

JOINT UTILITY PROPOSAL
PREPARED PURSUANT TO THE FEBRUARY 19, 2014
ASSIGNED COMMISSIONER'S AND ADMINISTRATIVE LAW JUDGE'S
PHASE 2 SCOPING MEMO AND RULING

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A.13-08-002, et al.

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I. Introduction

Pursuant to the Assigned Commissioner's and Administrative Law Judge's Phase 2 Scoping Memo and Ruling ("Phase 2 Scoping Memo") issued on February 19, 2014 in proceeding A.13-08-002 et al.,¹ San Diego Gas & Electric Company ("SDG&E"), on behalf of itself, Pacific Gas and Electric Company ("PG&E"), Southern California Edison ("SCE"), PacifiCorp and Liberty Utilities, LLC ("Liberty"), serves this Joint Utility Proposal which summarizes the results of the collaborative effort among the utilities to develop the methodologies and conventions to be used for: 1) determining forecast and actual greenhouse gas ("GHG") costs and revenues, and 2) truing up of those GHG costs and revenues.²

II. Joint Utility Proposal and Attachments

This Joint Utility Proposal addresses the seven issues outlined in the Phase 2 Scoping Memo (at pp. 4-5) and consists of the following documents:

- Joint Utility Proposal Matrix - containing short answers to the seven issues
- Joint Utility Proposal Narrative - explaining the joint utility proposal in more detail and setting forth the rationale of the responses
- Attachment A-1: PG&E Prepared Testimony for A.13-08-003, Chapter 3 - GHG Forecast and True-up Methodology
- Attachment A-2: PG&E Prepared Testimony for A.13-08-003, Chapter 4 - GHG Revenue Return
- Attachment B: Proposed Confidentiality Protocols of PG&E and SCE
- Attachment C: Proposed Confidentiality Protocols of SDG&E (in clean and redline version?)
- Attachment D-1: Response of PG&E to the Accounting Questions propounded by Grant Novack of the Office of Ratepayer Advocates ("ORA")
- Attachment D-2: Response of PG&E to the Accounting Questions propounded by Grant Novack of ORA – Regulatory Accounting Document 12-07-02
- Attachment D-3: Response of PG&E to the Accounting Questions propounded by Grant Novack of ORA – Regulatory Accounting Document 13-01-05
- Attachment E: Response of SCE to the Accounting Questions propounded by Grant Novack of ORA
- Attachment F: Response of SDG&E to the Accounting Questions propounded by Grant Novack of ORA

¹ Phase 2 Scoping Memo at Section 4, pp. 4-6

² Counsel for PG&E, SCE, PacifiCorp and Liberty have authorized SDG&E to serve this Joint Utility Proposal on their behalf.

Issue	PG&E	SCE	SDG&E	Liberty	PacifiCorp
<p>1. Proposed proxy GHG allowance price calculation.</p>	<p>The proxy GHG allowance price should equal an average settlement price of the ICE allowance futures contract with a vintage year equal to the forecast year and delivery in December of the forecast year. The proxy price will be developed based on the same 5-day trading range that is used to determine the forward electric and natural gas prices filed in the ERRA Forecast. If more experience shows that the use of such a proxy leads to a large disparity of the GHG revenue return, PG&E would request to revise this proxy calculation.</p>	<p>The proxy GHG allowance price should equal the daily settlement price of the ICE allowance futures contract with a vintage year equal to the forecast year and delivery in December of the forecast year. The proxy price will be developed based on the same trading day that is used for the price forecasts filed in the ERRA application.</p>	<p>Same as SCE except the proxy price can be an average of more than one trading day, developed on the same trading days that are used for the price forecasts filed in the ERRA application.</p>	<p>Proxy price should be the average price of the four prior settlement prices. The simple historical average will provide transparency.</p>	<p>Same as SCE.</p>

Issue	PG&E	SCE	SDG&E	Liberty	PacifiCorp
<p>2. Proposed general methodological guidelines to forecast total annual GHG costs and allowance revenues.</p>	<p><u>GHG Cost:</u> The GHG procurement cost forecast is determined in the ERRA Forecast Proceeding. It is the sum of direct and indirect emissions multiplied by PG&E’s confidential forward GHG allowance price.</p> <p><u>GHG Revenue:</u> The GHG revenue forecast is determined from the ARB’s allocated allowances multiplied by the proxy GHG allowance price.</p>	<p><u>Annual GHG costs</u> should be forecasted by multiplying the aggregate annual sum of direct and indirect GHG emissions by the proxy GHG allowance price.</p> <p><u>Annual GHG allowance revenues</u> should be calculated by multiplying the IOU’s yearly allowance allocation from the ARB by the proxy GHG allowance price.</p>	<p><u>GHG cost forecast:</u> Derived from the ERRA forecast of commodity procurement, GHG prices, and GHG emissions assumptions for each of the resources in the ERRA procurement forecast.</p> <p><u>GHG Revenue Forecast:</u> Forecast is the GHG price times ARB allocations to individual IOUs.</p>	<p>The general methodology for forecasting the GHG allowance revenue is a straight –forward calculation. Annual free allowances multiplied by the proxy price.</p>	<p><u>Forecast Revenue Methodology:</u> Annual direct allocation of allowances multiplied by the proxy price.</p> <p><u>Forecast Costs Methodology:</u> Annual compliance obligation multiplied by the proxy price.</p>

Issue	PG&E	SCE	SDG&E	Liberty	PacifiCorp
<p>3. Proposed method and procedure for true up.</p>	<p><u>GHG Cost:</u> For purpose of truing up the prior year’s volumetric returns, PG&E proposes to: (1) calculate actual costs from direct GHG emissions, (2) estimate indirect costs since they cannot be precisely calculated. This process is described in detail in the narrative below.</p> <p><u>GHG Revenue:</u> Actual GHG revenue in the GHGRBA will be compared to the forecast for the purposes of trueing up return to customers.</p>	<p>For the purpose of truing-up the prior year’s allocation of auction revenues to eligible customers, SCE proposes to compute “actual” GHG costs based on the simplified method as set forth in the June 19, 2013 Amended Joint IOU GHG Revenue Return Implementation Plan.</p> <p>GHG allowance revenues will be trued-up in the GHG Revenue Balancing Account.</p>	<p><u>“Actual” GHG Costs:</u> Same as PG&E and SCE except for technical details</p> <p><u>Cost Reconciliation:</u> Forecasted difference of actual GHG costs and volume-adjusted forecasted GHG costs applied to residential and small business return.</p> <p><u>Actual GHG revenues:</u> Calculated as auction prices times auctioned allowances in prior year.</p> <p><u>Rev. Reconciliation:</u> Actual revenues would be subtracted from forecasted GHG revenues for prior year and deducted from the forecast of GHG revenues.</p>	<p>Both GHG revenues and costs will be trued-up annually. The proposed method will be a basic schedule noting the forecasted and actual values for auction proceeds, returned proceeds, administrative expenses and customer outreach expenses.</p>	<p>GHG costs and revenues will be trued up annually. The proposed method will be a basic schedule noting the forecast and actual auction proceeds/expenses, administrative expenses, and customer outreach expenses. Details of the true-up process are provided in the narrative below.</p>

Issue	PG&E	SCE	SDG&E	Liberty	PacifiCorp
<p>4. Proposed Confidentiality Protocols developed in fall 2013.</p>	<p>See Attachment B for revised Confidentiality Protocols jointly developed by the IOUs with feedback from parties to A.13-08-002, et al. These Protocols are subject to change with pending regulatory language in an ARB rulemaking that would delegate to the Commission the decision to provide disclosure of confidential market-sensitive GHG procurement information.</p>	<p>See Attachment B for revised Confidentiality Protocols jointly developed by the IOUs with feedback from parties to A.13-08-002, et al. and incorporating ARB note on confidentiality</p>	<p>See Attachment C. Based upon the February 19, 2014 Memorandum on Confidentiality from ARB, SDG&E proposes alternative modifications to the Confidentiality Protocols previously developed by the IOUs with feedback from parties to A.13-08-002, et al.</p>	<p>Liberty proposes to maintain the protocols developed in Phase I.</p>	<p>See Attachment B for revised Confidentiality Protocols jointly developed by the IOUs with feedback from parties to A.13-08-002, et al. These protocols are subject to change with pending regulatory language in an ARB rulemaking that would delegate to the Commission the decision to provide disclosure of confidential market-sensitive GHG procurement information.</p>

Issue	PG&E	SCE	SDG&E	Liberty	PacifiCorp
5. Proposed worksheet form for reporting information in future GHG Revenue and Reconciliation Applications	The Supplemental Information Sheet form used in Phase 1 provides sufficient information, with line items added as necessary to account for prior period true-ups.	The Supplemental Information Sheet form used in Phase 1 provides sufficient information, with line items added as necessary to account for prior period true-ups.	The Supplemental Information Sheet form used in Phase 1 provides sufficient information, with line items added as necessary to account for prior period true-ups.	Liberty will continue with the worksheets presented in Phase I.	PacifiCorp proposes to provide the same exhibits and worksheets provided with its 2013 GHG application including the supplemental information sheet. Two new exhibits for the true-up of allowance revenue and costs will also be provided.

Issue	PG&E	SCE	SDG&E	Liberty	PacifiCorp
<p>6. Proposed procedure for utilities to seek approval of energy efficiency or clean energy program set asides.</p>	<p>If a set aside of GHG revenue was ordered by the Commission, PG&E would propose to add a new accounting procedure to debit the set aside in the GHG Revenue Balancing Account. That amount would then be credited to the applicable regulatory account for the energy efficiency or clean energy program.</p>	<p>SCE agrees with SDG&E's proposed procedural steps to seek approval of EE or clean energy program set asides.</p>	<ol style="list-style-type: none"> 1. Request and receive approval of up to 15% of expected revenue for projects in GHG Application. 2. Request and receive approval of project in relevant proceeding including a finding that program is incremental 3. If proposed project spending is less than cap less prior funding of programs, use approval to modify revenue balancing tariff sheets to allow approved funding to be disbursed and recovered 4. If cumulative spending is less than cap in determined in step 1, return unspent funds to customers the following year in reconciliation process 	<p>Liberty anticipates using the existing GHG Administrative balancing account to track energy efficiency or clean energy program set asides. These set asides would be included in the annual filing as separate line items.</p>	<p>Utilities that wish to set aside funds for energy efficiency or clean energy programs may submit the request with their annual application.</p>

Issue	PG&E	SCE	SDG&E	Liberty	PacifiCorp
<p>7. If not already addressed, proposed accounting procedures and rules for reporting GHG costs, allowance revenues and compliance instruments inventory. Indicate if the procedure is already being evaluated or has already been adopted in another proceeding.</p>	<p>PG&E’s records GHG cost and revenue according to US GAAP. The narrative below provides more details on the procedures for GHG costs, revenues and compliance instruments.</p> <p>Attached PG&E provides responses to ORA’s request for additional detail on accounting procedures and rules. See Attachment D-1, D-2, D-3.</p>	<p>SCE’s treatment of GHG revenues and costs is in accordance with Commission decisions, SCE’s tariffs, and applicable accounting rules. SCE’s approved ratemaking records both the GHG cost and the GHG revenue on a cash basis.</p> <p>Attached SCE provides responses to ORA’s questions addressing GHG accounting procedures and rules. See Attachment E.</p>	<p>1. Accounting for 2013-2014 should not be addressed in this proceeding.</p> <p>2. GHG compliance instruments will be recorded as “other assets” with costs measured initially at historical cost but tracked using the weighted-average-cost by vintage year. Although the GHG compliance instruments will not be classified as inventory, SDG&E will use inventory costing methods to account for them.</p> <p>Attached SDG&E provides responses to ORA’s questions addressing GHG accounting procedures and rules. See Attachment F.</p>	<p>Liberty follows US GAAP. Liberty will continue to use the CPUC approved balancing accounts. Specific transactions and their frequency are noted in the approved tariff.</p>	<p>PacifiCorp follows US GAAP. PacifiCorp will continue to record GHG allowance costs and revenue in their respective balancing accounts. See the company’s response to issues 1, 2, and 3 for the process used to forecast and true-up GHG allowance costs and revenues.</p>

Narrative/Rationale for Proposals

Issue 1: Proposed proxy GHG allowance price calculation.

- A. **PG&E:** A proxy price will not be used to forecast GHG procurement costs for the purposes of ratemaking in the ERRA forecast proceeding. However, a proxy price could be used to present a proxy GHG cost for the purposes of volumetric revenue return. A proxy price could also be used to forecast total revenue available for return to customers. PG&E's proposal is similar to SCE and SDG&E's proposal, but would use an average settlement price over a 5-day range, consistent with its ERRA Forecast. However, if more experience shows that the use of such a proxy leads to a large disparity of the GHG revenue return, PG&E would request to revise this calculation.
- B. **SCE:** All IOUs should use an annual proxy GHG allowance price, developed according to a common methodology, for the calculations of GHG costs, revenues, and public rate forecasts that are filed with the Commission. Both the proxy price calculation methodology and the price itself should be documented and transparent, in order to facilitate public understanding of the IOUs' costs and revenues associated with participation in the Cap-and-Trade program. The proxy price should be used for forecasted and any actual emissions recorded during the forecast year, and should be publicly available only on an annual basis. These restrictions are necessary to protect the confidentiality of the IOUs' consignment and procurement strategies, as well as actual prices paid and received for compliance instruments. SCE proposes that the proxy GHG allowance price should equal the daily settlement price of the ICE allowance futures contract with a vintage year equal to the forecast year and delivery in December of the forecast year. The proxy price will be developed based on the same trading day that is used for the price forecasts filed in the ERRA application.
- C. **SDG&E:** The same as SCE except to clarify that more than one trading day can be used. Rationale: The ICE market price forecast is public, transparent and easy for anyone to calculate. Using the same trading days as are used for ERRA provides a price that consistent with the data used to determine dispatch of generation resources. The proxy price should be an annual price to protect the confidentiality of IOU allocation of allowances to the four auctions.
- D. **Liberty:** Proxy price should be the average price of the four prior settlement prices. The simple historical average will provide transparency.
- E. **PacifiCorp:** See response provided in matrix.

Issue 2: Proposed general methodological guidelines to forecast total annual GHG costs and allowance revenues.**A. PG&E:**

GHG Cost: PG&E GHG procurement costs are approved in the ERRA forecast proceeding. There are two types of GHG compliance costs, direct and indirect, which are multiplied by a confidential GHG allowance price to determine total costs. PG&E's Prepared Testimony in A.13-08-003 describes the calculation of GHG procurement costs forecast in Chapter 3, Section B. See Attachment A-1 for the full proposal.

GHG Revenue: Forecast revenues are a simple calculation of the number of ARB allocated allowances multiplied by a price. In future applications, PG&E proposes to use a proxy price for the total revenue calculation. PG&E's Prepared Testimony in A.13-08-003 describes the calculation of the GHG revenue forecast calculation of the GHG revenue forecast for the 2014 revenue return allocation which used the confidential allowance price forecast. See Attachment A-2 for the full proposal.

- B. SCE:** An annual forecast of GHG costs should be based on an emissions forecast that aggregates all direct sources of portfolio emissions, including utility-owned generation, energy imports and tolling contracts, with all indirect sources of portfolio emissions, including Qualifying Facilities and in-state power purchases. This emissions forecast should be calculated using the same energy forecast that is filed in the ERRA application and the most recent ARB-issued emission factors for unspecified or specified sources, as applicable. The annual emissions forecast multiplied by the proxy GHG allowance price will equal the GHG cost forecast for the year. The forecast of GHG costs should be made public only on an annual basis in order to protect the confidentiality of specific volumes of exposure to the GHG market that may occur on a quarterly, monthly, or daily basis.

To calculate the forecasted annual GHG allowance revenues, SCE's yearly ARB-issued allowance allocation should be multiplied by the proxy GHG allowance price. The forecast of GHG allowance revenues should be made public only on an annual basis in order to protect the confidentiality of SCE's quarterly consignment strategy.

- C. SDG&E:** The ERRA energy procurement forecast from various sources has been determined to be reasonable in the past; no changes are needed to the ERRA energy forecasting process. For IOU dispatched resources, the forecast should be based on forecasted facility fuel use, consistent with ARB calculation. Purchases from asset-controlling suppliers, unspecified imports, and treatment of firmed-and-shaped out of state renewables should follow ARB mandatory reporting regulation (MRR) guidelines in the calculation of indirect GHG emissions. Bilateral sales should follow ARB guidelines; if a specific source use the emissions factor of the source. If unspecified, use the ARB default factor. For simplicity, CAISO purchases and sales should use the ARB default rate of 0.428 MT/MWh. CHP electric emissions should be at the ARB default emissions rate for old contracts

paying SRAC. New CHP contracts should have emissions calculated based on expected output, plant efficiency and deducting thermally-related emissions based on useful thermal output and assumed 80 percent efficient thermal process. Rationale: GHG analysis should be on annual basis for simplicity in the calculation of indirect GHG emissions; more complexity in unnecessary since calculations are only for the purpose of returning revenue per the Joint Implementation Plan. The assumption that all MWh procured serve IOU bundled customers is a reasonable assumption, is consistent with LTPP and ERR/ECAC forecasts, makes the calculation of GHG emissions manageable, and was approved in the Joint Implementation plan. More complexity in unnecessary since calculations are for the sole purpose of adjusting the revenue return.

D. **Liberty:** The general methodology for forecasting the GHG allowance revenue is a straight – forward calculation. Annual free allowances multiplied by the proxy price.

E. **PacifiCorp:**

Forecast Revenue Methodology: The annual revenue forecast provided in the company’s annual application will be based on the quantity of allowances expected to be sold at the quarterly auctions during the year multiplied by the proxy price.

Forecast Costs Methodology: Multijurisdictional retail providers that have a compliance obligation, such as PacifiCorp, must calculate emissions and its related compliance obligation as set out in California Code of Regulations, Section 95111. The generation data used to calculate the company’s annual compliance obligation in the annual application will be based on the net power costs forecast in the company’s ECAC filing. The company determines the amount of allowances to procure at each quarterly auction to meet its annual compliance obligation. The quantity of allowances forecast to be procured at each quarterly auction is multiplied by the proxy price (see Company’s response to Issue 1) to determine the annual forecast costs for procuring GHG allowances. Note that at this time PacifiCorp only has direct costs.

Issue 3: Proposed method and procedure for true up.

A. **PG&E:**

GHG Cost: PG&E’s Prepared Testimony in A.13-08-003 describes the proposed methodology for trueing up direct and indirect GHG procurement costs for the purposes of trueing up volumetric revenue return only. Indirect costs cannot be true-up with precision since actual indirect costs cannot be calculated, however PG&E proposed a methodology to estimate these costs. See Attachment A-1 for the full GHG cost true-up proposal.

GHG Revenue: Similar to other ratemaking proceedings involving balancing accounts, PG&E’s revenue true-up proposal is based on transactions recorded and forecast in its GHG Revenue Balancing Account (GHGRBA). Differences between recorded GHG revenue return and proceeds from the sale of GHG revenue, net of authorized expenses, would result in an over or

undercollected GHGRBA balance. That difference will be added or subtracted to the following years forecast of total GHG revenue return available to customers.

B. SCE:

Cap-and-Trade Costs: Any disparity between the forecast of GHG costs incorporated into rates and actual GHG costs incurred is captured as part of the larger ERRA balancing account true-up process. For the purpose of truing-up the prior year's allocation of auction revenues to eligible customers only, SCE proposes to compute "actual" GHG costs based on the following methodology.

Actual direct GHG costs are the direct and contractual GHG costs recorded each month in the ERRA balancing account. Forecast indirect GHG costs are estimated and cannot be precisely determined and, therefore, a methodology to compute GHG costs incurred as a result of market purchases of energy must be established by the Commission. SCE proposes to use the simplified method to compute actual indirect GHG costs as set forth in the June 19, 2013 Amended Joint IOU GHG Revenue Allowance Return Implementation Plan. That is, to calculate the GHG cost of market purchases, SCE proposes to use three simplifying assumptions: (1) all dispatched generation under SCE control be assigned to bundled customers; (2) all market purchases be assigned the default emission factor for unspecified sources as set forth by the ARB; and (3) either an estimate of the price of embedded GHG in power purchases or a sales-weighted average of the year's four ARB allowance auction clearing prices be used for the price of the GHG embedded in market purchases.

Any disparity between the forecast of GHG costs used to determine the GHG revenue returns to eligible customers and computed GHG costs will be trued-up in SCE's annual GHG Revenue and Reconciliation application. To the extent the prior year revenue returns were over- or under-stated due to differences in forecast GHG costs and computed GHG costs, that difference would be accounted for in the GHG auction allowance revenues to be returned to eligible customers in the following year.

GHG Allowance Revenues: Any disparity between the forecast of auction allowance revenues used to determine the GHG revenue returns to eligible customers and actual auction allowance revenues will be trued-up in SCE's annual GHG Revenue and Reconciliation application. To the extent the prior year revenue returns were over- or under-stated due to differences in forecast auction allowance revenues and actual auction allowance revenues, that difference is captured through the operation of the GHG Revenue Balancing Account (GHGRBA). The prior year's December 31st balance (overcollected or undercollected) in the GHGRBA is added to the GHG revenues to be returned to eligible customers in the following year.

C. SDG&E:

"Actual GHG costs" (an accounting rule) - At the time of filing the GHG application, the IOU will not have surrendered allowances and offsets for compliance and will not have a verified emissions

level, so “actual GHG costs” should be based on the cost of emissions estimated based on actual fuel use for dispatched resources to serve load and actual kWh from other resources evaluated at forecast GHG/kWh rates to serve load, not the cost of compliance instruments actually purchased. Assumptions for direct GHG price (an accounting rule) - If long, the direct cost of GHG compliance instruments will be calculated based upon the weighted-average-cost of the vintage year allowances and offsets (up to 8 percent) expected to be used to satisfy the emission liability. If short, for purposes of revenue return, the amount of shortage should be calculated at the latest ICE price for current year vintage unless after the end of the compliance period, then the ICE price for the prior vintage year if still trading or last available ICE price. For indirect GHG costs, the CAISO’s Greenhouse Gas Allowance Price Index and the ARB default emissions rate, 0.428 MT, should be used as the GHG price for purposes of revenue reconciliation as easily available and transparent. Rationale: Simple and consistent with Joint Implementation Plan.

GHG Cost Reconciliation: Forecasted GHG costs for the prior year would be multiplied by the ratio of actual kWh to forecasted kWh and “actual” GHG costs would be subtracted from the adjusted forecasted GHG costs. The quantity would be subtracted from the forecasted GHG costs to be used for revenue return in the forecast year. The deviation would be multiplied by the forecast cost allocators to the respective customer segment. EITE return reconciliation would be done entirely by Energy Division/third party and provided to utilities. IOU costs such as administrative costs or clean energy investments would also be adjusted for actual authorized transfers versus forecast. Rationale – Consistent with the Joint Implementation Plan.

Actual GHG revenues: Actual revenues would be calculated as auction prices times allowances auctioned for prior year. Rationale: Clear, easy to calculate, requires no forecast.

Revenue Reconciliation: Prior year actual revenues should be subtracted from forecasted prior year GHG revenues. The quantity would be subtracted from the forecasted GHG revenues for the forecast year if positive (and added if negative). Rationale: Known, no forecast required.

- D. **Liberty**: Both GHG revenues and costs will be true-up annually. The proposed method will be a basic schedule noting the variance forecasted and actual values for auction proceeds, returned proceeds, administrative expenses and customer outreach expenses from the prior period added to the upcoming period’s forecast .
- E. **PacifiCorp**: The annual true-up provided with each application will be done using the following methodology. Note that at this time PacifiCorp only has direct costs therefore the true-up methodology should be straightforward.

Allowance Revenue True-up:

Allowance revenue received to date (i.e. amount of revenue recorded in the GHG Allowance Revenue Balancing Account)

Plus: Forecast allowance revenue for remainder of the current year and following year.

Less: Revenue distributed to eligible small business customers and residential customers to date and expected to be returned through the end of the current year.

Less: Administrative and customer outreach costs

Equals: Allowance revenue to be returned in the following year.

Allowance Costs True-up:

Allowance costs incurred to date (i.e. amount of costs recorded in GHG Allowance Costs Sub-balancing Account)

Plus: Forecast allowance costs for remainder of the current year and following year.

