STATE OF CALIFORNIA Edmund G. Brown Jr., *Governor*

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

December 26, 2013

Advice Letters 3420-G/4288-E

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: Process Change Regarding Timing and Calculation of Deficiency Bills Resulting from the Gase Annual Calcuation Review Process for Non-Residential Contracts (Gas and Electric Rules 15 and 16)

Dear Mr. Cherry:

Advice Letters 3420-G/4288-E are effective November 1, 2013.

Sincerely,

Edward Randolph

Edward F. Randolph, 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

Fax: 415.973.7226

October 2, 2013

Advice 3420-G/4288-G
(Pacific Gas and Electric Company ID U 39 M)

Public Utilities Commission of the State of California

Subject: **Process Change Regarding Timing and Calculation of Deficiency Bills Resulting from the Base Annual Revenue Calculation Review Process for Non Residential Contracts (Gas and Electric Rules 15 and 16)**

Purpose

Pacific Gas and Electric Company (PG&E) proposes to modify its process for implementing Base Annual Revenue Calculation (BARC) reviews for non-residential line extensions and services.

PG&E currently performs the "contract compliance" review or BARC review required by Electric Rule 15.D.7.a. and Gas Rule 15.D.8.a. for non-residential line extensions for three years. PG&E compares the annual net revenue actually generated with the anticipated amounts upon which the allowance in the line extension agreement was based, and issues a bill or a refund after each review, as applicable and as described below.

PG&E is proposing two changes:

1. For customers that have chosen the refundable option, PG&E is proposing to continue to perform annual reviews and issue refunds as they're earned, but defer issuing a deficiency bill until after the third year review. This gives a customer more of an opportunity to "ramp up" its business and avoids the "elevator effect" of a customer getting a deficiency bill the first year and then a refund the next.

2. For customers that have chosen the non-refundable, 50% discount option, PG&E is proposing to perform this review once, after three years, using the average annual net revenue from the first three years. This proposed change reduces or eliminates bills to customers who have one slow year in the first three years, but otherwise generate enough revenue to cover their allowance. The agricultural community, where pumping usage varies with each year's

rainfall, is particularly vulnerable to changes in usage beyond the customer's control.

PG&E proposes to implement this new process for all customers that have not yet had a second BARC review as of the effective date of this advice filing.

Background

Gas and Electric Rules 15 and 16 provide that applicants requesting service to non-residential projects are responsible for the costs of the service, but may receive allowances (credits) based upon the expected or forecast net revenue to be generated from the load served from the new distribution or service extension.[1] The allowances are calculated using the forecast net revenue[2] in the formula in Gas and Electric Rules 15.C.2:

$$\text{Allowance} = \frac{\text{Net Revenue}}{\text{Cost-of Service Factor}}$$

The allowance (or credit) reduces the advance paid by the applicant for the new service.[3]

Customer payments are divided into refundable and non-refundable amounts.[4] For the refundable amount, the customer has an option to forgo refunds in exchange for a discount (i.e., the 50% discount option): in lieu of contributing the full refundable amount, the customer can simply pay 50%, but on a non-refundable basis (i.e., the customer foregoes any right to future refunds).[5] The 50% discount option is intended to be the financial equivalent of the refundable option.

Because allowances are based on anticipated net revenue, and the actual net revenues may either exceed or not meet the projections, Gas and Electric Rule 15 provide for payment adjustments after the project is built. The intent is to true up the allowances

[1] Gas and Electric Rules 15.C.2. and 15.C.4. Gas and Electric Rules 16.E.2. provide that non-residential service extension applicants are treated in accordance with the allowance and refund provisions of Rule 15 for allowance purposes.

[2] Net Revenue is defined as that portion of revenue which supports the distribution line and service extension costs. See Gas Rule 15.I; Electric Rule 15.J; D.07-07-019.

