

January 6, 2003

Advice 2335-E

(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

**Subject: Final Disposition of Transitional Procurement Contracts
Approved Under Procurement Authority Granted in Decision
02-08-071**

Pacific Gas and Electric Company (PG&E) hereby submits an update of its November 12, 2002, Procurement Plan, as modified by Decision (D.) 02-12-074, to reflect the final disposition of transitional procurement contracts entered into pursuant to the procurement authority granted by the California Public Utilities Commission (Commission) in D. 02-08-071.

Purpose:

PG&E is filing this advice letter to comply with D. 02-12-074, *Interim Opinion for the Order Instituting Rulemaking to Establish Policies and Cost Recovery Mechanisms for Generation Procurement and Renewable Resource Development*, from Rulemaking (R.) 01-10-024. Specifically, in compliance with Ordering Paragraph (O.P.) 6, PG&E provides an update to its short-term procurement plan, as filed on November 12, 2002, and subsequently modified in D. 02-12-074, to update its net open position to reflect actual contracts entered into through the transitional procurement authority granted in D. 02-08-071. Because of the confidential nature of this information, PG&E is submitting its updated net open position under seal, pursuant to the May 1, 2002, Protective Order in this proceeding and subject to Section 583 of the Public Utilities Code. PG&E will provide hard copies of the update to members of its Procurement Review Group.¹

Background:

In D. 02-08-071, the Commission authorized PG&E and Southern California Edison (SCE) to contract for a portion of their residual net short (RNS) in

¹ Ordering Paragraph 7 of D.02-12-074 also required PG&E to file by advice letter an addendum to its plan providing clarification on how it will select amount different procurement products to hedge in 2003 at the same time it submitted its updated tables reflecting executed transitional contracts. By letter dated December 24, 2002, the Executive Director of the Commission extended the filing date for that advice letter to January 24, 2003.

partnership with the California Department of Water Resources (DWR), between the effective date of the decision and December 31, 2002, when DWR's contracting authority expired. The portion of the RNS that could be contracted for under D. 02-08-071's authority was limited to the on-peak hourly RNS requirement reflected in a low-case RNS scenario for products including ancillary services.² The utilities were authorized to purchase capacity contracts, forward energy products, transportation of the physical commodity portion to be delivered pursuant to authorized capacity and energy contracts, related fuel products, natural gas supply transportation, and storage for specific authorized capacity and energy contracts, and energy exchanges, such as energy for capacity transactions, peak for off-peak exchanges, and seasonal exchanges.³ All of the products purchased under this authority were to be purchased using a competitive process.⁴

Decision 02-08-071 also re-instituted the utilities' obligation to enter SO1 contracts for qualifying facilities during the transition period until full implementation of the utilities' long-term procurement plans, or December 31, 2003, whichever occurs first, for qualifying facilities that met certain criteria.⁵

Finding of Fact 23 of D. 02-08-071 also required the utilities to conduct a separate solicitation for renewable resources in the amount of at least an additional one percent of their annual electricity sold.

The utilities were authorized to submit the contracts to meet the portion of the RNS, SO1 contract extensions, and renewables through an accelerated advice letter process that provided up-front reasonableness approval for full recovery of the contracts' costs through rates. (See Ordering Paragraphs 2, 3, and 4 of D. 02-08-071).

PG&E submitted three advice letters seeking contract pre-approval to the Commission through the process set forth in D. 02-08-071. The first, Advice 2293-E was submitted on October 22, 2002. The Commission issued Resolution E-3796 on November 21, 2002, finding the proposed contracts reasonable and eligible for full recovery in rates. The conditions-subsequent of these contracts called for DWR to serve as the creditworthy buyer until such time as PG&E regained its investment grade credit rating and could assume legal and financial responsibility for the contracts. However, changes in DWR's contract terms subsequent to the competitive solicitation caused sellers to refuse to execute contracts with DWR. Accordingly, PG&E has updated its estimated 2003 net open position to exclude the energy and capacity that would have been available from the contracts submitted in Advice 2293-E.

² D.02-08-071, Finding of Fact 9.

³ Id., FOF 11.

⁴ Id., FOF 19.

⁵ Id, FOF 20.

On November 15, 2002, PG&E submitted its second and third advice letters, Advice 2303-E and Advice 2302-E, for the 1 percent renewables purchases and SO1 contract extensions, respectively. The Commission issued Resolutions E-3805 and E-3806 finding these contracts reasonable and fully recoverable through rates on December 19, 2002. DWR and the sellers executed these contracts in late December 2002. PG&E has included the expected deliveries from these contracts in its updated residual net open position tables.

With respect to the SO1 contract extensions, PG&E entered into these contracts without DWR credit support. The energy deliveries from these contracts are also reflected in PG&E's updated residual net open position tables.

On December 19, 2002, the Commission issued D. 02-12-074 and required the utilities to update within 18 calendar days their short-term procurement plans to reflect the final disposition of the transitional contracts approved by the Commission under the procurement authority granted in D. 02-08-071. The tables provided under seal with this advice letter provide that update.

Protests:

Anyone wishing to protest this filing may do so by sending a letter by **January 26, 2003**, which is 20 days from the date of this filing. The protest must state the grounds upon which it based, including such items as financial and service impact, and should be submitted expeditiously. Protest 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

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
E-mail: RxDd@pge.com

Effective Date

In compliance with D. 02-12-074, the effective date of this advice letter is January 6, 2003, the date of filing.

Notice

In accordance with General Order 96-A, Section III, Paragraph G, a copy of this advice letter excluding the confidential appendices is being sent electronically and via U.S. mail to parties shown on the attached list and the service list for R. 01-10-024. Non-market participants who are members of PG&E's Procurement Review Group and have signed appropriate Non-Disclosure Certificates will also receive the advice letter and accompanying confidential attachments by overnight mail.

The portions of this advice letter so marked Confidential Protected Material are in accordance with the May 1, 2002, Protective Order in R. 01-10-024 Regarding Confidentiality of Pacific Gas and Electric Company (PG&E) Power Procurement Information. As required by that Order, reviewing representatives of Market Participating Parties will not be granted access to Protected Material, but will instead be limited to reviewing redacted versions of documents that contain Protected Material.

Address change requests should be directed to Rose De La Torre at (415) 973-4716. Advice letter filings can also be accessed electronically at:

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

Vice President - Regulatory Relations

cc: Service List R. 01-10-024

Attachments

Confidential – Updated Residual Net Open Position Tables