July 7, 2003

Advice 2240-E-B
(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: **Utility Retained Generation (URG) Memorandum and Balancing Accounts and Restatement of the Transitional Revenue Account (TRA), Transition Cost Balancing Account (TCBA), and Generation Memorandum Account (GMAs)**

Pursuant to Resolution E-3822, Pacific Gas and Electric Company (PG&E) hereby submits revisions to its electric tariffs (Attachment II); one-time entries to establish account balances in new accounts and adjust existing account balances (Attachment III); and reports restating the TRA, TCBA, and GMAs (Attachment IV) in compliance with Decisions 01-03-082 and 02-04-016.[1] Additionally, in compliance with the Resolution, PG&E withdraws outstanding advice letters, which are now moot as a result of subsequent actions by the Commission, including the Resolution.

Purpose

On May 22, 2003, the Commission issued the Resolution approving with modifications PG&E's proposed tariff revisions submitted in Advice 2240-E-A. This supplemental advice filing complies with the Resolution and supersedes Advice 2240-E-A in its entirety.[2] Additionally, certain cost recovery mechanisms

---

[1] PG&E reserves all legal rights to apply for rehearing or otherwise challenge this and other provisions of the decisions or statutes under which it has been required to make this advice filing, and nothing in this advice filing constitutes a waiver of such rights. Also, PG&E reserves any additional legal rights to challenge the requirement to make this advice filing by reason of its status as a debtor under Chapter 11 of the Bankruptcy Code, and nothing in this advice filing constitutes a waiver of such rights.

[2] Ordering Paragraph (OP) 7.

proposed in Advice 2240-E were subsequently superseded on January 1, 2003, as a result of implementing the Energy Resource Recovery Account, (Decision (D.) 02-12-074).[3] Therefore, revisions to PG&E's electric tariffs in this Advice reflect both changes adopted by the Resolution and changes adopted by the Commission in D. 02-12-074. Changes to PG&E's electric tariffs are detailed below in the section entitled ' URG Tariff Revisions'.

The Resolution also directed PG&E to file updated reports restating the TCBA, TRA, and GMAs for the period 1998 through 2002 in compliance with D. 01-03-082, D. 02-04-016 and the Resolution.[4] Finally, as directed by the Resolution, PG&E will withdraw Advice 2085-E, which proposed cost-based rates and accounting treatment for utility retained generation (URG[5]) beginning December 28, 2000; Advice 2057-E, which proposed post-transition electric rates in compliance with applicable Commission decisions[6]; and, Advice 2130-E, which proposed changes to PG&E's transition cost recovery accounts retroactively to January 1, 1998, to implement the TURN accounting proposal (D. 01-03-082.) Upon approval of Advice Letter 2140-E-B, PG&E will withdraw Advice 2057-E and Advice 2085-E by separate letter to the Energy Division. Upon verification of the updated restatement of the TCBA, TRA, and GMAs in compliance with the Resolution[7], PG&E will withdraw Advice 2130-E.

PG&E is submitting the following revised and new electric preliminary statements to reflect the necessary accounting changes to implement URG ratemaking mechanisms approved by the resolution:

Revised accounts:

- Transition Revenue Account (TRA), Preliminary Statement Part N
- DWR/ISO Cost Balancing Account (DWR/ISO BA) Preliminary Statement Part CB
- Transition Cost Balancing Account (TCBA), Preliminary Statement Part AV

---

3 Advice 2327-E (Energy Revenue Recovery Account) modified PG&E's existing accounting mechanisms, effective January 1, 2003, pursuant to D.02-12-074 and was approved on January 21, 2003. Additionally, D. 02-12-074 identified a past advice letter (Advice 2096-E) as moot, because of Commission decision (D. 02-11-026) modifying transition cost recovery (A. 00-11-038 et al).

4 Ordering Paragraph (OP) 3.

5 URG consists of PG&E's hydro, fossil, and Diablo Canyon nuclear generation.

6 D. 99-10-057, D. 00-05-058, and D. 00-06-034 in the Post-Transition Electric Ratemaking (PTER) proceeding, A. 99-01-016.

7 OP 3.

New accounts:

- Utility Generation Balancing Account (UGBA), Preliminary Statement Part CG;

- Utility Retained Generation Income Tax Memorandum Account (URGITMA), Preliminary Statement Part CH;

- Wholesale DWR/ISO Cost Memorandum Account (WDWR/ISO MA) Preliminary Statement Part CI;

Background

PG&E filed numerous advice letters during 2001 and 2002 to comply with various decisions establishing new and impacting existing ratemaking mechanisms related to URG (D. 02-04-016), transition cost recovery (D. 01-01-016, D. 01-03-082), and generation procurement (D. 02-12-074), among others. Many of these outstanding advice letters have become moot or inconsistent with existing ratemaking mechanisms as a result of subsequent actions and decisions by the Commission.

On November 22, 2000, PG&E filed Advice 2057-E proposing post-transition electric rates in compliance with applicable Commission decisions D. 99-10-057, D. 00-05-058, and D. 00-06-034 in the Post-Transition Electric Ratemaking (PTER) proceeding, A. 99-01-016. PG&E believed it completed recovery of its transition costs, thereby ending its rate freeze[8] sometime before August 31, 2000.[9] Subsequently, the Energy Division essentially suspended Advice 2057-E's effective date.[10]

On March 2, 2001, PG&E filed Advice 2085-E proposing cost-based pricing and accounting treatment for its URG beginning December 28, 2000, pursuant to D. 01-01-061, as modified by D. 01-02-077. The Commission issued D. 01-01-061 requiring PG&E to file an advice letter 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 resulted from FERC's December 15, 2000, Order, 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

[8] As used in Assembly Bill ("AB") 1890 and Advice 2057-E, "rate freeze" denotes the period that ends on the date transition costs are fully recovered or the date specified in the statute, whichever date occurs first. (Public Utilities Code 368(a)).

[9] The August date for ending the rate freeze is based on the valuation of the Company's retained hydro assets of $2.8 billion as included in the Company's Generation Asset Balancing Account ("GABA") filing effective June 23, 2000 as filed in Advice Letters 2048-E and 2049-E, dated October 26, 2000.

[10] By letter dated December 4, 2000, the Energy Division found Advice 2057-E non-compliant, but indicated the possibility of a further order of the Commission on the merits of the advice letter. The Commission denied the effective date of January 1, 2001, for the rates PG&E requested.

December 28, 2000. In D. 01-01-061, the Commission committed to authorize a new revenue requirement for utility retained generation effective January 1, 2001.

PG&E filed Advice 2096-E and Advice 2130-E pursuant to D. 01-03-082, which increased rates for adopted surcharge revenues;[11] modified transition cost recovery; and, required the restatement of the TCBA, TRA, and GMAs back to January 1, 1998, in accordance with modifications adopted by the decision. On April 4, 2001, PG&E filed Advice 2096-E proposing to establish the Procurement Surcharge Balancing Account (PSBA) to track surcharge revenues adopted by D. 01-03-082 and power purchase costs. Due to subsequent actions by the Commission in D. 02-12-074 (generation procurement), this advice letter was withdrawn by PG&E on January 6, 2003[12]. On June 25, 2001, PG&E filed Advice 2130-E[13] proposing revisions to its regulatory transition cost recovery accounting mechanisms to implement TURN's Accounting Proposal to modify the current accounting rules to require that the TRA balance, whether positive or negative, be transferred to the TCBA.[14], which included restating the TCBA, TRA, and GMA reports as prescribed by D. 01-03-082.