[3] D.94-12-026, 58 CPUC 2d 1, 4 at fn. 2. The cost of service factor is the same as the annualized utility financed cost of ownership factor in Rule 2. Gas and Electric Rule 15.C.2.c; see Gas Rule 2.C.3.b; Electric Rule 2.I.3.b. Dividing by the annualized cost of ownership factor effectively increases the Net Revenue by a factor of approximately 6. For example, the current electric annualized cost of ownership is 1.4%/month times 12 months = 16.8%/year. Dividing by 16.8% is the equivalent of multiplying by 5.95. This makes an allowance effectively a multi-year revenue projection, and not just one year's worth of revenue.

[4] Gas Rule 15.D.6; Electric Rule 15.D.5.

[5] Gas Rule 15.D.6.b.; Electric Rule 15.D.5.c. See also D.94-12-026, 58 CPUC 2d 1, 4 at fn. 3.

with the net revenue actually generated, i.e., the customer is either granted refunds or issued a bill based on what the allowances would have been using the actual net revenue.[6] PG&E implements this tariff provision through the BARC review, which compares a customer's actual annual net revenue after the first, second and third year with the allowance and with the prior year's net revenue.

Customers that choose the refundable option will receive a refund if their actual first year net revenue supports a higher allowance than provided in the contract.[7] If the amount falls short of the allowance basis, the customer receives a bill for an additional contribution to calibrate the allowance to the revenue actually generated.[8] This process is repeated for the second and third years of service, based upon increases or decreases in net revenue from year to year.

Customers that chose the 50% discount option[9] and elected to forego refunds are, of course, not entitled to any refunds. They are still subject, however, to the payment adjustment rule requiring an additional contribution if actual net revenue falls short of the projections on which the allowance was based. If a customer choses the 50% discount payment option, and the net revenue actually generated is less than the amount upon which the allowance was calculated, the customer is "deficiency billed" fifty percent of the shortfall.[10] PG&E automatically performs this review for three years.

PG&E has analyzed all 570 refundable projects with a first year BARC review in 2010.[11] Of those 570 projects, only four had deficiency bills all three years. All of the other projects had either refunds all three years or experienced the "elevator effect" of getting both a bill and a refund for the same project. The combined results for the 570 refundable option projects for all three years under the current approach was approximately $1.8 million in deficiency bills and approximately $70 million in potential refunds.

The results of the reviews on these 570 refundable option contracts were as follows:

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[6] Gas Rule 15.D.8.a and 15.E.5; Electric Rule 15.D.7.a. and 15.E.5.
[7] Gas and Electric Rules 15.E.5. To be clear, a customer cannot get a "refund" of more than it paid in refundable costs. Gas and Electric Rules 15.E.2. and 15.E.8.
[8] Gas Rule 15.D.8.a; Electric Rule 15.D.7.a.
[9] Of the 5,008 non-residential projects that had their first BARC review in 2010, 4,438 (89%) had chosen the 50% discount option.
[10] Reducing the shortfall by 50% is necessary to ensure that the customer is paying "based on the allowances for the revenue actually generated." Gas Rule 15.D.8.a; Electric Rule 15.D.7.a. A customer who chose a refundable allowance gets a dollar for dollar credit, but a customer who chose the 50% non-refundable discount option effectively only gets a credit of fifty percent because it is only paying fifty percent of the refundable costs.
[11] PG&E focused on projects that had a first year BARC review in 2010, which allowed PG&E to evaluate a full three year cycle (2010, 2011, and 2012).

First Year reviews:

Total revenue generated = $27.5 million
95 contracts were deficiency billed a total of $1 million
459 contracts generated potential refunds totaling $17.5 million
16 contracts generated no activity[12]

Second Year reviews:

Total revenue generated = $34.2 million
54 contracts were deficiency billed a total of $0.5 million
498 contracts generated potential refunds totaling $24.8 million
18 contracts generated no activity

Third Year reviews:

Total revenue generated = $39.6 million
36 contracts were deficiency billed a total of $0.3 million
520 contracts generated potential refunds totaling $29.6 million
14 contracts generated no activity.

