May 6, 2002

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

Public Utilities Commission of the State of California

**Subject - Utility Retained Generation Memorandum and Balancing Accounts**

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.[1]

## Purpose

The purpose of this filing is to comply with Ordering Paragraphs (OP) 7, 9 and 11 of Decision (D.) 02-04-016, pertaining to Utility Retained Generation (URG) costs. D. 02-04-016 requires PG&E to: 1) submit new and revised balancing and memorandum accounts consistent with the direction provided in the decision, 2) establish interest-bearing memorandum accounts to track the consequences of timing differences between balancing account entries for URG income tax revenue requirements and actual URG-related income tax payments, 3) withdraw any advice letters previously submitted that establish balancing accounts or tariffs that conflict with this decision, and 4) to state what, if any, URG costs are reflected in other Commission-approved accounts or sought in other proceedings.

## Proposal

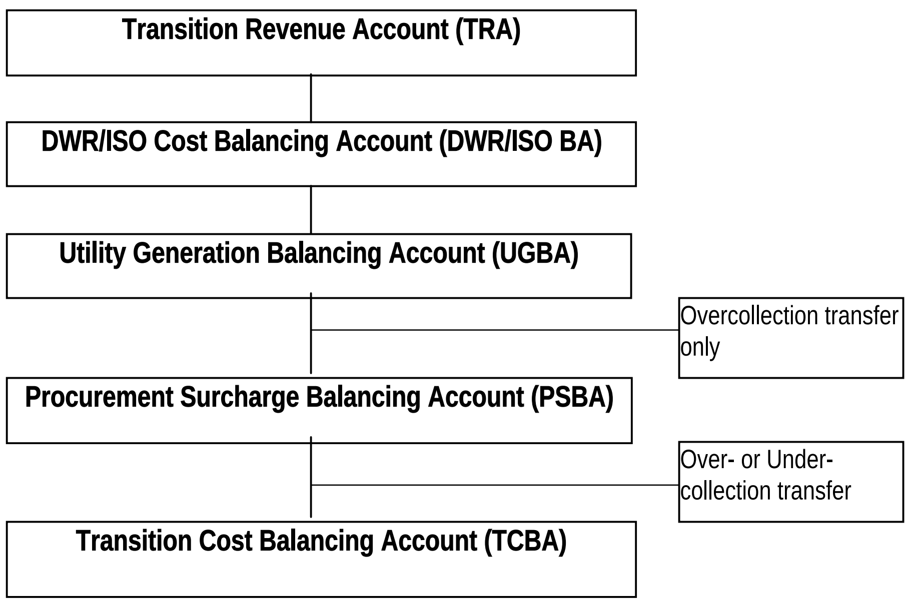
On April 4, 2002, the Commission approved D. 02-04-016, which established PG&E's retained generation revenue requirement for 2002. The revenue requirement should provide for recovery of actual recorded costs.[2] Balancing accounts will ensure that reasonably incurred recorded costs will be recovered. In addition, the decision directed PG&E to identify pending advice letters and proceedings that overlap with the revenue requirements and recovery mechanisms adopted in this proceeding.

[1] PG&E reserves all legal rights to challenge 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] Decision 02-04-016, Conclusion of Law 5.

In this advice letter, PG&E seeks to simplify the accounting mechanisms used to determine recovery of generation-related costs, consistent with the directives in D. 02-04-016. To achieve a simpler regulatory accounting model, PG&E has included entries in its accounting mechanisms that comply with prior decisions to minimize overlap and reduce confusion caused by various currently outstanding compliance advice letters.

