March 2, 2001

ADVICE 2085-E
(Pacific Gas and Electric Company ID U39E)

Public Utilities Commission of the State of California (CPUC)

Subject: Cost-Based Pricing for PG&E's Utility Retained Generation (URG) Pursuant to Decision 01-01-061 in the Rate Stabilization Plan proceeding (A. 00-11-056)

Pacific Gas and Electric Company (PG&E) hereby submits for filing revisions to its electric tariffs. The affected tariff sheets are listed on the enclosed Attachment I. For reasons set forth below, PG&E is requesting that this advice filing be approved effective December 28, 2000.

Purpose

In compliance with Ordering Paragraph (OP) 11 in Decision (D.) 01-01-061 (as modified by D. 01-02-077), PG&E hereby submits its proposal to establish cost-based pricing and the accounting treatment for its utility retained generation (URG)[1] beginning December 28, 2000. This retained generation pricing will be used under both the accounting procedures outlined in this advice filing as well as under the California Procurement Adjustment (CPA) filed February 23, 2001, to be effective February 1, 2001. PG&E will use the URG pricing proposed here in its Transition Revenue Account (TRA), Transition Cost Balancing Account (TCBA), and generation memorandum accounts as described below from December 28, 2000, through January 31, 2001. In addition, PG&E is revising Schedule PX—Power Exchange Service, to provide for use of net costs associated with its URG in developing energy costs for bundled service customers and credits for direct access customers from December 28, 2000, through January 31, 2001. While the change to Schedule PX will become effective on December 28, 2000, PG&E will begin implementation of this change on March 5, 2001.

Background

On January 31, 2001, the Commission issued D. 01-01-061 requiring PG&E to file an advice letter within 30 days (March 2, 2001) establishing cost-based pricing and proposing accounting treatment for its URG. The need to establish an immediate framework on PG&E's use and price of URG results from FERC's

[1] URG consists of PG&E' hydro, fossil, and Diablo Canyon nuclear generation.

December 15, 2000, Order,[2] which revoked PG&E's authority to sell power from its retained generation resources into the Power Exchange (PX) market. In accordance with the FERC Order, PG&E ceased bidding its retained generation into the PX on December 28, 2000. Attached is PG&E's Compliance Filing and Motion for Clarification, as submitted to FERC, showing that PG&E ceased bidding its retained generation on that date.

On February 1, 2001, California enacted Assembly Bill (AB) 1X-1, which adopted the CPA. That mechanism also includes within it a calculation of the cost of PG&E's retained generation. On February 23, 2001, PG&E filed a proposal for implementing the CPA, including an interim proposal for pricing its URG. This proposal would establish the same cost-based pricing for PG&E's URG as the February 23, 2001, filing. However, the accounting mechanisms will differ during the period December 28, 2000, through January 31, 2001, from the PCA mechanism that will begin February 1, 2001. The URG cost-based pricing established in this advice filing and also used in the CPA mechanism is subject to adjustment in a future phase of PG&E's Rate Stabilization Plan proceeding. (D. 01-01-061, OP 11)

URG Cost-Based Pricing

In D. 01-01-061, the Commission stated that the URG is generation under the control of the utilities. As such, the components to establish PG&E's URG cost-based pricing will be based on PG&E's authorized costs and revenue requirements for its retained generation assets (e.g., PG&E's hydroelectric facilities, fossil power plants, and Diablo Canyon Power Plant).[3]

The authorized costs and revenue requirements for PG&E's retained generation assets include, but are not limited to: (1) recovery of capital related-costs equal to depreciation, taxes, and return on investment, (2) recovery of on-going operating costs for fuel, emission credits, operations and maintenance expenses, direct and indirect and administrative and general expenses, and

[2] FERC's December 15, 2000, Order Directing Remedies for California Wholesale Electric Markets.

[3] The authorized costs of PG&E's retained generation assets include the $2.8 billion interim market valuation of its remaining non-nuclear generation assets as required by the Generation Asset Balancing Account (GABA) decision (D. 00-06-004) as well as the current authorize costs for Diablo Canyon. As discussed in PG&E's Rate Stabilization Plan testimony, the interim value of $2.8 billion for PG&E's non-nuclear assets was sufficient to recover al of PG&E's remaining transition costs, as provided by Decision 99-10-057 and Public Utilities Code Sections 367, 368(a) and 376. The Reliability-Must-Run (RMR) credits are also reflected in the costs associated with the respective generation assets. If the final market valuation of PG&E's non-nuclear generating assets under Public Utilities Code Section 367 is determined to be different than the interim valuation, the authorized costs of such assets will be adjusted to reflect that determination. In addition, when the date at which PG&E's rate freeze ended is determined, such authorized costs also will be adjusted to reflect the ratemaking applicable to PG&E's retained generating assets after such date.

scheduling and dispatch costs, and (3) the authorized revenue requirement for assets, such as Diablo Canyon, subject to performance-based or other alternative ratemaking, e.g., the Incremental Cost Incentive Price (ICIP) for Diablo Canyon during the rate freeze and the benefit-sharing mechanism after the rate freeze pursuant to D. 97-05-088.

Accounting Treatment

During the period December 28, 2000, through January 31, 2001, the URG pricing approved here will be used to record the cost of PG&E's retained generation in the TRA and the revenue from PG&E's retained generation in the TCBA or the appropriate generation memorandum account, as applicable to the particular generation source.