On May 6, 2002, PG&E filed Advice 2240-E to update the accounting mechanism used to recover URG costs, consistent with the directives in D. 02-04-016[15], which adopted an URG revenue requirement for 2002. In that advice letter, PG&E continued its proposal using the PSBA[16] and proposed using the UGBA for recovery of URG costs beginning January 1, 2002. PG&E also proposed withdrawal of Advice 2085-E and Advice 2130-E, upon approval of Advice 2240-E-B.

On January 6, 2003, PG&E filed supplemental Advice 2240-E-A, in compliance with OP23 of D. 02-12-074, dated December 19, 2002.[17] PG&E was directed to amend any identified advice letter that was deemed moot or inconsistent with the directives of that decision. Therefore, PG&E filed Advice 2240-E-A completely superseding Advice 2240-E, including the tariff changes to remove PG&E's

---

11 D. 01-03-082 adopted an electric rate surcharge of three-cents per kilowatt-hour (kWh), and required that revenues from this surcharge and the one-cent per kWh surcharge implemented on January 4, 2001, (D. 01-01-061) and made permanent by D. 01-03-082, be applied to costs incurred on or after March 27, 2001.

12 D. 02-12-074, Conclusion of Law 29

13 Pursuant to a stipulation between PG&E and the CPUC in the U.S. Bankruptcy Court, PG&E's deadline for complying with OP 7 and 8 of D.01-03-082 was extended to June 25, 2001.

14 D. 01-03-082, p. 24.

15 OPs 7, 9 and 11.

16 The PSBA was first proposed in Advice 2096-E.

17 PG&E received an extension by letter dated December 24, 2002, to file this advice letter by January 6, 2003. Rulemaking 01-10-024.

proposal to establish the PSBA. As described above, PG&E also withdrew Advice 2096-E on January 6, 2003.

TURN/URG Restatement Reports

The attached updated restatement reports (Attachment IV-A) reflect revised TRA, TCBA and GMAs activity resulting from the accounting changes adopted in D. 01-03-082, D. 02-04-016, and the Resolution, retroactively to January 1, 1998 through December 31, 2002.[18] Beginning April 1998,[19] the restatement shows overcollected balances in the GMAs transferring to the TRA on a monthly basis through 2000. The undercollected balances accrued in the GMAs from January 1, 2001, through December 31, 2001, are transferred to the UGBA on January 1, 2002. Next, the TRA balances, whether over- or undercollected, are transferred each month to the CTC Revenue Section of the TCBA.

As prescribed by the Resolution[20], for the 2002 restatement period PG&E recorded the one-cent surcharge revenues and all procurement costs, previously recorded in the Emergency Procurement Surcharge Balancing Account (EPSBA), in the TRA. The generation related costs are recorded in UGBA. The Restatement Recovery Matrix included with the updated restatement (Attachment IV-C) details the accounts that the relevant costs and revenues have been included for the 1998-2002 restatement period. The Restatement Account Interaction Flowcharts (Attachment IV-B) show the transfer of account balances among the relevant accounts during the restatement period.

Utility Retained Generation (URG) Implementation

Finding 21 of the Resolution stated, “The tariff changes required by this Resolution are effective January 1, 2002, and subject to modifications by subsequent Commission decisions.” PG&E has consolidated all changes approved as of the date of this Advice into one set of updated tariffs to be effective January 1, 2003.[21]

PG&E has included as Attachment III, worksheets supporting one-time entries as

---

18 OP 3 stated, “…The Energy Division Director shall verify the restatement of the TCBA, TRA, and GMAs to ensure full compliance and consistent with our Orders in D.01-03-082 and D.02-04-016 respectively and report to the Commission Executive Director, no later than 120 days from the date of the approval of this Resolution, whether PG&E is in compliance.

19 Entries were recorded in the GMAs beginning April 1, 1998, which was the start date of the operation of the Power Exchange and Independent System Operator.

20 OP1

21 Although PG&E has consolidated all changes into one set of tariffs effective January 1, 2003, PG&E has implemented all 2002 changes and activity through a one-time entry to each respective account.

of January 1, 2003, in the UGBA, TRA, and TCBA to implement the January 1, 2002, effective dates, prescribed by the Resolution in implementing URG ratemaking mechanisms.[22]

URG Tariff Revisions

In compliance with the Resolution, PG&E is submitting the following revised and new preliminary statements.

Preliminary Statement Part N--Transition Revenue Account (TRA)

Currently, the TRA matches revenues against the amount of separated revenue requirements and certain Commission approved obligations. Any remaining residual revenues are transferred to the TCBA for recovery of transition costs. In Advice 2240-E-B, PG&E is revising the TRA to be consistent with the directives in the Resolution to implement D. 02-04-016.

First, the frozen rate and surcharge revenues will first be applied to the DWR power and bond charges. Second, the TRA is revised to remove the entry for Diablo Canyon non-Incremental Cost Incentive Price (ICIP) costs because, as described below, the UBGA will include all operating and capital costs of PG&E-owned generation facilities, other than nuclear decommissioning, as of January 1, 2002. The nuclear decommissioning revenue requirement will continue to be recovered in the TRA. Third, the monthly balances in the DWR/ISO Cost Balancing Account and Utility Generation Balancing Account are transferred to the TRA. Fourth, as described above, the TRA includes a one-time entry to reflect the change in the account to be consistent with D. 02-04-016 as of January 1, 2003.

Preliminary Statement Part CB--DWR/ISO Cost Balancing Account (DWR/ISO BA)

The DWR/ISO BA records the costs paid to the ISO or to DWR for ISO-related costs. Because amounts may be revised and paid later for the 2002 costs, this account will continue to record 2002 activity until 2002 costs are fully paid. When the costs for 2002 have been paid, costs recorded to this account cease, since as of January 1, 2003, the ISO costs are recorded in the Energy Resource Recovery Account (ERRA) along with ancillary services and reliability must-run (RMR) revenues from PG&E-owned generation facilities. As described above, the DWR/ISO BA includes a one-time entry to reflect the 2002 activity to the account to be consistent with D.02-04-016 as of January 1, 2003. In accordance with the Resolution, the balance in the DWR/ISO BA is transferred monthly to the TRA during 2002.

[22] OP 4 of the Resolution stated, “PG&E shall establish the Utility Generation Balancing Account (UGBA), Utility Retained Generation Tax Memorandum Account (URGTMA), and Wholesale DWR/ISO Cost Memorandum Account (WDWR/ISO MA) as modified herein with respect to the UGBA.”