These mechanisms will simplify PG&E's current and proposed regulatory accounting structure by superseding certain currently effective accounts, including the generation memorandum accounts (GMAs), and certain proposed accounts, including the Procurement Surcharge Balancing Account (PSBA). PG&E's proposals regarding the withdrawal of certain other advice letters and the elimination of certain accounts to avoid duplicative recovery are addressed below. The following chart summarizes proposed balancing accounts structure:




Under the regulatory accounting mechanisms proposed herein, revenues billed under frozen rates will offset non-energy costs in the Transition Revenue Account (TRA). Remaining revenues will be applied to Independent System Operator (ISO)-related costs paid to the ISO, or to the California Department of Water Resources (DWR) separate from the DWR revenue requirement, in the DWR/ISO Cost Balancing Account (DWR/ISO BA), and finally, to URG costs in the Utility Generation Balancing Account (UGBA). Any remaining revenue after the above entries will offset power purchase costs in the PSBA. If the balance after the above entries is undercollected, that undercollection will accrue in the UGBA and will not be offset with surcharge revenues recorded in the PSBA. Surcharge revenues offset DWR and purchased power costs in the PSBA. Any balance in the PSBA is transferred to the Transition Cost Balancing Account (TCBA).[3]

This sequence of recovery complies with the Commission's directives to determine the generation-related revenue through a residual calculation and to use surcharge revenue to offset power purchase costs. In addition, certain directives in D. 01-03-082 regarding the generation memorandum accounts and the TRA/TCBA are implemented herein as described in the TRA section below.

A monthly report of the interim revenue requirement and actual costs will be attached to PG&E's monthly TCBA report upon approval of Advice Letter 2240-E

## TARIFF REVISIONS AND PROPOSALS

As ordered in D. 02-04-016, PG&E is submitting the following tariff proposals and revisions addressing the various URG-related expenses and revenues:

### 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 Letter 2240-E, PG&E is revising the TRA to be consistent with the objectives of D. 02-04-016.

First, the TRA is revised to remove the entry transferring the undercollected balance in the Emergency Procurement Surcharge Balancing Account (EPSBA) to the TRA because, as described below, the proposed PSBA will record the surcharge revenues and procurement costs and the proposed Utility Generation Balancing Account (UGBA) will record the costs of PG&E-owned generation facilities. These accounts replace the EPSBA.

Second, the TRA is revised to remove the entry for ISO costs because, as described below, the proposed DWR/ISO Cost Balancing Account (DWR/ISO BA) will record the ISO-related costs.

Third, 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 record all operating and capital costs of PG&E-owned generation facilities, other than nuclear decommissioning, starting January 1, 2002. The nuclear decommissioning revenue requirement will continue to be recovered in the TRA.

Fourth, the December 31, 2001, overcollected balances in PG&E's fossil and

[3] This does not transform PSBA costs into transition costs per D.01-03-082, Finding of Fact 53.

hydroelectric generation memorandum accounts are transferred to the TRA upon implementation of Advice 2240-E consistent with the requirement of D. 01-03-082 to "…restate and record overcollected generation memorandum account balances to the TRA before any transfer to the TCBA"[4].

Finally, the December 31, 2001, balance in the TRA will be transferred to the TCBA upon implementation of Advice 2240-E. This achieves the objective of D. 01-03-082 to allow the utilities to first pay off operating costs incurred in providing service during the rate freeze and then to apply any remaining revenues to capital or stranded cost recovery.[5] Therefore, PG&E's Advice Letter 2130-E, filed in compliance with Ordering Paragraph (OP) 8 of D. 01-03-082, will be withdrawn upon approval of Advice 2240-E as filed.

The balance in the TRA will be transferred monthly to the DWR/ISO BA**.**

**DWR/ISO Cost Balancing Account (DWR/ISO BA)**

The DWR/ISO BA records those costs that are paid to the ISO or to DWR for ISO-related costs, including ancillary services costs. Cost entries will be offset by ancillary services and reliability must-run (RMR) revenues from PG&E-owned generation facilities. (D. 02-04-016, mimeo p. 75.) The balance in the DWR/ISO BA will be transferred monthly to the UGBA.