In D. 01-01-061, the Commission also requested that the utilities establish a memorandum account to record the difference between the generation revenue requirement based on any reduced rate of return that may result from this order and the revenue requirement based on the fully authorized rate of return. However, since the URG amounts will be recorded in existing balancing or memorandum accounts which will be trued up for other revisions that may be adopted in the RSP application, PG&E does not believe a separate memorandum account is needed for changes in authorized return. Rather, the final determination of the appropriate rate of return can be trued-up in PG&E's TRA, TCBA, and generation memorandum accounts for the interim period. In addition, once the interim CPA becomes effective, any adjustments from that date on can be made in the CPA Balancing Account.

Tariff Revisions

As a result of the FERC Order and D. 01-01-061, PG&E is submitting revisions to its electric Preliminary Statement Part AV--*Transition Cost Balancing Account (TCBA)*, Part AX--*Must Run Fossil Plant Memorandum Account*, Part AY--*Non-Must-Run Fossil Plant Memorandum Account*, Part AZ--*Non-Must-Run Hydroelectric/Geothermal Memorandum Account*, and Part BE--*Must-Run Hydroelectric Geothermal Plant Memorandum Account* (MRHGMA), and Schedule PX--*Power Exchange Energy Cost*. The revisions recognize that the Company's power from URG used for native load will not be bid into the PX, and the amounts recorded in the TCBA and must-run and non-must-run memorandum accounts and used in the Schedule PX will be priced as proposed herein.

Effective Date

PG&E requests that this advice filing become effective on **December 28, 2000**, which is the date PG&E stopped bidding its URG resources into the PX.

Protests

Anyone wishing to protest this filing may do so by sending a letter within 20 days of the date of this filing. The protest shall set forth the grounds upon which it is based and shall be submitted expeditiously. There is no restriction on who may file a protest. Protests should be sent by U.S. mail and via facsimile to:

IMC Branch Chief
Energy Division
California Public Utilities Commission
505 Van Ness Avenue, Room 4002
San Francisco, CA 94102
Facsimile: (415) 703-2200

Copies should also be mailed to the attention of the Director, Energy Division, Room 4005 and Jerry Royer, at the address shown above. It is also requested that a copy of the protest be sent via postal mail and facsimile to Pacific Gas and Electric Company on the same date it is mailed or delivered to the Commission (at the address shown below).

Les Guliasi
Director, Regulatory Relations
P. O. Box 77000, Mail Code B10C
San Francisco, CA 94177
Facsimile: (415) 973-7226

In accordance with Section III, Paragraph G, of G.O. 96-A, PG&E is electronically and postal mailing copies of this advice letter to the utilities and interested parties. Address change requests should be directed to Nelia Avendano at (415) 973-3529.

Vice President -- Regulatory Relations

cc: Service List – A. 00-11-056, et al

Attachments

PRELIMINARY STATEMENT
(Continued)

AV. TRANSITION COST BALANCING ACCOUNT (TCBA) (Cont'd.)

6. ACCOUNTING PROCEDURE (Cont'd.)

7. To the extent feasible, current costs, including those categories which may be deferred, should be recovered before December 31, 2001. We expect that the deferred transition costs should be small relative to the transition costs incurred from qualifying facility (QF) contracts and amortizing nuclear assets. The Utility may not accelerate recovery of Post-2001 Transition Costs, such as those stemming from QF contracts, unless doing so will not jeopardize the possibility that the rate freeze could end prior to March 31, 2002. The Utility may, however, apply revenues to recover those costs associated with QF restructurings, renegotiations, or buy-outs which result in costs incurred during the pre-2002 period (Decision 97-12-039, COL 2). Restructuring implementation costs and employee-related transition costs may be deferred with interest at the usual 90-day commercial paper rate. Generation-related transition costs which are deferred because of funding the programs addressed in § 381(d) shall not accrue interest.

8. To the extent possible, the utilities should manage acceleration of assets to achieve a matching of revenues to current costs plus the portion of noncurrent costs that is accelerated, in a manner to avoid major under- or over-collections of the competition transition charge (CTC). To the extent that noncurrent costs are accelerated, the utilities should recalibrate the remaining months of the recovery schedule to adjust the depreciation schedule through the end of the transition period. To the extent that over- or under-collections occur, interest will accrue at the usual 90-day commercial paper rate, with the exception of deferred generation-related transition costs displaced because of funding the §381(d) programs.

6.A. CTC Revenue Section

The CTC Revenue Section records all CTC monthly revenues, excluding an allowance for FF&U Accounts Expense, recorded from customers through electric rates, imputed revenues, and other credits as described in Items 6.A.2. through 6.A.18. below. The CPUC jurisdictional portion of all entries shall be made at the end of each month as follows:

6.A.1. A monthly credit or debit entry to transfer the monthly balance in the Transition Revenue Account (TRA), net of FF&U, to reflect the amount of CTC residual revenue recorded from PG&E's customers for services rendered during the month, as defined in Part N of PG&E's Preliminary Statement (Transition Revenue Account).

6.A.2 A monthly credit entry equal to one-twelfth of the CPUC portion of the generation-related authorized Other Operating Revenue, pursuant to Decision 97-08-056.

6.A.3. A monthly credit entry equal to the Ten Percent Rate Reduction Amount, net of FF&U, as provided for in Decision 97-09-055 and defined in Part AT of PG&E's Preliminary Statement (Rate Reduction Bonds Memorandum Account).

6.A.4 A monthly credit entry equal to the monthly revenue recorded from residential and small commercial customers from the FTA Charge, net of FF&U, as provided for in Decision 97-09-055 and defined in Part AS of PG&E's Preliminary Statement (Fixed Transition Amount Charge).

6.A.5. A one-time credit or debit entry, on January 1, 1998, equal to the end-of-year 1997 balance in the Interim Transition Cost Balancing Account (ITCBA), pursuant to Decision 97-11-074, FOF 122 and COL 44. (T)

6.A.6. An entry in January of each year, equal to the December 31 balance for the previous year in the Must-Run Fossil Plant Memorandum Account in Part AX of PG&E's (T) Preliminary Statement and a one-time entry, at the time of final market valuation.