Preliminary Statement Part AV--Transition Cost Balancing Account (TCBA)

The TCBA currently tracks all competition transition Charge (CTC)-related revenues and CTC-eligible generation-related costs. Costs associated with purchases from QFs and other power purchase agreements, generation facilities, and certain regulatory assets will no longer be tracked in the TCBA. Costs associated with purchases from QFs and other power purchase agreements (PPAs) are recorded in the TRA in 2002 and, as of 2003, in the ERRA.[23] Expense and capital related costs associated with PG&E-owned generation facilities during 2002 are recorded in the UGBA. Certain regulatory assets also are included in the capital related revenue requirements. The TCBA will continue to track CTC revenue, employee transition costs, and other costs. In addition, as described above, the TCBA includes a one-time entry to reflect the change to the account to be consistent with D.02-04-016 as of January 1, 2003.

Preliminary Statement Part CG-- Utility Generation Balancing Account (UGBA)

The UGBA account records actual operating and capital costs of PG&E-owned generation facilities, effective January 1, 2002.[24] The UGBA will replace the Generation Memorandum Accounts (GMAs) and include the Diablo Canyon entries currently recorded in the TCBA and TRA.[25] As discussed in the TRA account above, the UGBA will exclude nuclear decommissioning revenue requirements. One-time entries will be shown in the UGBA effective January 1, 2002, to reflect the 2001 activity in the GMAs and the December 31, 2001, balance in the Diablo Canyon Property Tax Balancing Account (DCPTBA), electric Preliminary Statement Part AN, which is then eliminated. In addition, as described above, the UGBA includes a one-time entry to reflect 2002 costs consistent with D.02-04-016 as of January 1, 2003.

On a monthly basis, any balance in the UGBA will be transferred to the TRA.

---

[23] Starting January 1, 2003, QF and PPA costs below or at market are recorded in ERRA with costs above market being recorded in the TRA until revenue is recorded in the MTCBA to recover the costs.

[24] The actual operating costs include operations and maintenance, fuel, administration and general and other costs. The actual capital costs include depreciation expense, a return on rate base, related taxes, and regulatory asset amortization expense. (D.01-04-016, mimeo, p. 74)

[25] The Generation Memorandum Accounts (GMAs) consist of the Must-Run Fossil Plant Memorandum Account (Preliminary Statement, Part AX), the Non-Must-Run Fossil Plant Memorandum Account (Preliminary Statement Part AY), the Non-Must –Run Hydroelectric Memorandum Account (Preliminary Statement, Part AZ) and the Must-Run Hydroelectric Plant Memorandum Account (Preliminary Statement, Part BE).

Preliminary Statement Part CH--Utility Retained Generation Income Tax Memorandum Account (URGITMA)

The approved new URGITMA tracks the time value of money related to income tax timing differences between: 1) income tax revenue requirements for current income tax recorded in URG-related balancing accounts, and 2) actual URG-related income tax payments made by PG&E, in a manner that does not violate Internal Revenue Code normalization requirements. In D. 02-04-016, the Commission made modifications to "…ensure that the adopted treatment for tax timing differences is limited to the time value of money." Further, Findings of Fact 71 and 72 discuss the potential for extended time differences between receiving in rates income tax revenue requirements in 2002, later payment by PG&E of actual income tax, and the possible unfair benefit due to the timing difference. This memorandum account will record interest on the differences; and the ultimate resolution of the account will be decided in a later proceeding. Further, as described above, the URGITMA includes a one-time entry to reflect the 2002 activity to be consistent with D. 02-04-016 as of January 1, 2003.

Preliminary Statement Part CI--Wholesale DWR/ISO Cost Memorandum Account (WDWR/ISO MA)

The approved new WDWR/ISO MA tracks costs and revenues associated with ISO-related charges incurred on behalf of municipal utilities and other wholesale entities. On March 26, 2002, PG&E filed draft language for this account in a pleading in compliance with D. 02-03-058, OP 6. The Commission authorized this account in D. 02-04-016, stating that, "PG&E shall file a compliance advice letter to implement the memorandum account. The advice letter shall be effective on the date filed provided it is consistent with PG&E's March 26, 2002, draft approved herein." (D. 02-04-016, mimeo, p. 30.) Further, as described above, the WDWR/ISO MA includes a one-time entry to reflect the 2002 activity to the account to be consistent with D. 02-04-016 as of January 1, 2003. .

<u>Duplicative Accounts</u>

In accordance with the Resolution, Finding of Fact 20, upon transfer of the DCPTBA December 31, 2001, balance to the UGBA on January 1, 2002, the DCPTBA is eliminated. Further, upon transfer of the costs previously recorded in the GMAs to the UGBA as of January 1, 2002, the GMAs are eliminated.

<u>URG Costs in Other Regulatory Proceedings</u>

There are various pending proceedings that are addressing recovery of both past and prospective URG-related costs. These proceedings include the following:

The portion of QF and other PPA costs, consisting of transition costs (above market costs). Recovery from Direct Access customers is being addressed in the Direct Access Cost Responsibility/Direct Access Suspension proceeding (R.02-01-011). The actual level of QF payments also may be modified in the QF Rulemaking on Energy Pricing (R.99-11-022), implementing Public Utility Code Section 390 (QF Rulemaking).

The Commission specifically rejected market valuation of PG&E's non-nuclear generation assets as a basis of cost-of-service ratemaking from the scope of this proceeding.[26] In addition there are various market valuation proceedings pending that are not addressed in D.02-04-016. A final outcome in these pending proceedings may affect the rate base included in the 2002 URG revenue requirement.

Decision 02-04-016 ordered that PG&E's Diablo Canyon revenue requirement should be cost-based, subject to true-up against actual recorded costs. Nevertheless, the Commission to date has not acted upon PG&E's Diablo Benefits Sharing Application (A.) 00-06-046. PG&E filed A. 00-06-046 in compliance with D. 97-05-088, OP 7, for approval of its preferred approach for sharing with ratepayers 50 percent of the post-rate freeze net benefits of operating the Diablo Canyon in electricity markets.[27]

Protests

Anyone wishing to protest this filing may do so by sending a letter by **July 27, 2003**, which is 20 days from the date of this filing. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. Protests should be mailed to:

IMC Branch Chief – Energy Division
California Public Utilities Commission
505 Van Ness Avenue, 4th Floor
San Francisco, California 94102
Facsimile: (415) 703-2200
E-mail: jjr@cpuc.ca.gov

Protests also should be sent by e-mail and facsimile to Mr. Jerry Royer, Energy Division, as shown above, and by U.S. mail to Mr. Royer at the above address.

The protest should be sent via both e-mail and facsimile to PG&E on the same date it is mailed or delivered to the Commission at the address shown below.

---

[26] D.01-10-067, and D. 02-04-016, mimeo, p. 2.

[27] A.00-06-046, filed June 30, 2000.