**The Utility Generation Balancing Account (UGBA)**

The UGBA will record actual operating and capital costs of PG&E-owned generation facilities, starting January 1, 2002.[6] The UGBA will replace the Generation Memorandum Accounts (GMAs) and the Diablo Canyon entries currently recorded in the TCBA and TRA upon approval of Advice Letter 2240-E as filed.[7] As discussed in the TRA section above, the UGBA will exclude nuclear decommissioning revenue requirements.

On a monthly basis, any overcollected balance in the UGBA will be transferred to the PSBA. Any undercollected balance will remain in the UGBA to avoid recovery of utility-owned generation costs through the one-cent and three-cent surcharges under Schedule E-EPS—Energy Procurement Surcharge.

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4 Decision 01-03-082, p.35.

5 Decision 01-03-082, p.30.

6 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, non-nuclear decommissioning expense, related taxes, and regulatory asset amortization expense. (D. 01-04-016, mimeo, p. 74.)

7 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.)

**Procurement Surcharge Balancing Account (PSBA)**

The PSBA will balance costs associated with the power purchased and provided to PG&E by DWR, and actual PG&E power procurement costs, with the one-cent and three-cent surcharge revenues under Schedule E-EPS.

The PSBA Cost Subaccount will track the actual revenues from the one-cent and three-cent surcharges, as well as costs related to the DWR-provided power, purchases from bilateral contracts, block forward market, Power Purchase Agreements (PPAs), and irrigation districts, and Electric Energy Transaction Administration (EETA) costs.

The PSBA Qualifying Facility (QF) Subaccount will track costs associated with QFs in accordance with D. 02-04-016, OP 9. The PSBA will replace, in part, Preliminary Statement Part AM – Emergency Procurement Surcharge Balancing Account.

As described in PG&E's pending Advice Letter 2096-E, any shortfall occurring because of a difference between the adopted revenue level and actual revenues collected from the three-cent surcharge would flow into a separate subaccount. PG&E proposes to record a one-time entry in the Revenue Subaccount for the shortfall that has accrued from March 27, 2001, the initial effective date of the PSBA, through the implementation date of Advice Letter 2240-E. This achieves the objective of D. 01-03-082 by providing PG&E with the adopted revenue level to be collected from the three-cent surcharge. Therefore, PG&E proposes to withdraw Advice Letter 2096-E upon approval of Advice Letter 2240-E as filed.

The balance in the PSBA, excluding the Revenue Subaccount balance, will be transferred monthly to the TCBA.

**Transition Cost Balancing Account (TCBA)**

The TCBA currently tracks all competition transition cost (CTC)-related revenues and CTC-eligible generation-related costs. Costs associated with purchases from QFs and other power purchase agreements, generation facilities, and regulatory assets will no longer be tracked in the TCBA. Costs associated with purchases from QFs and other power purchase agreements will be recorded in the PSBA. Expense and capital related costs associated with PG&E-owned generation facilities will be recorded in the UGBA. Regulatory assets are included in the capital related revenue requirements. The TCBA will continue to track CTC revenue, employee transition costs, the transition cost portion of the QFs, and other costs, including the TRA undercollection balance as of December 31, 2001.

**Utility Retained Generation Tax Memorandum Account (URGTMA)**

The URGTMA will track the time value of 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 Decision 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; the ultimate resolution of the account will be decided in a later proceeding.

**Wholesale DWR/ISO Cost Memorandum Account**

The Wholesale DWR/ISO Cost Memorandum Account will record 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.)

**WITHDRAWAL OF PENDING ADVICE LETTERS**

Upon approval of Advice Letter 2240-E as filed, certain preliminary statements described above addressing various expenses and revenues associated with PG&E's URG, will supersede preliminary statements currently pending Commission approval as described herein. Therefore, PG&E proposes to withdraw or supplement the following advice letters:

Advice Letter 2085-E, filed on March 2, 2001, in compliance with Decision (D.) 01-01-061, OP 11 (as modified by D. 01-02-077), presented PG&E's proposal to establish cost-based rates and accounting treatment for its retained generation beginning December 28, 2000, which is the date when PG&E stopped selling power to the California Power Exchange. PG&E proposed to use an interim cost/revenue calculation for URG pricing in its TRA, TCBA, and generation memorandum accounts. In addition, PG&E revised Schedule PX—Power Exchange Service, to provide for use of net costs associated with PG&E's URG in developing energy costs for bundled service customers and credits for direct access customers.