PG&E has also analyzed the 4,438 non-refundable 50% Discount Option line extension projects that had their first BARC review in 2010. Of the 4,438 projects, 3,359 met their allowance requirement in all 3 years, so did not receive a deficiency bill in any year. The remaining 1,079 projects (24%) generated a deficiency bill at one point during the three annual reviews from 2010 through 2012. For all 1,079 projects, PG&E issued a combined total of approximately $4.6 million in deficiency bills for all three years under the current approach.

First Year reviews:

Total revenue generated = $16.94 million
816 contracts were deficiency billed a total of $2.75 million ($5.5M x 50%) because net revenue was below projected revenue upon which allowance was based
263 contracts met or exceeded net revenue projections so no bill was issued

Second Year reviews:

Total revenue generated = $16.97 million
276 contracts were deficiency billed a total of $1.04 million ($2.08M x 50%) because net revenue was below both projected revenue upon which allowance was based and prior year's net revenue
803 contracts met or exceeded net revenue projections or prior year revenue so no bill was issued

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[12] There may be no activity on a refundable contract if, for example, the allowance exceeded the refundable cost so the customer did not make any refundable payment, and the BARC review exceeded the allowance amount.

Third Year reviews:

Total revenue generated = $19.74 million

184 contracts were deficiency billed a total of $833 thousand ($1.67M x 50%) because net revenue was below projected revenue upon which allowance was based and prior years' net revenue

895 contracts met or exceeded net revenue projections or prior years' revenue so no bill was issued

Proposal

PG&E proposes to change the way it implements the requirement to bill non-residential customers pursuant to Gas Rule 15.D.8.a and Electric Rule 15.D.7.a.

For customers that have chosen the refundable option, PG&E proposes to continue performing annual reviews and issue refunds when earned, but to defer issuing deficiency bills until after three years. Refundable customers who are given a conservative (low) allowance understandably don't want to wait three years to receive a refund. Under PG&E's current approach, they get reviewed every year, so they can receive a refund as soon as it is justified by their revenue. But postponing any deficiency bills until after the third year gives the customer an opportunity to ramp up its usage over time, and avoids unnecessary deficiency bills that would be offset by a subsequent refund.[13]

Based upon PG&E's analysis of the 570 refundable line extension contracts that have had all three BARC reviews for 2010, 2011, and 2012, only 0.7% (4 out of 570 projects) had deficiency bills for all three years, so the vast majority of deficiency bills issued after the first year are followed by a subsequent refund. Had PG&E's proposed procedure been in effect, deficiency bills would have been reduced from approximately $1.8 million to $575,000.[14]

For those customers who choose (or have already chosen) the 50% discount option, PG&E proposes to use the average annual net revenue generated during the first three years as the basis for deficiency bills. PG&E would not issue a deficiency bill until after three years, and then only if the average annual net revenue was less than the net revenue upon which the customer's allowance was based.

As noted above, based upon PG&E's analysis of the 4,438 non-refundable (50% discount) line extension contracts that have had all three BARC reviews for 2010, 2011, and 2012, 3,359 met their allowance requirement in all 3 years, so did not receive a deficiency bill in any year. The remaining 1,079 projects (24%) generated a deficiency

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[13] PG&E will continue to assess the monthly cost of ownership charge mandated by Electric Rule 15.E.6. if a portion of the refundable amount has not qualified for a refund twelve months after PG&E is first ready to serve, and would deduct the cost of ownership charges from any refunds due the customer within those three years. This is not an issue for gas customers, as for gas the cost of ownership charges do not even begin to accrue until after thirty-six months. Gas Rule 15.E.6.

[14] PG&E is not proposing to change how a deficiency bill is calculated for refundable customers, only to wait until after the third year. See Example 6 of the attached Appendix. The reason for the different treatment is that refundable customers can recover the full amount paid by the deficiency by adding new, permanent load in years 4 through 10. See Gas and Electric Rule 15.E.5. By contrast, customers who chose the 50% discount option by definition cannot get refunds in future years to offset the deficiency bill.

bill at one point during the three annual reviews from 2010 through 2012. Had PG&E's proposed new approach been in effect, the total of all deficiency bills for those 1,079 projects would have been $1.78 million, instead of the approximately $4.6 million in deficiency bills under the current approach.