(Continued)

PRELIMINARY STATEMENT
(Continued)

AV. TRANSITION COST BALANCING ACCOUNT (TCBA) (Cont'd.)

6. ACCOUNTING PROCEDURE (CONT'D.)

6.A. CTC Revenue Section (Cont'd.)

6.A.7. An entry, in January of each year, equal to the December 31 balance for the previous year in the Non-Must-Run Fossil Plant Memorandum Account in Part AY of PG&E's Preliminary Statement, and a one-time entry, at the time of final market valuation. (T) (T)

6.A.8. A credit entry, if applicable, equal to the debit entry in Item 5.G or 5.I. of the Must-Run Hydroelectric/Geothermal Plant Memorandum Account in Part BE of PG&E's Preliminary Statement, pursuant to Decision 97-12-096 and a one-time credit entry, if applicable, at the time of final market valuation.

6.A.9. An entry, in January of each year, equal to the December 31 balance for the previous year in the Non-Must-Run Hydroelectric/Geothermal Memorandum Account in Part AZ of PG&E's Preliminary Statement. (T) (T)

6.A.10. A credit entry, if applicable, at the time of final market valuation, equal to the CPUC portion of the following three components: (1) market value of each plant, (2) less the net book value of the plant, (3) less transaction costs and other costs, that are authorized for recovery through the market valuation process, pursuant to Decision 97-11-074, FOF 21 and Decision 97-12-039, FOF 3.

6.A.11. A one-time credit entry, on January 1, 1998, equal to the end-of-year 1997 balance, net of FF&U, in the Interim Competition Transition Charge Balancing Account (ICTCBA), which accrues the interim CTC revenue recorded from Departing Load Customers, as defined in Part AL of PG&E's Preliminary Statement, prior to January 1, 1998.

6.A.12. A monthly credit entry equal to the monthly CTC revenue, net of FF&U, recorded from Departing Load customers, beginning January 1, 1998.

6.A.13. A monthly credit entry equal to the revenue, net of franchise fees, recorded for services rendered during the month for the fuel-related and non-fuel related components of designated sales transactions to FERC resale customers, in excess of the PX revenues associated with these services.

6.A.14. A monthly credit entry equal to the CPUC portion of the gross revenue recorded from the sale of air emission credits or allowances (e.g. sulfur dioxide allowances), less reasonably incurred sales costs not already recovered in rates, pursuant to Decision 97-11-074, COL 25, 27.

6.A.15. A one-time credit or debit entry on January 1, 1998, equal to the CPUC portion of the sum of the end-of-year 1997 balances in the Real Property Sales Memorandum Account (RPSMA) and Grizzly Substation Memorandum Account (GSMA), pursuant to Decision 94-04-024 and Decision 96-09-094.

6.A.16. A debit entry equal to the CPUC portion of the indemnity payments and other contingent liabilities, if any, arising from the sale of the Grizzly substation approved by the Commission, pursuant to Decision 96-09-094.

6.A.17. A credit or debit entry equal to the CPUC portion of the net-of-tax proceeds from the sales of real property authorized by the Commission to be recorded to the TCBA.

6.A.18. A credit entry equal to the CPUC portion of the credit balance, net of FF&U, in the Generating Facility Operations and Maintenance (GFOM) Account as defined in Part BG of PG&E's Preliminary Statement at the time of the conclusion of the last Operations and Maintenance Agreement for divested plants, pursuant to Decisions 97-06-060, 97-09-046 and 97-11-030.

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PRELIMINARY STATEMENT
(Continued)

AV. TRANSITION COST BALANCING ACCOUNT (TCBA) (Cont'd.)

6. ACCOUNTING PROCEDURE (CONT'D.)

6.B. Current Costs Section (Cont'd.)

6.B.1. Currently Incurred Costs Subaccount (Cont'd.)

6.B.1.a. Diablo Canyon Entries (Cont'd.)

(8) A monthly credit entry equal to the PX and/or ISO revenues earned by Diablo Canyon for the sale of ancillary services.

(9) A credit entry equal to the amount recorded for Diablo Canyon power supplied to PG&E's customers as used in Schedule PX. (N)
(N)

6.B.1.b. Fossil Entry

For those fossil plants with an estimated market value greater than or equal to their net book value, a monthly debit entry equal to the CPUC portion of the monthly fossil sunk cost revenue requirement, net of FF&U, which includes depreciation expense, a return on rate base, and related taxes. The depreciation expense for these plants is based on Commission approved depreciation rates.

6.B.1.c. Non-Must-Run Hydroelectric/Geothermal Entries

The following entries will be recorded for conventional hydroelectric plants, geothermal plants, and Helms Pumped Storage Plant.

A monthly debit entry equal to the capital-related revenue requirement, net of FF&U, which includes depreciation expense, a return on rate base, decommissioning expense, and related taxes. The depreciation expense for these plants is based on Commission approved depreciation rates. (Decision 97-11-074 and Decision 97-12-096)

If the final decision in the 1999 General Rate Case (GRC) adopts a forecast methodology to replace the currently authorized recorded cost ratemaking architecture, the hydroelectric and geothermal capital-related revenue requirement forecast, net of FF&U, shall be made effective January 1, 1999. A one-time adjustment, with interest, shall be recorded to account for the difference between the hydroelectric and geothermal capital-related revenue requirement amounts recorded between January 1, 1999, and the date a final 1999 GRC decision becomes effective, and the corresponding amounts that would have been recorded had the final 1999 GRC decision become effective on January 1, 1999.