Pacific Gas and Electric Company
Attention: Brian K. Cherry
Director, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, California 94177
Facsimile: (415) 973-7226
E-mail: RxDd@pge.com

Effective Date

PG&E requests this advice filing be effective **January 1, 2003.**

Notice

In accordance with General Order 96-A, Section III, Paragraph G, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list, and the service list parties for A. 00-11-056. Address changes should be directed to Sandra Ciach at (415) 973-7572. Advice letter filings can also be accessed electronically at:

http://www.pge.com/customer_services/business/tariffs/

Vice President - Regulatory Relations

Attachments

Attachment I – Tariff Sheet Listing
Attachment II – Electric Rate Schedules
Attachment III – One-Entry Accounts
Attachment IV A - Restating The Generation Memorandum Accounts
Attachment IV B - Restatement Account Interaction
Attachment IV C - Restatement Cost/Revenue Recovery Matrix

cc: Service List – A. 00-11-056

PRELIMINARY STATEMENT

N. TRANSITION REVENUE ACCOUNT (TRA)

1. PURPOSE: The purpose of the Transition Revenue Account (TRA) is to match the amount of billed revenues against the amount of the separated revenue requirement and Commission-approved obligations. This matching process facilitates determination of billed Competition Transition Charge (CTC) revenues, which will be transferred to the Transition Cost Balancing Account (TCBA). Separated revenue requirement consists of transmission, distribution, public purpose programs, and nuclear decommissioning. Commission-approved obligations include the costs associated with the Consumer Education Program (CEP) and the Electric Education Trust (EET) funded by PG&E, pursuant to Decision 99-05-031 (Finding Of Fact 6; Conclusion Of Law 16). PG&E's costs associated with CEP and EET, up to the amount authorized for PG&E by the CPUC, are recorded in the TRA. Further, pursuant to Decision 02 12-074, the Energy Resource Recovery Account (ERRA) (electric Preliminary Statement Part CP) authorized monthly revenue requirements credited to the ERRA are debited to the TRA and ongoing Department of Water Resources (DWR) obligations and generation costs excluding costs recorded in ERRA, are recorded in the TRA. The purpose of the TRA is also to ensure dollar-for-dollar recovery of the Department of Water Resources (DWR) obligations, distribution, nuclear decommissioning, public purpose program costs, costs related to the CEP and EET and other approved costs. The TRA will be in effect until the Commission determines the date when the rate freeze should have ended. (T) | | (T) (T)

2. APPLICABILITY: This TRA provision applies to all bills for service under all rate schedules and contracts for electric service subject to the jurisdiction of the Commission, except for those specifically excluded by the Commission.

3. TRA SEPARATED REVENUE REQUIREMENT AMOUNTS: Beginning January 1, 1999, the TRA Separated Revenue Requirement Amounts for Distribution, Public Purpose Programs, and Nuclear Decommissioning shall reflect the 1999 General Rate Case (GRC) decision as adopted in Decision (D) 00-02-046, and any other changes that are authorized by the Commission.

4. REVISIONS: The TRA Separated Revenue Requirement Amounts are revised annually on January 1, or as authorized by the Commission in a future Revenue Adjustment Proceeding (RAP).

5. ACCOUNTING PROCEDURE: PG&E shall maintain the TRA by making entries to this account at the end of each month as follows:

(L)

a. A credit entry equal to the amount of total recorded CPUC jurisdictional revenue from the sale and/or delivery of electricity during the month; (T)

b. A debit entry equal to the obligations to the DWR excluding Bond Charges; (T) (L)

c. A debit entry equal to the obligations to the DWR for Bond Charges; (T) (L)

(Continued)

PRELIMINARY STATEMENT
(Continued)

N. TRANSITION REVENUE ACCOUNT (TRA) (Cont'd.)

5. ACCOUNTING PROCEDURE: (Cont'd.):

d. A debit entry equal to the recorded revenue for the period from residential and small commercial customers from the Fixed Transition Amount (FTA) charge, as provided for in Decision 97-09-055 and defined in electric Preliminary Statement AS-Fixed Transition Amount charge; (T) (L)

(D)

e. On and after the date the Commission or its delegate declares to be the start date for direct access, a debit entry equal to the Transmission TRA Separated Revenues, based upon rates approved by the Federal Energy Regulatory Commission (FERC); (T)

f. A debit entry equal to the annual applicable Distribution TRA Separated Revenue Requirement Amount divided by twelve; (T)

g. A debit entry equal to the annual applicable Nuclear Decommissioning TRA Separated Revenue Requirement Amount divided by twelve; (T)

h. A debit entry equal to the annual applicable Public Purpose Programs TRA Separated Revenue Requirement Amount divided by twelve; (T)

(D)

i. A debit entry equal to the costs associated with CEP and EET funded by PG&E, up to the amount authorized for PG&E by the CPUC;

j. A debit entry equal to the recorded incentives paid to customers for avoided power purchases during the period between June 1, 2000, and December 31, 2000, as provided for under electric Rate Schedule E-BID;

k. A credit entry equal to the recorded amount of revenue cycle services credits given to customers for revenue cycle services provided by entities other than PG&E;

l. A credit entry equal to the amount of Shareholder Participation, as defined in Section 6 below;

(D)

(Continued)

PRELIMINARY STATEMENT
(Continued)

N. TRANSITION REVENUE ACCOUNT (TRA) (Cont'd.)

5. ACCOUNTING PROCEDURE: (Cont'd.):

m. An entry equal to the costs of Electric Energy Transactions Administration; (N)

n. An entry equal to the balance in the Utility Generation Balancing Account (UGBA) (electric Preliminary Statement Part CG);

o. A debit or credit entry equal to the balance in the DWR/ISO Cost Balancing Account (DWR/ISO BA) (electric Preliminary Statement Part CB); (N)

p. A debit entry equal to and offsetting the authorized monthly Energy Resource Recovery Account (ERRA) revenue requirement recorded in the ERRA (electric Preliminary Statement Part CP);

q. One-time entries to record the costs associated with implementing the 2002 Utility Retained Generation (URG) revenue requirement pursuant to D.02-04-016 and in accordance with the balancing accounts established by Resolution E-3822: (N)

1) Credit the retained generation costs recorded in 2001 and 2002.

2) Debit 2002 Electric Energy Transactions Administration costs.

3) Credit the DWR/ISO Balancing Account costs recorded in 2002.

4) Debit 2002 UGBA-related costs.

5) Credit Diablo Canyon Independent Safety Committee costs recorded in 2002. (N)

r. If the sum of the beginning of the month balance and the balance after the entries above is a credit, a debit entry to transfer that sum to the Transition Cost Balancing Account (TCBA) (electric Preliminary Statement AV); and (T)

s. If the sum of the beginning of the month balance and the balance after the entries above is a debit, a debit entry equal to the interest on the average balance of the account at the beginning of the month and the balance after the entries above, at a rate equal to one-twelfth the interest rate of the three-month Commercial Paper for the previous month, as reported in the Federal reserve Statistical Release, H.15 or its successor.

(Continued)

PRELIMINARY STATEMENT
(Continued)

N. TRANSITION REVENUE ACCOUNT (TRA) (Cont'd.)

6. SHAREHOLDER PARTICIPATION: PG&E's shareholders bear some responsibility for economic risks and rewards associated with, but not limited to, Commission-approved economic discounts and credits to certain PG&E customers. This section ensures that ratepayers will not assume shareholders' obligations.

Shareholder Participation will be calculated monthly as the sum of the following:

a. The actual amount of the Economic Stimulus Rate discount in accordance with Decision 94-12-047. The actual amount of the discount is equal to the product of the number of kilowatt-hours sold to eligible customers and $0.00432.

b. The amount of the Shareholder Participation Mechanism for the USS-POSCO Inc. contract approved by the Commission in Decision 94-11-023.

c. The amount of the Shareholder Participation Mechanism for the Business Attraction Agreements, Business Expansion and Retention Agreements, and Cogeneration Deferral Agreements approved by the Commission in Decision 95-10-033.

d. The amount of the Shareholder Participation Mechanism for Schedules E-TD, E-TDI, and AG-8 approved by the Commission in Decision 97-09-047. This amount is subject to future recovery in rates upon the Commission's final resolution of the issue of discounting policies.

e. The amount of the Shareholder Participation Mechanism for Schedule ED, in accordance with Resolution E-3654.

