

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Tel. No. (415) 703-1691



May 27, 2005

Advice Letter 2597-E-A

Rose de la Torre
Pacific Gas & Electric
77 Beale Street, Room 1088
Mail Code B10C
San Francisco, CA 94105

Subject: Request to track long term resource acquisition and development expenses

Dear Ms de la Torre:

Advice Letter 2597-E-A is effective April 21, 2005. A copy of the advice letter is returned herewith for your records.

Sincerely,

A handwritten signature in black ink, appearing to read "S. H. Gallagher".

Sean H. Gallagher, Director
Energy Division



**Pacific Gas and
Electric Company®**

Brian K. Cherry
Director
Regulatory Relations

77 Beale Street, Room 1087
San Francisco, CA 94105

Mailing Address
Mail Code B10C
Pacific Gas and Electric Company
P.O. Box 770000
San Francisco, CA 94177

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Fax: 415.973.7226
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May 2, 2005

**Advice 2597-E-A
(Pacific Gas and Electric Company ID U 39 E)**

Public Utilities Commission of the State of California

Subject: Supplemental Filing PG&E's Request to Track Long Term Resource Acquisition and Development Expenses, in Compliance with Resolution E-3914

Pacific Gas and Electric Company (PG&E) hereby submits this supplemental filing, which requests to establish a memorandum account to record costs associated with new long-term procurement activities. This filing supercedes Advice 2597-E.

Purpose

The purpose of this filing is to request authorization to track costs associated with new long-term resource procurement activities and establish a new preliminary statement, Part DQ, Long Term Procurement Memorandum Account (LTPMA) to record expenses associated with these new long-term procurement activities. The costs to be recorded were not included in PG&E's 2003 General Rate Case (GRC) Application or in the 2003 GRC Settlement Agreement base revenue requirement, and the Settlement Agreement reserves the right of the Settling Parties to address these costs in other proceedings.

In compliance with Resolution E-3914, electric Preliminary DQ includes (or only includes) recording and tracking of expenses related to administrative costs for procurement activities. PG&E shall absorb \$2.5 million per year for 2005 and 2006 for PG&E's incremental labor costs, but PG&E's incremental labor costs booked to this memorandum account shall be capped at \$2 million per year. PG&E shall be permitted to book all third-party costs associated with long-term procurement activities in 2005 and 2006 and parties shall have a full opportunity to challenge recovery of amounts recorded, once PG&E seeks recovery.

Background

PG&E's Settlement Agreement in its 2003 GRC provides an opportunity to seek recovery of procurement-related administrative expenses in excess of the GRC approved revenue requirement to the extent that the Commission further defines PG&E's role in this area. Specifically, Section 4.11 of the Settlement Agreement (approved in D. 04-05-055) provides:

*The February 13, 2003 "Assigned Commissioner's Ruling Regarding Scope, Schedule and Procedures for Proceeding" directed PG&E to identify costs of staffing associated with an assumption that PG&E "will remain a vertically integrated utility responsible for procuring and providing resources to its customers ..." PG&E submitted testimony regarding costs relating to integrated resource planning, not including any activities associated with construction or project management of new generation. **The Settling Parties understand that the Commission is considering integrated resource and procurement issues in R.01-10-024 and that the Commission will further define PG&E's role in this area which may affect costs. The Settling Parties reserve their rights to address such issues in other proceedings, as the role of utilities in this area is further developed by the Commission. (Emphasis added).***

PG&E proposes to track costs associated with procuring long-term resources, either through the acquisition of utility owned generation facilities or through the execution of long-term procurement contracts.

