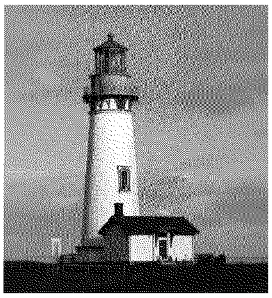

COAST ECONOMIC CONSULTING

3185 Gross Road
Santa Cruz, California 95062-2091 USA

Telephone: 1-831-476-5700
Mobile: 1-831-247-2709
janreid@coastecon.com
www.coastecon.com

LTPP Proceeding
Rulemaking 10-05-006

ALJ Allen's proposed decision (PD) introduces and adopts a rate cap of 10% over a rolling 18-month period. That rate cap was not recommended by any party in this proceeding, and comments to the PD were the first opportunity that parties have had to comment on the proposed rate cap.

The PD also unreasonably restricts hedging by mandating that the utilities hedge against a 10% rate increase. Presumably, any rate increase less than 10% would be deemed to be reasonable.

Reid's Recommendations

- The Commission should not approve the 10% rate cap suggested by the PD.
- The Commission should order the IOUs to procure based on the latest available information, and not on planning assumptions that may be up to two years old.
- The Commission should use the results of the standardized planning assumptions to inform its decision-making process.
- The Commission should not change the Consumer Risk Tolerance (CRT) level at this time.
- If the Commission believes that hedging costs are too high, they should modify the IOUs' plans and reduce the hedge percentage; place a restriction on the amount of money spent; change the mix of swaps and options; and change or establish the hedging targets and limits in the IOUs' plans.

- The Commission should open an investigation into the IOUs hedging practices since 2003.
- The Commission should adopt Reid's hedging recommendations contained in Exhibit 1301-C, pp. 3-7.
- The Commission should not summarily reject all outstanding intervenor proposals as recommended by PG&E.
- The Commission should order PG&E to distribute meeting summaries to its Procurement Review Group (PRG) members for their review and comment 48 hours in advance of PG&E's next regularly scheduled monthly PRG meeting.

Key Facts

- Actual procurement costs may be higher than forecasts because of factors that may arise in the future. These may include an increase in natural gas prices, an increase in electricity prices, new regulatory requirements (e.g., carbon reduction), an increase in the IOUs' authorized rate of return, interest rate increases, and other factors.
- In the past, the Commission has used planning results both to determine whether or not additional procurement is needed, and to establish certain policy goals.
- The DRA's hedging analysis was limited to financially settled futures contracts, which are a subset of hedging.
- The Commission has no basis to conclude that ratepayers have hedged to prevent relatively minor rate increases or that ratepayers have spent too much for hedging.
- The Commission has traditionally given the IOUs the authority to conduct hedging in order to reduce risk.
- There were a number of issues that were not addressed in this PD, and some issues have been raised in all tracks of the instant rule-making.
- Reid and PG&E agree that meeting summaries should be distributed to PRG members for their review and comment 48 hours in advance of the next regularly scheduled monthly PRG meeting.