Less: Amount collected from customers to date and amount expected to be collected through the remainder of the year.

Equals: Allowances costs to be collected from customers during the following year.

Issue 4: Proposed Confidentiality Protocols developed in fall 2013.

- A. **PG&E:** See Attachment B, revised Confidentiality Protocols jointly developed by the IOUs with feedback from parties to A.13-08-002, et al. These Protocols are subject to change with pending regulatory language in an ARB rulemaking that would delegate to the Commission the decision to provide disclosure of confidential market-sensitive GHG procurement information.
- B. **SCE:** See the attached Confidentiality Protocols (Attachment B) jointly developed by the IOUs with feedback from parties to A.13-08-002, et al. and incorporating ARB note on confidentiality.
- C. **SDG&E:** See Attachment C. In addition, a minor change is proposed to the examples since the forecast of total GHG costs would be of more interest than the forecast of GHG intensity to parties. Keeping GHG intensity confidential protects load forecast.
- D. **Liberty:** Liberty proposes to maintain the protocols developed in Phase I.
- E. **PacifiCorp:** See response provided in matrix.

Issue 5: Proposed worksheet form for reporting information in future GHG Revenue and Reconciliation Applications

- A. **PG&E:** The Supplemental Information Sheet form used in Phase 1 is a sufficient worksheet for reporting information in future GHG Revenue and Reconciliation Applications. However, an additional line item(s) may be required to account to any true-ups from the prior year's forecast.
- B. **SCE:** The Supplemental Information Sheet form used in Phase 1 provides sufficient information for evaluation (at a summary level, with supporting testimony and tables also provided) of future GHG cost and revenue forecasts to determine the revenue returns to eligible customers. Beginning in 2014, the IOU's GHG Revenue and Reconciliation applications must include a detailed accounting of GHG costs incurred for the previous year, as well as revenues distributed, including customer outreach and administrative costs. Therefore the summary worksheet form should also

reflect line items for a prior period true-up for GHG program costs and revenues, and computed GHG costs (methodology to be determined in this Phase II) with supporting testimony and tables also provided.

- C. **SDG&E:** As discussed by SCE, the Supplemental Information Sheet form used in Phase 1 provides sufficient information assuming line items are added to account for prior period true-ups..
- D. **Liberty:** Liberty will continue with the worksheets presented in Phase I.
- E. **PacifiCorp:** See response provided in matrix.

Issue 6: Proposed procedure for utilities to seek approval of energy efficiency or clean energy program set asides.

- A. **PG&E:** PG&E has no current plans to seek approval for energy efficiency or clean energy program set asides. However, if a set aside of GHG revenue was ordered by the Commission, PG&E would propose to add the following new accounting procedure to the GHG Revenue Balancing Account, Preliminary Statement Part GB:

- A debit entry equal to GHG revenue approved to be set aside for any specific funding as ordered by the Commission

The set aside funding will be transferred to the specified program and reflected as a credit (plus FF&U if applicable) in the regulatory account where that activity is recorded. Differences between the funding transferred to a specific program and actual costs/revenue requirements will be addressed in the applicable proceedings where the programs are reviewed and addressed by the Commission.

- B. **SCE:** SCE has no current plans to seek approval to set aside allowance revenue for the purpose of funding EE or clean energy programs. All GHG auction allowance revenues (net of administrative and customer outreach program costs) should be returned to eligible customers. In the event an IOU wishes to seek approval of EE or clean energy program set asides, SCE agrees with the steps as proposed by SDG&E.
- C. **SDG&E:** SB 1018 places a cap on the use of allowance auction revenues for EE and clean energy investments at 15% of revenue. Step 1 makes this cap explicit so that more is not taken out than is allowed by legislation. Step 2 is consistent with D.12-12-033 requirements that it be approved in proceeding where it is comprehensively reviewed. That proceeding is also the best place to establish it is incremental spending to programs authorized prior to 2013. Step 3 is consistent with scoping memo interpretation of D. 12-12-033 and ensures limit imposed by SB 1018 is not violated. Step 4 is appropriate to provide a reconciliation as with other forecasted uses of auction revenues such as for administration.

- D. **Liberty:** Liberty anticipates using the existing GHG Administrative balancing account to track energy efficiency or clean energy program set asides. These set asides would be included in the annual filing as separate line items.
- E. **PacifiCorp:** See response provided in matrix.

Issue 7: If not already addressed, proposed accounting procedures and rules for reporting GHG costs, allowance revenues and compliance instruments inventory. Indicate if the procedure is already being evaluated or has already been adopted in another proceeding.

- A. **PG&E:** PG&E follow US GAAP and provides a summary below of GHG cost, revenue and compliance instrument inventory accounting procedures:

GHG costs – PG&E calculates an emission expense amount each month and a corresponding entry to ERRA to reflect the costs of PG&E’s physical compliance obligation. A physical compliance obligation refers to PG&E’s UOG plants and also tolling agreements where PG&E procures allowances on behalf of our counterparties. Additionally, other third parties pass on their GHG costs to PG&E directly which are embedded in the purchase power cost and these financially settled costs are recovered in ERRA.

Allowance revenues – PG&E books the receipt of the auction proceeds received from the sale of the allowances that were consigned to PG&E by a debit to the GHGRBA and a credit to cash. These proceeds are then passed back to ratepayers in compliance with the methodology prescribed in D. 12-12-033. The gain or loss from the sale of any allowances from PG&E’s inventory are passed back to ratepayers via the ERRA account.

Compliance instrument inventory – Upon the purchase of allowances or offsets, these instruments are held as inventory and are tracked at the weighted average cost (WAC). The WAC is used to quantify the emissions expense, as discussed above. As allowances are transferred to third parties or retired to the CARB, the inventory balance is reduced.

PG&E’s response to ORA’s request for detailed response on accounting procedures for reporting GHG costs, allowance revenues and compliance instruments inventory is included as Attachment D-1, D-2 and D-3.

- B. **SCE:** SCE’s treatment of GHG revenues and costs is in accordance with Commission decisions, SCE’s tariffs, and applicable accounting rules. SCE’s approved ratemaking records both the GHG cost and the GHG revenue on a cash basis. Please see Attachment E for SCE’s responses to ORA’s questions regarding accounting procedures and rules and GHG ratemaking as requested on February 26, 2014, March 14, 2014, and March 17, 2014.

In SCE’s ERRA Review Proceeding (A.13-04-001) addressing the 2012 record period, ORA took issue with SCE’s ratemaking regarding certain GHG costs incurred in the November 2012 auction and SCE’s internal accounting regarding those 2012 costs. SCE and ORA reached a compromise

resolving the GHG accounting issue in A.13-04-001 and identified the GHG Cost and Revenue Allocation proceeding, A.13-08-002, as the forum to address GHG Accounting issues such that this dispute is not likely to reoccur.

- C. **SDG&E:** GHG compliance instruments will be recorded as “other assets” with costs measured initially at historical cost but tracked using the weighted-average-cost by vintage year. Although the GHG compliance instruments will not be classified as inventory, SDG&E will use inventory costing methods to account for them. On a monthly basis, SDG&E will recognize the expense of emitting GHG based upon the weighted-average cost of the GHG compliance instruments held by vintage year for ERRR balancing account purposes. The emission data will be based on actuals if available or reasonable estimates when not available. The emission data will be trued up quarterly and as additional information becomes available. Since the GHG allowances do not expire during the program period and can be carried forward to meet the compliance obligations of subsequent periods, SDG&E is not anticipating any unused (“expired”) costs until possibly when the program ends at the end of 2020. As 2020 approaches, SDG&E will closely monitor the number of unused allowances to minimize the potential for unused (“expired”) costs if the cap-and-trade program does not continue.

Attached SDG&E provides responses to ORA’s questions addressing GHG accounting procedures and rules. See Attachment F.

- D. **Liberty:** Liberty follows US GAAP. Liberty will continue to use the CPUC approved balancing accounts. Specific transactions and their frequency are noted in the approved tariff.
- E. **PacifiCorp:** See response provided in matrix.

ATTACHMENT A-1

PG&E Prepared Testimony for
A.13-08-003, Chapter 3 – GHG Cost Forecast and True-Up Methodology

PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 3
GREENHOUSE GAS PROCUREMENT COST FORECAST AND
TRUE -UP METHODOLOGY

PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 3
GREENHOUSE GAS PROCUREMENT COST FORECAST AND
TRUE-UP METHODOLOGY

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1 **PACIFIC GAS AND ELECTRIC COMPANY**
 2 **CHAPTER 3**
 3 **GREENHOUSE GAS PROCUREMENT COST FORECAST AND**
 4 **TRUE-UP METHODOLOGY**

5 **A. Introduction**

6 The purpose of this chapter is to describe the cost forecast for greenhouse
 7 gas (GHG) compliance obligations under the California Air Resource Board's
 8 (ARB) cap-and-trade program pursuant to Assembly Bill (AB) 32 as well as the
 9 true-up methodology. Compliance obligations began on January 1, 2013.¹

10 Pacific Gas and Electric Company (PG&E) proposed to recover costs associated
 11 with GHG compliance obligations through its 2014 Energy Resource Recovery
 12 Account (ERRA) Forecast Application, which was filed with the California Public
 13 Utilities Commission (CPUC or Commission) on May 31, 2013.²

14 **B. Calculation of GHG Costs**

15 There are two categories of GHG compliance costs: (1) direct costs; and
 16 (2) indirect costs. The first section below addresses direct GHG compliance
 17 costs associated with PG&E's utility-owned generation (UOG) plants,
 18 procurement of electricity from third parties under tolling agreements and
 19 electricity imports attributed to PG&E. The second section below addresses
 20 indirect GHG costs expected to be embedded in market electricity prices, or
 21 charged to PG&E by third parties under contract with PG&E for energy supply.

22 **1. Direct GHG Costs**

23 Under ARB's cap-and-trade program, the "first deliverer" of electricity
 24 within California must surrender to ARB one GHG compliance instrument
 25 (an allowance or offset credit) for each metric ton of carbon dioxide (CO₂)

1 ARB's Final Regulation Order is accessible at <http://www.arb.ca.gov/regact/2010/capandtrade10/capandtrade10.htm>. Section 95840 gives the start date for cap-and-trade compliance. ARB plans to expand coverage of its cap-and-trade program in 2015 to include entities that distribute natural gas to small end-users, such as PG&E's gas-distribution business. This section addresses only PG&E's electricity business, consistent with the overall testimony.

2 In order to provide consistency, predictability and stability in ratemaking for generation-related costs to PG&E customers, PG&E is seeking cost recovery of 2014 forecasted GHG costs in the ERRA Application, not in this GHG Application.

1 emissions or its equivalent (CO₂e).³ The “first deliverer” is the owner or
 2 operator of a power plant in California, or the importer of electricity to a
 3 delivery point inside California.⁴

4 PG&E-Owned Plants: Under ARB’s “first deliverer” approach, PG&E
 5 has a direct compliance obligation for GHG emissions from burning natural
 6 gas at its UOG facilities. ARB requires use of the CO₂, methane (CH₄), and
 7 nitrous oxide (N₂O) emission factors for natural gas combustion specified by
 8 the United States Environmental Protection Agency in 40 Code of Federal
 9 Regulations (CFR) §98.33. The emission factors for the three gases sum to
 10 0.05307 metric tons of CO₂e per Million British Thermal Units (MMBtu) of
 11 natural gas.⁵ In other words, PG&E must surrender 0.05307 compliance
 12 instruments to account for the GHG emissions for each MMBtu of natural
 13 gas burned at a PG&E-owned power plant.

14 The compliance obligation for PG&E’s UOG facilities is estimated by
 15 multiplying the forecast of MMBtu consumed at each facility by the emission
 16 factor of 0.05307 metric tons of CO₂e per MMBtu. The forecast GHG
 17 compliance cost to procure allowances for emissions from PG&E’s UOG
 18 facilities in 2014 is included in Table 3-2.

19 Tolling Agreements: Under ARB’s “first deliverer” approach each
 20 in-state generator must surrender compliance instruments to cover its GHG
 21 emissions. Under most of its tolling agreements, PG&E ultimately bears the
 22 GHG compliance cost and, at PG&E’s option, can either reimburse the
 23 generator for its compliance cost, or provide compliance instruments to the
 24 generator for its compliance use.

³ Covered gases are listed in Section 95810 of the Final Regulation Order. Emissions of covered gases are converted into their CO₂-equivalent, or “CO₂e.”

⁴ The “first deliverer” is defined in Section 95811(b) of the Final Regulation Order.

⁵ Section 95103 of the ARB’s MRR (at http://www.arb.ca.gov/cc/reporting/ghg-rep/regulation/2010_regulation.htm) requires use of emission factors from the CFR. For pipeline natural gas, 40 CFR Section 98 Table C-1 specifies a CO₂ emission rate of 53.02 kg per MMBtu, or 0.05302 metric tons per MMBtu. For combustion of natural gas, Table C-2 gives a default emission CH₄ factor of 0.001kg per MMBtu, while Table A-1 specifies a Global Warming Potential of 21. Combining these factors results in a CO₂e emission rate of 0.000021 metric tons per MMBtu. Also for the combustion of natural gas, the default N₂O emission rate is given as 0.0001, and the Global Warming Potential is 310, resulting in a CO₂e emission rate of 0.000031 metric tons per MMBtu. Adding CH₄ and N₂O, in CO₂e terms, to the CO₂ emission rate of 0.05302 metric tons per MMBtu, results in 0.053072 metric tons of CO₂e per MMBtu.

1 The compliance obligation for tolling agreements, like that for PG&E's
 2 UOG facilities, is estimated by multiplying the forecast of MMBtu burned by
 3 the emission factor of 0.05307 metric tons of CO₂e per MMBtu. PG&E's
 4 forecast GHG compliance cost to cover emissions from generators under
 5 tolling agreements in 2014 is shown in Table 3-2.

6 Utility Pre-Scheduled Combined Heat and Power/Power Purchase
 7 Agreements: PG&E will incur GHG compliance costs for several Power
 8 Purchase Agreements (PPA) that PG&E will pre-schedule depending on its
 9 resource needs, as described in Chapter 6, Section B of the 2014 ERRA
 10 application. PG&E's forecast GHG compliance cost to cover emissions from
 11 utility pre-scheduled Combined Heat and Power (CHP) in 2014 is shown in
 12 Table 3-2.

13 Electricity Imports: Under ARB's "first deliverer" approach, the entity
 14 that delivers out-of-state electricity to a delivery point inside California is
 15 responsible for the GHG emissions associated with generation of that
 16 electricity. For imports associated with electricity from some out-of-state
 17 renewable resources, PG&E will have an AB 32 cap-and-trade compliance
 18 obligation for transmission losses of 2 percent between the point of
 19 generation and California. Specifically, PG&E has contracts for electricity
 20 from wind turbines in the Pacific Northwest that is firmed and shaped with
 21 electricity provided from unspecified sources by third parties. Under ARB's
 22 Mandatory Reporting Regulations (MRR), these imports will be categorized
 23 as "unspecified sources," and assigned a GHG compliance burden as
 24 follows:

25 GHG burden (metric tons) =
 26 Megawatt-hours (MWh) of unspecified imports (measured at California
 27 border) ×
 28 Default emission factor (currently 0.428 metric tons per MWh) ×
 29 Transmission loss factor of 1.02 to account for losses between point of
 30 generation and CA border.⁶

⁶ Source: MRR Section 95111(b)(1) <http://www.arb.ca.gov/cc/reporting/ghg-rep/regulation/mrr-2012-clean.pdf>.

1 However, the cap-and-trade regulations provide a “Renewable Portfolio
2 Standard (RPS) adjustment” equal to the default emission rate multiplied
3 times the MWh from eligible renewable resources, as measured at the point
4 of generation.⁷ The RPS adjustment cancels the GHG compliance burden
5 created by assigning a default emission rate to the GHG-free wind energy,
6 as measured at the point of generation, but not the transmission losses from
7 the point of generation to California. Table 3-2 includes the cost of GHG
8 compliance for 2 percent of the MWh imported under those contracts.

9 Electricity imports under PG&E’s seasonal exchange agreement with
10 Puget Sound Energy will be deemed “unspecified sources.” For such
11 imports, ARB imposes a default emission factor, set for 2013 at 0.428 metric
12 tons of CO₂e per MWh, multiplied by a transmission loss factor.⁸ PG&E
13 receives 413,000 MWh per year at the California-Oregon border from that
14 agreement. By bringing that electricity into California, PG&E is the first
15 deliverer bearing the GHG compliance obligation. The compliance
16 obligation is 180,000 metric tons in 2014 (= 413,000 MWh/year ×
17 0.428 metric tons/MWh × 1.02 transmission loss factor). The GHG
18 compliance cost for that obligation is included in Table 3-2.

19 To the extent that PG&E is the “first deliverer” of additional imported
20 electricity (e.g., by purchasing electricity at the California/Oregon border or
21 the mid-Columbia hub and importing it), PG&E will record and recover its
22 actual costs for the necessary compliance instruments on a true-up basis in
23 future ERRA forecast applications. However, PG&E does not separately
24 forecast such purchases.

25 **2. Indirect GHG Costs**

26 In addition to the direct GHG costs described above, the cap-and-trade
27 program results in an embedded GHG compliance cost for required
28 allowances in the market price of electricity procured in the wholesale
29 market and from third parties, thereby increasing PG&E’s cost to purchase

⁷ The RPS adjustment is discussed in the MRR Section 95111(b)(5) and in the Cap- and-Trade Regulations in Section 95852(b)(1)(B). The Cap-and-Trade Regulations are posted at: <http://www.arb.ca.gov/regact/2010/capandtrade10/finalrevfro.pdf>.

⁸ Section 95111(b)(1) of ARB’s MRR provides a default emission factor for unspecified electricity imports of 0.428 MT of CO₂e/MWh.

1 electricity from the wholesale market, as well as from suppliers under
 2 contracts that include market-based prices. PG&E's forecast of the overall
 3 cost of electricity from third parties and in the wholesale market therefore
 4 includes these embedded, indirect GHG costs. PG&E is not directly buying
 5 allowances and surrendering them to ARB for these electricity supplies.
 6 As described below, these indirect GHG compliance costs cannot be
 7 determined precisely and are calculated below for illustrative purposes only.

8 The GHG emissions embedded in market purchases cannot be
 9 determined precisely. Suppose that PG&E purchases 1 MWh from the
 10 wholesale market at \$50/MWh, on a day when the price of natural gas to
 11 generators is \$5/MMBtu. At \$50/MWh and \$5/MMBtu, the marginal,
 12 price-setting generator could be any of the following:

- 13 • The marginal generator was a gas-fired unit with a heat rate of
 14 10 MMBtu/MWh, with zero variable Operations and Maintenance (O&M)
 15 costs and zero profit. 10 MMBtu were burned to provide the 1 MWh
 16 purchase, resulting in 0.53 metric tons of GHG emissions.
- 17 • The marginal generator was a gas-fired unit with a heat rate of
 18 9 MMBtu/MWh, with \$5/MWh variable O&M costs and zero profit.
 19 9 MMBtu were burned to provide the 1 MWh purchase, resulting in
 20 0.48 metric tons of GHG emissions.
- 21 • The marginal generator was a gas-fired unit with a heat rate of
 22 8 MMBtu/MWh, with \$5/MWh variable O&M costs and \$5/MWh profit.
 23 8 MMBtu were burned to provide the 1 MWh purchase, resulting in
 24 0.42 metric tons of GHG emissions.
- 25 • The marginal generator was a hydroelectric unit bidding its opportunity
 26 cost. No gas was burned to provide the 1 MWh purchase, resulting in
 27 zero GHG emissions.

28 These examples demonstrate that it is not possible to pinpoint the
 29 emissions embedded in market purchases, so estimation is necessary.

30 Wholesale Purchases: To estimate the GHG cost embedded in
 31 wholesale purchases, PG&E used the following marginal GHG-emission
 32 rate assumptions from the GHG calculator developed for the California
 33 Public Utilities Commission by Energy and Environmental Economics (E3):

TABLE 3-1
PACIFIC GAS AND ELECTRIC COMPANY
E3 GHG CALCULATOR VERSION 3C

Line No.	Season	Time of Use	Emission Rate in Metric Tons per MWh	Equivalent Heat Rate in MMBtu/MWh
1	Summer	High-Load Hours	0.42	7.9
2	Summer	Low-Load Hours	0.38	7.2
3	Winter	High-Load Hours	0.40	7.5
4	Winter	Low-Load Hours	0.38	7.2

Note: Source: E3 GHG Calculator Version 3c, "Calibration" tab, cells F213:F216 shows the rates in short tons per MWh. Downloadable at: http://ethree.com/public_projects/cpuc2.php.

1 As stated above, PG&E's estimate of GHG exposure associated with
2 purchases from the wholesale market does not represent direct purchase of
3 compliance instruments by PG&E; instead, it is a GHG cost embedded in
4 market purchases.

5 Other Contract Purchases: In some contracts (e.g., certain contracts
6 with Qualifying Facility and Combined Heat and Power, or CHP, facilities),
7 the energy price changes in tandem with a change in the GHG allowance
8 price. Such variation exposes PG&E's ratepayers financially to fluctuations
9 in the GHG allowance price. It is not a direct exposure—PG&E ratepayers
10 are not actually paying a different price for GHG compliance instruments, as
11 they would for PG&E's utility-owned fossil generating plants. Instead, the
12 change in the GHG allowance price will be passed through to customers
13 indirectly, via contract terms for energy prices.

14 The sensitivity of contractual energy prices to the GHG allowance price
15 varies across contracts. For example, under one CHP contract option,
16 PG&E pays the seller's GHG cost at a rate of 0.435 metric tons per MWh
17 times the lesser of: (1) the GHG allowance price; or (2) \$20/metric ton.
18 In other words, the exposure is capped. Some CHP contracts include a
19 heat rate of 8,125 Btu/kilowatt-hour for 2014, which corresponds to a GHG
20 emission rate of 0.43 metric tons per MWh for a natural-gas-fueled facility.

21 For those contracts that pose an indirect GHG exposure, PG&E used an
22 emission rate of 0.43 metric tons per MWh to provide a rule-of-thumb for its
23 indirect GHG exposure from such contracts.

1 Using PG&E's forecast of GHG allowance prices, the estimated indirect
2 GHG costs embedded in wholesale purchases and other contract purchases
3 in 2014 is [REDACTED]. As described above, the estimated indirect GHG
4 costs are embedded in procurement cost forecasts in the ERRA application
5 and cannot be determined precisely. The indirect GHG costs are discussed
6 in this section solely for illustrative purposes.

7 **C. Annual True-Up of Actual GHG Costs**

8 For the purpose of allocating the return of GHG allowance auction revenues
9 as described in Chapter 4, PG&E proposes a method to compute an annual
10 true-up of actual GHG costs for the year just ended. This section describes
11 PG&E's proposed method for computing actual GHG costs including discussion
12 of how actual GHG cost calculations will vary from forecast GHG costs included
13 in the ERRA application. This true-up will be provided as part of PG&E's annual
14 GHG Application filing, currently scheduled for August 1 of each of the following
15 years: 2013, 2014 and 2015. The first true-up for 2013 costs will take place in
16 the August 1, 2014 Application. PG&E's proposed true-up methodology is
17 intended for allocation of auction revenues to customers only; it is not intended
18 to adjust forecasted or actual recorded GHG costs either going forward or
19 retroactively.

20 **1. Actual Direct GHG Costs**

21 PG&E will calculate actual direct GHG costs for all generation resources
22 for which PG&E has a direct GHG compliance obligation, as described in
23 Section B.1. This includes PG&E-owned natural gas-fired power plants,
24 tolling agreements, pre-scheduled CHP facilities and electricity imports.
25 Actual direct GHG costs are the cost of procuring enough compliance
26 instruments to meet the total annual direct GHG compliance obligation.
27 The total annual direct GHG compliance obligation is the sum of calculated
28 actual GHG emissions volumes for each individual generation resource.
29 The method used to calculate actual GHG emissions for these resource
30 categories is consistent with how direct GHG emissions will be forecast,
31 except annual recorded volumes rather than forecast volumes are used in
32 the calculation.