Specific activities associated with long-term resource procurement include but are not limited to:

- Development, preparation and administration of Request for Offers (RFO) (contract and ownership)
- Offer evaluation and selection
- External review of development process (which includes engineering, construction, procurement, transmission, and permitting)
- Due diligence on existing facilities and existing contracts (e.g., QF and repowering)
- External Legal review
- Contract negotiation and structuring
- Evaluation of Bidder qualifications
- Regulatory approval
- Oversight of project development to ensure timely delivery
- Market power studies required for project approval
- Any additional activities as PG&E's role is further defined in R.04-04-003 (e.g. Independent Third-Party Evaluator review)¹

PG&E personnel in the Power Generation and Power Contracts and Electric Resource Development organizations, external consultants, and outside legal support will perform these activities.

This request is limited to long-term procurement activity directly associated with acquiring or purchasing resources either through acquisition of utility owned generation facilities or through the execution of long-term procurement contracts

¹ The list of specific activities associated with long-term resource procurement may be expanded as PG&E's role is further defined in R.04-04-003. A final decision is expected in December 2005.

with sellers. This range of activities was not envisioned in the 2003 GRC, Exhibit 15, because at the time PG&E did not have long-term contracting authority for general procurement and thus, was only planning for short-term procurement transactions. Additionally, PG&E did not believe new generation was needed within the horizon covered by the GRC.

The proposed memorandum account will track the 2005 and 2006 costs associated with PG&E's new long-term procurement activities to comply with the procurement plans adopted in Decisions (D.) 04-01-050 and D.04-12-048. Costs incurred in 2007 and beyond will be included as part of PG&E's base revenue requirement request in PG&E's next GRC application.

Prior to PG&E's next GRC Application, PG&E plans to seek recovery of costs recorded in the memorandum account as part of PG&E's filings requesting Commission approval of its long-term resource commitments. Once recorded cost information is available, PG&E will also demonstrate that its total procurement-related administrative expenses exceed the level of procurement-related administrative expenses authorized in PG&E's 2003 GRC, as required by Resolution E-3914. Upon Commission approval of the filings, PG&E will propose to record and recover the LTPMA costs in the Energy Resource Recovery Account (ERRA).

Additionally, PG&E anticipates that costs will continue to be incurred after project approval. For example, PG&E expects to incur costs for monitoring project development and ensuring timely delivery of the resource and will continue to track these costs in the memorandum account. PG&E would subsequently recover these costs in one of two ways: (1) Costs associated with long-term power purchase agreements would be submitted for recovery in the next ERRA Compliance Review application for Commission review and approval, and (2) recovery for costs incurred in support of a specific capital project will be tracked as part of the project's capital budget. These costs would earn an allowance for funds used during construction (AFUDC) until the project was placed into service. Recovery of these costs would be requested as part of the approval of the project's total capital budget recovered through depreciation expense over the life of the project. The project's capital budget would be presented in PG&E's next GRC Application, or any other applicable filing.

As mentioned above, costs for 2007 and beyond will be forecasted and included in PG&E's next GRC base revenue requirement request.

Protests

Anyone wishing to protest this filing may do so by sending a letter by **May 22, 2005**, 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 and jnj@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.

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: PGETariffs@pge.com

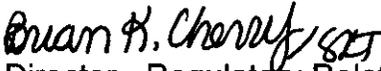
Effective Date

In compliance with Resolution E-3914, PG&E requests that this advice filing become effective on **April 21, 2005**, which is the effective date of the resolution.

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 parties on the service list for Rulemakings (R.) 04-04-003 and Application (A.) 02-11-017. Address changes should be directed to Rose De La Torre (RxDd@pge.com) at (415) 973-4716. Advice letter filings can also be accessed electronically at:

<http://www.pge.com/tariffs>


Director - Regulatory Relations

Attachments

cc: Service Lists R.04-04-003, A.02-11-017

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. _____

Utility type:

ELC

GAS

PLC

HEAT

WATER

Contact Person: Sharon K. Tatai

Phone #: (415) 973-2788

E-mail: skt2@pge.com

EXPLANATION OF UTILITY TYPE

ELC = Electric

GAS = Gas

PLC = Pipeline

HEAT = Heat

WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: 2597-E-A

Subject of AL: PG&E's Long Term Procurement Memorandum Account, Compliance with Resolution E-3914