PRELIMINARY STATEMENT
(Continued)

AV. TRANSITION COST BALANCING ACCOUNT (TCBA)

1. PURPOSE

The purpose of the Transition Cost Balancing Account (TCBA) is to track all CTC revenues and CTC-eligible generation-related costs as well as track Commission-approved costs that result from the implementation of Electric Industry Restructuring (EIR) and any other costs or revenues ordered by this Commission. The TCBA allows PG&E to track the recovery of its current transition costs. The TCBA consists of CTC revenues and other credits that will be used to recover the Post 2001-Eligible Costs Section. (T) (D)

2. DEFINITIONS

a. Assembly Bill (AB) 1890: Electric industry restructuring legislation passed by the state legislature on August 31, 1996, and signed by the Governor of the State of California on September 23, 1996. (Statutes 1996, Ch. 854, codified in a number of sections of the Public Utilities Code, including 330-397, 840-847, 9600-9606.)

b. California Public Utilities Commission (CPUC or Commission): The state agency that regulates the rates and services of natural gas, electric, water, steam, pipeline, sewer, telephone, cellular and radio telephone, and telegraph utilities as well as railroad, moving and privately owned bus companies.

c. Competition Transition Charge (CTC): A non-bypassable charge set to recover from all customers the uneconomic costs of PG&E's generation-related assets and obligations, as defined by Public Utilities (PU) Code Sections 367, 368, 369, 375 and 376.

(D)

d. Federal Energy Regulatory Commission (FERC): An independent federal regulatory agency which administers federal laws and regulations governing energy issues, including the interstate sale and transportation of natural gas, interstate electric power transmission and the sale of electric power for resale, and the licensing of hydroelectric projects. (T)

e. Fixed Transition Amount (FTA): Non-bypassable rates and other charges that are authorized by the CPUC Financing Order Decision 97-09-055 to recover Financed Transition Costs and the costs of providing, recovering, financing or refinancing the costs of issuing, servicing and retiring Rate Reduction Bonds (RRBs). (PU Code Section 840(d)) (T)

f. Financed Transition Costs: The portion of transition costs that electric utilities will recover through the issuance of RRBs. (T)

(Continued)

PRELIMINARY STATEMENT
(Continued)

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

2. DEFINITIONS (Cont'd.)

g. Fixed Transition Amount (FTA) Charge: Component of the residential and small commercial customer rate which represents payment of the FTA. The FTA charge will be cents-per-kilowatt hour charge based on usage. (T)

h. 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. (T)

i. 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) (T)

j. Interest Rate: Unless otherwise noted, the monthly interest rate equal to one-twelfth of the interest rate on three-month Commercial Paper for the previous month as published in the Federal Reserve Statistical Release, H.15. If publication of the interest rate on three-month Commercial Paper is discontinued, the interest rate will be equal to one-twelfth of the previous month's interest rate on Commercial Paper which most closely approximates the rate that was discontinued and which is published in the Federal Reserve Statistical Release, H.15, or its successor publication. (T) (T) (T)

k. Jurisdictional Split: The computation used to divide the electric revenue requirement between the service provided to customers under FERC jurisdiction and the service provided to customers under the CPUC jurisdiction, as specified in PG&E's most recent GRC decision. (T)

(D)

l. Preferred Policy Decision: CPUC Decision 95-12-063 as modified by Decision 96-01-009. (T)

(D)

m. Rate Freeze: Rates may not increase for any rate schedule, contract, or tariff option above the levels in effect on June 10, 1996. Residential and small commercial customer rates will be reduced by 10 percent due to Rate Reduction Bonds. The rate freeze shall remain in effect until the earlier of March 31, 2002, or the date on which the CPUC authorized costs for utility generation-related assets and obligations have been fully recovered. (PU Code Sections 367, 368) (T)

(D)

n. Rate Reduction Bonds (RRBs): Bonds, notes, certificates of participation or beneficial interest, or other evidences of indebtedness or ownership, issued pursuant to an executed indenture or other agreement of a financing entity, the proceeds of which are used to provide, recover, finance or refinance transition costs and to acquire transition property and that are secured by or payable from transition property. (PU Code Section 840(e)) (T) (L)

(D)

o. Utility Distribution Company (UDC): The utility company that provides distribution services and will continue to be regulated by the CPUC. The distribution category includes revenue requirements for: (1) all distribution plant, (2) customer access equipment at all voltages, and (3) the infrastructure required to provide distribution services. The UDC will be responsible for providing nondiscriminatory distribution services to all customers, including direct access customers, in its service territory. (T) (L)

(Continued)

PRELIMINARY STATEMENT
(Continued)

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

3. COST RECOVERY PERIODS

The TCBA will begin on January 1, 1998. CTC recovery throughout and beyond the rate freeze period will be considered in future Commission proceedings pursuant to Decision 02-01-001 and Decision 02-04-016. PG&E will seek recovery of these transition costs beyond the rate freeze period and beyond December 31, 2001 through the TCBA or some other mechanism, as may be authorized by the Commission. (D) (T)

(D)

4. CTC RATES

The TCBA does not have a rate component. Rather, the CTC-related revenue is calculated on a residual basis, as described in the CTC Revenue Section below, and tracked in the TCBA. (T)

5. REPORTING REQUIREMENTS

Pursuant to Decision 97-11-074, Ordering Paragraph 14, PG&E shall provide for the duration of the transition period: (L)

a. Monthly reports of all entries to the transition cost balancing account (TCBA); (T)

b. Balances and returns used to develop transition cost revenue requirements; (T)

c. The assumptions used in estimating market value; (T)

d. The results of any actual market valuations; and (T)

(D)

e. Changes in amortization schedules due to changes in market value estimates or actual market valuations.

(D)

These reports shall be submitted 30 days after the end of the month, to the Energy Division and served on the parties to the CTC proceeding (A.96-08-001, et al.). PG&E shall provide the Energy Division with three hard copies of each monthly report and an electronic version (on computer disk or via electronic mail) which contains each report and the underlying data, in either Word, Excel, or other format as specified by the Energy Division, pursuant to Decision 97-11-074, Ordering Paragraph 14.

