GHG Application and ERRA Overlaps

- Consistent with the authorization granted in each IOU's Long-term Procurement Plans (LTPP), GHG cost forecasts will be approved in their respective Energy Resource Recovery Account (ERRA) Forecast Applications.
- Greenhouse gas (GHG) allowance revenue return will be litigated and determined in the GHG Application.
- Some of the allowance revenue will be returned volumetrically to residential and small business customers and implemented in rates at the same time as GHG costs.

Greenhouse Gas Application

- Pursuant to Ordering Paragraph 23 of D.12-12-033, for the first three years of the Cap-and-Trade program, the utilities must file an application by August 1 of each year beginning in 2013:
  - setting forth forecasted GHG costs for the subsequent year,
  - forecasting GHG allowance revenues to be distributed to eligible customer classes, and
  - forecasting administrative and customer outreach expenses for the subsequent year.
- Under current IOU understanding, this Application would focus on the following things:
  - All revenue-related activities:
    - Forecasting total allowance revenue for the year
    - Trueing up previous year's allowance revenue forecast
    - Establishing allocation of revenues between customer classes (i.e., totals to go toward volumetric, EITE, and Climate Dividend purposes)
  - Using the GHG cost forecasts established in ERRA to determine volumetric return

Energy Resource Recovery Account

- ERRA is a balancing account established to record and recover a utility's energy procurement costs.
- Forecasted GHG costs are included in each utility's revenue requirement in the ERRA forecast proceeding[1]. In compliance with D.12-12-033, GHG cost recovery in rates has been deferred.
- Consistent with the OIR (D.12-12-033), the implementation of GHG allowance revenues are not included in the ERRA Forecast proceeding, but addressed in the GHG proceeding, as described in the GHG section above.

Process

- ERRA has annual proceedings consisting of the following:
  - Revenue Requirement Application (Forecast) – forecasts a utility's ERRA and Competition Transition Charge revenue requirement for the upcoming calendar year.
    - Each utility updates its initial Application and supporting testimony for key input assumptions close to implementation.
  - Compliance Review Application (Compliance) – reviews the utility's prior period energy resource contract administration, least-cost dispatch, and ERRA balancing account for compliance with the LTPP.
- Energy Division and the Commission currently have the opportunity to review GHG-related costs in the ERRA Forecast and Compliance proceedings.
  - ERRA Forecast Filings: PG&E on June 1, SCE on August 1, and SDG&E on October 1.

[1] Track III of the 2010 LTPP, D.12-04-046, OP 10.

        - Note: SDG&E has a Petition for Modification pending at the Commission in which it proposed moving its ERRA Forecast filing date to April 15 of each year.
    - ERRA Forecast Update Filings: PG&E and SCE in November, SDG&E in Q1.
    - ERRA Compliance Filings: PG&E on February 28, SCE on April 1, and SDG&E on June 1.

True-Ups

- If some of the utility's ERRA Forecast assumptions are not realized, the difference between the GHG cost forecast and actuals will be trued up through ERRA balancing account. In addition, those assumptions can be refined in the subsequent years' ERRA Forecast proceedings.
- ERRA is subject to a trigger mechanism that requires a rate adjustment when the recorded monthly balance (under- or over-collection) exceeds a trigger point of 4% of the utility's actual recorded generation revenues for the prior calendar year, excluding revenue collected for the Department of Water Resources, and when the balance is forecasted to exceed a 5% threshold. A utility must file an expedited application for approval in 60 days from the filing date to address the under or overcollected trigger amount.
- The balancing account mechanics of ERRA track and manage under and overcollections of total procurement costs, which include GHG costs.
    - PG&E and SCE: If the year-end ERRA balance is below the 5% ERRA trigger threshold, the ERRA balance is included in the subsequent year's ERRA Forecast proceeding. Approval of that proceeding allows PG&E and SCE to include the ERRA balance in rates.
    - SDG&E: If the year-end ERRA balance is below the 5% ERRA trigger threshold, SDG&E has the authority (in D.09-04-021) to include the year-end ERRA balance, in rates each year through the annual electric regulatory account update filing, which is typically filed via advice letter in fall of each year.
    - This true-up method essentially clears the ERRA and that year-end balance is then amortized over a 12-month period.

<u>Overlaps of GHG and ERRA Applications</u>

- Volumetric return of allowance revenues to residential and small business customers is tied to GHG cost forecasts in accordance with the GHG OIR Decision.

Assumptions

- Forecasted GHG costs are currently comprised of the following five components:
    - GHG-related prices ($) for each vintage of allowances and offsets;
    - Direct compliance obligation (Metric Tons) for next year;
    - Direct advanced compliance obligation for years beyond next year (Metric Tons) – advanced purchases lowers GHG cost forecasts, but increases current GHG costs;
    - Contractual compliance obligation (metric tons or financial settlement) costs pursuant to the utility's power purchase agreements where the utility has contractually accepted the cost of GHG compliance; and
    - Indirect costs ($) – market exposed compliance costs embedded in the price of purchased electricity, which include GHG costs associated with market purchases and QF payments. These indirect costs can't be separated from total costs of these resources without making additional specific assumptions with regard to the marginal generating units which set market clearing prices.
- Alignment of forecasted GHG prices and compliance obligations (both direct and indirect) is necessary between the ERRA and GHG Applications.
    - Forecasted GHG prices influence expected direct compliance obligations, direct

advanced compliance obligation purchasing, and indirect costs. If the GHG prices used in the two proceedings are not identical, it will result in different costs (directly in different GHG prices and indirectly in different forecasted compliance obligations).
    - If the GHG compliance obligations between the two proceedings are not identical, it creates a different calculation of GHG costs.
    - Forecasted GHG prices are dependent on market information, and forecasted GHG obligations are dependent on the availability of resources (hydro, nuclear, renewables) and dispatch of resources (electric and natural gas prices can affect assumed dispatch).
        - These assumptions change over time
        - Adjustments to these assumptions are linked: changes to GHG assumptions will result in different resource dispatch decisions, which could in turn result in different GHG market prices / assumptions.
    - During the IOUs' ERRA Forecast update filing, GHG price assumptions and expected compliance obligations (direct and indirect) will be modified; if left uncoordinated, this would potentially cause the information in the GHG Application to be stale or incorrect.
- If some of the utility's ERRA Forecast assumptions do not come to fruition, the utility can adjust those specific assumptions in its forecast for the subsequent year's ERRA forecast proceeding.

Implementation Issues to Consider

- If the GHG Application requires the IOUs to estimate "actual GHG costs" to compare with forecasted GHG costs, those indirect or market exposure GHG costs that are embedded in the price of electricity would have to be calculated based on a Commission-approved methodology because it is impossible to precisely measure actual GHG costs from market purchases based on existing IOU methodologies.
- It remains unclear how the timing of the ERRA Forecast updates corresponds to the GHG Application, though tying the two would alleviate many coordination concerns.
- It is important that the GHG Application not cause any delay in the ERRA proceeding, which sets a crucial component of each IOUs' annual revenue requirement. For instance, any GHG-related rate issues must be finalized in time for PG&E's January 1 ERRA Revenue requirement implementation. If the Commission intends to return GHG allowance revenues to customers simultaneously as GHG costs are placed into rates, a GHG Application Decision would need to be rendered before January 1 (if all together) or in unison with all three IOUs' ERRA Forecast Decisions (if done separately).
- There are several components to the GHG calculation that are confidential and could not be shared across other utilities or with market participant intervenors such as, but not limited to: forward prices, QF contracts tied to forward prices, market purchases, GHG position, GHG emissions forecast, open position, tolling agreement details and UOG fuel burned.