Keywords (choose from CPUC listing): Memorandum Account

AL filing type: Monthly Quarterly Annual One-Time Other _____

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: _____

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL N/A

Summarize differences between the AL and the prior withdrawn or rejected AL¹: _____

Resolution Required? Yes No

Requested effective date: 04/21/2005

No. of tariff sheets: 3

Estimated system annual revenue effect (%): 0%

Estimated system average rate effect (%): 0%

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: N/A

Service affected and changes proposed¹: _____

Pending advice letters that revise the same tariff sheets: N/A

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division

Utility Info (including e-mail)

Attention: Tariff Unit

505 Van Ness Ave.,

San Francisco, CA 94102

jjr@cpuc.ca.gov and jnj@cpuc.ca.gov

¹ Discuss in AL if more space is needed.

**ATTACHMENT I
ADVICE 2597-E-A**

<u>Cal. P.U.C. Sheet No.</u>	<u>Title of Sheet</u>	<u>Cancelling Cal. P.U.C. Sheet No.</u>
23418-E	Preliminary Statements -- Part DQ -- Long Term Procurement Memorandum Account (LPTMA)	New
23419-E	Table of Contents -- Preliminary Statements --	22470-E
23420-E	Table of Contents -- Rate Schedules --	22471-E



PRELIMINARY STATEMENT
(Continued)

DQ. LONG TERM PROCUREMENT MEMORANDUM ACCOUNT (LTPMA)

(N)

1. PURPOSE:

The purpose of the LTPMA is to track all 2005 and 2006 third party costs associated with long-term procurement activities and incremental labor costs incurred by PG&E in 2005 and 2006 for long-term procurement expenses that exceed \$2.5 million. Incremental labor costs booked to the LTPMA shall not exceed \$2 million per year. These third party costs and incremental labor costs were not addressed in the 2003 General Rate Case (GRC). Resolution E-3914 provides an opportunity for PG&E to seek recovery of long-term procurement related expenses booked to the LTPMA in excess of the amount of procurement-related administrative expenses authorized in PG&E's 2003 GRC.

2. APPLICABILITY:

The LTPMA shall apply to all customer classes, except for any classes that may be specifically excluded by the CPUC.

3. REVISION DATE:

PG&E will file applications requesting recovery of LTPMA amounts booked to this account for 2005 and 2006. Disposition of amounts in this account shall be determined in the applicable applications, or any other proceeding as authorized by the CPUC.

4. RATES:

The LTPMA does not have a rate component.

5. ACCOUNTING PROCEDURE:

PG&E shall maintain the LTPMA by making entries at the end of each month as follows:

- a. A debit entry for the procurement expenses associated with the execution of long-term power purchase agreements with sellers and the acquisition of generation resources, including the development, preparation and administration of request for offers (RFOs), offer evaluation and selection, external review of development process (which includes engineering, construction, procurement, transmission, and permitting), due diligence on existing facilities and existing contracts (e.g., repowering), external legal review, contract negotiation and structuring, evaluation of bidder qualifications, regulatory approval, oversight of project development to ensure timely delivery, market power studies required for project approval, and any additional activities as PG&E's role is further defined in R.04-04-003.
- b. A debit entry for the internal labor expenses above \$2.5 million associated with the execution of long-term power purchase agreements with sellers and the acquisition of generation resources, including the development, preparation and administration of request for offers (RFOs), offer evaluation and selection, due diligence on existing facilities and existing contracts (e.g., QF and repowering), contract negotiation and structuring, evaluation of bidder qualifications, regulatory approval, oversight of project development to ensure timely delivery, market power studies required for project approval, and any additional activities as PG&E's role is further defined in R.04-04-003. This entry would be capped at \$2 million on an annual basis.
- c. A debit entry equal to the interest on the average of the balance 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.