Decision 02-04-016, in the URG phase of the Rate Stabilization Plan (RSP), specifically addressed Advice Letter 2085-E, stating that Advice Letter 2085-E was made part of the record in the RSP proceeding. D. 02-04-016 in this phase supersedes the revisions to balancing accounts contained in Advice 2085-E. Therefore, in a supplemental filing, PG&E proposes to withdraw the changes to balancing accounts proposed in Advice Letter 2085-E upon Commission approval of Advice Letter 2240-E as filed, and request approval of the proposed changes to Schedule PX as filed in Advice Letter 2085-E.

Advice Letter 2096-E, filed on April 2, 2001, in compliance with Decision 01-03-082, OP 1 and OP 2, proposed to record the revenues associated with the average three-cents per kWh Schedule E-EPS rate surcharge in the PSBA, and the corresponding power costs that will be paid from both the surcharge revenues. Pending approval of the PSBA, PG&E is recording the relevant costs and revenues in currently approved accounts. In addition, PG&E has tracked whether revenues from the one-cent and three-cent surcharges exceed procurement and DWR costs. Therefore, it is not necessary to restate regulatory accounts to conform to the Cost Subaccount submitted in Advice Letter 2096-E.

However, as described above, any shortfall due to a difference between actual revenue collected from the three-cent surcharge and the adopted revenue level to be collected from the three-cent surcharge from March 27, 2001, the initial effective date of the PSBA, through the implementation date of Advice Letter 2240-E, will be recorded as a one-time entry in the Revenue Subaccount of the PSBA, as proposed herein. This achieves the objective of D. 01-03-082 in providing PG&E with the adopted revenue level to be collected from the three-cent surcharge.

Therefore, PG&E proposes to withdraw Advice Letter 2096-E filed in compliance with D.01-03-082, OP 2, upon approval of Advice Letter 2240-E as filed.

Advice Letter 2130-E, filed on June 25, 2001, in compliance with D. 01-03-082, OP 8, implemented 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.[8] PG&E proposes herein to comply with the intent of the decision to offset generation revenues and costs of procurement[9] by transferring the December 31, 2001, balance in the TRA to the TCBA upon implementation of Advice Letter 2240-E. Because this action achieves the net effect of D. 01-03-082, PG&E proposes to withdraw Advice Letter 2130-E upon approval of Advice Letter 2240-E as filed.

In addition to the above pending advice letters, certain pending advice letters

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[8] Decision 01-03-082, p. 24.
[9] Ibid, Finding of Fact 51.

(e.g., Advice Letter 2057-E (End of Rate Freeze Proposal) filed on November 22, 2000), would be superseded by the regulatory accounting mechanisms adopted herein. PG&E will modify and re-file Advice Letter 2057-E following further direction from the Commission.

## URG COSTS IN OTHER REGULATORY ACCOUNTS OR PROCEEDINGS

The accounts proposed herein will result in duplicative entries to the GMAs, and the EPSBA. Therefore, PG&E proposes to eliminate these accounts upon the Commission's approval of Advice Letter 2240-E. PG&E will propose the appropriate regulatory mechanisms and make appropriate accounting entries as directed in final Commission decisions in the above proceedings.