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PRELIMINARY STATEMENT
(Continued)

AV. TRANSITION COST BALANCING ACCOUNT (TCBA) (Cont'd.)

6. ACCOUNTING PROCEDURE (Cont'd.)

6.B. Current Costs Section (Cont'd.)

6.B.1. Currently Incurred Costs Subaccount (Cont'd.)

6.B.1.e. Qualifying Facilities (QF) Entries (Cont'd.)

(4) BRPU Costs

These costs, as described in Advice 1642-E, are associated with contracts approved by the Commission to settle issues associated with the BRPU.

(a) A monthly debit entry equal to PG&E's recorded BRPU settlement costs.

(5) Qualifying Facilities Shareholder Savings (QFSS)

These shareholder savings are described in Advice 1642-E and as revised in Advice 1887-E.

(a) A monthly debit entry, at the time the restructured contract is signed, equal to ten percent of the total net-present-value of the ratepayer benefits from a restructured QF contract.

(b) A monthly debit or credit entry upon Commission approval of a restructured contract to true-up for any difference between the initial net present value, Item 6.B.1.e.(5)(a) above, and the final Commission-approved net present value of the restructured QF contract and to adjust the interest computation in Item 6.B.1.h. for the effect of the true-up.

(6) A monthly credit entry equal to the PX revenues earned by QFs for services rendered to the PX during the month.

(7) A monthly credit entry equal to the ISO revenues earned by QFs for services rendered to the ISO during the month.

(8) A monthly credit entry equal to the PX and/or ISO revenues earned by QFs for the sale of ancillary services.

(9) A monthly credit entry equal to any other QF-related revenue earned by QFs during the month.

(10) A credit entry equal to the amount recorded for QF power supplied to PG&E's customers as used in Schedule PX. (N)
(N)

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PRELIMINARY STATEMENT
(Continued)

AV. TRANSITION COST BALANCING ACCOUNT (TCBA) (Cont'd.)

6. ACCOUNTING PROCEDURE (CONT'D.)

6.B. Current Costs Section (Cont'd.)

6.B.1. Currently Incurred Costs Subaccount (Cont'd.)

6.B.1.f. Power Purchase Agreement (PPA) Entries

Pursuant to Decision 97-11-074, page 127, costs associated with QF and interutility, as applicable, contracts should continue to undergo reasonableness reviews. The FF&U and FERC jurisdiction should be removed, as applicable, from the following entries:

(1) A monthly debit entry equal to recorded costs, associated with payments made under PPAs, including the administrative and litigation costs associated with these contracts.

(2) A monthly debit entry equal to recorded costs of Firm Transmission Right acquisition.

(3) A monthly credit entry equal to the PX revenues earned by PPAs for services rendered to the PX during the month.

(4) A monthly credit entry equal to the ISO revenues earned by PPAs for services rendered to the ISO during the month.

(5) A monthly credit entry equal to the PX and/or ISO revenues earned by PPAs for the sale of ancillary services.

(6) A monthly credit entry equal to recorded congestion revenue received as the result of holding Firm Transmission Rights.

(7) A credit entry equal to the amount recorded for PPA power supplied to (N)
PG&E's customers as used in Schedule PX. (N)

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PRELIMINARY STATEMENT
(Continued)

AV. TRANSITION COST BALANCING ACCOUNT (TCBA) (Cont'd.)

6. ACCOUNTING PROCEDURE (CONT'D.)

6.B. Current Costs Section (Cont'd.)

6.B.1. Currently Incurred Costs Subaccount (Cont'd.)

6.B.1.g. Western Area Power Authority (WAPA) Exchange Agreement Entries

The FF&U and FERC jurisdiction should be removed, as applicable, from the following entries:

(1) A monthly debit entry for energy taken from WAPA equal to the product of total energy taken multiplied by 100% of PG&E's current thermal production cost.

(2) A monthly credit entry for energy returned to WAPA equal to the product of total energy returned multiplied by the authorized price for that energy.

(3) A monthly credit entry equal to the PX revenues earned by WAPA for services rendered to the PX during the month.

(4) A monthly credit entry equal to the ISO revenues earned by WAPA for services rendered to the ISO during the month.

(5) A monthly credit entry equal to the PX and/or ISO revenues earned by WAPA for the sale of ancillary services.

(6) A credit entry equal to the amount recorded for WAPA power supplied to PG&E's customers as used in Schedule PX. (N)
(N)

6.B.1.h. Interest Entry

If applicable, after revenue has been applied, a monthly debit entry equal to interest on the average of the net balance in this Currently Incurred Costs Subaccount (Items 6.B.1.a. through 6.B.1.g.), pursuant to Decision 97-11-074, to the extent the net balance is undercollected, at a rate as defined in Section 2.L.

6.B.1.i. Transfer of Cost Entries

If applicable, a one-time credit on December 31, 2001, to transfer the balance in this Currently Incurred Costs Subaccount to subaccounts in the Post 2001-Eligible Costs Section, consistent with Section 6.D.

Revenues will first be used to recover costs in the Currently Incurred Costs Subaccount described in Item 6.B.1. If a credit balance exists after all costs in the Currently Incurred Costs Subaccount have been recovered, revenue will be used to recover costs in the Scheduled Amortization Subaccount described in Item 6.B.2. described below.

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PRELIMINARY STATEMENT
(Continued)

AV. TRANSITION COST BALANCING ACCOUNT (TCBA) (Cont'd.)

6. ACCOUNTING PROCEDURE (CONT'D.)

6.D. Post 2001-Eligible Costs Section (Cont'd.)