PG&E believes that the new proposal is more equitable, and more closely hews to the Commission's goal that non-refundable, 50% discount option customers are the financial equivalent of refundable customers, except for the timing of the payment.[15] PG&E's current process issues a deficiency bill if a customer doesn't reach the anticipated revenue upon which the allowance was based during the first year. This can sometimes be the case for new businesses, or for customers who aren't ready for full operations at the time PG&E is first ready to serve, even though in the long run they may generate sufficient revenue to cover their allowance.[16] However, a customer that selected the 50% discount payment option is not eligible to receive any refunds, even if its second and third years generate more than enough actual revenue, so under the current approach one bad year skews the results for those customers.

This is a particularly difficult situation for agricultural pumping customers. The amount that a customer pumps is highly dependent upon the weather. If it has been a dry year, the customer will pump quite a bit, and probably exceed the revenue basis for his/her allowance. If there is a wet year, however, the customer doesn't need to pump as much, and would then receive a bill, even if in two of the three years the actual revenue exceeded the allowance basis amounts. PG&E's proposed approach resolves these problems, by using an average over three years and thus avoids a negative result due to a single bad year.

To make the differences between the current approach and the proposed approach customers less abstract, PG&E has prepared several examples in Attachment 1.

Implementation

Under PG&E's current process, customers have three separate annual BARC reviews. PG&E proposes to use the new process for all customers that have not yet had their second BARC review as of the effective date of this advice filing. In other words, PG&E would continue to use the prior method where a customer has already been reviewed twice under the prior method, but would use the new method in all other applicable instances.

Protests

Anyone wishing to protest this filing may do so by letter sent via U.S. mail, facsimile or E-mail, no later than October 22, which is 20 days after the date of this filing. Protests must be submitted to:

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[15] D.94-12-026, 58 CPUC 2d 1, 4 at fn. 3.

[16] Rule 15 refers to when PG&E is first ready to serve. Gas Rule 15.D.8.a; Electric Rule 15.D.7.a. See also footnote 3 about the allowance and BARC calculations essentially being multi-year projections due to the cost of service factor.

CPUC Energy Division
ED Tariff Unit
505 Van Ness Avenue, 4th Floor
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 shall also be sent to PG&E either via E-mail or U.S. mail (and by facsimile, if possible) 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

Any person (including individuals, groups, or organizations) may protest or respond to an advice letter (General Order 96-B, Section 7.4). The protest shall contain the following information: specification of the advice letter protested; grounds for the protest; supporting factual information or legal argument; name, telephone number, postal address, and (where appropriate) e-mail address of the protestant; and statement that the protest was sent to the utility no later than the day on which the protest was submitted to the reviewing Industry Division (General Order 96-B, Section 3.11).

Effective Date

PG&E requests that this Tier 2 advice filing become effective on **November 1, 2013**, which is 30 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 and the parties on the service list for Rulemaking (R.) 92-03-050. Address changes to the General Order 96-B service list should be directed to PG&E at email address 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

Brian Cherry /IG

Vice President, Regulatory Relations

Attachments

cc: Service List R.92-03-050

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: **Igor Grinberg**
☑ ELC ☑ GAS	Phone #: **(415) 973-8580**
☐ PLC ☐ HEAT ☐ WATER	E-mail: **ixg8@pge.com and PGETariffs@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) #: **3420-G/4288-E** Tier: **2**

Subject of AL: **Process Change Regarding Timing and Calculation of Deficiency Bills Resulting from the Base Annual Revenue Calculation Review Process for Non Residential Contracts (Gas and Electric Rules 15 and 16)**

Keywords (choose from CPUC listing): **Line Extensions, Contracts & Refunds**

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

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

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: **November 1, 2013** 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:

Service affected and changes proposed:

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
ED Tariff Unit
505 Van Ness Ave., 4th Floor
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

Appendix

Example 1: 50% Discount; Net Revenue Increases Each Year

In Example 1 below, a customer that chose the 50% discount option received an allowance of $12,593.00. The customer's first year BARC review resulted in an Annual Net Revenue calculation of $5,800.[1] Under the current approach, this customer would receive a deficiency bill after the first year of $3,396.50 (half of the shortfall from the allowance granted). Even though the customer's usage increased in years 2 and 3, because this is a non-refundable customer it is not eligible to recoup via refunds the amount it was charged after year one.