1 PG&E's procurement cost for individual GHG compliance instruments
 2 varies depending on when instruments are procured, the volume procured
 3 and the price paid for each allowance or offset credit. To compute actual
 4 direct GHG costs, PG&E proposes to use the weighted average
 5 procurement cost of GHG compliance instruments needed to meet the
 6 annual direct GHG compliance obligation.⁹

7 **2. Actual Indirect GHG Costs**

8 Section B.2 describes how PG&E estimates indirect GHG costs
 9 embedded in wholesale market purchases and other contract purchases tied
 10 to market-based prices. As discussed in Section B.2, forecast indirect GHG
 11 costs are estimated and cannot be precisely determined. For the purpose of
 12 an annual true-up of actual GHG costs, PG&E proposes to use a simplified
 13 method to compute actual indirect GHG costs.

14 To compute actual indirect GHG emissions, PG&E will aggregate
 15 recorded annual energy volumes from wholesale market purchases and
 16 PPAs with energy pricing based on market prices: market power prices,
 17 market heat rates, or GHG allowance prices. The aggregated energy
 18 volume will be multiplied by the applicable ARB default emission factor for
 19 unspecified sources¹⁰ to compute actual indirect GHG emissions.
 20 Indirect GHG emissions will be multiplied by a historical average GHG
 21 allowance price to compute actual indirect GHG costs. PG&E proposes to
 22 use the simple average of the daily Intercontinental Exchange (ICE) index
 23 GHG allowance settlement price for the year just ended as the average
 24 GHG allowance price.

25 **D. Conclusion**

26 In this chapter, PG&E presents forecasted direct and estimated indirect
 27 GHG costs totaling [REDACTED]. In addition, PG&E describes a proposed

⁹ PG&E derives the cost of GHG emissions to be included in rates by first calculating a weighted average cost of procured allowances held as inventory. The weighted average cost is then multiplied by the quantity of emissions generated in the period to arrive at the periodic emissions cost. This approach is consistent with PG&E's treatment of natural gas costs and is supported by generally accepted accounting principles.

¹⁰ Section 95111(b)(1) of ARB's MRR provides a default emission factor for unspecified electricity imports of 0.428 MT of CO₂e/MWh.

- 1 methodology to compute an annual true-up of actual GHG costs for the purpose
- 2 of allocating the return of GHG allowance auction revenues.

**TABLE 3-2
PACIFIC GAS AND ELECTRIC COMPANY
2014 DIRECT GREENHOUSE GAS COSTS (\$ MILLIONS)**

<u>Line No.</u>	<u>Costs/(Revenues)(\$ millions)</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Total</u>
1	Utility Owned Generation													
2	Fossil													
3	Fuel Cell													
4	Puget Sound Power & Light (Net)													
5	Post-2002 Contracted Resources													
6	Post-2002 RPS Eligible													
7	Non-CHP Fossil													
8	CHP Fossil													
9	Subtotal Direct Greenhouse Gas Costs													
10	QFs*													
11	Total Direct Greenhouse Gas Costs													

* Direct GHG Costs associated with QF contracts are also included in procurement costs shown in Table 5-1, ERRR Forecast (filed May 31, 2013).

3-10

ATTACHMENT A-2

PG&E Prepared Testimony for
A.13-08-003, Chapter 4 – GHG Revenue Return

PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 4
GREENHOUSE G AS REVENUE RETURN

PACIFIC GAS AND ELECTRIC COMPANY
CHAPTER 4
GREENHOUSE GAS REVENUE RETURN

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1 **PACIFIC GAS AND ELECTRIC COMPANY**
2 **CHAPTER 4**
3 **GREENHOUSE GAS REVENUE RETURN**

4 **A. Introduction**

5 This chapter presents the greenhouse gas (GHG) forecast allowance
6 revenue that Pacific Gas and Electric Company (PG&E) will include in its
7 2014 electric rates, and the methodology it will follow to allocate the revenue to
8 its customers. The approach described here is designed in accordance with the
9 California Public Utilities Commission's (CPUC or Commission)
10 Decision 12-12-033, the "Decision Adopting Cap-and-Trade Greenhouse Gas
11 Allowance Revenue Allocation Methodologies for the Investor-Owned Electric
12 Utilities."

13 **B. Test Year 2014 GHG Revenue Allowance Returns**

14 The California Air Resources Board (ARB) adopted a set of final regulations
15 to implement a cap-and-trade program under Assembly Bill (AB) 32, the
16 "Global Warming Solutions Act of 2006," on December 13, 2011. Pursuant to
17 the Commission's GHG Order Instituting Rulemaking (OIR or R.) 11-03-012,
18 issued March 24, 2011, Investor-Owned Utilities (IOU) started incurring costs to
19 comply with the cap-and-trade program beginning in January, 2013.

20 Separately, ARB determined that the IOUs are allocated allowances to be
21 sold in auctions. PG&E has been allocated 24.8 million metric tons (MMT) of
22 allowances in 2014. These allowances are to be consigned to the auctions and
23 their proceeds be distributed to the IOU's customers through electric rates.¹

24 On December 20, 2012, the Commission issued Decision 12-12-033 which
25 describes conceptually how these GHG revenues should be allocated to
26 customers. Additionally, Ordering Paragraph (OP) 1 of Decision 12-12-033
27 allows the IOUs to set aside the administrative and outreach costs against the
28 GHG revenues prior to the return to customers. These costs are described in
29 Chapters 1 and 2 of this Application. Accordingly, these costs are being tracked
30 in the GHG Expense Memorandum Account (GHGEMA).² Once approved, they

¹ See R.11- 03-012 at pp. 4, 8, and 11.

² See D.12- 12-033 at pp. OP 16, 17, 18, 19.

1 will be deducted from the GHG Revenue Balancing Account (GHGRBA) and be
 2 allocated for recovery from Emissions-Intensive and Trade-Exposed (EITE),
 3 small business and residential customers in the same way as the allowance
 4 revenues, consistent with Decision 12-12-033.

5 PG&E will offset the revenue return with the calculated administrative and
 6 outreach costs prior to the distribution of the allowance revenues to customers
 7 as directed by Decision 12-12-033. The net 2014 GHG allowance revenue
 8 forecast to be returned to customers in 2014, after subtracting the administrative
 9 and customer outreach costs, is shown in Table 4-1 below.

**TABLE 4-1
 PACIFIC GAS AND ELECTRIC COMPANY
 SUMMARY OF 2014 FORECAST GHG ALLOWANCE REVENUE RETURN**

Line No.		\$000
1	Forecast GHG Revenue Proceeds	[REDACTED]
2	Less: Forecast GHG Administrative Cost (Chapter 1)	(3,430)
3	Less: Forecast Customer Outreach and Education Cost (Chapter 2)	(826)
4	Subtotal	[REDACTED]
5	Add: Franchise Fees and Uncollectibles	[REDACTED]
6	Net Forecast GHG Revenue Allowance Revenue	[REDACTED]

10 C. Amortization of the GHG Revenue in 2014 Electric Rates

11 Pursuant to Decision 12-12-033, PG&E filed Advice Letter 4181-E³ to
 12 establish the GHGRBA⁴ to record the difference between the GHG revenues
 13 generated through the auction of consigned GHG allowances, less any revenues
 14 approved to be set aside for return to customers.

15 The forecasted 2013 Year-End GHGRBA balance is based on the recorded
 16 balance through June 2013 together with forecasted costs and revenue from
 17 July 2013 through December 2013, and is [REDACTED]. Per OP 21 of
 18 Decision 12-12-033, the Commission allowed PG&E to defer the amortization of
 19 its 2013 GHG revenue recorded in the GHGRBA for up to 24 months.

20 Therefore, PG&E requests the Commission's authority to allow it to consolidate

³ Advice 4181-E was filed on January 22, 2013 and approved by the Commission on March 1, 2013.

⁴ See D.12- 12-033 at OP 22.

1 [REDACTED] (half of the 2013 projected GHGRBA balance, assuming a
 2 24 month amortization period) in its revenue return to customers in its
 3 2014 electric rates shown in Table 4-2, as follows.

**TABLE 4-2
 PACIFIC GAS AND ELECTRIC COMPANY
 SUMMARY OF 2014 GHG REVENUE ALLOWANCE REVENUE RETURN
 EFFECTIVE IN 2014 ELECTRIC RATES**

Line No.		\$000
1	2014 Forecast GHG Allowance Revenue	[REDACTED]
2	Add: Amortization of GHGRBA 2013 Allowance Revenue	[REDACTED]
3	Total Forecast GHG Allowance Revenue Return to be Implemented in 2014 Electric Rates	525,253

4 PG&E will update the year-end 2013 GHGRBA and associated amortization,
 5 in its 2014 Annual Electric True-Up (AET), or subsequent electric rate change
 6 advice letter.

7 **D. Methodology for the Distribution of GHG Allowance Revenue Returns**

8 PG&E's cap-and-trade allowance revenue return methodology will distribute
 9 allowance revenues to eligible customers over the course of each year as
 10 ordered in Decision 12-12-033. Returns will be provided on either an annual
 11 basis (for EITE entities), semi-annual basis (for the Climate Dividend for
 12 residential households), or monthly basis (for the small business and residential
 13 volumetric returns for eligible customers).⁵

14 **1. EITE Allowance Revenue Return**

15 The Decision requires that EITE entities receive allowance revenues to
 16 cover all or a portion of their indirect cap-and-trade compliance costs in the
 17 form of a yearly on-bill credit or rebate check.⁶ At this time, PG&E is still
 18 awaiting final CPUC direction on how exactly the distribution of revenue to
 19 EITE customers will be calculated.

20 For purposes of calculating the amounts allocated to the rest of eligible
 21 customer groups, it was necessary to make an estimate of revenues that will

⁵ See D.12-12-033 at pp. 205-206 (OP 1).

⁶ See D.12-12-033 at pp. 104, 215-16 (OP 25).

1 be distributed to EITE customers. To estimate the amount of allowance
2 revenue that will be distributed to EITE customers, PG&E made the
3 simplifying assumption that these customers would be returned revenues
4 that match their cents-per-kilowatt-hour (kWh) cap-and-trade “unit cost.”
5 This method is identical to the approach used to calculate the small
6 business and residential volumetric returns and is described below in
7 Section 2.

8 The formula for calculating the EITE returns is currently under review at
9 the CPUC. Once the amount of allowance revenue owed to each EITE
10 customer is known, PG&E will update its placeholder estimated amounts
11 described above with the authorized allowance returns and will distribute
12 this revenue to the proper service accounts on an annual basis during the
13 February billing cycle.

14 Additionally, PG&E seeks authority to distribute revenues on customers’
15 bills, instead of via a separate check, in order to minimize administrative
16 costs and maximize the amount of revenue going back to customers.
17 Assuming the credit is on-bill, it will be shown as a separate line item in the
18 delivery portion or customer account level of the bill to ensure equitable
19 treatment of customers with Direct Access/Community Choice Aggregator
20 (DA/CCA) providers.⁷ Franchise fees and uncollectibles will apply to the
21 resulting net bill. After application of the EITE customer credit, should a
22 credit remain on the customer’s account, the customer can request a check
23 refunding the credit balance on the account. Otherwise, the remaining credit
24 will roll-over to the subsequent bill. The exact name of this credit will be
25 determined by the Commission, taking into account bill presentment
26 limitations.

27 **2. Volumetric Allowance Revenue Return**

28 As ordered in Decision 12-12-033, PG&E will distribute a portion of the
29 GHG allowance revenue to eligible residential and small business
30 customers through monthly volumetric credits. The basis of calculating

7 For some customers, particularly residential DA/CCA customers, this revenue return may exceed the value of the bill. In such cases, PG&E will apply its rollover and cash-out provisions.

1 these volumetric revenue returns is the rate-specific cents-per-kWh
2 cap-and-trade “unit cost,” which is determined in the following manner:

- 3 1. PG&E will calculate the total forecasted cap- and-trade costs allocable to
4 each applicable rate schedule based on the imputed generation cost
5 allocators.⁸ This step will determine how much of the total (bundled,
6 DA and CCA) cap-and-trade costs will be borne by each rate schedule.
- 7 2. The total costs allocable to each rate schedule will be divided by the rate
8 schedule’s forecasted annual kWh usage (bundled, DA and CCA); this
9 will result in a cents-per-kWh cap-and-trade “unit cost” rate for each
10 group. The schedule-level cap-and-trade “unit cost” rates are, in turn,
11 used to determine the amount of the volumetric allowance credit that is
12 returned to eligible customers. Due to the differences in rate design
13 between rate schedules, the unit cost rates will vary somewhat by rate
14 schedule.

15 **a. Small Business Volumetric Allowance Return**

16 Eligible small business customers, exclusive of customers that have
17 also been identified as EITE, will receive a monthly on-bill credit,
18 included as a separate line item. The exact credit per customer will be
19 determined by multiplying the cap-and-trade unit cost for the customer’s
20 rate schedule (see Section D.2 above) by the customer’s monthly usage
21 and then adjusted by an Industry Assistance Factor determined in the
22 workshop process.⁹ Similar to the EITE revenue return, this credit will
23 be applied prior to the application of franchise fees and uncollectibles in
24 the delivery portion of all bundled, DA, and CCA small business
25 customer bills.

26 **b. Residential Volumetric Allowance Return**

27 All open, residential customer accounts eligible for volumetric
28 returns will receive a volumetric (cents per kWh) revenue return on a

⁸ The imputed generation cost allocators adjust the bundled generation cost allocators by including the generation costs PG&E would incur if it were to procure generation for DA and CCA customers within its service territory. By imputing the DA and CCA generation costs in this manner, PG&E is complying with Section 5.6 of the Decision, which orders the IOUs to use bundled sales data to estimate DA and CCA cap-and-trade costs and revenues owed. See D.12-12-033 at pp. 129-130.

⁹ See D.12- 12-033 at Appendix B.

1 monthly basis to mitigate cap-and-trade costs. To accomplish this,
 2 PG&E will apply the unit cost rate calculated per Section D.2 to all
 3 applicable usage (i.e., only those non-CARE kWh that will see increased
 4 cap-and-trade costs, which include just Tier 3 and 4 usage for standard
 5 tiered and optional rates schedules, including Time-of-Use (TOU) rate
 6 schedules). Cap-and-trade costs will be included in the PG&E bundled,
 7 DA, and CCA generation rates; however, pursuant to the Decision,
 8 cap-and-trade allowance revenues will be returned through a credit to
 9 the distribution component of all bundled, DA and CCA customers' bills.
 10 This will ensure that costs for all of bundled PG&E, DA, and CCA
 11 customers are passed immediately through rates at the same time. In
 12 addition, using distribution rates ensures that GHG costs are not
 13 specifically identified on the bill per Decision 12-12-033.¹⁰

14 Due to the application of PG&E's Conservation Incentive Adjustment
 15 (CIA), while Tier 1 and 2 customers will experience no increase in their
 16 total rates (and thus effectively bear none of the burden of cap-and-
 17 trade costs), the generation component of their rates will nevertheless
 18 increase. In fact, the generation component of rates in *all* tiers will
 19 increase due to cap-and-trade costs. Thus DA and CCA customers
 20 (who will incur cap-and-trade costs of their own) will not be
 21 disadvantaged competitively, since generation rates against which DA
 22 and CCA customers must compete will increase in all tiers.

23 **3. Climate Dividend Payment**

24 As per OP 9 in Decision 12-12-033, all residential households will
 25 receive a Climate Dividend distributed as a separate on-bill line item credit
 26 on a semi-annual (i.e., every six months) basis. This will include nearly all
 27 customers on residential rate schedules.¹¹ To calculate the amount of
 28 revenue included in each Climate Dividend payment, PG&E will divide its
 29 annual forecasted Climate Dividend revenue among all eligible residential

¹⁰ See D.12-12-033 at pp. 115 and 180 (Finding of Fact 110-112).

¹¹ E-9B and EV-B, which are separately-metered electric vehicle rates, are the only residential rate schedules that will be excluded. Customers on these rate schedules have one meter and rate schedule for their home, and another meter and rate schedule to charge their electric vehicle. To avoid giving a single household two climate dividend payments, PG&E will not distribute dividends to customers on E-9B and EV-B.

1 households based on service accounts, including master-meter
 2 subaccounts.¹² The estimated value of the Climate Dividend presented in
 3 Table 4-3 below is based on 2012 data, which is the most recent
 4 calendar-year data that is available. In equation form, this calculation is
 5 computed as follows:

$$\frac{1}{2} \times \frac{\text{Total Annual Climate Dividend Revenue}}{\text{Eligible Single Meter Residential Accounts} + (\text{Master Meter Subaccounts} - \text{Master Meter Host Accounts})}$$

6 The credit will be rounded to the nearest cent, and it will be applied on
 7 the distribution portion of the bill, but not necessarily applied exclusively to
 8 distribution charges. This location on the bill is important to ensure that
 9 residential DA and CCA customers receive their fair portion of allowance
 10 revenues, as is required by Decision 12-12-033. The credit may be applied
 11 against the full balance of the bill, not just the delivery portion.¹³

12 To comply with the requirement that the Climate Dividend be applied on
 13 a semi-annual (i.e., every six months) basis,¹⁴ PG&E proposes to distribute
 14 this Climate Dividend on each customer's bill in February and August of
 15 each year. These months have been selected to ensure that at least one
 16 semi-annual Climate Dividend payment is aligned with a high-usage
 17 summer month (i.e., July); this also maintains consistency with the timing of
 18 the EITE return, which will facilitate outreach and education efforts for all
 19 customers.

20 **4. DA/CCA Customer Special Considerations**

21 PG&E's billing system splits a CCA customer's Service Agreement (SA)
 22 into two sub-SAs: (1) a PG&E SA for distribution and other non-bypassable
 23 charges; and (2) an Energy Service Provider/Community Choice Aggregator
 24 (ESP/CCA) SA for generation charges. Under this system, the Climate
 25 Dividend bill credit will first be recorded at the PG&E SA level. As a result,
 26 the bill credit may exceed the balance owed by the customer in this SA,

¹² Because the master-meter aggregated or "host" account does not represent a true household, these accounts will be subtracted from the total.

¹³ See D.12-12-033 at p. 180 (Finding of Fact 112: "via a delivery rate component"), and p. 182 (Finding of Fact 122: "against electricity purchases"). For more detail, see the Joint IOU Comments in Response to ALJ Ruling II, filed June 19, 2013.

¹⁴ See D.12- 12-033 at p. 197 (Conclusion of Law 38) and at p. 124.

1 in which case PG&E's billing system will automatically apply the remaining
 2 credit as an offset against the balance in the ESP/CCA sub-CA (i.e., the
 3 customer's generation charges from its ESP or CCA). In cases where
 4 automatic reallocation does not occur, PG&E will manually review credits for
 5 reallocation.

6 E. Conclusion

7 In this chapter, PG&E presents its methods of distributing GHG allowance
 8 revenue return to EITE, small business and residential customers broken down
 9 into the four categories described in the OP 1 of Decision 12-12-033.

10 Table 4-3 below summarizes the estimated GHG revenue returns that will
 11 be distributed to qualified customers in 2014 using the methodology described in
 12 this chapter. These calculations include half of forecasted 2013 and total
 13 forecasted 2014 bundled, DA and CCA cap-and-trade allowance revenue
 14 described in Sections B and C above.

TABLE 4-3
PACIFIC GAS AND ELECTRIC COMPANY
SUMMARY OF ESTIMATED GHG ALLOWANCE REVENUE RETURN BY CUSTOMER GROUP

Line No.	Customer Category	Estimated Total Amount	Average by Premise(a)	Average GHG Return Rate (\$/kWh)(b)	Bi-Annual Payment(c)
1	EITE		\$3,963	–	–
2	Small Business – Volumetric		–	\$0.00422	–
3	Residential – Volumetric		–	\$0.01747	–
4	Climate Dividend		–	–	\$35.03
5	Total	\$525,253,479			

Note: Totals may not add due to rounding.

- (a) The CPUC and ARB quantify the number of EITE customers at the “facilities” level. Facilities represent a unique physical location. For PG&E, this corresponds to “premises” in its billing system. See final CPUC staff proposal on “Greenhouse Gas Allowance Revenue Allocation for Emissions-Intensive and Trade-Exposed Entities and Small Business” filed July 10, 2013 at page 91.
- (b) For simplicity, the average GHG return rate for the residential volumetric credit (\$0.01747) excludes EV-A and EV-B rate schedules. EV-A and EV-B are optional, non-tiered electric vehicle rates that will be implemented on August 1, 2013 (Advice Letter 4231-E, pursuant to Resolution E-4508).
- (c) The estimated bi-annual climate dividend amount presented in this tables differs from the annual payment shown on page 23 of the “Amended Joint Investor-Owned Utility Cap-and-Trade Greenhouse Gas Revenue Allowance Revenue Implementation Plan” filed June 19, 2013. The \$40-per-year amount presented there was calculated assuming \$2 million in administrative or outreach and education expenses, PG&E's 2013 forecast of allowance revenues, and revenue return to all customer accounts with EITE-eligible NAICS codes equal to their forecasted 2013 cap-and-trade costs. The bi-annual value presented in Table 4-3 includes the updated administrative and outreach expenses presented in Chapters 1 and 2 and 2013 and 2014 bundled, DA and CCA cap-and-trade allowance revenue described in Sections B and C, and forecasted GHG costs.

ATTACHMENT B

Proposed Confidentiality Protocols of PG&E and SCE

**Confidentiality Protocols
Greenhouse Gas Information
R.11-03-012, A.13-08-002, A.13-08-003, A.13-08-005, A.13-08-007, A.13-08-008
Pursuant to Assigned Commissioner's and Administrative Law Judge's
Scoping Memo and Ruling**

The February 19, 2014, Assigned Commissioner's and Administrative Law Judge's Scoping Memo and Ruling (Scoping Memo) in Phase 2 of the above-referenced AB 32 greenhouse gas (GHG) implementation proceeding requires the utilities (PG&E, SCE and SDG&E) to include proposed Confidentiality Protocols relating to GHG information that may be the subject of disclosure in Commission proceedings. The Confidentiality Protocols below were developed pursuant to the earlier October 4, 2013, Scoping Memo and Ruling in this proceeding with input from all interested parties and Commission staff. Since that time, revised AB 32 regulations have been issued for consideration by the California Air Resources Board (ARB), and a recent ARB staff memorandum dated February 19, 2014 has been issued and included in the record of this proceeding. The utilities recommend that the Confidentiality Protocols be reviewed and updated as necessary upon issuance of the final revised ARB regulations as well as evaluation of the ARB staff memorandum. *Accordingly, the Confidentiality Protocols are subject to the condition precedent of formal approval by both the CPUC and the ARB.*

The Confidentiality Protocols address the following:

- Identify what information should not be disclosed under the ARB nondisclosure regulations.
- Identify subsets of information requested to be disclosed in CPUC proceedings that can be disclosed to the public, to parties that sign a non-disclosure agreement (NDA), and to parties that are market participants as described in D.06-06-066.
- Require parties requesting confidential treatment of information to continue to follow standard Commission procedures for requesting confidential treatment (even if the information falls under the ARB nondisclosure restrictions.)

Subject to the condition precedent of formal CPUC and ARB approval, the following Confidentiality Protocols will apply to GHG information in these proceedings and other Commission proceedings, such as R.11-03-012 and proceedings subject to D.06-06-066:

1. Pursuant to the ARB GHG non-disclosure regulations Public Utilities Code Section 454(g) and CPUC D.06-06-066 as modified by D.08-04-023, the following confidential GHG information will not be disclosed to the public, "market participants" as defined in D.06-06-066, and participants in ARB auctions, including registered entities, auction participants, and organizations that are or have employees who are voluntary associated entities:

- a. Utility AB 32 GHG auction participation, including but not limited to:
 - Qualification status (ability to participate)
 - Intent to participate in an auction, auction approval status, maintenance of continued auction approval
 - Participation in an auction
 - Auction bidding strategy
 - bid price or bid quantity information
 - Bid guarantee information

- b. Utility AB 32 GHG allowance procurement or revenue return positions, including but not limited to:
 - Utility GHG price forecasts internally derived for utility procurement planning purposes
 - Utility GHG compliance instrument inventories or quantities that can be used to derive GHG compliance instrument holdings
- c. Utility AB 32 GHG transactions, bilateral or under a Request for Offer, including but not limited to:
 - Utility counterparty information submitted pursuant to a non-disclosure agreement or solicitation protocol
 - Negotiated contract terms or non-public contract terms
- d. Other utility procurement-related information subject to confidentiality protection pursuant to the terms of D.06-06-066 as modified by D.08-04-023, that pertains to GHG compliance, including:
 - i. ARB allowance or offset procurement quantity targets;
 - ii. CPUC-approved procurement limits for compliance exposure and financial exposure; and
 - iii. detailed forecasted GHG financial exposure by type (direct and indirect) or resource category, including utility forecasts of payments to tolling counterparties, qualifying facilities for GHG, and increased power market costs.