6.D.4. Qualifying Facilities (QF) Subaccount

Pursuant to Decision 97-06-060, COL 3, recovery of the following costs will continue, after December 31, 2001, or after the rate freeze (whichever is earlier), for the duration of the QF contracts.

a. A monthly debit entry equal to payments made to QFs after the rate freeze period, or after December 31, 2001 (whichever is earlier), including: (1) payments for contract restructuring, including, but not limited to, any buy-out, buy-down, renegotiation, or termination of such contracts, (2) settlements and judgments related to QF power purchase agreements, and (3) administrative and litigation costs associated with these contracts.

b. Qualifying Facility Shareholder Savings (QFSS)

(1) A debit entry, at the time the restructured contract is signed, equal to ten percent of the total net present value of the ratepayer benefits from a restructured QF contract.

(2) A debit or credit entry upon Commission approval of a restructured contract to true-up for any difference between the initial net present value, entry 6.D.4.b.(1) above, and the final Commission-approved net present value of the restructured QF contract and to adjust the interest computation in Item 6.D.4.c. for the effect of the true-up benefits.

c. A monthly credit entry equal to the PX revenues earned by QFs for services rendered to the PX during the month.

d. A monthly credit entry equal to the ISO revenues earned by QFs for services rendered to the ISO during the month.

e. A monthly credit entry equal to the PX and/or ISO revenues earned by QFs for the sale of ancillary services.

f. A credit entry equal to the amount recorded for QF power supplied to PG&E's customers as used in Schedule PX. (N)
(N)

g. If applicable, after revenue has been applied, a monthly debit entry equal to interest on the balance of this subaccount to the extent the balance is undercollected at a rate as determined in Section 2.L.

(Continued)

PRELIMINARY STATEMENT

AX. MUST-RUN FOSSIL PLANT MEMORANDUM ACCOUNT

1. PURPOSE

The purpose of the Must-Run Fossil Plant Memorandum Account is to record the operating expenses and the revenues received by PG&E from the operation of must-run fossil plants. Must-run fossil plants are those plants deemed necessary by the ISO to maintain transmission system reliability. On an annual basis, the balance in this memorandum account will be transferred to Part AV of PG&E's Preliminary Statement, Transition Cost Balancing Account (TCBA), Item 6.A.6. (T) (D) (T) (D)

Pursuant to Decision 97-12-131, entries will be recorded to this memorandum account as of the date the Commission or its delegate declares to be the start date for direct access.

2. DEFINITIONS

A. Independent System Operator (ISO):

A non-profit corporation organized under the Non-Profit Public Benefit Corporation Law, which ensures efficient use and reliable operation of the transmission grid consistent with achievement of planning and operating reserve criteria no less stringent than those established by the Western Systems Coordinating Council and the North American Reliability Council. (PU Code Section 345)

B. Power Exchange (PX):

A non-profit corporation, under FERC jurisdiction, that provides an efficient competitive auction open on a nondiscriminatory basis to all suppliers, that meets the loads of all PX customers at efficient prices. (PU Code Section 355)

C. Reduced Rate of Return:

The reduced rate of return for non-nuclear generating assets shall be based on a return on equity of 90 percent of the embedded cost of debt adopted in Decision 96-11-060. For transition cost recovery purposes, PG&E's reduced rate of return is 7.13 percent, pursuant to Decision 97-11-074, Ordering Paragraph 12. The reduced rate of return may be modified to reflect the bonus rate of return as applicable.

D. Utility Electric Generation (UEG) Portfolio:

Gas purchased by PG&E for its electric generation portfolio.

3. APPLICABILITY

The Must-Run Fossil Plant Memorandum Account shall apply to all customer classes, except for those specifically excluded by the Commission.

4. RATES

This memorandum account does not currently have a rate component.

(Continued)

PRELIMINARY STATEMENT
(Continued)

AX. MUST-RUN FOSSIL PLANT MEMORANDUM ACCOUNT (Cont'd.)

5. ACCOUNTING PROCEDURE

The CPUC jurisdictional portion of all entries shall be made at the end of each month as follows:

a. A monthly credit entry equal to the ISO revenues earned by the plant for services rendered to the ISO during the month, based on ISO contracts.

b. A monthly credit entry equal to the PX revenues earned by the plant for services rendered to the PX during the month.

c. A monthly credit entry equal to the PX and/or ISO revenues earned by the plant for the sale of ancillary services.

d. A credit entry equal to the amount recorded for power supplied to PG&E's customers as used in Schedule PX. (N)
(N)

e. A monthly debit entry equal to recorded non-fuel operating expenses. (T)

f. A monthly debit entry equal to the sum for the month of the product of (1) the MMBtu of natural gas burned daily for all purposes at the plant, and (2) that day's weighted-average cost of gas on a UEG portfolio basis ($/MMBtu). (T)

g. A monthly debit entry equal to the sum for the month of the product of (1) the barrels of distillate and heavy fuel oil burned daily for all purposes at the plant, and (2) that day's weighted-average cost of fuel oil per barrel on a "last-in-first-out" (LIFO) basis. (T)

h. A monthly debit entry equal to the post-1997 capital additions revenue requirement, pursuant to Decision 97-09-048. (T)

i. If the average of the month's beginning and ending balance in this account is a credit balance, a monthly credit entry equal to the average of the month's beginning and ending balance in this account times one-twelfth the reduced rate of return. (T)

j. An entry in January of each year, to transfer the December 31 balance in this account for the previous year to the TCBA, Item 6.A.6. (T)

k. A one-time entry at the time of final market valuation, to transfer the balance to the TCBA, Item 6.A.6. (T)

(D)