Under PG&E's proposal that is the subject of this advice filing, PG&E would wait until after the third year to perform its review. Instead of treating each year separately, PG&E would add the actual net revenue from the three years and divide by three. In Example 1, the average is $11,166.66. Since this is less than the allowance, the customer would be billed for the shortfall, but the amount charged would be more representative of the actual shortfall than the poor first year.

Year 1 BARC Review		Year 2 BARC Review		Year 3 BARC Review	
Allowance Granted	$12,593.00	Allowance Granted (Adjusted base)	$5,800.00	Allowance Granted (Adjusted base)	$5,800.00
Annual Net Revenue Calculation	$5,800.00	Annual Net Revenue Calculation	$10,150.00	Annual Net Revenue Calculation	$17,550.00
Current Approach: Annual Refund Amt.	N/A	Current Approach: Annual Refund Amt.	N/A	Current Approach: Annual Refund Amt.	N/A
Current Approach: Annual Deficiency Amt.	**$3,396.50** ($6,793.00 / 2)	Current Approach: Annual Deficiency Amt.	$0.00	Current Approach: Annual Deficiency Amt.	$0.00
Proposed Approach: 3 year Average	**3 YEAR AVERAGE BARC CALCULATION:** $33,500 / 3 = $11,166.66 **$12,593.00 - $11,166.66 = $1,426.34 x 50% = $713.17 Deficiency bill**				

[1] As discussed in footnote 3 in the advice letter, this means the customer had annual net distribution revenue of slightly below $1,000, perhaps because it was a wet year or because the customer's business hadn't ramped up right away.

Example 2: 50% Discount; Net Revenue Increases Enough to Eliminate Deficiency

In Example 2, we have the same allowance and the same first year revenue, so the same result under the current approach: a deficiency bill of $3,396.50 for half of the shortfall. However, in this example the customer used more revenue than the allowance in years two and three, such that the average net revenue per year over the first three years was above the allowance. Under PG&E's proposal, this customer would not receive a deficiency bill.

Year 1 BARC Review		Year 2 BARC Review		Year 3 BARC Review	
Allowance Granted	$12,593.00	Allowance Granted (Adjusted base)	$5,800.00	Allowance Granted (Adjusted base)	$5,800.00
Annual Net Revenue Calculation	$5,800.00	Annual Net Revenue Calculation	$15,000.00	Annual Net Revenue Calculation	$17,550.00
Current Approach: Annual Refund Amt.	N/A	Current Approach: Annual Refund Amt.	N/A	Current Approach: Annual Refund Amt.	N/A
Current Approach: Annual Deficiency Amt.	**$3,396.50** **($6,793.00 / 2)**	Current Approach: Annual Deficiency Amt.	$0.00	Current Approach: Annual Deficiency Amt.	$0.00
Proposed Approach: 3 Year Average	**3 YEAR AVERAGE BARC CALCULATION**: $38,350 / 3 = $12,783.33 **Since the 3 year average exceeds the allowance of $12,593.00 NO Deficiency bill**				

Example 3: 50% Discount; Net Revenue Drops Significantly in Year Three

In the third example, the customer has more load, and hence generates more revenue, than anticipated for the first two years, but (perhaps due to rainfall for an agricultural pump or due to the installation of a solar unit after year two) has a drop-off in year three. Under the current approach, the customer would be billed after year three due to the deficiency, but under PG&E's proposed more equitable approach, since the average usage over three years exceeded the allowance there would be no deficiency bill.