2. Pursuant to CPUC regulatory litigation discovery requirements in formal proceedings under the Public Utilities Code, confidential information under #1, above, may be disclosed to interested parties or their representatives in formal CPUC proceedings if the interested parties and their representatives (a) are not market participants under D.06-06-066; (b) are not registered entities, auction participants, voluntary associated entities, or other participants in GHG allowance or offset markets under the ARB AB 32 regulations; (c) or if market participants or entities under (a) or (b), comply with the protocols for “reviewing representatives” as defined in D.11-07-028; (d) execute appropriate non-disclosure agreements and agree to comply with these Confidentiality Protocols and an appropriate CPUC-approved Protective Order in the proceeding;¹ and (e) are not prohibited by other law or privilege from receiving or reviewing the information. For clarity, since voluntary associated entities in the cap-and-trade program may be individuals, market participants should include organizations that have employees who are voluntary associated entities.

3. Information that is not confidential GHG information as described in #1, above, may be disclosed to the public unless protected from public disclosure under other laws, judicial rulings or regulations, such as privileged, proprietary or confidential information restricted from disclosure under Section 583 of the Public Utilities Code, CPUC General Order 66-C, the California Public Records Act, the California Evidence Code or other laws or rules.

4. Parties requesting confidential treatment under these Greenhouse Gas Information Confidentiality Protocols will follow standard Commission procedures for requesting confidential treatment, including use of standard non-disclosure agreements, and motions for protective orders as appropriate.

¹ The Office of Ratepayer Advocates is subject to specific statutory confidentiality restrictions under Public Utilities Code Section 583 and therefore does not need to execute an NDA, as long as it agrees in writing to comply with these GHG Confidentiality Protocols and any applicable Protective Order.

ATTACHMENT C

Proposed Confidentiality Protocols of SDG&E

**Confidentiality Protocols
Greenhouse Gas Information
R.11-03-012, A.13-08-002, A.13-08-003, A.13-08-005, A.13-08-007, A.13-08-008
Pursuant to Assigned Commissioner's and Administrative Law Judge's
Scoping Memo and Ruling**

The February 19, 2014, Assigned Commissioner's and Administrative Law Judge's Phase 2 Scoping Memo and Ruling (Scoping Memo) in the above-referenced AB 32 greenhouse gas (GHG) implementation proceeding requires the utilities to develop Confidentiality Protocols relating to GHG information with input from all interested parties, California Public Utilities Commission (CPUC) staff, and California Air Resources Board (ARB) staff.

The Confidentiality Protocols respond to the Scoping Memo and an ARB guidance document dated February 19, 2014, and titled "Cap-and-Trade Program and Confidentiality in Public Utilities Commission Proceedings." The Confidentiality Protocols are subject to the condition precedent of formal CPUC and ARB approval and will apply to GHG information in these proceedings and other CPUC proceedings, such as R.11-03-012 and proceedings subject to D.06-06-066.

The Confidentiality Provisions are as follows:

1. Pursuant to ARB's cap-and-trade regulations prohibiting disclosure of confidential auction information,¹ California Public Utilities Code Section 454(g), and CPUC D.06-06-066 as modified by D.08-04-023, the following confidential cap-and-trade auction information will not be disclosed:

Utility cap-and-trade auction participation, including but not limited to:

- Qualification status (i.e., ability to participate);
- Intent to participate in an auction, auction approval status, and maintenance of continued auction approval;
- Participation in an auction;
- Auction bidding strategy;
- Auction bid price or bid quantity information; and
- Auction bid guarantee information.

¹ Cal. Code Regs. tit. 17, §§ 95912(f)-(g), 95914(c)(1). Attachment A to this document includes the text of ARB's cap-and-trade regulations prohibiting disclosure of confidential auction information.

2. Pursuant to ARB's cap-and-trade regulations prohibiting disclosure of confidential auction information,² California Public Utilities Code Section 454(g), and CPUC D.06-06-066 as modified by D.08-04-023, the following confidential cap-and-trade auction information will not be disclosed to the public, "market participants" as defined in D.06-06-066, and participants in cap-and-trade auctions, including registered entities, auction participants, and organizations that are or have employees who are voluntary associated entities:

- a. Utility cap-and-trade allowance procurement or revenue return positions, including but not limited to:
 - i. Utility cap-and-trade price forecasts internally derived for utility procurement planning purposes; and
 - ii. Utility cap-and-trade compliance instrument inventories or quantities that can be used to derive cap-and-trade compliance instrument holdings.
- b. Utility cap-and-trade transactions, bilateral or under a Request for Offer, including but not limited to:
 - i. Utility counterparty information submitted pursuant to a non-disclosure agreement or solicitation protocol; and
 - ii. Negotiated contract terms or non-public contract terms.
- c. Other utility procurement-related information subject to confidentiality protection pursuant to the terms of D.06-06-066 as modified by D.08-04-023, that pertains to cap-and-trade compliance, including:
 - i. Cap-and-trade allowance or offset procurement quantity targets;
 - ii. CPUC-approved procurement limits for compliance exposure and financial exposure; and
 - iii. Detailed forecasted cap-and-trade financial exposure by type (direct and indirect) or resource category, including utility forecasts of payments to tolling counterparties, qualifying facilities for cap-and-trade, and increased power market costs.

3. Confidential information listed under Paragraph 2, above, may be disclosed to interested parties or their representatives in formal CPUC proceedings if the interested parties

² *Id.*

and their representatives: (a) are not market participants under D.06-06-066; (b) are not registered entities, auction participants, voluntary associated entities, or other participants in allowance or offset markets under the cap-and-trade regulations; (c) execute appropriate non-disclosure agreements and agree to comply with these Confidentiality Protocols and an appropriate CPUC-approved protective order in the proceeding;³ and (d) are not prohibited by other law or privilege from receiving or reviewing the information. For clarity, since voluntary associated entities in the cap-and-trade program may be individuals, market participants should include organizations that have employees who are voluntary associated entities.

4. Information that is not confidential information as described in Paragraph 1 and Paragraph 2, above, may be disclosed to the public unless protected from public disclosure under other laws, judicial rulings, or regulations, such as privileged, proprietary, or confidential information restricted from disclosure under California Public Utilities Code Section 583, CPUC General Order 66-C, the California Public Records Act, the California Evidence Code, or other laws or rules.

5. Parties requesting confidential treatment under these Confidentiality Protocols will follow standard CPUC procedures for requesting confidential treatment, including use of standard non-disclosure agreements and motions for protective orders as appropriate.

³ The Office of Ratepayer Advocates is subject to specific statutory confidentiality restrictions under California Public Utilities Code Section 583 and therefore does not need to execute a non-disclosure agreement, as long as it agrees in writing to comply with these Confidentiality Protocols and any applicable protective order.

ATTACHMENT A

Cap-and-Trade Regulations Prohibiting Disclosure of Confidential Auction Information

California Code of Regulations, Title 17, Section 95912(f):

An entity approved for auction participation may not communicate information on auction participation with any other entity that is not part of an association disclosed pursuant to section 95914, except as requested by the auction administrator to remediate an auction application.

California Code of Regulations, Title 17, Section 95912(g):

Protection of Confidential Information. To the extent permitted by state law, the Executive Officer, the auction administrator, and the financial services administrator will treat the information contained in the auction application and not listed for release pursuant to section 95912(j)(5) as confidential business information.

California Code of Regulations, Title 17, Section 95914(c)(1):

Unless it is to an auction advisor or other members of a direct corporate association not subject to auction participation restriction or cancellation pursuant to section 95914(b), an entity approved for auction participation shall not release any confidential information related to its auction participation, including:

- (A) Qualification status;
- (B) Bidding strategy;
- (C) Bid price or bid quantity information;
- (D) Information on the bid guarantee it provided to the financial services administrator; and
- (E) Other information identified as confidential information in the auction application by the auction administrator.

Confidentiality Protocols for Greenhouse Gas Information
R.11-03-012, A.13-08-002, A.13-08-003, A.13-08-005, A.13-08-007, A.13-08-008

GHG Confidentiality Protocols Matrix Examples

Example	Treatment	Explanation
GHG Proxy Price	Public	Proxy price is not used for GHG market transactions
GHG Compliance Instrument Expected Prices	Confidential	Prices are used for potential GHG market transactions
Forecast of GHG emissions intensity or rates	Confidential	Would divulge bundled kWh forecast in contradiction of Matrix V.C
Forecast of bundled kWh sales in total or by rate schedule	Confidential	Confidential per Matrix section V.C
Forecast of annual GHG allowance revenue using proxy price	Public	Proxy price derivable, but not confidential
Total annual forecast GHG allowance auction revenue by rate schedule using proxy price	Public	Proxy price is not used for GHG market transactions
Total forecast GHG allowance auction revenue using internal procurement forward price curves or other internal procurement planning prices	Confidential	Internal GHG price derivable from total GHG Revenue since total number of allowances are public
Total forecast GHG allowance auction revenue by rate schedule using internal procurement forward price curves or other internal procurement planning prices	Confidential	Internal GHG price derivable from total GHG Revenue since total allowances are public
Total forecast GHG costs or revenue requirements using proxy price	Confidential	Reveals bundled sales if emission intensity and GHG proxy price are public in contradiction of Matrix V.C
Total forecast GHG costs or revenue requirements by rate schedule using proxy price	Public	Would not reveal bundled sales forecast if GHG emissions intensity is confidential.
Rate impact of forecasted GHG costs by rate schedule using proxy price	Public	Does not reveal bundled sales
Rate impact of total forecast GHG costs or revenue requirements using internal procurement forward price curves or other internal procurement planning prices	Public	Internal GHG price and bundled kWh are not derivable
Historical total GHG costs	Public	GHG market holdings not derivable from total costs
Historical GHG emissions or emissions intensity using publicly reported emissions	Public	GHG emissions public via ARB rules, bundled sales one year or older is public per Matrix X.E
Historical Annual GHG Revenues	Public	Auction prices and allocations are public per ARB but historical consignment strategy is confidential. Therefore, historical revenues should be public only on annual basis.

ATTACHMENT D-1

Response of PG&E to the Accounting Questions Propounded
by Grant Novack of ORA

Response date: March 25, 2014

February 26, 2014

PG&E, SCE, and SDG&E Case Administrators for A.13-08-002, et al.:

A.13-08-002: “What accounting procedures and rules should each utility follow to report its GHG costs, allowance revenues, and compliance instruments inventory?”

Regarding **A.13-08-002**, PG&E, SCE, and SDG&E will be serving on March 25, 2014 a “Proposed Joint Utility Proposal and Supporting Narrative” The document is to address various issues, including the following (Issue #7):

What accounting procedures and rules should each utility follow to report its GHG costs, allowance revenues, and compliance instruments inventory? Are there accounting and reporting requirements used or being developed in ERRA or ECAC proceedings that should be adopted in this proceeding? Are the accounting and reporting requirements that have been proposed in this proceeding consistent with the accounting and reporting requirements in the ERRA and ECAC proceedings?

ORA requests that the three utilities ensure that the Joint Utility Proposal addresses the following questions:

A. GHG COSTS AND EXPENSES

1. Identify and explain the accounting procedures and all general ledger accounts related to the recording of actual GHG emissions costs.

PG&E Response:

PG&E’s 2013 GHG compliance instrument purchase expense was recorded to Account 1581100, GHG Allowance Inventory.

PG&E records to ERRA a debit that is based on PG&E’s emissions in 2013, multiplied by a weighted cost of allowances procured. The corresponding credit is the Emissions Liability account (2284070). PG&E’s 2013 compliance obligations consist of both direct and indirect GHG compliance costs. The authority to record these costs in ERRA was established in Advice Letter 4059-E, approved by the Director of the CPUC’s Energy Division on July 10, 2012.

PG&E provides as an attachment to this data response documentation describing PG&E’s accounting procedures for GHG compliance costs (see Attachment D-2)

2. Identify the general ledger accounts to which the utility is to record a) forecasted or estimated costs, and b) authorized costs.

PG&E Response:

Response date: March 25, 2014

Please see Attachment D-2 for complete documentation of PG&E's accounting procedures for GHG costs.

Forecasted costs are authorized in PG&E's annual ERRA forecast proceeding for cost recovery; therefore forecasted and authorized costs are the same. These are also recorded to the ERRA balancing account.

3. Does the utility account for and report allowances at historical cost? Explain.

PG&E Response:

Please see Attachment D-2 for a complete description of PG&E's accounting procedures for GHG costs.

PG&E values the allowances held in inventory using the weighted average cost methodology. Appendix A of the attachment referred to in this data request contains a sample calculation.

4. Does the utility initially classify allowances as inventory? Explain.

PG&E Response:

Please see Attachment D-2 for complete documentation of PG&E's accounting procedures for GHG costs.

PG&E's considers allowances to be inventory until surrendered or sold.

5. Does the utility use the weighted-average cost method? Explain.

PG&E Response:

Please see Attachment D-2 for complete documentation of PG&E's accounting procedures for GHG costs.

Yes, PG&E uses a weighted average cost method to value allowances. A sample weighted average cost calculation is included as Appendix A of the attachment referenced above.

6. Does the utility perform monthly cost calculations based on 1) actual data or on 2) reasonable estimates? Explain.

PG&E Response:

Response date: March 25, 2014

Please see Attachment D-2 for complete documentation of PG&E's accounting procedures for GHG costs.

On a monthly basis, the amount that is recorded to ERRR as a debit is the quantity of emissions multiplied by the current weighted average cost (WAC) from PG&E's compliance inventory.

To determine the quantity of emissions, PG&E uses the best available information, which is typically meter data.

7. Does the utility recognize and record expense monthly based on the historical cost of allowances needed to satisfy actual emissions during the period? Explain.

PG&E Response:

Please see Attachment D-2 for complete documentation of PG&E's accounting procedures for GHG costs.

On a monthly basis, the amount that is recorded to ERRR as a debit is the quantity of emissions multiplied by the current WAC from PG&E's compliance inventory.

8. Does the utility use accrual basis accounting? Explain.

PG&E Response:

Please see Attachment D-2 for complete documentation of PG&E's accounting procedures for GHG costs.

PG&E uses accrual basis accounting.

9. Does the recording of GHG costs meet the "matching principle?" Explain.

PG&E Response:

In accrual accounting, the matching principle states that expenses should be recorded during the period in which they are incurred, regardless of when the transfer of cash occurs.

PG&E believes that its accounting procedures for GHG costs meet the matching principle, as they are recorded monthly based on emissions, and not based on the actual cash outlay to purchase allowances.

Response date: March 25, 2014

10. Identify all general ledger accounts and explain the purpose and operation of each account used for recording GHG costs.

PG&E Response:

Please see Attachment D-2 for complete documentation of PG&E's accounting procedures for GHG costs.

The following accounts are used (and described with illustrative entries on Page 3 of the attachment referenced above).

- (1) Allowance Inventory 1581100
- (2) Allowance Inventory (Non Current) 1581200
- (3) Accounts Payable 2320000
- (4) Emissions Expense 5090200
- (5) Emissions Liability 2420210
- (6) Emissions Liability (Non Current) 2284070
- (7) ERRA 1823051
- (8) Balancing Account Revenue 4000907
- (9) Account Receivable 1430007

11. Describe the cradle-to-grave recording of GHG compliance instrument costs.

PG&E Response:

Please see Attachment D-2 for complete documentation of PG&E's accounting procedures for GHG costs.

A discussion of how GHG compliance costs are recorded is provided in the attachment referenced above, as well as supplemented in data responses included in this overall set.

Page 5 of Appendix A of the Attachment referenced above describes the accounting procedures upon sale or surrender.

12. Describe utility accounting procedures for procurement, sale, or transfer of GHG compliance instruments.

PG&E Response:

Response date: March 25, 2014

Please see Attachment D-2 for complete documentation of PG&E's accounting procedures for GHG costs. Appendix A of that document provides PG&E's accounting procedures for procurement, sale, and surrender.

13. Describe utility accounting procedures for compliance instrument inventory.

PG&E Response:

Please see Attachment D-2 for complete documentation of PG&E's accounting procedures for GHG costs.

14. Describe utility accounting procedures for unused ("expired") costs.

PG&E Response:

This scenario has not occurred. Attachment D-2 provides PG&E's accounting procedures for sale and surrender of allowances.

15. Provide a detailed description of the operation of the GHG cost sub-account, including all debits and credits.

PG&E Response:

Attachment D-3 provides complete documentation of the accounting procedures associated with the GHG cost sub-account in ERRA. Page 3 provides illustrative debits and credits to demonstrate the operation of the sub-account.

16. Describe whether and when the utility posts 1) forecasted, 2) actual, and 3) approved costs to the GHG cost sub-account account.

PG&E Response:

Please see Attachment D-3 for a complete description of the accounting procedures associated with the GHG cost sub-account. PG&E posts amounts approved through its annual ERRA Forecast revenue requirement application to the GHG sub-account. PG&E's forecasted costs are approved in its annual ERRA Forecast application, so there is no distinction between forecasted and approved. There are no actuals recorded to the GHG cost sub-account in ERRA.

17. Define "cost" as the word pertains to each of the following 1) GHG compliance instrument procurement cost, 2) Actual cost (i.e., actual emissions), and 3) Forecasted GHG cost.

PG&E Response:

Response date: March 25, 2014

GHG Compliance instrument procurement costs refer to the cash outlay for procuring allowance instruments.

PG&E records “actual emissions” in the ERRA balancing account at the Weighted Average Cost. These are direct costs only, not indirect costs.

Forecasted GHG costs include both direct and indirect costs, and are included as part of the overall revenue requirement request in PG&E’s annual ERRA Forecast revenue requirement proceeding.

18. Identify and describe the operation of all sub-accounts established within the ERRA.

PG&E Response:

There is only one sub-account in ERRA, which is the GHG cost sub-account. This account was established to temporarily defer authorized GHG costs from customer rates, until the revenue return methodology was finalized.

The accounting procedures associated with the GHG sub-account are described in detail in Attachment D-3.

19. Provide rules and accounting procedures pertaining to GHG Procurement Costs posted to the ERRA balancing account.

PG&E Response:

PG&E uses Regulatory Accounting Documents (RADs) to document all accounting procedures. There are two RADs associated with GHG costs.

The first RAD describes the overall accounting procedures for GHG costs, and is provided as Attachment D-2.

The second RAD describes the operation of the GHG sub account for GHG procurement costs. This RAD is provided as Attachment D-3.

20. Provide rules and accounting procedures pertaining to the GHG Expense Memorandum Account.

PG&E Response:

The RAD provided as Attachment D-3 describes the GHGEMA.

Response date: March 25, 2014

21. Describe all of the types of accounting entries that are made directly to or from the ERRA (not ERRA sub-account) that pertain to GHG costs and expenses. Include all ERRA accounting entries for transfers from/to an ERRA sub-account.

PG&E Response:

Please see Attachments D-2 and D-3 for descriptions of all accounting entries associated with GHG costs recorded to ERRA or the ERRA GHG sub-account.

22. Explain how and when the utility is to seek recovery of recorded GHG costs.

PG&E Response:

PG&E seeks recovery of forecasted GHG costs as part of its ERRA Forecast application annually. Direct and indirect GHG costs are included as part of PG&E's overall procurement revenue requirement presented in the ERRA Forecast proceeding.

PG&E does not separately seek recovery of the actual cash outlay for purchasing allowances, as recovery is already provided through the annual ERRA Forecast proceeding as described above.

B. GHG REVENUE

1. Identify and describe the types of accounting entries the utility is to make to or from the ERRA (or ERRA subaccount) that pertain to GHG revenues.

PG&E Response: There are no accounting entries to or from ERRA that pertain to GHG revenues. Decision (D.) 12-12-008 ordered PG&E to establish a sub-account in the ERRA Balancing Account to track approved GHG Costs. On December 12, 2012, PG&E filed Advice 4168-E to update its ERRA Preliminary Statement Part CP to include the accounting entries associated with GHG Subaccount in ERRA. See below link to Preliminary Statement Part CP:

http://www.pge.com/tariffs/tm2/pdf/ELEC_PRELIM_CP.pdf

No GHG Revenue entries are recorded in the GHG Cost sub-account described above. All GHG Revenue is recorded in the GHG Revenue Balance Account (GHGRBA), as ordered by the Commission in D.12-12-033. Accounting transactions related to GHGRBA is described in Preliminary Statement Part GB as follows:

http://www.pge.com/tariffs/tm2/pdf/ELEC_PRELIM_GB.pdf

2. Identify and describe the source documents the utility is to use to support the following accounting entries to the GHG Revenue Balancing Account:

Response date: March 25, 2014

- a. A credit entry equal to the GHG revenues generated from the auction of consigned GHG allowances. Identify the entities that are to 1) consign and 2) auction. Explain how this process is to operate.
- b. A debit entry equal to GHG revenue approved to be set aside for marketing and public relations, which is transferred to the Marketing and Public Relations Subaccount in the Greenhouse Gas Expense Memorandum Account (GHGEMA).
- c. A debit entry equal to the GHG revenue approved to be set aside for customer outreach and education, which is transferred to the Customer Outreach and Education Subaccount in the GHGEMA.
- d. A debit entry equal to the GHG revenue approved to be set aside for administrative activities, which is transferred to the Administrative Subaccount in the GHGEMA.
- e. A debit entry equal to the portion of GHG allowance revenues returned to customers, net of an allowance for franchise fees & uncollectible accounts expense (ff&u).
- f. A debit entry equal to the amount paid to the California Air Resources Board (CARB) or any other authority as ordered by the Commission.

PG&E Response: Please see RAD in Attachment D-3.

3. Identify the accounting procedures for the first GHG revenue return to ratepayers scheduled for April 1, 2014.

PG&E Response: Please see line 5e of PG&E's Preliminary Statement Part GB available at this link: http://www.pge.com/tariffs/tm2/pdf/ELEC_PRELIM_GB.pdf. See also RAD in Attachment D-3.

C. Additional Questions from ORA email dated March 14, 2014

1. Explain the utility methodology for calculating and recording actual emissions costs.

PG&E Response: There are two types of GHG costs; direct and indirect. As described in PG&E's response to Section A, Question 1, direct GHG costs are calculated by multiplying PG&E's actual emissions with a weighted cost of allowances procured. Indirect GHG costs are imbedded in the whole electricity prices PG&E procured from either the market and/or from third parties. These costs are indirect because PG&E does not directly buy the allowances and surrender them to the California Air Resources Board (CARB). Therefore, these indirect GHG costs cannot be precisely determined and the calculation of actual indirect emissions costs can only be estimated.

2. Explain whether and how the utility uses 1) compliance instrument costs and/or 2) actual emissions costs to perform revenue return calculations.

Response date: March 25, 2014

PG&E Response: PG&E's revenue return to small business and residential customers is volumetric. Revenue returns to these customers is calculated from the GHG portion of PG&E's approved ERRA forecast costs, plus the imputed costs for DA/CCA customers. These costs are then allocated to all customers in proportion to their total generation revenue (plus imputed generation revenue for DA/CCA). The revenue return equals this allocated cost times any applicable assistance factor. Details of the calculation are described in A.13-08-003, PG&E Prepared Testimony, Chapter 4 and associated confidential workpapers filed August 1, 2013. See Attachment A-2.

3. Explain whether the GHG cost sub-account is temporary. If it is temporary, explain when it was or will be discontinued.

PG&E Response: PG&E's GHG sub-account was established to temporarily defer the recovery of GHG cost while revenue return methodology was being finalized. Please see Ordering Paragraph 3 in D.12-12-008.

4. In what proceeding will the CPUC formally review/audit GHG revenues?

PG&E Response: The GHG Revenue Return and Reconciliation Application

5. In what proceeding will the CPUC formally review/audit the GHGEMA?

PG&E Response: The GHG Revenue Return and Reconciliation Application

6. Is the GHG revenue return impacted in any way by any data contained in the ERRA balancing account or in the GHG cost sub-account? If yes, explain.