In addition to the reporting requirements above, commencing March 31, 1998, PG&E will file with the CPUC an annual report showing the activity of the TCBA for the twelve months ending December 31 of the previous year. (L)

(Continued)

PRELIMINARY STATEMENT
(Continued)

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

6. ACCOUNTING PROCEDURE (L)

The accounting procedures in the following sections will comply with the following guidelines, as adopted by the Commission on pages 49-51 of Decision 97-06-060, as modified by Decision 97-12-039:

a. The recovery of certain costs that are currently incurred may be deferred. The recovery of employee transition costs (as addressed in §375) may be deferred to the post 2001 period and recovered through December 31, 2006.[1] Section 376 provides that, to the extent that Federal Energy Regulatory Commission (FERC) or Commission-approved recovery of the costs of utility-funded programs to accommodate implementation of direct access, the Power Exchange, and the ISO, reduces the ability of the utilities to collect generation-related transition costs, those generation-related costs may be collected after December 31, 2001, in an amount equal to the implementation costs that are not recovered from the Power Exchange or ISO. Generation-related transition costs which may be displaced by the collection of renewable program funding (as addressed in §381(d)) may be collected through March 31, 2002. Other than these exceptions, current costs should be recovered as incurred, as required by ratemaking principles and the accounting principle of matching revenues and expenses. (L)

b. To accommodate on-going market valuations and accelerated recovery, the utilities should recalibrate recovery levels for remaining months of the schedule, if necessary. To the extent that revenues do not cover costs in a current period, revenues should be applied first to costs incurred during that period and then to scheduled amortization, including that of regulatory assets. (N)

(D)
(D)

c. To the extent that any additional headroom revenues remain, any additional revenues should be applied first to accelerate the depreciation of those transition cost assets with a high rate of return and in a manner which provides the greatest tax benefits. In this way, accelerated recovery of transition costs will benefit shareholders and ratepayers. (T)

(D)
(D)

d. As a general guideline for those assets subject to market valuation, generation-related assets should be written down to their estimated market value, but not below, based on a relatively broad estimate of market value. We will be somewhat flexible in applying this guideline. We recognize both PG&E's and Edison's concerns that public disclosure of such estimates could adversely affect the auction process and will address the need for protective orders and confidentiality as the need arises. It is not our intent to revisit the market valuation process occurring in other proceedings. (T)

(L)

---

1 All statutory references are to the Public Utilities Code, unless otherwise noted. (T)

(Continued)

PRELIMINARY STATEMENT
(Continued)

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

6. ACCOUNTING PROCEDURE (Cont'd.)

e. It is the duty of the Commission to determine what transition costs are reasonable and because such costs cannot be determined to be uneconomic or not until we have more information, we reject the utilities' request for complete flexibility in managing their transition cost recovery. We require monthly and annual reports and will institute an annual transition cost proceeding, separate from the Revenue Adjustment Proceeding. In Decision 96-12-088, we provided that authorized revenues would be established in the respective proceedings for various issue areas and would be consolidated in the Revenue Adjustment Proceeding. In addition, to provide further clarity to this concept, we will require the utilities to revise their pro forma tariffs to indicate that the cost accounts and subaccounts they establish are not labeled as transition cost subaccounts, but are merely the sunk costs accounts and subaccounts. This is important because we are establishing the sunk costs in Phase 2 of these proceedings, but the uneconomic portion of those costs (which is the portion eligible for transition cost recovery) must be established on an ongoing basis. (T) (L)–(L)

(D)–(D)

f. To the extent possible, the utilities should manage acceleration 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. (T)

g. CTC Revenue Section (T)

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 below. The CPUC jurisdictional portion of all entries shall be made at the end of each month as follows: (T)

1) A monthly credit or debit entry to transfer the monthly balance in the Transition Revenue Account (TRA), to reflect the amount of CTC residual revenue recorded from PG&E's customers for services rendered during the month. (T)–(T)

2) A monthly credit entry equal to one-twelfth of the CPUC portion of the generation-related authorized Other Operating Revenue, pursuant to PG&E's most recent General Rate Case (GRC) decision. (T)–(T)

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). (T)

(L)

(Continued)

PRELIMINARY STATEMENT
(Continued)

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

6. ACCOUNTING PROCEDURE (Cont'd.)

g. CTC Revenue Section (Cont'd.)

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). (T) (L)

(D)

5) 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, Findings of Fact (FOF) 21 and Decision 97-12-039, FOF 3. (T)

(D) (L)
(D)

6) A one-time entry to transfer any balance in the Generation Asset Balancing Account, as defined in Preliminary Statement Part AL, upon final market valuation. (N)

(D)

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

(D)
(D)

8) 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. (T)

9) 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. (T)

10) 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. (T)

11) One-time entries to record the costs associated with implementing the 2002 Utility Retained Generation (URG) revenue requirement pursuant to D.02-04-016 and in accordance with the balancing accounts established by Resolution E-3822: (N)

a. Debit Diablo Canyon Property Tax costs recorded in 2001.

b. Credit Electric Energy Transactions Administration costs recorded in 2002. (N)

12) If applicable, a monthly entry equal to interest on the average balance in the CTC Revenue Section at a rate as defined in Section AV.2.j, above. (N)

(Continued)

PRELIMINARY STATEMENT
(Continued)

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

6. ACCOUNTING PROCEDURE (Cont'd.)

(D)
|
(D)

g. CTC Revenue Section (Cont'd.)

13) If applicable, a one-time debit to transfer the balance in the Current Costs and Accelerated Costs Sections of the TCBA on December 31, 2001, to this subaccount to include in the TCBA generation-related transition costs incurred during the rate freeze period whose recovery may be extended, as provided for in Decision 02-01-001. (N)

(D)
|
(D)

h. Post 2001-Eligible Costs Section

The Post 2001-Eligible Costs Section records costs that are eligible for recovery after the rate freeze period or December 31, 2001 (whichever is earlier). To the extent the rate freeze ends before December 31, 2001, costs in this section are recoverable before December 31, 2001. This account includes, but is not limited to, employee transition costs that are incurred by PG&E during the rate freeze period, as specified by Decision 97-06-060, Findings of Fact (FOF) 24 and COL 4. Additionally, this account includes generation-related transition costs incurred during the rate freeze period whose recovery may be extended as provided for in Decision 02-01-001. This account also includes the cost of renewables programs funded by PG&E after 2001, up to the limits designated in PU Code Section 381 and Decision 97-06-060, FOF 24 and COL 5, Decision 97-02-014, and Decision 97-11-022, FOF 5. (T) (D)

(D)

The CPUC jurisdictional portion of all entries, net of FF&U, shall be made at the end of each month as follows:

1) Additional Renewables Program Funding Costs Subaccount (T)

a) A debit entry, as appropriate, equal to the funding of renewables program costs that PG&E incurs after December 31, 2001, not to exceed PG&E's portion of the $75 million, identified in Section 381, AB 1890, in order to ensure that the full amount of dollars for renewables programs is funded as specified in AB 1890, Section 381 and pursuant to Decision 97-06-060, FOF 24 and COL 5 and Decision 97-11-022, FOF 5. Pursuant to Decision 97-06-060, FOF 24 and COL 5, the rate freeze may continue until March 31, 2002 in order to recover the costs in this subaccount. (T)

b) If applicable, after revenue has been applied, a monthly debit entry equal to interest on the average balance of this subaccount to the extent the balance is undercollected, at a rate as defined in Section AV.2.j., above. (T)

(Continued)

PRELIMINARY STATEMENT
(Continued)

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

6. ACCOUNTING PROCEDURE (Cont'd.)

h. Post 2001-Eligible Costs Section (Cont'd.) (T)