PRELIMINARY STATEMENT

AY. NON-MUST-RUN FOSSIL PLANT MEMORANDUM ACCOUNT

1. PURPOSE

The purpose of the Non-Must-Run Fossil Plant Memorandum Account is to determine the amount that would be applied to the Transition Cost Balancing Account (TCBA) mechanism, Part AV of PG&E's Preliminary Statement. This memorandum account records expenses incurred by PG&E in the operation of non-must-run fossil plants and the revenues earned by PG&E from the operation of such plants. Non-must-run fossil plants are those plants that are not deemed by the ISO as necessary to maintain transmission-system reliability. On an annual basis, the balance in this memorandum account will be transferred to Part AV of PG&E's Preliminary Statement, Transition Cost Balancing Account (TCBA), Item 6.A.7. (T) (T) (D) (T)

Pursuant to Decision 97-12-131, entries will be recorded to this memorandum account as of the date the Commission or its delegate declares to be the start date for direct access.

2. DEFINITIONS

A. Independent System Operator (ISO):

A non-profit corporation organized under the Non-Profit Public Benefit Corporation Law, which ensures efficient use and reliable operation of the transmission grid consistent with achievement of planning and operating reserve criteria no less stringent than those established by the Western Systems Coordinating Council and the North American Reliability Council. (PU Code Section 345)

B. Power Exchange (PX):

A non-profit corporation, under FERC jurisdiction, that provides an efficient competitive auction open on a nondiscriminatory basis to all suppliers, that meets the loads of all PX customers at efficient prices. (PU Code Section 355)

C. Reduced Rate Of Return:

The reduced rate of return for non-nuclear generating assets shall be based on a return on equity of 90 percent of the embedded cost of debt adopted in Decision 96-11-060. For transition cost recovery purposes, PG&E's reduced rate of return is 7.13 percent, pursuant to Decision-97-11-074, Ordering Paragraph 12. The reduced rate of return may be modified to reflect the bonus rate of return as applicable.

D. Utility Electric Generation (UEG) Portfolio:

Gas purchased by PG&E for its electric generation portfolio.

3. APPLICABILITY

The Non-must-Run Fossil Plant Memorandum Account shall apply to all customer classes, except for those specifically excluded by the Commission.

4. RATES

This memorandum account does not currently have a rate component.

(Continued)

PRELIMINARY STATEMENT
(Continued)

AY. NON-MUST-RUN FOSSIL PLANT MEMORANDUM ACCOUNT (Cont'd.)

5. ACCOUNTING PROCEDURE

The CPUC jurisdictional portion of all entries shall be made at the end of each month as follows:

a. A monthly credit entry equal to the PX revenues earned by the plant for services rendered to the PX during the month.

b. A monthly credit entry equal to the PX and/or ISO revenues earned by the plant for the sale of ancillary services.

c. A credit entry equal to the amount recorded for power supplied to PG&E's customers as used in Schedule PX. (N) (N)

d. A monthly debit entry equal to recorded non-fuel operating expenses. (T)

e. A monthly debit entry equal to the sum for the month of the product of (1) MMBtu of natural gas burned daily for all purposes at the plant, and (2) that day's weighted-average cost of gas on a UEG portfolio basis ($/MMBtu). (T)

f. A monthly debit entry equal to the sum for the month of the product of (1) the barrels of distillate and heavy fuel oil burned daily for all purposes at the plant, and (2) that day's weighted-average cost of fuel oil per barrel on a "last-in-first-out" (LIFO) basis. (T)

g. A monthly debit entry equal to the post-1997 capital additions revenue requirement, pursuant to Decision 97-09-048. (T)

h. If the average of the month's beginning and ending balance in this account is a credit balance, a monthly credit entry equal to the average of the month's beginning and ending balance in this account times one-twelfth the reduced rate of return. (T)

i. An entry in January of each year, to transfer the December 31 balance in this account for the previous year to the TCBA, Item 6.A.7. (T)

j. A one-time entry at the time of final market valuation, to transfer the balance to the TCBA, Item 6.A.7. (T)

(D)

PRELIMINARY STATEMENT

AZ. NON-MUST-RUN HYDROELECTRIC/GEOTHERMAL MEMORANDUM ACCOUNT

1. PURPOSE

The purpose of the Non-Must-Run Hydroelectric/Geothermal Memorandum Account is to determine (1) the amount of revenues, if any, that would be applied as a credit to the Transition Cost Balancing Account (TCBA), Part AV of PG&E's Preliminary Statement, and (2) the amount of costs, if any, that would be recovered in the TCBA. This memorandum account records, on an aggregate basis, expenses incurred by PG&E in the operation of non-must-run conventional hydroelectric, Helms and geothermal plants and the revenues earned by PG&E from the operation of such plants. Non-must-run plants are those plants that are not deemed by the ISO as necessary to maintain transmission system reliability. This account will track the monthly interest over an annual period associated with the net credits in this account. On an annual basis, the balance in this memorandum account will be transferred to the TCBA, Part AV of PG&E's Preliminary Statement. (T) (D) (T)

Pursuant to Decision 97-12-131, entries will be recorded to this memorandum account as of the date the Commission or its delegate declares to be the start date for direct access.