PG&E Response: The revenue return for small business and residential customers is volumetric. It is calculated based on the approved ERRA Forecast GHG costs attributed to those customer classes. The GHG costs approved in ERRA were temporarily deferred from rates and held in the GHG cost sub-account of the ERRA balancing account.

7. Explain the events that are to trigger the utility to record GHG revenues.

PG&E Response: The cap-and-trade program grants utilities allowances to be consigned in quarterly auctions. Revenues from those auctions are recorded to the GHG Revenue Balancing Account (GHGRBA). The RAD in Attachment D-3 describes the GHGRBA.

8. Explain the formula for how the utility is to calculate a GHG revenue return forecast.

PG&E Response: As described in A.13-08-003, PG&E Prepared Testimony, Chapter 4, dated August 1, 2013, the GHG revenue return forecast is calculated as follows: forecasted GHG revenue proceeds minus forecasted GHG expenses. The revenue return

Response date: March 25, 2014

methodology is consistent with the customer eligibility criteria approved in D.12-033-033, D.13-12-002, D.13-12-003 and D.13-12-041.

9. Explain the details of how actual emissions costs have an effect on revenue return calculations.

PG&E Response: The revenue return will be trued up annually in a process to be determined by the Commission. The utilities proposal is described in Section 2.5 of the approved Joint IOU Implementation Plan filed June 19, 2013. PG&E further describes its proposal within this Joint IOU Proposal and in A.13-08-003, PG&E Prepared Testimony, Chapter 3, dated August 1, 2013. See Attachment A-1.

10. In what proceeding will revenue return calculations be formally reviewed/audited by the CPUC?

PG&E Response: The GHG Revenue Return and Reconciliation Application

11. In what proceeding will the utility provide tables for the Record Year showing the following?
- CARB Current and Advance Auctions results.
 - Specific results in each of the Current and Advance auctions.
 - Competitive Requests for Offers (RFO) for allowances and offset credits.

PG&E Response: The utility provides these results for the CARB Current and Advance Auctions as well as any RFOs for allowances and offset credits in the ERRA Compliance Proceeding provides the results. See the Chapter 9 of A.14-02-008.

D. Final Question from ORA email dated March 17, 2014

For each of the following proceedings, where applicable, identify the applicable GHG cost, revenue, and expense related transactions that the utilities expect to request the CPUC to review, verify, and approve:

- ERRA Compliance Application
- ERRA Forecast Application
- GHG Forecast Application
- GHG Revenue and Reconciliation Application
- GHG Cost and Revenue Forecast and Reconciliation Application
- Annual Electric True-Up
- Other (please specify)

PG&E Response: See matrix below that indicates in which proceedings the CPUC must review, verify and/or approve GHG costs, revenues and expenses.

Attachment D-1: Response of PG&E to ORA Accounting Questions

Response date: March 25, 2014

	GHG Procurement Cost	GHG Revenue from Sale of Allowances	GHG Admin and Outreach Expense
ERRA Compliance	Review for compliance with Bundled Procurement Plan		
ERRA Forecast	Approve		
GHG Revenue and Reconciliation Application		Approve	Approve
Annual Electric True-Up	Consolidate approved revenue requirements in rates	Consolidate approved revenue requirements in rates	

ATTACHMENT D-2

Response of PG&E to the Accounting Questions Propounded
by Grant Novack of ORA
Regulatory Accounting Document 12-07-02

**Pacific Gas and Electric Company
Regulatory Accounting Document (RAD)**

This document demonstrates concurrence of the under-signed, signing in their respective capacities for the matters within their respective expertise, on the regulatory, legal, and accounting treatment of a regulatory event.

Issue Title: GHG Procurement Costs in ERRA

Regulatory Review Section

Proceeding: Rulemaking (R.) 10-05-006, 2010 Long Term Procurement Plan (LTPP)

Decision or Resolution: Decision (D.) 12-04-046, approved April 19, 2012

Applicable Advice Filing: Advice Letter (AL) 4059-E, approved July 10, 2012

Balancing or Other Account(s) Affected: Energy Resource Recovery Account (ERRA)

Regulatory Background and Recovery Mechanism: This RAD provides guidance on recording in ERRA the procurement costs incurred for the greenhouse gas (GHG) compliance instrument transactions under the California cap-and-trade-program pursuant to Assembly Bill 32 (AB 32). The authorized procurement costs include, but are not limited to, allowances, a limited number of offsets, exchange fees, Futures Clearing Merchant (FCM) fees, and costs associated with posting collateral for the allowance auctions.

On April 19, 2012, Ordering Paragraph (OP) 10 of D.12-04-046 authorized PG&E to include the costs incurred for GHG compliance instrument transactions in its ERRA filing for cost recovery. Pursuant to OP 10 of D.12-04-046, on June 11, 2012, PG&E filed AL 4059-E requesting recovery of the costs related to GHG compliance instrument transactions in ERRA and to edit the ERRA Preliminary Statement CP accordingly. On July 10, 2012, the Commission approved AL 4059-E, with an effective date of July 11, 2012.

Effective Date: July 11, 2012

Regulatory and Legal Department Sign-Off:

Vice President, Regulatory Proceedings

Lead Attorney, Law Department

Approved 8/3/12
Date

Approved 8/3/12
Date

Manager, Gas and Electric Procurement

Project Manager, Integrated Generation Portfolio

Approved 8/2/12
Date

Approved 8/3/12
Date

Issue Title: GHG Procurement Costs in ERRA, Continued**Accounting Review Section****Description of Accounting Procedures to be applied:**

The cost amount that will be recorded to ERRA in accordance with Preliminary Statement line 5ah represents the cost to PG&E (i.e. compliance obligation) to comply with the California cap-and-trade program pursuant to AB 32. PG&E's compliance obligation is equivalent to the quantity of allowances and a limited number of California Air Resources Board (CARB) offset credits that are required to be surrendered to the CARB by a specified deadline. The obligation amount is calculated by factoring in the price of the procured allowances and the quantity of allowances to be submitted to the CARB.

- PG&E has elected to value the allowances and offset credits held in inventory using the weighted-average cost (WAC) methodology. Please refer to Appendix A for a sample WAC calculation.
- The most accurate way to measure the quantity of allowances that are required to be surrendered to the CARB is to track the CO₂e emissions (see below for scope) as 1 metric ton of CO₂e is equal to 1 allowance or offset credit.

For Compliance Period 1 (from 2013-2014) the scope of the emissions that PG&E will track include the utility owned generating (UOG) plants, contractual agreements with counterparties*, and emissions on electric imports from outside California. Refer to Attachment 1 – *GHG Accounting Standard* for Corporate Accounting's interpretation of accounting guidance as it pertains to the GHG Cap-and-Trade Program.

*Compliance obligations will be settled financially and physically with counterparties. To settle a compliance obligation physically, PG&E will procure a compliance instrument to offset the emissions produced by that counterparty and will transfer the instrument to the counterparty at a specified date. To settle a compliance obligation financially, the counterparty will procure their own allowance or offset credit and pass along the costs to PG&E. The costs related to the physical settlement will be captured in the inventory model as described above while the financial costs will also be recovered in ERRA but will not be part of the inventory model (see entries h and i below).

On a monthly basis, the amount that will be recorded to ERRA as a debit will be the quantity of emissions multiplied by the current WAC from PG&E's compliance inventory (refer to Appendix A for illustrative example of a WAC calculation). Related to this, any gain or loss on sale of excess allowances will be recorded in ERRA.

Note: Amounts are for illustrative purposes only.

Allowance Inventory 1581100				Accounts Payable 2320000				Emissions Expense 5090200			
(a)	800	89	(d)			800	(a)	(b)	892.5		
		89	(e)			2	(g)				
(g)	2					10	(h)				

Attachment D-2
Emissions Liability
2420210

ERRA
1823051

Balancing Acct Revenue
4000907

	892.5	(b)

(c)	892.5	7	(f)
(i)	10		

(f)	7	892.5	(c)
		10	(i)

Account Receivable
1430007

Gain/Loss on sale of GHG
Allow 5000xxx

Purchased Power
55007xxx

(d)	70	
(e)	115	

(d)	19	26	(e)

(h)	10	

- (a) To record the procurement of allowances or offset credits in a quarterly auction, reserve sale auction or bilateral market purchase including purchases from an exchange.
- (b) To record PG&E's compliance obligation on a monthly basis by multiplying the quantity of CO2e emissions by the current WAC from the Allowance Inventory.
- (c) For recovery of the compliance obligation, a debit entry is made to ERRA with a corresponding credit to Balancing Account Revenue.
- (d) To record sale of excess allowances at the selling price of \$70 with the assumption that the sold allowances in inventory were valued at \$89. Therefore, loss to be recovered is \$19.
- (e) To record additional sale of excess allowances at the selling price of \$115 with the assumption that the sold allowances in inventory were valued at \$89. Therefore, the gain to be returned to customers is \$26.
- (f) To recover the loss and gain through ERRA. The net gain is \$7.
- (g) To record the payment of GHG related fees that include, but are not limited to, exchange fees, Futures Clearing Merchant (FCM) fees, and costs associated with posting collateral for the allowance auctions.
- (h) To record GHG related financial costs that counterparties will be charging PG&E to cover their GHG obligations. The amounts will be provided by ECMS settlements team together with the normal QF and bilateral expenses.
- (i) To record the recovery of the GHG related financial costs in ERRA.

Description of Trigger Initiating Accounting Entries: Approval of AL 4059-E

Implementation Schedule: July 2012 business cycle close

Does the regulatory event result in a financial impact of at least \$1M to the Income Statement or \$10M to the Balance Sheet? Yes

Accounting Department Sign-Off:

[Redacted]

Principal, Corporate Accounting

Approved _____ 8/2/12
Date

[Redacted]

Senior Manager, Corporate Accounting

Approved _____ 8/2/12
Date

[Redacted]

Senior Director, Corporate Accounting

Approved _____ 8/2/12
Date

Appendix A – Example of Weighted Average Cost (WAC) Calculation

Vintage Year 2013-

Transaction Date	Transaction Type	Qty	Cost/Unit	Sales Price	Total Sales	Total Cost	Gain (Loss)	\$ WAC
2/1/2013	Purchase on auction	5,000	\$100	\$		\$500,000		
2/1/2013	Offset credits	3,000	\$70	\$		\$210,000		
2/2/2013	Bilateral pur.	1,000	\$90	\$		\$90,000		
	Total	9,000		\$		\$800,000		89.00
2/2/2013	Sold to 3rd parties	(1,000)		\$70	\$ (\$70,000)	(\$89,000)	(\$19,000)	
		8,000		\$		\$711,000		89.00
2/4/2013	Addtl sold to 3rd parties	(1,000)		\$115	\$ (\$115,000)	(\$89,000)	\$26,000	
		7,000		\$		\$622,000		89.00
2/7/2013	Futures Clearing	0	\$2.00	\$		\$2		
	Merchant fee	7,000		\$		\$622,002		89.25

Liability calculation:

Emissions:	WAC	
10,000 CO2e	89.25	\$ 892,500

Greenhouse Gas Cap-and-Trade Accounting Standard

Background

This accounting standard describes PG&E's accounting for California's Greenhouse Gas Cap-and-trade Program ("GHG Program") and PG&E's interpretations of the relevant accounting literature. As of the writing of this accounting standard, no authoritative accounting guidance exists that specifically addresses the accounting for the GHG Program. In November 2010, the FASB and the IASB issued Staff Papers¹ discussing various accounting frameworks for emission allowances, emission liabilities, and the related financial statement presentation. The Edison Electric Institute ("EEI"), which is an electric utility industry group, responded with a whitepaper dated April 12, 2011. All papers rely on the FASB's and the IASB's conceptual framework, while occasionally analogizing to authoritative accounting guidance. Similarly, this accounting standard follows that format. If the FASB enacts authoritative accounting guidance specific to the GHG Program, PG&E will update this accounting standard and implement any resulting changes in accounting.

GHG Program

The California Global Warming Solutions Act of 2006 established the GHG Program, which is comprised of a cap-and-trade scheme for greenhouse gas ("GHG") emissions beginning on January 1, 2013. In particular, the California Air Resources Board ("CARB"), which administers the GHG Program, grants to California public utilities, including PG&E, annually a fixed (i.e., capped) number of permits (i.e., GHG allowances). However, the California public utilities must sell the granted GHG allowances in quarterly auctions to help create an over-the-counter market for GHG allowances. GHG emitters, including PG&E, then purchase GHG allowances from the auctions, as well as from other market mechanisms, so they can surrender the sufficient number of their GHG allowances to offset their GHG emissions for a given compliance period.² If a GHG emitter has excess GHG allowances, it can either carry them forward until the end of 2020 (i.e., flexible compliance) or sell (i.e., trade) them. On the other hand, if a GHG emitter has a shortfall of GHG allowances (after considering any that were carried forward from prior periods) after the compliance deadline, it must pay a monetary penalty to the CARB and (purchase and) surrender in the future GHG allowances equal to four times the shortfall. In addition, the GHG Program recognizes GHG offsets, which represent one metric ton of reductions of GHGs from outside the scope of the GHG Program. For example, a project that plants and protects trees to sequester GHGs would create GHG offsets. The GHG Program treats GHG offsets similarly to GHG allowances. In other words, a GHG emitter could purchase and surrender both (1) GHG allowances and (2) GHG offsets to eliminate its GHG emissions.

Note: GHG allowances and GHG offsets are collectively referred to as "environmental assets" ("EAs").

¹ <http://www.ifrs.org/NR/rdonlyres/8CC15D3E-2D43-4E97-973C-4BA671299A7F/0/ETS1110b07obs.pdf>, <http://www.ifrs.org/NR/rdonlyres/1724EA4A-3D2E-4120-B89C-3CC3D5C64695/0/ETS1110b07Aobs.pdf>, <http://www.ifrs.org/NR/rdonlyres/681E23D2-D17B-4273-A197-D2EF35FC37E1/0/ETS1110b07Bobs.pdf>, <http://www.ifrs.org/NR/rdonlyres/F37F4C60-E6A7-4480-BA2E-541C264981FE/0/ETS1110b07Cobs.pdf>, and <http://www.ifrs.org/NR/rdonlyres/7D13EEDF-8E96-4E15-BDFB-27CE18080862/0/ETSAP10to10c.zip>

² Title 17, Division 3, Chapter 1, Subchapter 10, Article 5, Subarticle 7, Section 95856 of the *California Code of Regulations*

Step 1
Is there an obligating event? (ASC 450-20)

The compliance requirements in the environmental trading programs could create an obligating event.

A – Determining when a compliance liability arises

Accounting Interpretation

A – DETERMINING WHEN A COMPLIANCE LIABILITY ARISES

Question

When does a compliance liability arise?

Answer

A compliance liability arises when an obligating event has occurred and PG&E cannot avoid surrendering cash or other assets to satisfy the obligation.

Statement of Financial Accounting Concepts No. 6, *Elements of Financial Statements – a replacement of FASB Concepts Statement No. 3 (incorporating an amendment of FASB Concepts Statement No. 2)*, defines a liability as a “probable future sacrifice of economic benefits arising from present obligations.” In environmental trading programs, PG&E is required to surrender an EA by the compliance deadline or pay a penalty when it experiences certain events, such as emitting (as noted in the Background).

However, Statement of Financial Accounting Concepts No. 6 further describes the incurrence of a liability as when an entity has little or no discretion to avoid the future sacrifice. In other words, the entity must have incurred some minimum obligation and no longer has discretion, such as flexible compliance, to avoid a payment of cash or other assets. Thus, a compliance liability arises only when PG&E no longer has any options to avoid a future sacrifice.

The following table describes the specific application of this accounting interpretation to the GHG Program.

GHG Program	
Liability to surrender EAs	<p>Title 17, Division 3, Chapter 1, Subchapter 10, Article 5, Subarticle 7, Section 95856 of the <i>California Code of Regulations</i> states, “A covered entity must surrender one compliance instrument [GHG allowance or offset] for each metric ton of CO₂e of GHG emissions”. PG&E’s Legal Department interprets this as obligating PG&E to surrender either GHG allowances or GHG offsets once it has emitted GHGs from a source covered by the GHG Program, such as a power plant.</p> <p>Furthermore, Title 17, Division 3, Chapter 1, Subchapter 10, Article 5, Subarticle 7, Section 95857 of the <i>California Code of Regulations</i> states, “The covered entity’s compliance obligation for untimely surrender is calculated as four times the entity’s excess emissions”. This means that PG&E cannot avoid surrendering GHG allowances or offsets by taking a penalty instead; it</p>

	<p>must surrender them in either case (as discussed in the Background). For example, if PG&E were “short” four GHG allowances, then it would be required to surrender 16 GHG allowances as part of the penalty.</p> <p>As such, there is no substantive economic decision to surrender GHG allowances or offsets, or not, since incurring a penalty would never be economical. Said another way, there is a direct relationship, which is rigid and inflexible, between emitting GHGs and the requirement to surrender GHG allowances or offsets. Thus, PG&E does not have discretion to surrender GHG allowances or offsets, or not, and once it has emitted, it has incurred a liability to surrender EAs.</p>
Liability to pay a penalty	<p>Per ASC 450-20, <i>Loss Contingencies</i>, PG&E recognizes a liability to pay a penalty (or any loss) when it is both probable and reasonably estimable. For PG&E’s interpretation of this criteria, please see the <i>Contingency Accounting Standard</i>. Furthermore, please note that PG&E currently cannot recover any penalties through rates and, therefore, does not apply any regulatory accounting to them; please see the <i>Regulatory Accounting Standard</i> for a further discussion of regulatory accounting.</p>

Step 2

Measure the compliance liability (ASC 450-20)

A – Measuring a compliance liability

Accounting Interpretation

A – MEASURING A COMPLIANCE LIABILITY

Question

How should PG&E measure a compliance liability?

Answer

PG&E should measure a compliance liability based on the value of the assets it expects to sacrifice to satisfy the liability.

There is no authoritative accounting guidance specifically related to EAs. Nevertheless, since a liability is partially defined as the expected sacrifice of assets, it is implied that a liability should be measured based on the value of those assets. If an entity has a liability to surrender EAs, then the most logical method of measuring the liability is to multiply the number of EAs required to be surrendered by the value of those EAs. This is consistent with both the FASB and the IASB’s Staff Papers; which state, “measurement of the liabilities should be based on two inputs: the price of the allowances, and the quantity of allowances to be returned or submitted”; and the EEI’s whitepaper. Both papers also discuss using a blended value for those EAs, which includes the cost of the EAs on-hand (if they are intended to be used for satisfying the liability) and the cost of the EAs to be purchased (if there is a shortfall of EAs).

If an entity has a liability to pay a penalty, then it should estimate the liability based on the environmental trading program’s regulations and/or penalty schedules, where a specific infraction is associated with a specific penalty amount or range. However, if there is no single

best estimate, then, per ASC 450-20, the entity should use the low-end of the range of best estimates. For PG&E's interpretation of ASC 450-20, please see the *Contingency Accounting Standard*.

The following table describes the specific application of this accounting interpretation to the GHG Program.

GHG Program	
Measuring a liability to surrender EAs	<p>PG&E should multiply the value of GHG allowances by the quantity of GHG allowances required to be surrendered, as of the balance sheet date. The value of GHG allowances should be:</p> <ol style="list-style-type: none"> 1. The weighted-average cost of the GHG allowances on-hand that will be surrendered. 2. For any additional GHG allowances that will be purchased to satisfy the liability, first use the prices that PG&E has contractually committed to. 3. Then, use the current market price as of the balance sheet date. <p>At each balance sheet date, PG&E should re-measure the liability to account for any changes in GHG allowance values. For instance, as PG&E purchases additional GHG allowances to satisfy the liability, it should true-up its prior value estimate to reflect the new prices paid for GHG allowances. Otherwise, there could be a larger true-up (gain or loss) when the liability is settled (i.e., when the GHG allowances are surrendered).</p>
Measuring a liability to pay a penalty	<p>PG&E should estimate a monetary penalty based on the GHG Program regulations. This should include discussions with PG&E's attorney(s) as well as other stakeholders. For a penalty that requires the surrender of additional GHG allowances, PG&E should apply the measurement methodology described in measuring a liability to surrender EAs above.</p>

Step 3a

Is PG&E acquiring an environmental asset? (ASC 330-10-20 & ASC 350-30-20)

A – Determining whether EAs are assets

B – Determining whether EAs are inventory or intangibles

Accounting Interpretations

A – DETERMINING WHETHER EAs ARE ASSETS

Question

Are EAs assets?

Answer

Yes, EAs are assets because they meet the definition of an asset under paragraph 25 of Statement of Financial Accounting Concepts No. 6 in that they provide "probable future

economic benefits". Specifically, EAs can be sold or surrendered to satisfy a compliance requirement.

B – DETERMINING WHETHER EAs ARE INVENTORY OR INTANGIBLES

Question

Are EAs inventory or intangibles?

Answer

PG&E elects to account for EAs as inventory.

There is no authoritative accounting guidance specifically related to EAs. PG&E is aware of two accounting models in practice for EAs: inventory and intangible. The following arguments support the inventory accounting model for EAs.

1. Most US utilities account for EAs as inventory. The FASB acknowledged and did not object to this practice.³
2. ASC 330-10-20, *Inventory – Overall – Glossary*, includes assets to “be currently consumed in the production of goods or services to be available for sale” in the definition of inventory. As stated in the Background, PG&E either uses EAs to satisfy compliance requirements or sells them. Thus, PG&E consumes EAs as it provides services to customers or when it sells them.
3. The Federal Energy Regulatory Commission (“FERC”) requires entities to account for EAs as inventory in financial statements filed with it.

On the other hand, the following arguments support the intangible accounting model for EAs.

1. ASC 330-10-20 specifies that inventory is tangible. Since EAs are not tangible, they do not meet the technical definition of inventory.
2. However, ASC 350-30-20, *General Intangibles Other than Goodwill – Glossary*, defines intangibles as assets “that lack physical substance.” Thus, EAs clearly meet the technical definition of intangibles.

PG&E believes that EAs are part of the cost of producing its core products and should be accounted for consistently with FERC reporting requirements. Therefore, PG&E elects to account for EAs as inventory.

Step 3b

Are EAs derivatives? (ASC 815-10-15)

No, PG&E considers EAs to be inventory (as discussed in Step 3a). However, a forward contract to purchase EAs could be a derivative.

³ The FASB’s Project Updates – Emissions Trading Schemes,
http://www.fasb.org/emissions_trading_schemes.shtml

In general, a forward contract exists when a contract specifies delivery in the future, beyond the normal settlement period. PG&E should evaluate whether a forward contract to purchase EAs exists and whether such a contract is a derivative, in accordance with the *Derivative Accounting Standard*. For more information on whether a forward contract to purchase EAs is a derivative, please see the *Derivative Accounting Standard*.

Step 4

Recognize inventory (ASC 210-20-45 & ASC 330-10-30)

- A – Measuring the cost of EAs
- B – Testing EAs for impairment
- C – Determining the presentation of EA inventories and compliance liabilities

Accounting Interpretations

A – MEASURING THE COST OF EAs

Question

What is the cost of an EA?

Answer

Since PG&E elects in Step 3a to follow the inventory accounting model for EAs, it initially measures them at cost and subsequently measures them at weighted-average cost (as described in Step 5). Per ASC 330-10-30-1, *Cost Basis*, the cost of an EA is its purchase price. If PG&E receives a free EA, then the cost of the EA is zero.

B – TESTING EAs FOR IMPAIRMENT

Question

When is an EA impaired?

Answer

Please see the *Impairment Accounting Standard*. In summary, as long as PG&E can recover the full cost of an EA through rates, the EAs is not impaired. Some examples of when PG&E might not recover the full cost of an EA through rates include:

1. The CPUC disallows any portion of the price that PG&E paid for an EA.
2. An EA is (expected to be) invalidated due to fraud, the destruction of the underlying (e.g., a protected forest), etc.
3. An EA expires, or is expected to expire, unsold or unused.
4. An EA is expected to be sold at a loss.

C – DETERMINING THE PRESENTATION OF EA INVENTORIES AND COMPLIANCE

LIABILITIES

Question

Should EA inventories and compliance liabilities be presented on a gross basis or on a net basis?

Answer

PG&E should present EA inventories and compliance liabilities on a gross basis.

