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Advice 4403-E
(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: **Electric Rate Changes to Introduce GHG Allowance Costs and GHG Allowance Revenues**

Pacific Gas and Electric Company (PG&E) hereby submits for filing illustrative revisions to its electric rates and tariffs. Once implemented, this rate change will affect bundled, direct access (DA), and community choice aggregation (CCA) customers.

Purpose

The purpose of this advice letter is to submit illustrative tariffs and rates for a California Public Utilities Commission (CPUC or Commission) approved rate change effective May 1, 2014. The revised tariff sheets, rate table, and revised Electric Rule 1 are included in Attachments 1, 2 and 3, respectively, of this advice letter. Assuming approval of this advice letter, PG&E will revise rates as described below and consolidate the change with PG&E's next scheduled rate change for rates effective on May 1, 2014.

This Advice Letter 4403-E replaces Advice Letter 4371-E, in compliance with the letter dated April 15, 2014, from Energy Division Director Edward Randolph rejecting PG&E Advice 4371-E in its entirety with prejudice. This Advice Letter deletes the proposed tariff language cited in Director Randolph's letter as being non-compliant, and explains PG&E's reasons for including such language in the original advice letter. This Advice Letter also makes a minor adjustment to the small business assistance factor for 2014, consistent with D.13-12-002.

PG&E sincerely apologizes for any confusion caused by the original advice letter.

Background

The California cap-and-trade program was designed to reduce greenhouse gas (GHG) emissions to 1990 levels by 2020. The California Air Resources Board (CARB) administers the cap-and-trade program. To reduce customers' burden from higher electricity rates that include GHG costs, CARB allocated GHG allowances to the investor-owned utilities (IOUs) to consign in quarterly auctions. The revenue from the consignment of allowances is returned to customers via mechanisms approved by the Commission.

In Decision (D.) 12-12-033, the Commission ordered the IOUs to return these revenues to customers using the following revenue return methodology: (1) first to energy-intensive and trade-exposed (EITE) customers, in a manner to be determined separately; (2) then to small business customers (defined as entities with monthly demand not exceeding 20 kW in more than three months in a twelve-month period) through a volumetrically calculated rate adjustment; (3) next, to residential customers (in order to neutralize their rate impacts of the cap-and-trade program) also through a volumetrically calculated rate adjustment; and (4) finally, any residual revenue amounts are returned to residential customers on an equal per residential account basis delivered as a semi-annual on-bill credit.[1]

PG&E presented forecasted revenue requirements for all procurement costs including GHG costs as part of its annual Energy Resource Recovery Account (ERRA) Forecast proceeding in 2012 and 2013; forecasting for 2013 and 2014 respectively.[2] The Decisions approving these proceedings approved cost recovery for the entire procurement revenue requirement, including GHG costs[3], but required PG&E to defer GHG cost collection in rates until the revenue return methodology was finalized.[4]

On August 1, 2013, PG&E filed Application (A.) 13-08-003 to present its 2014 GHG Cost and Revenue Return Forecast. In December 2013, the Commission issued D.13-12-041, approving the forecasted $454,087,133 revenue return to eligible customers. This Decision ordered PG&E to begin collecting its previously deferred GHG costs and begin returning GHG allowance revenue in rates upon the issuance of a letter from the Director of Energy Division (ED) as required by D. 12-12-033.[5]

On January 28, 2014, ED issued the letter authorizing the IOUs to begin GHG cost recovery and revenue return to eligible customers. PG&E was authorized to return GHG revenue in two separate forms: (1) semi-annually to residential customers via an on-bill credit beginning on April 1, 2014[6]; and (2) volumetrically to eligible small business and residential customers beginning on May 1, 2014[7]. PG&E was also authorized recovery of its previously deferred GHG costs that were approved in the 2013 and 2014 ERRA Forecast Decisions beginning on May 1, 2014.

Tariff Revisions

[1] D.12-12-033, Ordering Paragraph (OP) 1
[2] Application (A)12-06-002 and A.13-05-015
[3] D. 12-12-008, OP 1 approved 2013 GHG costs of $180M plus associated franchise fees and uncollectibles (FF&U); D.13-12-043, OP 3 approved 2014 GHG costs of $184M plus associated FF&U.
[4] D. 12-12-008, OP 2; and D.13-12-043, OP 2.
[5] D.12-12-033, OP 21
[6] The tariff language changes required to implement the semi-annual on-bill credit to residential customers were included in a separate Tier 1 advice filing, PG&E Advice Letter 4370-E, filed on February 28, 2014.
[7] Prior to May 1, 2014, PG&E will file another Tier 1 advice letter to implement multiple approved rate changes scheduled to occur on May 1, 2014. That advice filing will incorporate the GHG rate impacts included in this illustrative filing.

As the EITE revenue return methodology is still under consideration at the Commission, this advice letter provides illustrative tariffs for only small business and residential customers in Attachment 1. Forecasted EITE revenues are included in the summary rate tables (Attachment 2) to illustrate the entire impact of the cap-and-trade program.

Changes to the generation and distribution rate components resulting from the implementation of this advice letter are as follows:

- **Generation rates** are designed according to the guidelines established for rate changes between General Rate Cases set forth in D.11-12-053 to reflect the GHG cost increases authorized in ERRA. PG&E adjusts generation revenue at present rates to remove non-allocated revenue and calculates allocation factors based on each schedule's share of the adjusted present generation revenue. The sum of schedule-level adjusted present generation revenue, the incremental schedule-level generation allocation resulting from GHG cost increases (allocated to all bundled customers), and any applicable non allocated revenue equals the proposed schedule-level generation allocation. Generation demand and energy charges are revised to collect the revenue allocated to each schedule.