2) Displaced Transition Cost Recovery Subaccounts

At the end of 2001, if any balances remain in either the Current Costs Section or the Accelerated Costs Section, these costs will be transferred to one or more of the following three subaccounts, subject to the monetary and non-monetary limits as specified in PU Code Sections 367(a)(5), 381(d), and 376, Decision 97-06-060, FOF 24 and COL 5 for each of the three cost categories. The rate freeze may be extended beyond December 31, 2001, to recover these costs. Revenue collected through the extension of the rate freeze after December 31, 2001, must first be applied to the Additional Renewables Program Funding Costs Subaccount as described above. After (T) these costs are recovered, revenue may be applied to the Irrigation District Exemptions (T) Subaccount. After these costs are recovered, revenue will be applied to the Renewables Program Costs Subaccount. (T)

a) Irrigation District Exemptions Subaccount

(1) One-time debit entries equal to the amount of generation-related transition (T) costs, including interest, that remain unrecovered on December 31, 2001, if any, due to irrigation district exemptions. Pursuant to Decision 97-06-060, FOF 38 and COL 5, 19, 24, 25, and 26 the amount of principal costs to be debited is limited to $50 million, as designated in PU Code Section 367 (a)(5). The costs to be included are those costs that remain unrecovered as of December 31, 2001. The transfer of remaining costs will be accomplished by making one-time credits to the Current Costs and/or the Accelerated Costs Sections and debiting this subaccount by an equivalent amount. The rate freeze may continue until March 31, 2002, to recover the costs in this subaccount, consistent with the provisions of the Firewall Mechanism described in Item 7 below.

(2) If applicable, after revenue has been applied, a monthly debit entry equal to (T) interest on the average balance of this subaccount to the extent the balance is undercollected, at a rate as defined in Section AV.2.j., above. (T)

b) Renewables Program Costs Subaccount

(1) One-time debit entries equal to the amount of generation-related transition costs, including interest, that remain unrecovered on December 31, 2001, if any, due to the recovery, during the period between January 1, 1998 and December 31, 2001, of costs of renewables programs. The amount of principal costs debited to this subaccount will not exceed the December 31, 2001, balance in the PU Code Section 381(d) Renewable program Costs Tracking Account, as designated by PU Code Section 381(d) and Decision 97-06-060, FOF 24 and COL 5, and 6. The costs to be included are those transition costs from the Current Costs Section and/or the Accelerated Costs Section that remain unrecovered as of December 31, 2001.

(L)

(Continued)

PRELIMINARY STATEMENT
(Continued)

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

6. ACCOUNTING PROCEDURE (Cont'd.)

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

2) Displaced Transition Cost Recovery Subaccounts (Cont'd.)

b) Renewables Program Costs Subaccount (Cont'd.)

(1) On January 1, 2002, the transfer of remaining costs will be accomplished by making one-time credits to one or more of the CTC Revenue subaccount and one-time debits to this subaccount by an equivalent amount. Pursuant to Decision 97-06-060, and FOF 24 and COL 5, and 6, the rate freeze may continue until March 31, 2002, in order to recover the costs in this subaccount. (T) (T) (L)

(2) A one-time credit equal to the amount of interest earned on the displaced transition costs in this subaccount during the transition period. This credit is meant to remove any interest that has been applied to transition costs that are displaced due to the recovery of the renewables program costs. (T)

c) Restructuring Implementation Costs Subaccount

(1) One-time debit entries on January 1, 2002, equal to the amount of generation-related transition costs, including interest, that remain unrecovered on December 31, 2001, if any, due to the recovery, during the period between January 1, 1998 and December 31, 2001, of the restructuring implementation costs that are tracked in the PU Code Section 376 Restructuring Implementation Tracking Account. The amount of principal costs to be debited to this account will not exceed $95 million, pursuant to Decision 99-05-031. The costs to be included are those transition costs from the CTC Revenue Section that remain unrecovered as of December 31, 2001. (T)

On January 1, 2002, the transfer of remaining costs will be accomplished by making one-time credits to one or more of the subaccounts within the CTC Revenue Section and debiting this subaccount by an equivalent amount. Recovery of these costs will continue beyond 2001 until these costs are fully recovered. (T)

(2) If applicable, after revenue has been applied, a monthly debit entry equal to interest on the average balance of this subaccount to the extent the balance is undercollected at a rate as defined in Section AV.2.j., above. (T)

(L)

(Continued)

PRELIMINARY STATEMENT
(Continued)

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

6. ACCOUNTING PROCEDURE (Cont'd.)

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

3) Employee Transition Costs Subaccount (T)

a) These employee-related transition costs are described in Advice 1642-E. (T) (L)

A debit entry, as appropriate, equal to PG&E's recorded employee transition costs for utility personnel affected by electric industry restructuring. These costs may be recovered until December 31, 2006, pursuant to Decision 97-06-060, FOF 4, 24, COL 4, and 17. (T) (L)

b) If applicable, after revenue has been applied, a monthly debit entry equal to interest on the average balance of this subaccount to the extent the balance is undercollected at a rate as defined in Section AV.2.j., above. (N)

(D)

4) Interest (T)

A debit or credit entry equal to interest on the average balance in the TCBA will be recorded at a rate as defined in Section AV.2.j., above. (T)

The costs in these subaccounts have various amortization periods. PG&E will revise these tariff provisions accordingly after the rate freeze period. (N)

(Continued)

PRELIMINARY STATEMENT
(Continued)

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

7. FIREWALL MECHANISM

PU Code Section 330(v)(2) and Decision 97-06-060, FOF 38, COL 24, and 25 requires that a "firewall" be created to ensure that the two customer groups (combined residential and small commercial classes versus remaining large customer classes) pay only for their own CTC exemptions. The Competition Transition Charge Exemptions Memorandum Account (CTCEMA) as approved by Decision 96-12-077 records the CTC costs that would have been recovered if not for exemptions. In a separate tracking mechanism, PG&E will impute the amount of CTC exempted revenues into the TCBA. For tracking purposes only, the amounts of the exempted revenues will be "credited" as imputed revenues into the CTC Revenue Section as though PG&E had actually received CTC revenue from exempted customers. Based on the sum of actual CTC revenues, and the imputed exempt CTC revenues, the balances in all the CTC cost accounts may reach zero at some time during the transition period. This determines the point in which all CTC-eligible costs would have been recovered, had there not been exemptions. In reality, the amount of CTC-eligible costs that actually remain to be recovered in the actual CTC Cost Accounts is equal to the amount of exemptions that have occurred. These remaining costs will be recovered by further extending the rate freeze. However, CTC collection would only continue for a particular customer category to pay off the amount of CTC exemptions that are recorded in the CTCEMA for a particular customer group. After that, the rate freeze for that customer group would end.

Extension of the rate freeze to recover the costs associated with the above-mentioned exemptions is subject to an end date of December 31, 2001, with the exception of exemptions for irrigation districts. If transition costs have not been fully recovered by the end of 2001, the rate freeze may continue until March 31, 2002, to pay for CTC exemptions, up to the $50 million associated with irrigation district exemptions. In this case, the rate freeze would continue for CTC collection for exemptions related to irrigation districts until either that class' portion of exemptions due to irrigation districts is paid (as recorded in the CTCEMA), the $50 million limit is reached, or until March 31, 2002. If all irrigation district exemption-related costs are recovered or the $50 million limit is reached before March 31, 2002, the rate freeze would then continue to recover the displaced transition costs associated with renewables program costs until all the costs are recovered, or until March 31, 2002.