ASC 210-20-45-1, *Right of Setoff Conditions*, states, "A right of setoff exists when all of the following conditions are met:

- a. Each of two parties owes the other determinable amounts.
- b. The reporting party has the right to set off the amount owed with the amount owed by the other party.
- c. The reporting party intends to set off.
- d. The right of setoff is enforceable at law."

While there are two parties (i.e., PG&E and the environmental trading program administrator) and a compliance liability represents PG&E's obligation to the administrator, an EA inventory does not represent the administrator's obligation to PG&E (i.e., the administrator has already transferred the EAs to PG&E). Rather, EA inventories and compliance liabilities arise from separate, distinct events. Therefore, the first criterion above is not met, and PG&E should not present on a net basis (i.e., setoff) EA inventories and compliance liabilities. This conclusion is also consistent with the IASB's tentative conclusion reached on November 18, 2010⁴, both the FASB and the IASB's Staff Papers, and the EEI's whitepaper.

Step 5

De-recognize inventory upon sale or surrender (ASC 330-10-30 & ASC 980-405-25)

Inventory is de-recognized when it is sold or consumed. As such, PG&E de-recognizes EA inventory upon sale or surrender. If there was a surrender, then PG&E would recognize a corresponding decrease to the related compliance liability. If there was a sale, then PG&E would recognize an increase to cash or accounts receivable for the sale proceeds and a gain or loss for the difference between the cost of the EA sold and the sale proceeds.

A – Determining the cost of de-recognized EA inventory

Additionally, the CPUC requires PG&E to return to customers any gains from the sale of EAs. In accordance with ASC 980-405-25-1, *Regulator-Imposed Liabilities*, PG&E recognizes balancing account contra-revenue for any gains from the sale of EAs. Please see the *Regulatory Accounting Standard* for a further discussion of regulatory accounting.

⁴ The FASB's Project Updates – Emissions Trading Schemes, http://www.fasb.org/emissions_trading_schemes.shtml

Accounting Interpretation

A – DETERMINING THE COST OF DE-RECOGNIZED EA INVENTORY

Question

What is the cost of de-recognized EA inventory?

Answer

PG&E elects to de-recognize EA inventory at weighted-average cost, by vintage year.

ASC 330-10-30-9, *Determination of Inventory Costs*, states, "Cost for inventory purposes may be determined under any one of several assumptions as to the flow of cost factors, such as first-in first-out (FIFO), average, and last-in first-out (LIFO)." PG&E has already elected weighted-average cost for natural gas and other inventories (please see the *Inventory Accounting Standard* for more information). Furthermore, the FERC requires entities to use weighted-average cost, by vintage year, for EA inventory in financial statements filed with it. Therefore, for consistency, PG&E also elects weighted-average cost for EA inventory, by vintage year.

Appendix A – Sample Calculation for a Liability to Surrender GHG Allowances

- As of 3/31/20X1, PG&E has 1,000 GHG allowances in inventory at a weighted-average cost of \$10 each.
- As of 3/31/20X1, PG&E has emitted 2,000 tons of GHGs.
- As of 3/31/20X1, PG&E has contracts in-place to purchase 3,000 additional GHG allowances for \$12 each.

Liability to surrender GHG allowances as of 3/31/20X1:

	1,000 @ \$10 =	\$10,000
+	1,000 @ \$12 =	\$12,000
		<u>\$22,000</u>

- As of 12/31/20X1, PG&E has emitted 6,000 tons of GHGs cumulatively.
- As of 12/31/20X1, PG&E has purchased the 3,000 additional GHG allowances that it had contracted to purchase
- As of 12/31/20X1, PG&E has not surrendered or sold any GHG allowances in 20X1, resulting in 4,000 GHG allowances in inventory at a weighted-average cost of \$11.50 each.
- As of 12/31/20X1, the market price of GHG allowances is \$13 each.

Liability to surrender GHG allowances as of 12/31/20X1:

	4,000 @ \$11.50 =	\$46,000
+	2,000 @ \$13.00 =	\$26,000
		<u>\$72,000</u>

Appendix B – Sample Journal Entries for the GHG Program

Granted GHG allowances:

No journal entry – The cost of the GHG allowances is zero

Sold granted GHG allowances:

Dr. Cash
Cr. Regulatory liability or balancing account

Emitted GHGs:

Dr. Compliance expense
Cr. Compliance liability

Dr. Balancing account
Cr. Balancing account revenue

Purchased GHG allowances:

Dr. EA inventory
Cr. Accounts payable

Surrendered GHG allowances:

Dr. Compliance liability
Cr. EA inventory

ATTACHMENT D-3

Response of PG&E to the Accounting Questions Propounded
by Grant Novack of ORA
Regulatory Accounting Document 13-01-05

**Pacific Gas and Electric Company
Regulatory Proceedings and Rates
Regulatory Accounting Document (RAD)**

This document demonstrates concurrence of the under-signed on the regulatory, legal, and accounting treatment of a regulatory event.

Issue Title: Greenhouse Gas (GHG) Costs and Revenues

Regulatory Review Section

Proceeding: A.12-06-002, 2013 Energy Resource Recovery Account (ERRA) and Generation Non-Bypassable Charges Forecast, and R.11-03-012, Utility Cost and Revenue Issues Associated with Greenhouse Gas Emissions (GHG OIR).

Decision or Resolution: D.12-12-008 (ERRA), D. 12-12-033 (GHG OIR)

Applicable Advice Filing: 4168-E (ERRA), 4181-E (GHG OIR)

Balancing or Other Account(s) Affected: ERRA and Modified Transition Cost Balancing Account (MTCBA); establishment of a new regulatory balancing account (GHGRBA) and a new memorandum account (GHGEMA).

Regulatory Background and Recovery Mechanism:

This RAD provides guidance on tracking costs and revenues associated with California's cap-and-trade program, which are addressed in two separate proceedings, the 2013 ERRA Forecast (A.12-06-002) and the GHG OIR (R.11-03-012).

PG&E estimated compliance costs associated with the cap-and-trade program as part of the procurement cost forecast presented in the 2013 ERRA Forecast proceeding (A.12-06-002). The Decision in that proceeding (D.12-12-008), as well as the Decision in the GHG OIR (D.12-12-033), require that PG&E defer recovery of cap-and-trade compliance costs until the CPUC approves a methodology, in R.11-03-012, for returning revenues received from auctioning allowances to customers. To comply with that directive, PG&E established a GHG sub-account in the ERRA balancing account to record deferred forecasted cap-and-trade compliance costs, through AL 4168-E, on December 21, 2012. While these forecasted GHG costs are deferred, the amount recorded in the sub-account is not included in rates. D.12-12-033 allows that upon issuance of a letter from the Energy Division, PG&E can collect the total deferred amount in rates, along with allowance revenues, amortized over a period of 24 or fewer months.

D.12-12-033 (GHG OIR) also addresses allowance auction revenues that PG&E receives on behalf of customers. That decision requires that PG&E establish a new balancing account (GHGRBA) to track revenues associated with the sale of freely allocated allowances. Although a detailed methodology for returning revenue to customers has not yet been approved by the CPUC, at a high level, the decision directs that PG&E first return remaining revenue to EITE (large industrial) customers; followed by small business customers; followed by residential customers. Any residual revenues will be returned to customers twice annually via an on-bill credit known as a "climate dividend."

D.12-12-033 also requires that PG&E track administrative costs and outreach and education costs in a memorandum account (GHGEMA), and allows PG&E to use a portion of the GHG revenue to cover these costs, before returning revenue to customers. There are three categories of costs funded by allowance

revenues that will be tracked in sub-accounts. The first category is administrative costs, which are subject to reasonableness review in the future. In a report to the CPUC in August 2013, PG&E will estimate expected administrative costs, but will ultimately true-up costs based on actual spending in 2013. Second, there are outreach costs for a one-time consultant study, capped at \$500,000 to be shared among the three utilities. Third, there are costs for outreach and education conducted in 2013, while awaiting the study results and implementation, which are capped at \$1.7 million. Following the study, PG&E is required to file an application for cost recovery of outreach costs going forward for years after 2013. Unspent year-end funds are to be rolled forward to the subsequent year for future spending, in a similar manner to other balancing accounts, such as ERRRA.

Effective Date: January 1, 2013

Regulatory and Legal Department Sign-Off:

██████████
Director and Manager, Energy Supply Proceedings

Approved _____ 2/1/13
Date

██████████
Case Manager, Energy Supply Proceedings

Approved _____ 1/31/13
Date

██████████
Lead Attorney, Law

Approved _____ 1/31/13
Date

██████████
Lead Attorney, Law

Approved _____ 2/1/13
Date

Accounting Review Section**Description of Accounting Procedures to be applied:**

GHG costs are not included in rates and will not be recovered from customers until the CPUC approves a revenue return implementation methodology. PG&E will track all GHG costs in a subaccount on a *forecast basis*. Differences between cap-and-trade compliance cost forecasts and actuals will be included in ERRA.

Tracking of cap-and-trade compliance costs:

The entries below illustrate the impact of GHG related transactions to the ERRA account, as approved per AL 4168-E (amounts are for illustrative purposes only):

ERRA - 1823051				ERRA GHG subaccount - 1823051				ERRA B/A revenue - 4000907			
(2)	9	10	(4)	(5)	3	3	(6)	(4)	11	9	(2)
(6)	3	3	(5)	(8)	1			(4)	1		
(8)	2	3	(7a)					(7a)	3		
Procurement Expense - 5000xxx				Accounts Payable - 2320xxx				Accounts receivable/Cash			
(1)	9					9	(1)	(3)	11		
								(7)	3		
Billed revenues				Interest income - 4103032				FF&U - 4000946			
		11	(3)			3	(8)			1	(4)
		3	(7)								

Recurring Procurement and Recovery Entries:

- 1) To record electric procurement costs of \$9 which include \$4 related to GHG expense.
- 2) To recover the electric procurement costs of \$9 in ERRA.
- 3) To record billed revenues based on authorized 2013 procurement RRQ of \$11 (RRQ excludes \$3 forecasted GHG costs).
- 4) To record billed revenues, net of Franchise Fees and Uncollectables (FF&U).

Compliance Cost Tracking Entries:

- 5) To transfer the GHG forecasted procurement costs of \$3 in the ERRA account to the ERRA - GHG Cost subaccount.

Upon Implementation – Entries to Recovery GHG Costs:

- 6) To transfer the recovery of the forecasted GHG costs upon finalization of the implementation details. The amortization will be concurrent with the return of GHG auction proceeds described in the section below.
- 7) To include the recovery of the GHG forecasted amount of \$3 in rates/billed revenues upon implementation of the GHG OIR.
- 7a) To record the recovery of deferred forecast GHG cost of \$3 (imbedded in the ERRA revenue) upon the implementation of the GHG OIR.
- 8) To record interest related to ERRA regular account \$2 and ERRA GHG subaccount \$1.

GHGEMA and GHGRBA related entries:

The GHGRBA and GHGEMA were established per the approved AL 4181-E, effective January 1, 2013.

GHGRBA:

The purpose of the GHGRBA is to record the difference between the GHG revenues generated through the auction of consigned GHG allowances, less any revenues approved to be set aside and the GHG revenues returned to customers. The first entry will be made in January 2013 to record the proceeds from the November 14, 2012 auction. All entries are recorded net of Franchise Fees and Uncollectibles (FF&U).

Note that there is no GHGRBA balancing account revenue for the auction proceeds as there is no revenue or expense to offset. The auction proceeds are not considered revenue and only have a balance sheet impact. At the end of 2013, the remaining proceeds in the GHGRBA will be passed back to ratepayers via a negative rate component through the SERRA process.

GHGEMA:

The purpose of the GHGEMA is to track authorized and actual expenses incurred to implement, administer, market and educate customers regarding GHG allowance revenues and costs, net of FF&U and benefit burdens.

There are three subaccounts for GHGEMA:

- 1) **MARKETING & PUBLIC RELATIONS SUBACCOUNT:** The purpose of this subaccount is to track expenses related to the use of a marketing and public relations firm to assist in customer outreach and education efforts related to GHG allowance returns to customers up to PG&E's share of the \$500,000 cap. PG&E will record a debit to the GHGEMA to reflect the actual amount paid to the marketing and public relations firm and offset that debit with the auction proceeds in the GHGRBA in the month of payment. The actual expenses need to be reserved, therefore, we will book a credit to the Electric Reserve – Current account (1823110) and debit the GHGEMA Balancing Account Revenue account. Once Legal believes recovery is probable the reserve will be reversed.
- 2) **CUSTOMER OUTREACH SUBACCOUNT:** The purpose of this subaccount is to track customer outreach and education expenses related to GHG allowance returns to customers up to the authorized cap(s). The 2013 cap is \$1.7 million and the unspent balance in this subaccount will be rolled over for use in subsequent years. A debit will be recorded each month to reflect the actual expenses with a corresponding credit of \$141.67k (\$1.7 million divided by 12 months) in the GHGEMA. The GHGRBA will reflect a debit each month of \$141.67k to represent the monthly forecasted amount that we will be setting aside from the auction proceeds to offset our expenses. The actual expenses need to be reserved, therefore we will book a credit to the Electric Reserve – Current account (1823110) and debit the GHGEMA Balancing Account Revenue account. Once Legal believes recovery is probable, this reserve will be reversed.
- 3) **ADMINISTRATIVE SUBACCOUNT:** The purpose of this subaccount is to track administrative expenses incurred for implementing and administering GHG allowance revenue returns to customers. This amount is subject to a reasonableness review and the actual expenses recorded in this account will be reserved; we will credit the Electric Reserve – Current account (1823110) and debit the GHGEMA Balancing Account Revenue account. Once a CPUC approved forecast is established, and when Legal believes recovery is probable, a monthly entry will be made to credit the GHGEMA and debit the GHGRBA to represent the forecasted amount that we will be setting aside from the auction proceeds to offset our expenses, and the reserve will be reversed.

Attachment D-3
 Amounts are for illustrative purposes only:

Cash				Auction proceeds - 2540015				GHGRBA – 1823232			
(1)	84	10	(3)	(2)	84	84	(1)	(4c)	10	84	(2)
		2	(5)					(7b)	0.14		
		8	(8)							3	(10)
		76.86	(12)					(13)	76.86		

GHGRBA B/A Rev – 4000139				GHGEMA – 1823231				Expense			
		10	(4c)	(4a)	10	10	(4b)	(3)	10		
		0.14	(7b)	(6)	2	0.14	(7a)	(5)	2		
		76.86	(13)	(9)	8			(8)	8		
				(11)	1						

GHGEMA B/A Rev – 4000138				Interest exp/inc				Billed Revenues			
(4b)	10	10	(4a)	(10)	3	1	(11)	(12)	76.86		
(7a)	0.14	2	(6)								
		8	(9)								

- 1) To record initial auction proceeds of \$84 received in November 2012 to a Regulatory Liability account.
- 2) A one-time entry to be booked in January 2013 to transfer the \$84 auction proceeds from the Regulatory Liability account to the GHGRBA account. Once the GHGRBA is established, proceeds from future auctions will settle there directly.
- 3) To record cost of \$10 incurred related to GHG marketing and public relations efforts.
- 4a-c) To record the GHG marketing and public relations efforts to the GHGEMA and GHGEMA B/A Revenue accounts of \$10. In addition, an entry will be made to use proceeds from the GHGRBA to offset the \$10 expense in the GHGEMA based on a forecast, once established.
- 5) To record the actual expense of \$2 related to customer outreach and education.
- 6) To record the customer outreach and education expense to the GHGEMA and GHGEMA B/A Revenue accounts of \$2.
- 7a-b) To record the monthly forecast based on the 2013 cap of \$1.7 (\$0.14 monthly) to the GHGRBA and GHGEMA.
- 8) To record administrative costs incurred for implementing and administering GHG allowance revenue returns to customers of \$8.
- 9) To record the administrative costs incurred for implementing and administering GHG allowance revenue returns to customers to the GHGEMA and GHGEMA B/A Revenue accounts of \$8, net of benefit burdens.
- 10) To record interest expense of \$3 to the GHGRBA.
- 11) To record interest income of \$1 to the GHGEMA.
- 12) To return the remaining auction proceeds back to ratepayers via a negative rate component through the billing process.
- 13) To reflect the return of auction proceeds in the GHGRBA and GHGRBA B/A Revenue accounts.

The table below shows the P&L and Balance Sheet impact of the journal entries shown above. Note that this represents the full year cycle of entries based on the current methodology and all amounts are for

illustrative purposes only. The P/L impact of \$2 represents interest. Note, since a reserve is necessary for expenses recorded in the memo account, an additional P&L hit will be reflected as those expenses are incurred until amounts are probable of recovery.

P&L											Total	
BA Revenue			(10)		(2)	0		(8)		(76.86)	(97)	
Admin Expense	10			2			8				20	
Interest									3	(1)	2	
Billed Revenues										76.86	77	
Net P&L	0	10	(10)	2	(2)	0	8	(8)	3	(1)	0	2

Balance sheet													
Cash	84	(10)			(2)			(8)		(76.86)	(13)		
GHGEMA			0			2	(0.14)		8	1	11		
GHGRBA	(84)		10				0.14			(3)	(0)		
	0	(10)	10		(2)	2	0	(8)	8	(3)	1	(0)	(2)

Description of Trigger Initiating Accounting Entries:

- Approval of D.12-12-008 (ERRA) which authorized to recover a 2013 procurement revenue requirement of \$4.537 billion but directed PG&E to defer in rates the GHG costs (including interest) until all necessary implementation details are finalized.
- D. 12-12-033 (GHG OIR) per AL 4168-E approving the ERRA –GHG subaccount
- D. 12-12-033 establishing the GHGEMA and the GHGRBA per AL 4181-E.

Implementation Schedule: January 1, 2013

Does the regulatory event result in a financial impact of at least \$1M to the Income Statement or \$10M to the Balance Sheet? Yes

Accounting Department Sign-Off:

Senior Manager, Energy Accounting

Approved _____ 1/31/13
Date

Senior Director, Corporate Accounting

Approved _____ 1/31/13
Date

Principal, Energy Accounting

Approved _____ 1/31/13
Date

ATTACHMENT E

Response of SCE to the Accounting Questions Propounded
by Grant Novack of ORA

Attachment SCE-Issue 7: SCE's Responses to ORA's February 26, 2014, March 14, 2014, and March 17, 2014 GHG Accounting Procedures and Rules Question Sets

I. SCE's Responses to ORA's February 26, 2014 Accounting Procedures and Rules Questions

A. GHG COSTS AND EXPENSES

1. Identify and explain the accounting procedures and all general ledger accounts related to the recording of actual GHG emissions costs.

Ordering Paragraph (OP) No. 10 of D.12-04-046 (SCE's 2012 Long Term Procurement Plan decision) required that costs incurred for GHG compliance instrument transactions should be included in each utility's Energy Resource Recovery Account filing for cost recovery. On October 18, 2012, SCE filed Advice Letter 2795-E to modify its Energy Resource Recovery Account (Preliminary Statement, Part ZZ) to include an entry to record GHG compliance costs in its ERRA. Because D.12-04-046 required SCE to recover the costs that were "incurred", for ratemaking purposes, SCE's entry is to record the costs as cash is going out the door. SCE's Advice Letter 2795-E was approved by the Commission effective November 17, 2012.

When SCE purchases allowance inventory from the auction, SCE records the allowance as Inventory (1181045) at the purchase price. Consistent with D.12-04-046, SCE also seeks future recovery of its "incurred cost" by recording the GHG procurement compliance costs in the ERRA balancing account. Since rate-payers have funded the cash purchase, a regulatory liability is also recognized representing the value of the inventory.

GHG emissions expense (5221050 and 6170032) is recognized when CO2 pollutants are emitted through operations (e.g., generation, imports, and dispatched tolling facilities). A GHG obligation (financial settled) or GHG allowance inventory – contra (physical settled) is also recognized as CO2 pollutants are emitted.

SCE's recording of actual GHG emissions costs involves the following general ledger accounts:

5221050 GHG emissions expense (Purchase power – tolls) – Recognition of GHG emissions expense as CO2 pollutants under SCE's tolling arrangements are emitted.
6170032 GHG emissions expense (O&M – Utility owned generation) – Recognition of GHG emissions expense as CO2 pollutants for SCE utility owned generation facilities are emitted.

1181045 GHG Allowance Inventory – Represent the total value of GHG procurement compliance costs based on historical cost.

Response date: March 25, 2014

2350282 GHG obligation (financial) – Represents the obligation incurred as a result of CO2 pollutants emitted resulting from operations that will be settled in cash payments to counterparties.

1181046 GHG allowance inventory – contra account (physical) - Represents the obligation incurred as a result of CO2 pollutants emitted resulting from operations that will be settled using emission allowances held in inventory.

2451035 GHG regulatory liability – Represents the value of emission allowance inventory funded by customers.

4601010 Provision – Represents the income statement account used to record the regulatory offsets for the above activities.

2. Identify the general ledger accounts to which the utility is to record
a) forecasted or estimated costs, b) authorized costs.

a) Forecasted or estimated costs – Forecasted costs, if authorized, are used to develop rates to collect the authorized revenue requirement. There is no accounting for forecasted or estimated GHG costs in the ERRA balancing account.

b) Authorized costs – Please refer to SCE’s response to Question 15.

3. Does the utility account for and report allowances at historical cost? Explain.

Yes. SCE accounts for and reports allowances held in inventory at historical cost. Currently there is no existing authoritative literature in GAAP in regards to emission allowance. Although no official guidance was issued, practice has evolved whereby companies classify emission allowances held as either inventory or intangible assets. FERC Uniform System of Accounts guidance explicitly addresses emission allowance and requires that regulated utilities apply a historical cost model, basically an inventory model, for purposes of FERC and regulatory reporting. Many utilities, including SCE, use this approach for both FERC and U.S. GAAP.

4. Does the utility initially classify allowances as inventory? Explain.

Yes. SCE accounts for allowances as inventory. Allowance inventory is recognized when GHG compliance instruments costs are incurred based on auction at the purchase price.

5. Does the utility use the weighted-average cost method? Explain.

Response date: March 25, 2014

SCE recognizes emission expense at the time CO₂ pollutants are emitted through operations. Expense is determined using the weighted average cost of allowances when expected to be settled using emission allowances held in inventory.

6. Does the utility perform monthly cost calculations based on 1) actual data or on 2) reasonable estimates? Explain.

The volume of CO₂ pollutant emission is based on an initial estimate of operating data and is trued up when actual data becomes available.

7. Does the utility recognize and record expense monthly based on the historical cost of allowances needed to satisfy actual emissions during the period? Explain.

Yes. SCE uses historical cost by applying the weighted average cost methodology for emission expense to be settled physically. Financially settled emission expense is measured based on estimated settlement prices using a forward price curve.

8. Does the utility use accrual basis accounting? Explain.

Yes. For financial accounting, SCE uses accrual accounting to record its emission expense when CO₂ pollutants are emitted through operations (e.g., generation, imports, and dispatched tolling facilities) as part of its month end reporting process.

For ratemaking purposes and consistent with D. 12-04-046, SCE is required to record compliance instrument transactions in ERRA. SCE's entry is to record the costs as cash is going out the door.

9. Does the recording of GHG costs meet the "matching principle?" Explain.

Yes. The recording of GHG emission expense meets the matching principle as SCE is recording the expense and recognizing the associated revenue at the same time.

10. Identify all general ledger accounts and explain the purpose and operation of each account used for recording GHG costs.

Please refer to SCE's response to Question 1.

Allowance inventory is recognized when purchased from the auction or a bilateral counterparty at the purchase price and the associated cost recovery entries are recorded at the same time. SCE debits 1181045 GHG Allowance Inventory and credits 1021112 Cash.

For emissions expense for tolls and imports, SCE debits General Ledger account 5221050 GHG emissions expense (Purchase power – tolls) and credits 2350282 GHG obligation (financial) in the amount the obligations anticipated to be settled financially

Response date: March 25, 2014

measured based on estimated settlement prices (e.g., end-of-month ICE forward price curve) or credits 1181046 GHG allowance inventory – contra account (physical) for physical settlement.

For emissions expense for utility owned generation, SCE debits General Ledger account 6170032 GHG emissions expense (O&M – Utility owned generation) and credits 1181046 GHG allowance inventory – contra account (physical). The contra inventory and the associated expense of emitting GHG are measured at the weighted average cost of allowances.