Year 1 BARC Review		Year 2 BARC Review		Year 3 BARC Review	
Allowance Granted	$39,763.00	Allowance Granted (Adjusted base)	$39,763.00	Allowance Granted (Adjusted base)	$39,763.00
Annual Net Revenue Calculation	$84,573.00	Annual Net Revenue Calculation	$77,937.00	Annual Net Revenue Calculation	$13,986.00
Current Approach: Annual Refund Amt.	N/A	Current Approach: Annual Refund Amt.	N/A	Current Approach: Annual Refund Amt.	N/A
Current Approach: Annual Deficiency Amt.	$0.00	Current Approach: Annual Deficiency Amt.	$0.00	Current Approach: Annual Deficiency Amt.	**$12,888.50** ($25,777 / 2)
Proposed Approach: 3 Year Average	<u>3 YEAR AVERAGE BARC CALCULATION:</u> $176,496 / 3 = $58,832.00 **Since the 3 year average exceeds the allowance of $39,763.00 <u>NO</u> Deficiency**				

Example 4: 50% Discount; Two Poor Years Followed By Good Year in Year 3

In Example 4, the first year's actual net revenue calculation was below the allowance, the second year's calculation was below the first year, but the third year was much higher. Under the current approach, the customer would receive a bill after the first year, and again after the second year, but would not benefit from the higher review in the third year. Under PG&E's proposal, the customer's usage all three years would be considered together, resulting in a much smaller, and fairer, deficiency bill.

Year 1 BARC Review		Year 2 BARC Review		Year 3 BARC Review	
Allowance Granted	$10,250.00	Allowance Granted (Adjusted base)	$7,000.00	Allowance Granted (Adjusted base)	$5,800.00
Annual Net Revenue Calculation	$7,000.00	Annual Net Revenue Calculation	$5,800.00	Annual Net Revenue Calculation	$17,550.00
Current Approach: Annual Refund Amt.	N/A	Current Approach: Annual Refund Amt.	N/A	Current Approach: Annual Refund Amt.	N/A
Current Approach: Annual Deficiency Amt.	**$1,625.00** ($3,250 / 2)	Current Approach: Annual Deficiency Amt.	**$600.00** ($1,200 / 2)	Current Approach: Annual Deficiency Amt.	$0.00
Proposed Approach: 3 year Average	**3 YEAR AVERAGE BARC CALCULATION:** $30,350 / 3 = $10,116.66 **$10,250 - $10,116.66 = $133.34 x 50% = $66.67 Deficiency bill**				

Example 5: Refundable: Same as Example 1: Net Revenue Increases Each Year

Example 5 illustrates a 3 year BARC review for a *Refundable* contract.

In this example, the customer chose the refundable option and received an allowance of $12,593.00. The customer's first year BARC review resulted in an annual net revenue calculation of $5,800. Under the current refundable BARC review process, this customer would receive a deficiency bill after the first year of $6,793.00 (100% of the shortfall from the allowance granted). This payment could still be refunded back to the customer from future BARC reviews, provided the annual net revenue exceeds the adjusted base allowance in subsequent years. In year 2, the net annual revenue calculation did exceed the allowance and thus, generated a refund to the customer. The same scenario would play out in year 3. [2]

Under PG&E's proposal for refundable contracts, the customer would not receive a deficiency bill in the first year, but, instead PG&E would wait until subsequent reviews generated a net refund to the customer or a final deficiency bill after year 3 review.

Year 1 BARC Review		**Year 2 BARC Review**		**Year 3 BARC Review**	
Allowance Granted	$12,593.00	Allowance Granted (Adjusted base)	$5,800.00	Allowance Granted (Adjusted base)	$10,150.00
Annual Net Revenue Calculation	$5,800.00	Annual Net Revenue Calculation	$10,150.00	Annual Net Revenue Calculation	$17,550.00
Current Approach: Refund	N/A	Current Approach: Refund	$4,350.00	Current Approach: Refund	$7,400.00
Current Approach: Deficiency Amt.	$6,793.00	Current Approach: Deficiency Amt.	N/A	Current Approach: Deficiency Amt.	N/A
Proposed Approach:	DO NOT BILL	Proposed Approach:	DO NOT REFUND (net result is still a deficiency) **	Proposed Approach:	Refund $4,957 ($17,550 - $12,593)

* 2nd year BARC review exceeded the adjusted base allowance, but still in a deficiency mode from first BARC review

** If year 2 generated a net refund, a check would be cut.

[2] Total refunds cannot exceed the amount the customer paid in refundable costs. Gas and Electric Rules 15.E.2. and 15.E.8.