PRELIMINARY STATEMENT
(Continued)

CB. DWR/ISO COST BALANCING ACCOUNT (DWR/ISO BA):

1. PURPOSE: The purpose of the DWR/ISO BA is to provide for recovery from ratepayers of payments that PG&E makes to the California Department of Water Resources (DWR) or to the Independent System Operator (ISO) for ISO-related charges. Amounts incurred prior to 2003 are recorded to this account when paid. Starting January 1, 2003 the ISO costs incurred, and ISO ancillary services and RMR revenues, are recorded in the Energy Resource Recovery Account (ERRA). (T) (N) | (N)

2. APPLICABILITY: The DWR/ISO BA balance will be collected from all Customer classes except for those specifically excluded by the Commission.

3. REVISION DATE: Disposition of amounts in this account shall be determined in the Revenue Adjustment Proceeding or other proceeding authorized by the Commission.

4. FORECAST PERIOD: There is no forecast period for this account.

5. DWR/ISO BA RATES: This account does not have a rate component.

6. ACCOUNTING PROCEDURE:

   PG&E shall maintain the DWR/ISO BA by making entries at the end of each month as follows:

   a. A debit entry equal to the amount paid by PG&E to the ISO or DWR for ancillary services and other ISO-related charges; (T) (T)

   b. A one-time entry to implement Decision 02-04-016 and Resolution E-3822, as described in Advice 2240-E-B; and (N) |

   c. An entry to transfer the balance in the DWR/ISO BA to the Transition Revenue Account (TRA) (electric Preliminary Statement Part N). | (N)

(D)

PRELIMINARY STATEMENT
(Continued)

CG. UTILITY GENERATION BALANCING ACCOUNT (UGBA) (N)

1. PURPOSE: The purpose of the Utility Generation Balancing Account (UGBA) is to record the operating expenses and capital-related costs incurred by PG&E for the operation of its fossil, hydroelectric, and nuclear power plants pursuant to Decision 02-04-016. On a monthly basis, the balance in this account will be transferred to the Transition Revenue (TRA), Preliminary Statement Part N.

2. APPLICABILITY: The Utility Generation Balancing Account (UGBA) shall apply to all customer classes, except for those specifically excluded by the Commission.

3. REVISION DATES: The revision dates applicable to the UGBA shall be as determined in a Revenue Adjustment Proceeding (RAP) or as otherwise ordered by the Commission.

4. RATES: This balancing account does not currently have a rate component.

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

   a. A debit entry equal to recorded non-fuel operating expenses for the fossil plants;

   b. A debit entry equal to recorded non-fuel operating expenses for the hydroelectric plants;

   c. A debit entry equal to recorded non-fuel operating expenses for Diablo Canyon Nuclear Plant;

   d. A debit entry equal to the CPUC portion of the monthly fossil and hydroelectric capital-related revenue requirement, net of Franchise Fees and Uncollectibles (FF&U), which includes depreciation expense, a return on rate base, decommissioning expense, and related taxes for the fossil and hydroelectric plants. The depreciation expense for these assets is based on CPUC-approved depreciation rates;

   e. A debit entry equal to the capital-related revenue requirement, net of FF&U which includes depreciation expense, a return on rate base, and related taxes for Diablo Canyon Nuclear Plant. The depreciation expense for this plant is based on Commission approved depreciation rates;

   f. A one-time entry to implement Decision (D) 02-04-016 and Resolution E-3822, as described in Advice 2240-E-B; and

   g. An entry to transfer the balance in this account to the Transition Revenue Account (TRA), (electric Preliminary Statement Part N).

(N)

(Continued)

PRELIMINARY STATEMENT
(Continued)

CH. UTILITY RETAINED GENERATION INCOME TAX MEMORANDUM ACCOUNT (URGITMA) (N)

1. PURPOSE: The Utility Retained Generation (URG) Income Tax Memorandum Account (URGITMA) is established pursuant to Ordering Paragraph No. 7 of Decision 02-04-016. The purpose of the URGITMA is to track the consequences of timing differences between: (1) income tax revenue requirements for current income tax recorded in PG&E's URG-related balancing accounts; and (2) actual URG-related income tax payments made by PG&E.

2. APPLICABILITY: The URGITMA shall apply to all customer classes, except for those specifically excluded by the Commission.

3. RATES: This memorandum account does not currently have a rate component.

4. REVISION DATE: Disposition of amounts tracked in the URGITMA shall be determined in a General Rate Case or other proceeding expressly authorized by the Commission.

5. ACCOUNTING PROCEDURES:

   a. A monthly debit or credit entry equal to interest (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) on the average monthly balance of the Cumulative difference between:

      1) Income tax revenue requirements for current income tax as recorded in Commission-authorized URG-related balancing accounts; and

      2) Actual such URG-related income tax payments made by PG&E.

   b. A one-time entry to implement Decision 02-04-016 and Resolution E-3822, as described in Advice 2240-E-B.

   c. A debit or credit entry equal to the interest on the average balance of the account at the beginning of the month and the balance after the entries above, 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.

   d. Pursuant to Decision 02-04-016, entries to the URGITMA shall be made in a manner that is consistent with the tax code, and does not violate income tax “normalization” rules. (N)

PRELIMINARY STATEMENT
(Continued)

CI. WHOLESALE DWR/ISO COST MEMORANDUM ACCOUNT (WDWR/ISO MA) (N)

1. PURPOSE: The purpose of the WDWR/ISO MA is to track payments that PG&E makes to the California Department of Water Resources (DWR) or to the Independent System Operator (ISO) for ISO related charges incurred on behalf of municipal utilities and other wholesale entities.

2. APPLICABILITY: The WDWR/ISO MA balance will be collected from all Customer classes except for those specifically excluded by the Commission.

3. REVISION DATE: Disposition of amounts in this account shall be determined in the Revenue Adjustment Proceeding or other proceeding authorized by the Commission.

4. FORECAST PERIOD: There is no forecast period for this account.

5. WDWR/ISO MA RATES: This account does not have a rate component.

6. ACCOUNTING PROCEDURE:

   PG&E shall maintain the WDWR/ISO MA by making entries at the end of each month as follows:

   a) A debit entry equal to the amount paid by PG&E to the ISO or DWR for ISO related costs incurred on behalf of municipal utilities and other wholesale entities;

   b) A credit entry equal to the revenue received by PG&E from municipal utilities and other wholesale entities for ISO related costs;

   c) A one-time entry to implement Decision 02-04-016 and Resolution E-3822, as described in Advice 2240-E-B; and

   d) An entry equal to the interest on the average of the balance at the beginning of the month and the balance after entry 6.a and 6.b above 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. (N)

TABLE OF CONTENTS
(Continued)

PRELIMINARY STATEMENTS

(Continued)

TABLE OF CONTENTS
(Continued)

PRELIMINARY STATEMENTS

(Continued)

TABLE OF CONTENTS
(Continued)

PRELIMINARY STATEMENTS

(Continued)

TABLE OF CONTENTS

RATE SCHEDULES

(Continued)