URG-related costs that may be requested in other proceedings include the following:

A portion of QF and other PPA costs, consisting of transition costs. Recovery may be addressed in the Direct Access Cost Responsibility/Direct Access Suspension proceeding (Rulemaking (R.) 02-01-011). The actual level of QF payments may be addressed 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.[10] Therefore, the market valuation proceedings are not addressed in D. 02-04-016.[11]

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.[12]

## Protests

Anyone wishing to protest this filing should do so by sending a letter via postal mail <u>and</u> facsimile by, **May 28, 2002**, which is 22 days after the date of this filing. The protest must state the grounds upon which it is based, including such items

[10] Decision 01-10-067, and D. 02-04-016, mimeo, p. 2.
[11] A final outcome in 2002 in pending applications for market valuation and disposition of generation-related assets may affect the rate base included in the 2002 URG revenue requirement.
[12] Application 00-06-046, filed June 30, 2000.

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, Room 4002
San Francisco, California 94102
Facsimile: (415) 703-2200

Copies should also be mailed to the attention of the Director, Energy Division, Room 4005 and Jerry Royer, Energy Division, 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.

Pacific Gas and Electric Company
Attention: Les Guliasi
Director, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, California 94177
Facsimile: (415) 973-7226

**Effective Date**

In accordance with D. 02-04-016, OP 9, PG&E requests that this advice filing become effective **January 1, 2002,** upon approval by the Energy Division.

**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 Rose Abao at (415) 973-2218. Advice letter filings can also be accessed electronically at: http://www.pge.com/customer_services/business/tariffs/

Vice President - Regulatory Relations

Attachments

cc: Service List – A. 00-11-056

PRELIMINARY STATEMENT
(Continued)

N. TRANSITION REVENUE ACCOUNT (TRA)

1. PURPOSE: The purpose of the Transition Revenue Account (TRA) is to match the amount of billed revenues, excluding the procurement surcharge revenues pursuant to Decisions 01-01-018 (T) and 01-03-082, against the amount of the separated revenue requirement and (T) Commission-approved obligations. This matching process facilitates determination of generation-related residual revenues, excluding surcharge revenues, which will be transferred to (T) the Department of Water Resources/Independent System Operator Cost Balancing Account | (DWR/ISO BA) starting in January 2002. The December 31, 2001, balance in the TRA is | transferred to the Transition Cost Balancing Account (TCBA). Separated revenue requirement (T) consists of transmission, distribution, public purpose programs, and nuclear decommissioning. Commission-approved obligations include the costs associated with the Consumer Education (T)(D) Program (CEP) and the Electric Education Trust (EET) funded by PG&E, pursuant to (T) Decision 99-05-031 (Finding of Fact 6; Conclusion Of Law 16). PG&E's costs associated with (T) CEP and EET, up to the amount authorized for PG&E by the CPUC, are recorded in the TRA. The purpose of the TRA is also to ensure dollar-for-dollar recovery of distribution, nuclear decommissioning, public purpose program costs, and costs related to the CEP and EET. The TRA will be in effect until the end of the rate freeze.

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 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:

   a. 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 Part AS of the Preliminary Statement;

   b. A credit entry equal to the amount of total recorded CPUC jurisdictional revenue from the sale and/or delivery of electricity during the month, excluding the procurement surcharge revenues as defined in Schedule E-EPS;

   c. Prior to 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 Revenue Amount divided by twelve;

(L)

(Continued)

PRELIMINARY STATEMENT
(Continued)

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

5. ACCOUNTING PROCEDURE: (Cont'd.)

d. 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); (L)

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

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

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

(D)

h. 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; (T)

i. 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 Schedule E-BID; (T)

j. 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; (T)

k. A credit entry equal to the amount of Shareholder Participation, as defined in Section 6 below; (T)

(D)

l. A one-time entry equal to the December 31, 2001, balances in the generation memorandum accounts (electric Preliminary Statement Parts AX, AY, AZ, and BE); (N)

m. A credit entry to transfer the December 31, 2001, balance in the TRA to the TCBA (electric Preliminary Statement Part AV); and

n. A debit or credit entry, starting January 2002, to transfer the balance in the TRA to the DWR/ISO BA (electric Preliminary Statement Part CB). (N)

(Continued)

PRELIMINARY STATEMENT
(Continued)

AI. PROCUREMENT SURCHARGE BALANCING ACCOUNT (PSBA) (N)