11. Describe the cradle-to-grave recording of GHG compliance instrument costs.

Allowances purchased from the auction or bilaterally

Allowance inventory is recognized when purchased from the auction or a bilateral counterparty at the purchase price and the associated cost recovery entries are recorded at the same time.

Dr. GHG allowance inventory

Cr. Cash

Dr. ERRA

Cr. Provision

Dr. Provision

Cr. GHG regulatory liability

GHG emitted

GHG emissions expense will be recorded when CO₂ pollutants are emitted through operations (e.g., generation, imports, and dispatched tolling facilities). A GHG obligation or GHG allowance inventory – contra account will also be recorded based on settlement (financial vs. physical). The obligation/contra inventory and the associated expense of emitting GHG are measured at the WAC of allowances.

Dr. GHG emissions expense (Purchase power – tolls) Dr. GHG emissions expense (O&M – Utility owned generation)

Dr. GHG regulatory liability

Cr. Provision

Allowances sold in bilateral markets

Accounts receivable is recognized when allowances are sold to bilateral counterparties at the selling price. A reduction in allowance inventory is also recognized at the WAC and a gain or loss is recognized as the difference between the WAC of allowances and the selling price. A corresponding entry is made to the ERRA balancing account to provide recovery from or refunds to customers.

Dr. Accounts receivable

Cr. GHG allowance inventory

Cr. / Dr. Gain or loss

Dr. Reg. Liability

Dr. Provision

Cr. ERRA

Retiring allowances

GHG compliance obligations will be fulfilled when certificates are transferred to the compliance account and retired.

Dr. GHG allowance inventory – contra account

Cr. GHG allowance inventory

12. Describe utility accounting procedures for procurement, sale, or transfer of GHG compliance instruments.

Please refer to SCE’s response to Question 11.

13. Describe utility accounting procedures for compliance instrument inventory.

Please refer to SCE’s response to Question 11.

14. Describe utility accounting procedures for unused (“expired”) costs.

Assets are subject to impairment accounting guidelines and assets accounted for as inventory are subject to a lower of cost or market analysis pursuant to ASC Topic 330, *Inventory*. SCE believes that as long as it can recover the full cost of a GHG allowance through rates then it is not impaired. SCE will evaluate GHG allowances for impairment upon a triggering event that would indicate SCE might not recover the full cost of an

allowance. Examples of triggering events include:

1. The CPUC disallows any portion of the price that SCE paid for an allowance.
2. An allowance/offset is (expected to be) invalidated due to fraud, the destruction of the underlying (e.g., a protected forest), etc.
3. An allowance expires, or is expected to expire, unsold or unused.
4. An allowance is expected to be sold at a loss.

15. Provide a detailed description of the operation of the GHG cost sub-account, including all debits and credits.

The purpose of the GHG cost sub-account is to record entries related to the authorized forecasted direct and indirect procurement-related GHG costs, during the time that recovery of the costs are temporarily deferred, pursuant to D. 12-12-033. Once the Commission authorized recovery in rates begins, the GHG cost sub-account entries will track the transfer of the costs from the GHG cost sub-account to the main ERRA for cost recovery. SCE maintains the GHG cost sub-account by making entries as follow:

Dr. 1412010 GHG sub-account (subset of ERRA) \$xxx.xx

Cr. 4601010 Provision \$xxx.xx

To record authorized forecasted direct and indirect procurement-related GHG costs

Dr. 1412010 ERRA \$xxx.xx

Cr. 1412010 GHG sub-account (subset of ERRA) \$xxx.xx

To transfer the costs from GHG sub-account to the main ERRA for cost recovery

Dr. 1412010 GHG sub-account (subset of ERRA) \$xxx.xx

Cr. 4811200 Interest Income - \$xxx.xx

To record interest income by applying the interest rate to the average monthly balance in the GHG cost sub-account.

16. Describe whether and when the utility posts 1) forecasted, 2) actual, and 3) approved costs to the GHG cost sub-account.

a) There is no accounting for forecasted GHG costs in the ERRA balancing account.

b) Actual GHG costs are not recorded in the GHG sub-account.

c) The approved costs (amount included for recovery in rates) are recorded in the GHG sub-account during the time recovery of these costs are temporarily deferred. Once GHG costs are recovered in rates, the entries will track the transfer of costs from the GHG cost sub-account to the ERRA balancing account for cost recovery.

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17. Define “cost” as the word pertains to each of the following 1) GHG compliance instrument procurement cost, 2) Actual cost (i.e., actual emissions), and 3) Forecasted GHG cost.

SCE defines GHG compliance instrument procurement cost as cash outlay to procure the GHG allowances. Actual cost represents GHG emission expense as CO₂ pollutants are emitted through operations plus estimated indirect costs which in total equates to total authorized costs. Forecasted GHG cost represents the financial impact SCE expects its customers to experience as a result of future compliance with the cap-and-trade program, either through SCE purchasing compliance instruments, compensating counterparties for their GHG obligations, or paying premiums in the market for power with an embedded GHG price.

18. Identify and describe the operation of all sub-accounts established within the ERRA.

There are two sub-accounts in the ERRA as follows: (1) the SO₂ Credit Sub-Account, established in accordance with Resolution E-4112, to record the sale and purchase of sulfur dioxide credits, and (2) the GHG Cost Sub-Account, established in accordance with D.12-12-033, to record entries related to the authorized forecast of direct and indirect procurement-related GHG costs during the time recovery of these costs are temporarily deferred. Once GHG costs are recovered in rates, the entries will track the transfer of costs from the GHG cost sub-account to the ERRA balancing account for cost recovery.

19. Provide rules and accounting procedures pertaining to GHG Procurement Costs posted to the ERRA balancing account.

At all relevant times SCE’s treatment of its GHG revenues and costs have been in accordance with Commission decisions, SCE’s tariffs, and applicable accounting rules. As previously provided to the ORA, SCE uses its GHG accounting policy as procedure for the treatment of GHG costs for financial and regulatory accounting purposes.

20. Provide rules and accounting procedures pertaining to the GHG Expense Memorandum Account.

SCE does not have a GHG Expense Memorandum Account (GHGEMA). Please refer to SCE’s response in Section B, GHG Revenue Question #2, for a description of the accounting for SCE’s GHG-related customer outreach and administrative costs.

21. Describe all of the types of accounting entries that are made directly to or from the ERRA (not ERRA sub-account) that pertain to GHG costs and expenses. Include all ERRA accounting entries for transfers from/to an ERRA sub-account.

There are four accounting entries that can be made directly to or from ERRA pertaining to GHG costs and expenses:

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1. Allowance purchased from auction-held in inventory
Dr. 1412010 ERRRA
Cr. 4601010 Provision
2. Financially settled GHG expenses based on monthly activity
Dr. 1412010 ERRRA
Cr. 4601010 Provision
3. Deferred Revenue – Authorized forecast costs
Dr. 4601010 Provision
Cr. 1412010 ERRRA
4. Amount included in rates
Dr. 1412010 ERRRA
Cr. 1412010 GH Sub-account (subset of ERRRA)

22. Explain how and when the utility is to seek recovery of recorded GHG costs.

SCE includes recovery of its year-end recorded ERRRA balance (which includes recorded GHG costs) as part of its January 1 ERRRA revenue requirement request. Upon a Commission decision in SCE's annual ERRRA Forecast of Operations proceeding, SCE files a compliance advice letter to institute ERRRA rates which includes an update to the forecast ERRRA revenue requirement to incorporate the actual under- or over-collected December 31st balance in the ERRRA balancing account for rate recovery through the next scheduled rate change. In SCE's annual ERRRA Review applications, the record period (i.e. prior year) fuel and purchased power costs (which include GHG costs) are provided for Commission review to ensure all entries to the ERRRA account are stated correctly and are consistent with Commission decisions.

B. GHG REVENUE

1. Identify and describe the types of accounting entries the utility is to make to or from the ERRRA (or ERRRA subaccount) that pertain to GHG revenues.

GHG revenues are recorded in the GHG Revenue Balancing Account (GHGRBA) and are not recorded in the ERRRA or ERRRA GHG cost sub-account. Therefore there are no accounting entries made to or from the ERRRA pertaining to GHG revenues.

2. Identify and describe the source documents the utility is to use to support the following accounting entries to the GHG Revenue Balancing Account:

- a. A credit entry equal to the GHG revenues generated from the auction of consigned GHG allowances. Identify the entities that are to 1) consign and 2) auction. Explain how this process is to operate.

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The source documents SCE uses to support the accounting entries for the GHG revenues generated from the auction of consigned GHG allowances are: (1) Deutsche Bank's ARB Consigned Allowance Statement, (2) invoices from SCE's Entegrate system, and (3) SCE's GHG Emission Deal Capture System. SCE is the entity to consign and auction.

- b. A debit entry equal to GHG revenue approved to be set aside for marketing and public relations, which is transferred to the Marketing and Public Relations Subaccount in the Greenhouse Gas Expense Memorandum Account (GHGEMA).

SCE does not have a GHGEMA.

- c. A debit entry equal to the GHG revenue approved to be set aside for customer outreach and education, which is transferred to the Customer Outreach and Education Subaccount in the GHGEMA.

SCE's GHG-related customer outreach and education costs are recorded in the GHG Customer Outreach and Education Memorandum Account (GHGCO&EMA) based on invoices received and internal labor based on timesheets. On a monthly basis, the actual GHG-related customer outreach and education costs are debited to the GHGCO&EMA. These costs are to be funded by GHG allowance revenues through the operation of the GHGRBA effective April 1, 2014. Beginning in April 2014, the amounts recorded in the GHGCO&EMA will be transferred to the GHGRBA for recovery.

- d. A debit entry equal to the GHG revenue approved to be set aside for administrative activities, which is transferred to the Administrative Subaccount in the GHGEMA.

SCE's GHG-related administrative costs are recorded in the GHG Administrative Costs Memorandum Account (GHGACMA) based on external/internal labor and any invoices received. On a monthly basis, the actual GHG-related administrative costs are debited to the GHGACMA. These costs are to be funded by GHG allowance revenues through the operation of the GHGRBA effective April 1, 2014. Beginning in April 2014, the amounts recorded in the GHGACMA will be transferred to the GHGRBA for recovery.

- e. A debit entry equal to the portion of GHG allowance revenues returned to customers, net of an allowance for franchise fees & uncollectible accounts expense (ff&u).

Effective April 1, 2014, SCE's billed revenue will reflect the GHG allowance revenues returned to customers. Each month, the amount of GHG allowance

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revenues returned to customers will be debited to the GHGRBA (and netted against the actual amount of GHG revenues received from the allowance auctions).

- f. A debit entry equal to the amount paid to the California Air Resources Board (CARB) or any other authority as ordered by the Commission. Upon receipt, the amount of any invoices paid to the CARB will be debited to the GHGRBA account for recovery from GHG allowance revenues.

3. Identify the accounting procedures for the first GHG revenue return to ratepayers scheduled for April 1, 2014.

SCE will implement the GHG allowance revenue allocation methodology in customer rates effective April 1, 2014. As a result, SCE's billed revenue will reflect the GHG revenues returned to customers. Each month, the amount of GHG allowance revenues returned to customers will be debited to the GHGRBA (and netted against the actual amount of GHG revenues received from the allowance auctions).

There are two accounting entries pertaining to GHG revenues returned to customers:

1. GHG revenue will be debited to SCE's billed revenue to reduce SCE's billed revenue

Dr. Revenue
Cr. SCE's accounts receivable

2. Entry to GHGRBA for the GHG revenue credit to customer

Dr. GHG Revenue Balancing Account
Cr. Provision

II. SCE's Responses to ORA's March 14, 2014 Accounting Procedures and GHG Revenue Return Questions

1. Explain the utility methodology for calculating and recording actual emissions costs.

Please see SCE's response to Question 11 in ORA's March 14, 2014 question set above.

2. Explain whether and how the utility uses 1) compliance instrument costs and/or 2) actual emissions costs to perform revenue return calculations.

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Under the currently adopted GHG revenue return methodology, forecast GHG direct (which includes forecast compliance instrument costs) and indirect costs are used to perform the revenue return calculations.

3. Explain whether the GHG cost sub-account is temporary. If it is temporary, explain when it was or will be discontinued.

The purpose of the GHG cost sub-account is to record entries related to the authorized forecasted direct and indirect procurement-related GHG costs, during the time that recovery of the costs are temporarily deferred, pursuant to D. 12-12-033. Therefore the GHG cost sub-account is temporary in nature. SCE's GHG cost recovery commences April 1, 2014, and the GHG cost sub-account entries will track the transfer of the costs from the GHG cost sub-account to the main ERRA for cost recovery. Since the GHG Phase I Decision No. 13-12-041 authorized the amortization of 2013 authorized GHG costs equally between 2014 and 2015, the GHG cost sub-account will continue in operation through December 31, 2015.

4. In what proceeding will the CPUC formally review/audit GHG revenues?

The CPUC will formally review SCE's forecast and recorded GHG revenues in the annual GHG Revenue and Reconciliation proceedings.

5. In what proceeding will the CPUC formally review/audit the GHGEMA?

The CPUC will formally review SCE's recorded memorandum account GHG-related customer outreach and administrative costs in the annual GHG Revenue and Reconciliation proceedings.

6. Is the GHG revenue return impacted in any way by any data contained in the ERRA balancing account or in the GHG cost sub-account? If yes, explain.

No. However, this could change if the Commission adopts a methodology incorporating actual GHG costs in the calculations of revenue returns in Phase II of this proceeding.

7. Explain the events that are to trigger the utility to record GHG revenues.

Upon the receipt of auction proceeds, SCE books the revenue from the sales of allowances that were consigned to SCE. The journal entry to record GHG revenue is as follows:

Dr.	Cash
	Cr. GHG allowance revenue - auction
Dr.	Provision
	Cr. GHG Revenue Balancing Account (GHGRBA)

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8. Explain the formula for how the utility is to calculate a GHG revenue return forecast.

D. 12-12-033 adopted a GHG revenue return methodology as set forth in SCE's GHGRBA preliminary statement, based on the following "formula":

- a) A forecast of GHG Revenues that will be received for the upcoming year;
- b) Plus: the prior year's December 31st balance (overcollected or undercollected) in the GHGRBA, including accrued interest;
- c) Less: the forecast GHG-related customer outreach and education costs, set at \$1.4 million for 2013, with each subsequent year's funding as authorized by the Commission for recovery;
- d) Less: SCE's proportionate share of up to \$500,000 in costs, allocated based on percentage of retail sales, to engage a firm with marketing and public relations expertise that will be responsible for proposing expanded customer outreach and education activities through 2015;
- e) Less: forecast annual GHG-related administrative costs as authorized by the Commission for recovery;

The sum of (a) through (e) equals the net forecast annual GHG Revenues to be allocated to eligible customers as follows:

- f) Less: the portion of the net forecast annual GHG Revenues allocated for return to Emissions-Intensive, Trade-Exposed (EITE) customers determined based on Commission-adopted EITE customer definitions and methodology;
- g) Less: the portion of the net forecast annual GHG Revenues allocated for return to eligible Small Business customers to be returned through the use of a volumetric \$/kWh distribution rate set so as to offset the amount of GHG costs in generation rates allocated to Small Business customers, adjusted by Commission-authorized industry assistance factors applicable in a given year;
- h) Less: the portion of the net forecast annual GHG Revenues allocated to GHG cost-bearing residential customers (that is, Tiers 3 – 4 and TOU residential customers) to be returned through the use of a volumetric \$/kWh distribution rate set so as to completely offset the amount of GHG costs in generation rates allocated to residential customers;
- i) The remaining amount (i.e. the sum of (a) through (h) equals the GHG Revenue CA Climate Credit amount to be allocated for return to all residential customers on an equal-per-residential account basis.

The sum of (a) through (i) shall equal zero for each annual forecast year.

9. Explain the details of how actual emissions costs have an effect on revenue return calculations.

Under the currently authorized GHG revenue return methodology, actual emissions costs have no effect on the revenue return calculations. This could change if the Commission adopts a methodology incorporating actual GHG costs in the calculations of revenue returns in Phase II of this proceeding.

Response date: March 25, 2014

10. In what proceeding will revenue return calculations be formally reviewed/audited by the CPUC?

The CPUC will formally review SCE's revenue return calculations in the annual GHG Revenue and Reconciliation proceedings.

11. In what proceeding will the utility provide tables for the Record Year showing the following?

- a. CARB Current and Advance Auctions results.
- b. Specific results in each of the Current and Advance auctions.
- c. Competitive Requests for Offers (RFO) for allowances and offset credits.

Response:

a) CARB Current and Advance Auction results are publicly available on the CARB website (<http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm>).

b) IOU specific results are reported in each Quarterly Compliance Report as required by the utilities' Long Term Procurement Plans.

c) RFO results for allowances and offsets are also reported in the Quarterly Compliance Reports.

III. SCE's Responses to ORA's March 17, 2014 GHG Procedural Questions

For each of the following proceedings, where applicable, identify the applicable GHG cost, revenue, and expense related transactions that the utilities expect to request the CPUC to review, verify, and approve:

- a. ERRAs Compliance Application

In SCE's annual April 1 ERRA Review Application, SCE submits its recorded fuel and purchased power expenses (which include GHG costs) for the prior year recorded. SCE's future GHG Revenue and Reconciliation applications will include a prior year reconciliation of GHG direct and indirect costs, based upon methodologies to be authorized by the Commission in Phase II of this proceeding.

- b. ERRA Forecast Application

SCE will file its annual ERRA Forecast Application concurrent with its annual GHG Revenue and Reconciliation Application pursuant to the Phase I Decision (D.13-12-041). In both of these applications, SCE will include its forecast of direct and indirect GHG costs for the upcoming year.

Response date: March 25, 2014

- c. GHG Forecast Application
- d. GHG Revenue and Reconciliation Application
- e. GHG Cost and Revenue Forecast and Reconciliation Application

These are different names for the same proceeding. The Phase I Decision uses the proceeding title of “GHG Revenue and Reconciliation Application”. In this annual application, SCE will include both a forecast and prior year reconciliation of: (1) GHG direct and indirect costs (note that any prior year true-up for GHG costs will be determined in this Phase II proceeding), (2) GHG-related program costs, including customer outreach and education and administrative costs, and (3) GHG allowance revenues.

- f. Annual Electric True-Up

SCE does not have an Annual Electric True-Up filing.

- g. Other (please specify).

None.

ATTACHMENT F

Response of SDG&E to the Accounting Questions Propounded
by Grant Novack of ORA

Response date: March 25, 2014

February 26, 2014

PG&E, SCE, and SDG&E Case Administrators for A.13-08-002:

A.13-08-002: “What accounting procedures and rules should each utility follow to report its GHG costs, allowance revenues, and compliance instruments inventory?”

Regarding **A.13-08-002**, PG&E, SCE, and SDG&E will be serving on March 25, 2014 a “Proposed Joint Utility Proposal and Supporting Narrative” The document is to address various issues, including the following (Issue #7):

What accounting procedures and rules should each utility follow to report its GHG costs, allowance revenues, and compliance instruments inventory? Are there accounting and reporting requirements used or being developed in ERRA or ECAC proceedings that should be adopted in this proceeding? Are the accounting and reporting requirements that have been proposed in this proceeding consistent with the accounting and reporting requirements in the ERRA and ECAC proceedings?

On January 14, 2014, I talked briefly with PG&E attorney Chris Warner who indicated that PG&E would be taking a leading role in developing the Joint Utility Proposal. ORA requests that the three utilities ensure that the Joint Utility Proposal addresses the following questions:

A. GHG COSTS AND EXPENSES

1. Identify and explain the accounting procedures and all general ledger accounts related to the recording of actual GHG emissions costs.

GHG Expense: 5550228 GHG Compliance Costs– this account will be used to record the expensing of GHG costs as SDG&E emits GHG.

Liability to CARB: 2540033 GHG Allowance Electric CARB Non-current – this account will be used to record the liability to CARB of emissions that will be relieved by turning over GHG Compliance Allowances outside of the next twelve months.

Liability to CARB: 2197228 GHG Allowance Electric CARB Current – this account will be used to record the liability to CARB of emissions that will be relieved by turning over GHG Compliance Allowances within the next twelve months.

Other Assets: 1360081 GHG Allowance Electric Non-current – this account will hold the GHG allowance costs that will not be submitted to CARB within the next 12-month period.

Other Assets: 1131106 GHG Allowance Electric Current - this account will hold the GHG allowance costs that will be submitted to CARB within the next 12-month period.

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Regulatory Account: 1150450 ERRA – for regulatory balancing purposes this account will record the GHG costs as SDG&E emits GHG.

Regulatory Revenue: 4240055 ERRA Revenues – for regulatory balancing purposes this account records the regulatory revenue.

(2/13/14 GHG Compliance Instruments Accounting Practice memo)

2. Identify the general ledger accounts to which the utility is to record a) forecasted or estimated costs, and b) authorized costs.

SDG&E does not record forecasted nor authorized costs in its financial general ledger.

3. Does the utility account for and report allowances at historical cost? Explain.

GHG compliance instruments will be recorded as other assets with costs measured initially at historical cost but tracked using the weighted-average-cost by vintage year.

4. Does the utility initially classify allowances as inventory? Explain.

GHG compliance instruments will be recorded as other assets with costs measured initially at historical cost but tracked using the weighted-average-cost by vintage year. Although the GHG compliance instruments will not be classified as inventory, SDG&E will use inventory costing methods to account for them.

5. Does the utility use the weighted-average cost method? Explain.

Yes, SDG&E uses the weighted-average cost method.

6. Does the utility perform monthly cost calculations based on 1) actual data or on 2) reasonable estimates? Explain.

On a monthly basis, SDG&E will recognize the expense of emitting GHG based upon the weighted-average cost of the GHG compliance instruments held by vintage year for ERRA balancing account purposes. The emission data will be based on actuals if available or reasonable estimates when not available. The emission data will be trued up quarterly and as additional information becomes available.

7. Does the utility recognize and record expense monthly based on the historical cost of allowances needed to satisfy actual emissions during the period? Explain.

See response to question 6.

8. Does the utility use accrual basis accounting? Explain.

Yes, SDG&E uses accrual basis accounting.

9. Does the recording of GHG costs meet the “matching principle?” Explain.

Yes, as GHG costs will be recognized as expense as SDG&E emits and therefore incurs the liability. At the same time these costs are expensed they will be balanced in ERRA and the regulatory revenues recognized.

10. Identify all general ledger accounts and explain the purpose and operation of each account used for recording GHG costs.

4371089 Miscellaneous Revenues – this account will be used to record revenues from selling GHG allowances.

5550228 GHG Compliance Costs Expense – this account will be used to record the expensing of GHG costs as SDG&E emits GHG.

2540033 GHG Allowance Electric CARB Non-current – this account will be used to record the liability to CARB of emissions that will be relieved by turning over GHG Compliance Allowances outside of the next twelve months.

2197228 GHG Allowance Electric CARB Current – this account will be used to record the liability to CARB of emissions that will be relieved by turning over GHG Compliance Allowances within the next twelve months.

1360081 GHG Allowance Electric Other Asset Non-current – this account will hold the GHG allowance costs that will not be submitted to CARB within the next 12-month period.

1131106 GHG Allowance Electric Other Asset Current - this account will hold the GHG allowance costs that will be submitted to CARB within the next 12-month period.

1150450 ERRA – for regulatory balancing purposes this account will record the GHG costs as SDG&E emits GHG.

11. Describe the cradle-to-grave recording of GHG compliance instrument costs.

Sample Journal Entries for the GHG Program:

Granted GHG allowances:

No journal entry – The cost of the GHG allowances is zero

Sold granted GHG allowances:

Dr. Cash

Cr. Miscellaneous Revenues

Dr. Regulatory Revenues

Cr. Balancing Account Liability

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Emitted GHGs in excess of Purchased Allowances:

Dr. Other Regulatory Asset Current
Cr. CARB Compliance Liability Non-current

Purchased GHG allowances:

Dr. GHG Allowances Other Asset Non-current
Cr. Cash

GHG Emissions:

Dr. GHG Expense
Cr. CARB Compliance Liability Non-current

Dr. Balancing Account Asset Current
Cr. Regulatory Revenues

Reclass the 30% of allowances that need to be delivered to CARB in Nov 2014:

Dr. GHG Allowances Other Asset Current
Cr. GHG Allowances Other Asset Non-current

Dr. CARB Compliance Liability Non-current
Cr. CARB Compliance Liability Current

Surrender allowances to CARB:

Dr. CARB Compliance Liability Current
Cr. GHG Allowances Other Asset Current

(2/13/14 GHG Compliance Instruments Accounting Practice memo)

12. Describe utility accounting procedures for procurement, sale, or transfer of GHG compliance instruments.

GHG Compliance Instruments are disposed of when they are sold or consumed.