- **Distribution rates** will include the return of GHG allowance revenues through volumetric rates where applicable. There are three types of volumetric returns in PG&E's rate design models:
  - **EITE returns** are the returns to customers that have been identified as emissions-intensive and trade-exposed (EITE) to offset their increased generation costs due to GHG. Actual EITE returns are still under consideration at the CPUC, and will not be returned through volumetric rates. The tariff sheets do not include EITE provisions, however total EITE revenue return amounts are forecasted in the rate design models to be equal to the total increased generation costs paid by EITE customers. This revenue return is included in the total revenue amounts listed in Attachment 2. The final revenue return formula and methodology for EITE customers is pending a Commission decision and does not impact the rates described in this advice letter.
  - **Small Business returns** are the volumetric returns to offset GHG costs to customers that are qualified as Small Businesses – California Climate Credit under Electric Rule 1, Definitions, in PG&E's tariffs. The return offsets a portion of the cost through an assistance factor established in D.13-12-002. The factors used in this advice letter are 100 percent for 2013 and 90 percent for 2014 costs. If the ARB approves a delay in the assistance factor decline in its April board meeting, PG&E seeks permission to file a Tier 1 AL during the month of June to change the small business industry assistance factor to 100 percent effective July 1, and on a prospective basis only. These volumetric returns are included in the illustrative tariffs and in the total revenue amounts listed in Attachment 2.

- **Residential volumetric returns** are the returns to offset GHG costs to residential customers. The GHG cost increases are only incurred by non-CARE customers, and only in Tiers 3 and 4 (usage in excess of 130 percent of baseline). The volumetric returns are only applied to those tiers for non-CARE customers as well, in an amount directly offsetting the cost increase. The return amount is an equal cents per kWh for all residential rate schedules with the exception of EV rates. Since EV rate schedules do not have tiers, their GHG cost increase is spread evenly across all usage. Therefore, the volumetric return for EV schedules is also applied to all usage, but is reduced according to the forecasted billing determinants so that an average customer would receive the same amount of return on an EV schedule as they would on another residential schedule. These volumetric returns are included in the illustrative tariffs and in the total revenue amounts listed in Attachment 2.

The volumetric return amounts are the same as those presented in PG&E's revised testimony on December 6, 2013 (Exhibit 7C-R) and approved via D.13-12-041, adjusted for the 90 percent small business assistance factor, and annualized to return revenue over the eight months remaining in 2014. These volumetric return rates are understated by about one percent because the allowance for franchise fees and uncollectibles (FF&U) was inadvertently excluded from this calculation. As noted in AL 4370-E, the California Climate Credit is therefore slightly overstated because of this exclusion. PG&E will true-up this difference in accordance with D.13-12-041 which states on page 2 that "All forecasts approved in these consolidated proceedings are subject to true-up against actual costs and revenues in subsequent proceedings."[8]

Modification to Electric Rule 1

In Advice 4371-E, PG&E proposed the following language in its definition of "Small Business Customer – California Climate Credit" contained in Electric Rule No. 1 (Definitions):

> "For customers that do not have demand billing data available, the customer's 20 kW monthly threshold requirement will be replaced by an average usage of 110 kWh per day for the month."

In his April 15, 2014 letter, Director Randolph cited this language as "non-compliant with D.12-12-033," which defined "small business" as "a business with electric demand that does not exceed 20 kW in more than three months within a 12-month period." (D.12-12-033, Conclusion of Law 11.)

In Decision 12-12-033, the Commission described the Division of Ratepayer Advocates' recommendation about the appropriate definition for "small business" to be used for purposes of the GHG revenue return:

[8] PG&E's next Greenhouse Gas Revenue and Reconciliation Application will be filed concurrently with its 2015 ERRA Forecast Application pursuant to D.13-12-041, O.P. 12.

> "DRA…recommends that the Commission designate as small businesses those customers with maximum electric demand below 20 kW, as established in the small business tariffs of SCE and SDG&E. To support its case, DRA cites to D.10-10-032, which defines a small business customer as a non-residential customer with annual electric usage of 40,000 kWh or less or an energy demand of 20 kW or less." (D.12-12-033, p. 75.)

Usage of 40,000 kWh per year is the equivalent of an average usage of 110 kWh per day for 12 months. PG&E believes that the additional language referencing "110 kWh per day for the month" is not necessary, and thereby has removed it from its proposed Electric Rule No. 1 definition of "Small Business Customer – California Climate Credit." Once again, PG&E apologizes for any confusion caused by its original advice letter.

Protests

PG&E submits this as a Tier 1 advice letter. Anyone wishing to protest this filing may do so by sending a letter by **May 15, 2014**, which is 20 days from the date of this filing. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. Protests must be submitted to:

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:

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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 1 advice filing be approved effective on **May 1, 2014**.

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. 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 be accessed electronically at: http://www.pge.com/tariffs.

Vice President, Regulatory Relations

Attachment 1: Illustrative Tariffs

Attachment 2: Rate Tables

Attachment 3: Electric Rule 1 Revisions

cc: R.11-03-012 and A.13-08-002, et.al