2. DEFINITIONS

a. Franchise Fees and Uncollectible (FF&U) Accounts:

FF&U accounts expense shall be included at the rate derived from PG&E's most recent General Rate Case (GRC) decision issued by the Commission.

b. Independent System Operator (ISO):

A non-profit corporation organized under the Non-Profit Public Benefit Corporation Law, which ensures efficient use and reliable operation of the transmission grid consistent with achievement of planning and operating reserve criteria no less stringent than those established by the Western Systems Coordinating Council and the North American Reliability Council. (PUC Code Section 345)

c. Non-Must-Run Hydroelectric/Geothermal Revenue Requirement:

As defined in the Performance-Based Ratemaking for Generation Decision 97-12-096, the revenue requirement for the non-must-run hydroelectric and geothermal generation facilities will be calculated as the sum of the capital-related revenue requirement, expense-related revenue requirement, and recorded fuel expenses on a portfolio basis.

d. Power Exchange (PX):

A non-profit corporation, under FERC jurisdiction, that provides an efficient competitive auction open on a nondiscriminatory basis to all suppliers, that meets the loads of all PX customers at efficient prices. (PU Code Section 355)

e. Reduced Rate of Return:

The reduced rate of return for non-nuclear generating assets shall be based on a return on equity of 90 percent of the embedded cost of debt adopted in Decision 96-11-060. For transition cost recovery purposes, PG&E's reduced rate of return is 7.13 percent, pursuant to Decision 97-11-074, Ordering Paragraph 12. The reduced rate of return may be modified to reflect the divestiture bonus rate of return as applicable, as described in Part BA of PG&E's Preliminary Statement (Divestiture Bonus Return On Equity Memorandum Account).

3. APPLICABILITY

The Non-Must-Run Hydroelectric/Geothermal Memorandum Account shall apply to all customer classes, except for those specifically excluded by the Commission.

(Continued)

PRELIMINARY STATEMENT
(Continued)

AZ. NON-MUST-RUN HYDROELECTRIC/GEOTHERMAL MEMORANDUM ACCOUNT (Cont'd.)

4. RATES

This memorandum account does not currently have a rate component.

5. ACCOUNTING PROCEDURE

The following entries will be recorded by generation type (conventional hydroelectric, Helms and geothermal). The FF&U should be removed, as applicable, from the following entries:

a. A monthly debit entry equal to the recorded non-must-run hydroelectric and geothermal fuel expenses. The recorded fuel expenses include water purchase costs for non-must-run hydroelectric plants and steam purchases for PG&E's geothermal plants. Pursuant to Decision 97-11-074 and Decision 97-12-096.

b. A monthly debit entry equal to one-twelfth the annual authorized non-must-run hydroelectric and geothermal expense-related revenue requirement. The non-must-run hydroelectric and geothermal expense-related revenue requirement will be based on PG&E's latest GRC authorized numbers. The expense-related revenue requirement includes the O&M expense, A&G expense, payroll tax, business and other taxes, other adjustments, and the return on working cash. Pursuant to Decision 97-11-074 and Decision 97-12-096.

Beginning January 1, 1999, the hydroelectric and geothermal expense-related revenue requirement amounts shall reflect the 1999 General Rate Case (GRC) Decision 00-02-046. (T)
(D)

c. A monthly debit entry equal to the post-first quarter 1998 capital-related revenue requirement. For capital additions made between April 1, 1998, and December 31, 1998, the capital-related revenue requirement is based on recorded capital additions, consistent with Decision 97-12-096. For capital additions made after December 31, 1998, the capital-related revenue requirement is based on the forecast of capital additions adopted in Decision 00-02-046.

A one-time adjustment, with interest, shall be recorded to account for the difference between the hydroelectric and geothermal capital-related revenue requirement amounts recorded between January 1, 1999, and the date a final GRC decision becomes effective, and the corresponding amounts that would have been recorded had the final 1999 GRC decision become effective on January 1, 1999.

d. A monthly credit entry equal to the PX and ISO revenues earned by the non-must-run hydroelectric and geothermal plants for generation services and ancillary services rendered to the PX and ISO during the month.

e. A credit entry equal to the amount recorded for power supplied to PG&E's customers as (N)
used in Schedule PX. (N)

(Continued)

PRELIMINARY STATEMENT
(Continued)

AZ. NON-MUST-RUN HYDROELECTRIC/GEOTHERMAL MEMORANDUM ACCOUNT (Cont'd.)

5. ACCOUNTING PROCEDURE (Cont'd.)

f. If the average of the month's beginning and ending balance in this account is a credit balance, a monthly credit entry equal to the average of the month's beginning and ending balance in this account multiplied by one-twelfth the reduced rate of return. If the average of the month's beginning and ending balance in this account is a debit balance, no interest will be applied. (T)

g. At the end of the calendar year, an entry equal to the balance shall be transferred to Item 6.a.9 of the TCBA, Part AV of PG&E's Preliminary Statement (Transition Cost Balancing Account). (T)

(D)

(D)

PRELIMINARY STATEMENT

BE. MUST-RUN HYDROELECTRIC/GEOTHERMAL PLANT MEMORANDUM ACCOUNT (MRHGMA)

1. PURPOSE

The purpose of the Must-Run Hydroelectric/Geothermal Plant Memorandum Account is to record the revenues received by PG&E from the operation of must-run hydroelectric/geothermal plants and the plants' associated costs. Must-run hydroelectric/geothermal plants are those plants deemed necessary by the ISO to maintain transmission system reliability. Annually (or upon must-run contract termination/change), a credit balance, if any, in this memorandum account, will: (a) for individual ISO Condition 1 contracts, be transferred to Part AV of PG&E's Preliminary Statement, Transition Cost Balancing Account (TCBA), Item 6.A.8. and (b) for individual ISO Condition 2 contracts, be transferred to PG&E's shareholders. On an annual and ISO Contract basis, a debit balance, if any, in this memorandum account, will: (a) for individual ISO Condition 1 contracts, be transferred to Part AV of PG&E's Preliminary Statement, TCBA, Item 6.B.2.e., and (b) for individual ISO Condition 2 contracts, be cleared, and these costs shall not be recoverable from PG&E's customers. (D)

Pursuant to Decision 97-12-131, entries will be recorded to this memorandum account as of the date the Commission or its delegate declares to be the start date for direct access.