If there was a sale, then SDG&E would recognize an increase to cash or accounts receivable for the sale proceeds and a gain for the difference between the cost of the GHG Compliance Instrument sold and the sale proceeds. The CPUC requires SDG&E to return to customers any gains from the sale of GHG Compliance Instruments through either ERA or NERBA. In accordance with ASC 980-405-25-1, Regulator-Imposed Liabilities, SDG&E recognizes balancing account contra-revenue for any gains from the

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sale of GHG Compliance Instrument. Please see the Regulatory Accounting Standard for a further discussion of regulatory accounting.

Consumption of the GHG Compliance Instruments occurs when SDG&E is required to surrender the compliance instruments to CARB. At that time both the GHG Compliance Instruments asset and the CARB Liability will be reduced by the cost of the compliance instruments surrendered to CARB.

(2/13/14 GHG Compliance Instruments Accounting Practice memo)

13. Describe utility accounting procedures for compliance instrument inventory.

For SEC financial reporting purposes SDG&E believes that GHG Compliance Instruments should be classified as other assets; however, the accounting procedures will be similar to the inventory accounting model.

(2/13/14 GHG Compliance Instruments Accounting Practice memo)

14. Describe utility accounting procedures for unused (“expired”) costs.

Since the GHG allowances do not expire during the program period and can be carried forward to meet the compliance obligations of subsequent periods, SDG&E is not anticipating any unused (“expired”) costs until possibly when the program ends at the end of 2020. As 2020 approaches, SDG&E will closely monitor the number of unused allowances to minimize the potential for unused (“expired”) costs.

15. Provide a detailed description of the operation of the GHG cost sub-account, including all debits and credits.

The GHG cost sub-balancing account entries record the procurement related GHG costs during the time that recovery of the costs are temporarily deferred per D.12-12-033 and D.13-10-053. Once recovery in rates begins, the entries track the transfer of costs from the sub-balancing account to the main ERRA.

Accounting Entries:

- a. A debit entry equal to GHG procurement costs for SDG&E’s GHG compliance instrument transactions under the California cap-and-trade program pursuant to AB 32, deferred for future recovery in rates.
- b. A credit entry equal to the balance in the sub-account for the portion authorized to be recovered in rates.
- c. An entry to reflect any transfers to or from the main ERRA.
- d. An entry to record interest.

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16. Describe whether and when the utility posts 1) forecasted, 2) actual, and 3) approved costs to the GHG cost sub-account account.

SDG&E records actual GHG costs that are temporarily on hold until further Commission directives in GHG rulemaking. See response to question 15.

17. Define “cost” as the word pertains to each of the following 1) GHG compliance instrument procurement cost, 2) Actual cost (i.e., actual emissions), and 3) Forecasted GHG cost.

- 1) The actual cost of procuring GHG compliance instruments in the market place.
- 2) The weighted-average cost of by vintage year of the available GHG compliance instruments at the time that emission expense is recorded.
- 3) The forecasted amount requested for authorization from the Commission.

18. Identify and describe the operation of all sub-accounts established within the ERRA.

There is only one sub-account within ERRA. The GHG cost sub-balancing account is described in response to question 15.

19. Provide rules and accounting procedures pertaining to GHG Procurement Costs posted to the ERRA balancing account.

Refer to ERRA preliminary statement. See Appendix 1 .

20. Provide rules and accounting procedures pertaining to the GHG Expense Memorandum Account.

SDG&E has two GHG expense memorandum accounts: GHG Administrative Costs and GHG Customer Outreach and Education. Please refer to GHGACMA and GHGCOEMA preliminary statement. See Appendices 2 and 3.

21. Describe all of the types of accounting entries that are made directly to or from the ERRA (not ERRA sub-account) that pertain to GHG costs and expenses. Include all ERRA accounting entries for transfers from/to an ERRA sub-account.

Refer to ERRA preliminary statement (Appendix 1) items 5k, y and z.

- An entry to reflect any transfers to or from other regulatory accounts as authorized by the Commission.
- A debit entry equal to the GHG procurement costs for SDG&E’s GHG compliance instrument transactions under the California cap-and-trade program pursuant to AB 32, unless accounted for in the GHG cost sub-balancing account per D.12-12-033.
- A debit entry equal to the balance in the GHG cost sub-balancing account for the portion authorized to recover in rates from the sub-balancing account.

22. Explain how and when the utility is to seek recovery of recorded GHG costs.

SDG&E seeks recovery of forecasted GHG costs as part of its GHG Forecast Application scheduled concurrently with ERRR Forecast filing.

B. GHG REVENUE

1. Identify and describe the types of accounting entries the utility is to make to or from the ERRR (or ERRR subaccount) that pertain to GHG revenues.
None. GHG revenue transactions are recorded in the GHG Revenue Balancing Account (GHGRBA).
2. Identify and describe the source documents the utility is to use to support the following accounting entries to the GHG Revenue Balancing Account:
 - a. A credit entry equal to the GHG revenues generated from the auction of consigned GHG allowances. Identify the entities that are to 1) consign and 2) auction. Explain how this process is to operate.
Source document for GHG revenues: Wire-transfer documentation regarding CARB consigned allowances which were sold at auction.
 - b. A debit entry equal to GHG revenue approved to be set aside for marketing and public relations, which is transferred to the Marketing and Public Relations Subaccount in the Greenhouse Gas Expense Memorandum Account (GHGEMA). Marketing and public relations are part of SDG&E's Customer Outreach and Education's memorandum account. Please see response to question 2.c.
 - c. A debit entry equal to the GHG revenue approved to be set aside for customer outreach and education, which is transferred to the Customer Outreach and Education Subaccount in the GHGEMA.
SDG&E's Customer Outreach and Education memo account is not a subaccount but rather a stand-alone memo account. A debit entry to the GHGRBA to transfer revenue set aside for customer outreach and education, marketing and public relations costs with a credit to GHGCOEMA will be recorded upon approval of AL 2851-E.
 - d. A debit entry equal to the GHG revenue approved to be set aside for administrative activities, which is transferred to the Administrative Subaccount in the GHGEMA.
SDG&E's Administrative Costs memo account is not a subaccount but rather a stand-alone memo account. A debit entry to the GHGRBA to transfer revenue set aside for administrative activities with a credit to GHGACMA will be recorded upon approval of AL 2851-E.

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- e. A debit entry equal to the portion of GHG allowance revenues returned to customers, net of an allowance for franchise fees & uncollectible accounts expense (ff&u).
SDG&E will use its Rate Summary Page - disaggregated schedule.
- f. A debit entry equal to the amount paid to the California Air Resources Board (CARB) or any other authority as ordered by the Commission.
Uncertain at this time.

- 3. Identify the accounting procedures for the first GHG revenue return to ratepayers scheduled for April 1, 2014.
SDG&E will debit GHGRBA with an offset to ratepayer/customer receivable.

As you work on the Proposed Joint Utility Proposal and Supporting Narrative, if considered appropriate for the proceeding, please also address the following additional items (i.e., in addition to the items in the attached):

- 1. Explain the utility methodology for calculating and recording actual emissions costs.

Please see SDG&E's response to Issue #3 in the Joint Proposal for calculating emission. Recording Actual emissions – Refer to GHG Compliance Instruments Accounting Practice memo.

Dr. GHG Expense

Cr. CARB Compliance Liability Non-current

Dr. ERRR (Balancing Account Asset Current)

Cr. Regulatory Revenues

- 2. Explain whether and how the utility uses 1) compliance instrument costs and/or 2) actual emissions costs to perform revenue return calculations.

Please see SDG&E's response to Issue #3 in the Joint Proposal under measuring actual costs.

- 3. Explain whether the GHG cost sub-account is temporary. If it is temporary, explain when it was or will be discontinued.

GHG sub-account is temporary. Once the balance is -0-, SDG&E expects to request the discontinuance of the sub-account.

- 4. In what proceeding will the CPUC formally review/audit GHG revenues?

GHG proceeding for revenues and expenditures from revenues

- 5. In what proceeding will the CPUC formally review/audit the GHGEMA?

Response date: March 25, 2014

GHG proceeding for revenues and expenditures from revenues. SDG&E has two GHG expense memorandum accounts: GHG Administrative Costs and GHG Customer Outreach and Education.

6. Is the GHG revenue return impacted in any way by any data contained in the ERRA balancing account or in the GHG cost sub-account? If yes, explain.

Yes, please refer to SDG&E's response to Issue #3 in the Joint Proposal regarding reconciliation

7. Explain the events that are to trigger the utility to record GHG revenues.

Revenues generated from the auction of consigned GHG allowances.

8. Explain the formula for how the utility is to calculate a GHG revenue return forecast.

Please refer to SDG&E's response to Issue #2 in the Joint Proposal

9. Explain the details of how actual emissions costs have an effect on revenue return calculations.

Please refer to SDG&E's response to Issue #3 in the Joint Proposal

10. In what proceeding will revenue return calculations be formally reviewed/audited by the CPUC?

GHG Cost and Allowance Revenue and Reconciliation Proceeding.

11. In what proceeding will the utility provide tables for the Record Year showing the following?

- a. CARB Current and Advance Auctions results.

None per ARB confidentiality memorandum of 2/19/14.

- b. Specific results in each of the Current and Advance auctions.

Revenues on an annual basis in the GHG Cost and Allowance Revenue and Reconciliation Proceeding.

- c. Competitive Requests for Offers (RFO) for allowances and offset credits.

Actual purchase results will be presented only to CPUC in ERRA compliance proceeding as part of procurement costs.

Response date: March 25, 2014

For each of the following proceedings, where applicable, identify the applicable GHG cost, revenue, and expense related transactions that the utilities expect to request the CPUC to review, verify, and approve:

1. ERRA Compliance Application

Costs of GHG emissions

2. ERRA Forecast Application

None.

3. GHG Forecast Application

Not Applicable

4. GHG Revenue and Reconciliation Application

Not Applicable

5. GHG Cost and Revenue Forecast and Reconciliation Application

Expenses deducted from revenues for outreach and administration, reconciliation amounts for residential and small business returns and EE/CE investments, GHG actual revenue transactions

6. Annual Electric True-Up

SDG&E has an Annual Electric Regulatory Accounting Update. But, GHG items are not included at this time.

7. Other (please specify)

None at this time.



PRELIMINARY STATEMENT

Sheet 1

II. BALANCING ACCOUNTS
ENERGY RESOURCE RECOVERY ACCOUNT (ERRA)

1. Purpose

Pursuant to D.02-10-062 and D.02-12-074, the purpose of the ERRA is to provide full recovery of the Utility's energy procurement costs associated with fuel and purchased power, Utility retained generation (URG), ISO related costs, greenhouse gas (GHG) costs for compliance instrument transactions under California cap-in-trade program pursuant to Assembly Bill (AB) 32, and costs associated with its residual net short procurement requirements to serve its electric bundled service customers. ERRA includes the Greenhouse Gas ("GHG") cost sub-balancing account to record the procurement-related GHG costs during the time that recovery of the costs are temporarily deferred pursuant to D.12-12-033 and D.13-10-053.

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The ERRA shall include revenues received from the Utility's Electric Energy Commodity Charge (EECC) adjusted to exclude revenues assigned to any state agency, including the California Department of Water Resources (DWR). In addition, the ERRA shall include revenues from Schedule EECC-TBS. Pursuant to D.02-12-074, ongoing transition costs ("above market") associated with qualifying facilities and eligible purchase power contracts should be recorded in the Transition Cost Balancing Account (TCBA). Pursuant to D.10-12-034, the ERRA shall record the revenues or costs related to convergence bidding. In compliance with AB 920, the ERRA shall record any net surplus compensation payment made to eligible customer-generators, including where applicable, additional payments for renewable attributes in accordance with SDG&E's Net Surplus Compensation Program. Pursuant to D.08-02-034, the ERRA shall record any incentive payments made to customers in accordance with the Peak Time Rebate (PTR) program.

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The total ERRA balance is a combination of accounting procedures in sections 5 and 6.

2. Applicability

The ERRA shall be applied only to the Utility's electric bundled service customers.

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3. Rates

The ERRA rate shall be recovered through the EECC rate.

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4. Effective Date

This tariff is effective for service rendered on and after January 1, 2003.

5. Accounting Procedure

The Utility shall maintain the ERRA by making entries at the end of each month as follows:

- a. An entry equal to the at or below market costs associated with the Portland General Electric contract.
- b. An entry equal to the at or below market costs associated with the Utility's eligible qualifying facility (QF) contracts.
- c. An entry equal to the costs associated with the Utility's other purchase power, including renewable energy procurement.

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PRELIMINARY STATEMENT

Sheet 2

**II. BALANCING ACCOUNTS
ENERGY RESOURCE RECOVERY ACCOUNT (ERRA)**

5. Accounting Procedure (Continued)

- d. An entry equal to the costs associated with SONGS and electric generation fuel and fuel-related expenses, including in lieu payments payable to communities where SDG&E is transporting its own gas through its own gas transmission or distribution system, or both, for purposes of generating electricity or for use in its own operations.
- e. An entry equal to ISO-related costs charged to the Utility, including ISO charges related to DWR contracts where SDG&E is the scheduling coordinator on behalf of DWR.
- f. An entry equal to the costs associated with the Utility's energy procurement commitments and self procured ancillary service costs to fulfill its net short electric requirement.
- g. An entry equal to other energy procurement-related costs not recovered through the Utility's Cost of Service or other cost recovery mechanism.
- h. An entry equal to the revenue billed during the month from the Schedule EECC rate adjusted to exclude revenues assigned to the DWR net of franchise fees and uncollectible accounts expense. The revenue shall be adjusted to credit the revenue shortfall, associated with the Family Electric Rate Assistance (FERA) Program, recorded in the FERA Subaccount in the electric Baseline Balancing Account (BBA) as authorized in Commission D.04-02-057.
- i. An entry equal to the revenue billed during the month from the Electric Energy Commodity Cost – Transitional Bundled Service Schedule (Schedule EECC-TBS), net of franchise fees and uncollectible accounts expense.
- j. An entry equal to the revenue received from the CCA Cost Responsibility Surcharge, net of the revenue assigned to DWR.
- k. An entry to reflect any transfers to or from other regulatory accounts as authorized by the Commission.
- l. An entry, as applicable, to reflect the ratepayer portion of the electric generator refunds as directed in Resolution E-3893.
- m. An entry, as applicable, to record the costs from the eligible combined heat and power (CHP) system participating under AB 1613, as authorized by D.09-12-042 and as modified by D.10-04-055, D.10-12-055, and D.11-04-033, including the 10% location bonus and any greenhouse gas compliance costs.
- n. A debit entry equal to energy incentive payments for applicable programs adopted in D.05-01-056 and modified in D.09-08-027.
- o. An entry to reflect any rewards or penalties associated with the adopted heat rate incentive authorized in D. 04-06-011 for the Palomar Energy Center.
- p. A debit entry to record the fees associated with participation in the Western Renewable Energy Generation Information System (WREGIS).

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San Diego Gas & Electric Company
San Diego, California

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PRELIMINARY STATEMENT

Sheet 3

II. BALANCING ACCOUNTS
ENERGY RESOURCE RECOVERY ACCOUNT (ERRA)

5. Accounting Procedure (Continued)

- q. An entry to reflect the revenues or costs associated with procurement transactions for Congestion Revenue Rights (CRRs).
- r. A debit entry equal to Peak Time Rebate (PTR) incentive payments made to residential and small commercial customers as authorized in D.08-02-034.
- s. A credit or debit entry equal to the revenues or costs related to convergence bidding as authorized in D.10-12-034.
- t. A debit entry to record costs associated with equity rebalancing, as authorized by the Commission, due to FIN 46(R)/FAS 167 consolidations.
- u. A debit entry equal to the costs associated with the procurement and/or trading transactions for tradable renewable energy credits (TRECs) as authorized in D.11-01-025.
- v. A credit entry equal to the proceeds received from the sale of TRECs as authorized in D.11-01-025.
- w. A debit entry equal to net surplus compensation payments, including any payments for associated renewable attributes made to eligible customer-generators for the Net Surplus Compensation Program in compliance with AB 920.
- x. An entry to account for cost disallowances or additions as authorized by the Commission.
- y. A debit entry equal to the GHG procurement costs for SDG&E's GHG compliance instrument transactions under the California cap-and-trade program pursuant to AB 32, unless accounted for in section 6 per D.12-12-003.
- z. A debit entry equal to the balance in the GHG sub-balancing account for the portion authorized to recover in rates from the sub-balancing account in section 6.
- aa. Interest shall be calculated on the average of the balance at the beginning of the month and the balance after entries listed above at a rate equal to one-twelfth of the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15. or its successor.

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PRELIMINARY STATEMENT

Sheet 4

**II. BALANCING ACCOUNTS
ENERGY RESOURCE RECOVERY ACCOUNT (ERRA)**

6. Greenhouse Gas (GHG) Cost Sub-Balancing Account

The following sub-balancing account entries record the procurement related GHG costs during the time that recovery of the costs are temporarily deferred per D.12-12-033 and D.13-10-053. Once recovery in rates begins, the entries track the transfer of costs from the sub-balancing account to the main ERRA in section 5 above.

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Accounting Procedures

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The Utility shall maintain the GHG cost sub-balancing account by making the following entries each month:

- a. A debit entry equal to GHG procurement costs for SDG&E's GHG compliance instrument transactions under the California cap-and-trade program pursuant to AB 32, deferred for future recovery in rates.
- b. A credit entry equal to the balance in the sub-account for the portion authorized to be recovered in rates.
- c. An entry to reflect any transfers to or from the main ERRA in section 5.
- d. Interest shall be calculated on the average of the balance at the beginning of the month and the balance after entries listed above at a rate equal to one-twelfth of the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15. or its successor.

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7. Trigger Mechanism

In accordance with Assembly Bill (AB) 57, a trigger mechanism will be in place that will consider the relationship between the cumulative balance in the ERRA and the prior year recorded generation revenues excluding revenues collected for DWR. Recorded generation revenues for 2012, excluding revenues collected for DWR, were \$1,143 million. D.11-07-041 modifies the monthly ERRA trigger calculation to allow offsets of Under- or Over-collections with the balance in its NGBA as follows:

- a. Offset an ERRA under-collected balance with a NGBA over-collected balance; or
- b. Offset an ERRA over-collected balance with a NGBA under-collected balance; and
- c. Offset the ERRA balance with the NGBA balance prior to dividing it by the prior year's annual recorded electric revenues, excluding DWR revenue; and
- d. Advise the Commission that it has implemented a NGBA-offset by including both the standard ERRA trigger calculation and the NGBA-offset trigger calculation in its monthly ERRA compliance report to the Commission.

Applying the NGBA balance to the ERRA balance, when calculating the trigger, would only occur if the account balances are offsetting and would result in reducing the ERRA under/overcollection.

The Greenhouse Gas cost sub-balancing account records costs as described above which are currently deferred until declaration by the CPUC that the greenhouse gas allocation methodology is ready for implementation. Costs recorded in the GHG sub-account are excluded from the monthly trigger calculation as recovery of these costs is still to be determined by the Commission.

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PRELIMINARY STATEMENT

Sheet 5

**II. BALANCING ACCOUNTS
ENERGY RESOURCE RECOVERY ACCOUNT (ERRA)**

7. Trigger Mechanism (continued)

Pursuant to D. 07-05-008, in any month when the balance in the ERRA, adjusted by the NGBA balance as applicable, reaches 4% (\$45.7 million) of the prior year recorded electric commodity revenues excluding DWR revenue, the Utility will notify the Commission through advice letter filing, instead of expedited application, that no rate change will be necessary if the Utility forecasts that the ERRA balance will self-correct below the trigger within 120 days of filing. The Utility shall include the necessary documentation to support this advice letter filing. The Utility shall continue to file an expedited application during those instances where the ERRA balance exceeds the trigger point and rate changes are necessary to amortize the balance. In those instances where the Commission rejects an advice letter filing, the Utility shall file an application within 15 days after rejection. The application will include a projected account balance in 60 days or more from the date of filing depending on when the balance will reach the 5% (\$57.2 million) threshold. The application will also propose an amortization period for the five percent of not less than 90 days to ensure timely recovery of the projected ERRA balance. The application should also include allocation of the amortized balance among customers based on the existing allocation methodology recognized by the Commission.

8. Filing and Update Process

The ERRA will follow a semiannual update process as described in D.02-10-062 and D.02-12-074 as well as D.04-01-050, as modified by D.13-09-003. The Utility will file applications on April 15 and June 1 of each year. The April 15 application will propose an energy resource forecast for the following calendar year and a new ERRA rate based on that forecast. The June 1 will address the review of the balancing account, contract administration, energy resources expenses and energy dispatch.

9. Disposition

Effective January 1, 2010, in compliance with Ordering Paragraph (OP) 2 of D.09-04-021, disposition of the balance in the ERRA shall be addressed as part of the Utility's annual regulatory account update filing, for inclusion in rates January 1st of each year, if that balance is below the 5% ERRA trigger threshold.

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PRELIMINARY STATEMENT

Sheet 1

III. MEMORANDUM ACCOUNTS

GREENHOUSE GAS (GHG) ADMINISTRATIVE COSTS MEMORANDUM ACCOUNT (GHGACMA)

1. Purpose

The purpose of the Greenhouse Gas (GHG) Administrative Costs Memorandum Account (GHGACMA) is to track administration costs necessary to the implementation of the GHG revenue allocation methodology as authorized in D. 12-12-033.

2. Applicability

The GHGACMA shall apply to all customer classes except for those specifically excluded by the Commission.

3. Rates

The GHGACMA does not have a rate component. D. 12-12-033 directs SDG&E to use greenhouse gas revenues to fund initial and ongoing administrative costs before distribution of funds to other customers.

4. Accounting Procedure

The following entries shall be made to the subaccount each month, as applicable:

- a) A credit entry equal to GHG revenue transferred from the GHG Revenue Balancing account authorized to be set aside for implementing and administering GHG allowance revenues and costs ;
- b) A debit entry equal to administrative expenses incurred up to the approved cap(s);
- c) An entry to record the transfer of amounts to or from other accounts as approved by the Commission, and
- d) An entry equal to the interest on the average of the balance in this account at the beginning of the month and the balance in this account after the above entries at a rate equal to one-twelfth the interest rate on three month Commercial paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15, or its successor.

5. Disposition

Disposition of the balances in this account shall be determined in a proceeding as determined by the Commission

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PRELIMINARY STATEMENT

Sheet 1

III. MEMORANDUM ACCOUNTS

GREENHOUSE GAS (GHG) CUSTOMER OUTREACH AND EDUCATION MEMORANDUM ACCOUNT (GHGCOEMA)

1. Purpose

The purpose of the Greenhouse Gas (GHG) Customer Outreach and Education Memorandum Account (GHGCOEMA) is to track customer outreach and education efforts in advance of distributing GHG revenues to customers as authorized in D. 12-12-033.

2. Applicability

The GHGCOEMA shall apply to all customer classes except for those specifically excluded by the Commission.

3. Rates

The GHGCOEMA does not have a rate component. D. 12-12-033 directs SDG&E to set aside a portion of GHG allowance revenues to fund customer outreach and education costs before distribution of funds to other customers.

4. Accounting Procedure

The following entries shall be made to the subaccount each month, as applicable:

- a) A credit entry equal to GHG revenue transferred from the GHG Revenue Balancing account authorized to be set aside to cover customer outreach and education efforts;
- b) A debit entry equal to customer outreach and education costs incurred;
- c) An entry to record the transfer of amounts to or from other accounts as approved by the Commission, and
- d) An entry equal to the interest on the average of the balance in this account at the beginning of the month and the balance in this account after the above entries at a rate equal to one-twelfth the interest rate on three month Commercial paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15, or its successor.

5. Disposition

Any remaining customer outreach and education funds at the end of a calendar year must be rolled over for use in subsequent years. Disposition of the balances in this account shall be determined in a proceeding as determined by the Commission.

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