1. PURPOSE: The purpose of the PSBA is to record: (1) revenues from the Procurement Surcharge rate increases of one cent and average three cents per kilowatt hour (kWh); and (2) power purchase costs pursuant to Decisions 01-03-082 and 02-04-016. The PSBA has three subaccounts consisting of: (1) a Revenue Subaccount to track the difference between authorized revenues of the average three cents per kWh and actual revenues received; (2) a Cost Subaccount to track the difference between the purchase power costs excluding Qualifying Facility (QF) costs, and actual revenues received from both the one cent and the average three-cent rates; and (3) a QF Subaccount to track the QF costs.

2. APPLICABILITY: The PSBA shall apply to all electric customers except for those customers-specifically excluded by the Commission.

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

4. RATES: The PSBA rates are set forth in Schedule E-EPS.

5. ACCOUNTING PROCEDURE: Entries to the PSBA shall be made monthly as follows:

   a. A debit or credit entry equal to the amount recorded in the Cost Subaccount;

   b. A debit or credit entry equal to the amount recorded in the QF Subaccount;

   c. A credit entry equal to the amount of overcollection, if any, transferred from the Utility Generation Balancing Account; and

   d. A debit or credit to transfer the sum of the items above to the Transition Cost Balancing Account (TCBA) (electric Preliminary Statement Part AV).

   PG&E shall make entries to the Revenue, Cost, and QF Subaccounts at the end of each month as follows:

   e. Revenue Subaccount:

      1) A credit entry equal to the actual revenues received during the month from the average three cents per kWh rate increase;

      2) A debit entry equal to three cents per kWh adopted rate increase, calculated by multiplying three cents times the total electric recorded retail kWh sales for the month; and

      3) A monthly entry equal to interest on the average balance in the account at the beginning of the month interest and the balance after the above entries, at a rate equal to one-twelfth of the rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15 or its successor.

   To the extent that there is a balance (over or undercollection) in the Revenue Subaccount, PG&E will file an annual advice letter to adjust the rate, such that on average, PG&E recovers three-cents per kWh for all recorded sales. (N)

(Continued)

PRELIMINARY STATEMENT
(Continued)

AI. PROCUREMENT SURCHARGE BALANCING ACCOUNT (PSBA) (Cont'd.)

5. ACCOUNTING PROCEDURE: (Cont'd.)

f. Cost Subaccount: (N)

1) A credit entry equal to the actual revenues received during the month from the average three cents per kWh rate increase, excluding an allowance for franchise fees and uncollectibles (FF&U) accounts expense at the rate authorized in PG&E's most recent General Rate Case (GRC);

2) A credit entry equal to the actual revenues received during the month from the one cent per kWh rate increase, excluding an allowance for FF&U accounts expense at the rate authorized in PG&E's most recent GRC;

3) A debit entry equal to the obligations to the Department of Water Resources (DWR) for power purchases for PG&E's retail end-use customers;

4) A debit or credit entry equal to costs associated with irrigation districts and other purchase power obligations;

5) A debit entry equal to block forward market and bilateral contract obligations;

6) A debit entry equal to the costs of Electric Energy Transaction Administration; and

7) A debit or credit entry to transfer the amount recorded in the Cost Subaccount to the PSBA.

g. QF Subaccount:

1) A debit entry equal to costs associated with QF obligations, including payments for contract restructuring, including, but not limited to, any buy-outs, buy-downs, renegotiations, terminations, settlements and judgements, and QF shareholder savings; and

2) A debit or credit entry to transfer the amount recorded in the QF Subaccount to the PSBA. (N)

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)

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)

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.)

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 D.02-01-001 and D.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)

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:

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 (D)

(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.

6. ACCOUNTING PROCEDURE

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:

(L)

(Continued)

PRELIMINARY STATEMENT
(Continued)

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

6. ACCOUNTING PROCEDURE (CONT'D.) (T) (L)

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)

(D)

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.