2. DEFINITIONS

a. Franchise Fees and Uncollectible (FF&U) Accounts:

FF&U accounts expense shall be included at the rate derived from PG&E's most recent General Rate Case (GRC) decision issued by the Commission.

b. Independent System Operator (ISO):

A non-profit corporation organized under the Non-Profit Public Benefit Corporation Law, which ensures efficient use and reliable operation of the transmission grid consistent with achievement of planning and operating reserve criteria no less stringent than those established by the Western Systems Coordinating Council and the North American Reliability Council. (PUC Code Section 345)

c. ISO Contracts: reliability contracts approved by FERC.

1. ISO Condition 1:

Contract which provides for a partial fixed cost revenue requirement availability payment and allows the owner to sell services at market prices beyond the needs of the ISO. Also, referred to as "competitive" contract.

2. ISO Condition 2:

A full cost-of-service contract for uneconomic units. Also, referred to as "cost-of-service" contract.

(Continued)

PRELIMINARY STATEMENT
(Continued)

BE. MUST-RUN HYDROELECTRIC/GEOTHERMAL PLANT MEMORANDUM ACCOUNT (MRHGMA) (Cont'd.)

5. ACCOUNTING PROCEDURE (Cont'd.)

d. A monthly debit entry equal to the post-first quarter 1998 capital-related revenue requirement. For capital additions made between April 1, 1998, and December 31, 1998, the capital-related revenue requirement is based on recorded capital additions, consistent with Decision 97-12-096. For capital additions made after December 31, 1998, the capital-related revenue requirement is based on the forecast of capital additions adopted in Decision 00-02-046.

A one-time adjustment, with interest, shall be recorded to account for the difference between the hydroelectric and geothermal capital-related revenue requirement amounts recorded between January 1, 1999, and the date a final 1999 GRC decision becomes effective, and the corresponding amounts that would have been recorded had the final 1999 GRC decision become effective on January 1, 1999.

e. A monthly credit entry equal to the PX and ISO revenues earned by the must-run hydroelectric/geothermal plants for generation services and ancillary services rendered to the PX and ISO during the month.

f. A credit entry equal to the amount recorded for power supplied to PG&E's customers as used in Schedule PX. (N)
(N)

g. For ISO Condition 1 and 2 contracts, if the average of the month's beginning and ending balance in this account is a credit balance, a monthly credit entry equal to the average of the month's beginning and ending balance in this account times one-twelfth the reduced rate of return. If the average of the month's beginning and ending balance in this account is a debit balance, no interest will be applied. (T)

h. Annually (or upon must-run contract termination/change), in the event the balance is a credit: (T)

1. On an individual contract basis, for ISO Condition 1 contracts, a debit entry shall be recorded, as appropriate, in January of each year to transfer the December 31 credit balance for the previous year to Item 6.A.8 of the TCBA.

2. On an individual contract basis, for ISO Condition 2 contracts, any credits as of December 31 will accrue to PG&E's shareholders in January of the following year.

(T)

i. Annually (or upon must-run contract termination/change), in the event the balance is a debit:

1. On an individual contract basis, for ISO Condition 1 contracts, a credit entry shall be recorded, as appropriate, in January of each year, to transfer the December 31 debit balance for the previous year to Item 6.B.2.e. of the TCBA.

2. On an individual contract basis, for ISO Condition 2 contracts, as of December 31 of each year, after all the above entries have been made, any remaining balance shall be cleared, and these costs shall not be recoverable from PG&E's customers.

(T)

j. For individual ISO Condition 1 contracts, a one-time entry, if applicable, at the time of final market valuation, to transfer the balance to the TCBA.

SCHEDULE PX—POWER EXCHANGE ENERGY COST
(Continued)

RATES: (Cont'd.)

1. Development of hourly forward market costs (Cont'd.)

   The weighted average cost for these services shall be calculated for each hour as the sum of the costs in the day-ahead market in each zone, plus the costs in the hour-ahead market in each zone, plus the net gain or loss on transactions in the block forward market, plus the net costs associated (T) with PG&E's retained generation, all divided by the total kWh purchased in (T) all zones in all forward energy markets for that hour. PG&E's block forward market transactions shall be limited as defined in Resolution E-3658, and modified pursuant to subsequent Commission decisions and resolutions. Furthermore, PG&E is guaranteed recovery of costs for its block forward market transactions for deliveries until the end of PG&E's rate freeze.

2. Estimate of Real-time Settlement Costs:

   An estimate of real-time settlement costs for the trading day will be calculated hourly and added to the cost derived in Part 1 of this section on the trading day, or as soon thereafter as practicable. This rate is determined by dividing the estimate of the real-time cost amount, including spinning reserve, non-spinning reserve, replacement reserve, regulation, and imbalance energy, by PG&E's estimate of the load to be served by the PX.

3. Real-time Settlement Costs True-Up:

   A real-time settlement cost true-up, representing the real-time costs not yet reflected in charges to customers for the trading day 60 days or earlier, is added to the cost derived in Parts 1 and 2 of this section. This rate is determined by dividing the real-time cost amount (which is the dollar amount (either positive or negative) incremental to the cost described in Parts 1 and 2 of this section) by PG&E's estimate of the load to be served by the PX. Two adjustments may eventually be implemented: one for all customers of PG&E and an incremental adjustment only for customers without real-time meters.

   PG&E may make up to two real-time settlement cost true-ups on a single day's hourly prices, in order to shorten the lag between the real-time settlement cost true-up and the trading day.

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