Example 6: Refundable: Poor First Year, Good Second Year, Poor Third Year

In Example 6, the current process would create the “elevator effect” of deficiency, refund, and deficiency over the 3 year review period.

Under the proposed approach, even though the customer exceeded its allowance in year 2, the net result was still a deficiency based on the 1st year review. Therefore, PG&E would wait until year 3 to reconcile the account. In year 3, PG&E would issue one deficiency bill to the customer, in lieu of a deficiency bill in year 1, a refund in year 2 and another deficiency in year 3. As discussed in footnote 14 of the advice filing, this deficiency bill would not be a three year average. This is because a refundable customer can receive a refund in years 4 through 10 if it adds new, permanent load.

Year 1 BARC Review		**Year 2 BARC Review**		**Year 3 BARC Review**	
Allowance Granted	$12,593.00	Allowance Granted (Adjusted base)	$5,800.00	Allowance Granted (Adjusted base)	$10,150.00
Annual Net Revenue Calculation	$5,800.00	Annual Net Revenue Calculation	$10,150.00	Annual Net Revenue Calculation	$8,000.00
Current Approach: Refund	N/A	Current Approach: Refund	$4,350.00	Current Approach: Refund	N/A
Current Approach: Deficiency Amt.	$6,793.00	Current Approach: Deficiency Amt.	N/A	Current Approach: Deficiency Amt.	$2,150.00
Proposed Approach:	DO NOT BILL	Proposed Approach:	(Do not Refund, net result is still a deficiency **	Proposed Approach:	$12,593.00 - $8,000.00 **$4,593.00** Deficiency ***

* 2nd year BARC review exceeded the adjusted base allowance, but still in a deficiency mode from first BARC review

** If year 2 generated a net refund, a check would be cut.

*** The deficiency bill is not reduced by 50% because this is a refundable contract.

Example 7: Refundable: Poor First Two Years, Good Third Year

Example 7 illustrates a similar scenario as Example 6, but showing year 2 net annual revenue falling below the allowance, with year 3 easily exceeding it. The current process would have generated a deficiency bill, another deficiency bill, and then a refund.

The proposed approach will generate a refund only after year 3.

Year 1 BARC Review		Year 2 BARC Review		Year 3 BARC Review	
Allowance Granted	$12,593.00	Allowance Granted (Adjusted base)	$5,800.00	Allowance Granted (Adjusted base)	$4,000.00
Annual Net Revenue Calculation	$5,800.00	Annual Net Revenue Calculation	$4,000.00	Annual Net Revenue Calculation	$15,000.00
Current Approach: Refund	N/A	Current Approach: Refund	N/A	Current Approach: Refund	$11,000.00
Current Approach: Deficiency Amt.	$6,793.00	Current Approach: Deficiency Amt.	$1,800.00	Current Approach: Deficiency Amt.	N/A
Proposed Approach:	DO NOT BILL	Proposed Approach:	DO NOT BILL	Proposed Approach:	Refund = $2,407.00 ($15,000 - $12,593)

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

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BART
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California Cotton Ginners & Growers Assn
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California State Association of Counties
Calpine
Casner, Steve
Cenergy Power
Center for Biological Diversity
City of Palo Alto
City of San Jose
Clean Power
Coast Economic Consulting
Commercial Energy
County of Tehama - Department of Public Works
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SCE
SDG&E and SoCalGas
SPURR
San Francisco Public Utilities Commission
Seattle City Light
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SoCalGas
Southern California Edison Company
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Sunshine Design
Tecogen, Inc.
Tiger Natural Gas, Inc.
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Water and Energy Consulting
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