), Table 1; and see also ORA Monitoring and Evaluation Report, Table 3-1.

<sup>4</sup> CPIM Report Year 19, Table 1 and ORA Monitoring and Evaluation Report, Table 3-1.

<sup>5</sup> See ORA Monitoring and Evaluation Report, Table 2-1 (Year 18 amounts) and Table 3-1 (Year 19 amounts). Because of immaterial rounding differences, PG&E's CPIM Report for Year 18 calculated a shareholder award of \$5,265,855, two dollars less than the award calculated by ORA; and PG&E's CPIM Report for Year 19 calculated a shareholder award of \$5,062,765, one dollar less than the award calculated by ORA. PG&E agrees to ORA's amounts for purposes of recording its award.

On June 5, 2014, ORA issued its Monitoring and Evaluation Report, which supported PG&E's CPIM calculations and its requested shareholder award for Years 18 and 19.<sup>6</sup> No other parties commented on PG&E's CPIM Year 18 or 19 Reports. Therefore, PG&E's CPIM Year 18 and Year 19 core gas procurement costs are to be deemed reasonable and recoverable from PG&E gas customers as specified by the CPIM<sup>7</sup> and by PG&E's gas tariffs.<sup>8</sup> In addition, because PG&E's CPIM Year 18 and Year 19 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 (\$5,265,857 for Year 18 and \$5,062,766 for Year 19).

PG&E seeks approval in this advice letter to record the shareholder incentive award of \$10,328,623 to the Core Sales Subaccount of the Purchased Gas Account (PGA).

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

### **Protests**

Anyone wishing to protest this filing may do so by sending a letter to the address below by July 15, 2014, which is 20 days from the date of this filing. Protests must be mailed to:

CPUC Energy Division  
ED Tariff Unit  
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:

---

<sup>6</sup> ORA's Monitoring and Evaluation Report, Table 1-1.

<sup>7</sup> 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.

<sup>8</sup> Gas Preliminary Statement Part C, Gas Accounting Terms and Definitions, Section 14.

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 approval of this Tier 2 advice filing by the Commission by July 25, 2014, which is 30 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 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>.

Handwritten signature of Brian Cherry in black ink, with the initials 'KHC' written at the end of the signature.

Vice President, Regulation and Rates

cc: Richard A. Myers – Energy Division  
Eugene Cadenasso – Energy Division  
Franz Cheng – Energy Division  
Belinda Gatti – Energy Division  
Gregory Reisinger – Energy Division  
Jonathon Bromson – Legal Division  
R. Mark Pocta – Office of Ratepayer Advocates  
Nathaniel Skinner – Office of Ratepayer Advocates  
Michael Tan – Office of Ratepayer Advocates  
Matthew Karle – Office of Ratepayer Advocates  
Kelly Lee – Office of Ratepayer Advocates  
Pearlie Sabino – Office 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: Kingsley Cheng

Phone #: (415) 973-5265

E-mail: k2c0@pge.com and PGETariffs@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) #: **3488-G**

Tier: **2**

Subject of AL: **Core Procurement Incentive Mechanism Shareholder Award – November 2010 to October 2011 (Year 18) and November 2011 to October 2012 (Year 19)**

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: No

Confidential information will be made available to those who have executed a nondisclosure agreement: N/A

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: **July 25, 2014**

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:

**California Public Utilities Commission**  
**Energy Division**  
**EDTariffUnit**  
**505 Van Ness Ave., 4<sup>th</sup> Flr.**  
**San Francisco, CA 94102**  
**E-mail: EDTariffUnit@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**

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

AT&T	Douglass & Liddell	Occidental Energy Marketing, Inc.
Alcantar & Kahl LLP	Downey & Brand	OnGrid Solar
Anderson & Poole	Ellison Schneider & Harris LLP	Pacific Gas and Electric Company
BART	G. A. Krause & Assoc.	Praxair
Barkovich & Yap, Inc.	GenOn Energy Inc.	Regulatory & Cogeneration Service, Inc.
Bartle Wells Associates	GenOn Energy, Inc.	SCD Energy Solutions
Braun Blaising McLaughlin, P.C.	Goodin, MacBride, Squeri, Schlotz & Ritchie	SCE
California Cotton Ginners & Growers Assn	Green Power Institute	SDG&E and SoCalGas
California Energy Commission	Hanna & Morton	SPURR
California Public Utilities Commission	In House Energy	San Francisco Public Utilities Commission
California State Association of Counties	International Power Technology	Seattle City Light
Calpine	Intestate Gas Services, Inc.	Sempra Utilities
Casner, Steve	K&L Gates LLP	SoCalGas
Cenergy Power	Kelly Group	Southern California Edison Company
Center for Biological Diversity	Linde	Spark Energy
City of Palo Alto	Los Angeles County Integrated Waste Management Task Force	Sun Light & Power
City of San Jose	Los Angeles Dept of Water & Power	Sunshine Design
Clean Power	MRW & Associates	Tecogen, Inc.
Coast Economic Consulting	Manatt Phelps Phillips	Tiger Natural Gas, Inc.
Commercial Energy	Marin Energy Authority	TransCanada
Cool Earth Solar, Inc.	McKenna Long & Aldridge LLP	Utility Cost Management
County of Tehama - Department of Public Works	McKenzie & Associates	Utility Power Solutions
Crossborder Energy	Modesto Irrigation District	Utility Specialists
Davis Wright Tremaine LLP	Morgan Stanley	Verizon
Day Carter Murphy	NLine Energy, Inc.	Water and Energy Consulting
Defense Energy Support Center	NRG Solar	Wellhead Electric Company
Dept of General Services	Nexant, Inc.	Western Manufactured Housing Communities Association (WMA)
Division of Ratepayer Advocates	North America Power Partners	