(L)

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) (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)

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

(D)

(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. (L)(T) | | | | | (L)

(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) (T) (T)

(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) (T)

1) A monthly credit or debit entry to transfer the monthly balance in the Procurement Surcharge Balancing Account (PSBA), 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. (L)

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).

(Continued)

PRELIMINARY STATEMENT
(Continued)

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

6. ACCOUNTING PROCEDURE (CONT'D.)

g. CTC Revenue Section (Cont'd.) (T)

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)

(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, FOF 21 and Decision 97-12-039, FOF 3. (T)

(D)

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

(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)

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) A one-time entry to transfer the December 31, 2001, balance in the Transition Revenue Account (TRA), electric Preliminary Statement Part N, net of FF&U, to the TCBA. (N) (N) (D)

(T)

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. (T)

PRELIMINARY STATEMENT
(Continued)

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

6. ACCOUNTING PROCEDURE (Cont'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)

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. (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) (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. (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.) (L)

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 these costs are recovered, revenue may be (T) applied to the Irrigation District Exemptions 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 costs, (T) 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 (T) 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.

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. (L) (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.

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 (T) December 31, 2001, if any, due to the recovery, during the period between (T) January 1, 1998 and December 31, 2001, of the restructuring implementation costs that are tracked in the PU Code Section 376 Restructuring Implementation (T) 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 (T) as of December 31, 2001.

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 (T) Revenue Section and debiting this subaccount by an equivalent amount. Recovery of these costs will continue beyond 2001 until these costs are fully recovered.

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 (L)

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

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.

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. (L) (T)

(D)

4) Interest

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) (T)

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

(Continued)

PRELIMINARY STATEMENT
(Continued)

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

7. FIREWALL MECHANISM (L)

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 and any ancillary services and reliability must run (RMR) revenues from PG&E-owned generation facilities. (T)

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: The revision date applicable to this account shall be determined in the Revenue Adjustment Proceeding or other proceeding authorized by the Commission. (T)

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

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

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)

   b. A credit entry equal to RMR and ancillary services revenues from PG&E-owned generation facilities; (T)

   c. A debit or credit entry equal to the balance in the TRA (electric Preliminary Statement Part N); and (N)

   d. A debit or credit entry to transfer the balance in the DWR/ISO BA to the Utility Generation Balancing Account (UGBA) (electric Preliminary Statement Part CG). (N)

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, any overcollected balance in this account will be transferred to the Procurement Surcharge Balancing Account (PSBA), Preliminary Statement Part AI. Entries will be recorded to this account effective January 1, 2002.

2. APPLICABILITY: The Utillity 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 or credit entry equal to the balance in the DWR/ISO Cost Balancing Account (DWR/ISO BA) (electric Preliminary Statement Part CB).

   b. A 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 fossil plants; and (2) that day's weighted-average cost of gas on a UEG portfolio basis ($/MMBtu).

   c. A 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 fossil plants; and (2) that day's weighted-average cost of fuel oil per barrel on a "last-in-first-out" (LIFO) basis. (N)

(Continued)

PRELIMINARY STATEMENT
(Continued)

CG. UTILITY GENERATION BALANCING ACCOUNT (UGBA) (Cont'd.)

5. ACCOUNTING PROCEDURES: (Cont'd.)

d. A debit entry equal to recorded non-fuel operating expenses for the fossil plants. (N)

e. A debit entry equal to the hydroelectric fuel expenses. The recorded fuel expenses include water purchase costs for hydroelectric plants.

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

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

h. 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.

i. 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.

j. If applicable, a debit entry to transfer the overcollected balance in this account to the Procurement Surcharge Balancing Account (PSBA) (electric Preliminary Statement Part AI).

k. A monthly entry equal to interest on the average balance in the account at the beginning of the month interest and the balance after the above entries, at a rate equal to one-twelfth of the rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15 or its successor. (N)

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 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.

   c. 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.

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

5. 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; and

c) 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)

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RATE SCHEDULES



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