(N)

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**PG&E Electric Advice Filing List
General Order 96-A, Section III(G)**

ABAG Power Pool	Duke Energy North America	RMC Lonestar
Aglet Consumer Alliance	Duncan, Virgil E.	Sacramento Municipal Utility District
Agnews Developmental Center	Dutcher, John	SCD Energy Solutions
Ahmed, Ali	Dynegy Inc.	Seattle City Light
Alcantar & Elsesser	Ellison Schneider	Sempra
Anderson Donovan & Poole P.C.	Energy Law Group LLP	Sempra Energy
Applied Power Technologies	Energy Management Services, LLC	Sequoia Union HS Dist
APS Energy Services Co Inc	Enron Energy Services	SESCO
Arter & Hadden LLP	Exeter Associates	Sierra Pacific Power Company
Avista Corp	Foster, Wheeler, Martinez	Silicon Valley Power
Barkovich & Yap, Inc.	Franciscan Mobilehome	Simpson Paper Company
BART	Future Resources Associates, Inc	Smurfit Stone Container Corp
Bartle Wells Associates	G. A. Krause & Assoc	Southern California Edison
Blue Ridge Gas	Gas Transmission Northwest Corporation	SPURR
Bohannon Development Co	GLJ Energy Publications	St. Paul Assoc
BP Energy Company	Goodin, MacBride, Squeri, Schlotz &	Stanford University
Braun & Associates	Hanna & Morton	Sutherland, Asbill & Brennan
C & H Sugar Co.	Heeg, Peggy A.	Tabors Caramanis & Associates
CA Bldg Industry Association	Hitachi Global Storage Technologies	Tansev and Associates
CA Cotton Ginners & Growers Assoc.	Hogan Manufacturing, Inc	Tecogen, Inc
CA League of Food Processors	House, Lon	TFS Energy
CA Water Service Group	Imperial Irrigation District	Transwestern Pipeline Co
California Energy Commission	Integrated Utility Consulting Group	Turlock Irrigation District
California Farm Bureau Federation	International Power Technology	U S Borax, Inc
California ISO	J. R. Wood, Inc	United Cogen Inc.
Calpine	JTM, Inc	URM Groups
Calpine Corp	Kaiser Cement Corp	Utility Cost Management LLC
Calpine Gilroy Cogen	Korea Elec Power Corp	Utility Resource Network
Cambridge Energy Research Assoc	Marcus, David	Wellhead Electric Company
Cameron McKenna	Masonite Corporation	Western Hub Properties, LLC
Cardinal Cogen	Matthew V. Brady & Associates	White & Case
Cellnet Data Systems	Maynor, Donald H.	WMA
Childress, David A.	McKenzie & Assoc	
City of Glendale	McKenzie & Associates	
City of Healdsburg	Meek, Daniel W.	
City of Palo Alto	Mirant California, LLC	
City of Redding	Modesto Irrigation Dist	
CLECA Law Office	Morrison & Foerster	
Constellation New Energy	Morse Richard Weisenmiller & Assoc.	
Cooperative Community Energy	New United Motor Mfg, Inc	
CPUC	Norris & Wong Associates	
Creative Technology	North Coast Solar Resources	
Crossborder Inc	Northern California Power Agency	
CSC Energy Services	PG&E National Energy Group	
Davis, Wright Tremaine LLP	Pinnacle CNG Company	
Davis, Wright, Tremaine, LLP	PITCO	
Defense Fuel Support Center	PPL EnergyPlus, LLC	
Department of the Army	Praxair, Inc.	
Department of Water & Power City	Price, Roy	
DGS Natural Gas Services	Product Development Dept	
DMM Customer Services	R. M. Hairston & Company	
Douglass & Liddell	R. W. Beck & Associates	
Downey, Brand, Seymour & Rohwer	Recon Research	
Duke Energy	Regional Cogeneration Service	