

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



Brian K. Cherry
Director
Regulatory Relations

77 Beale Street, Room 1087
San Francisco, CA 94105

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December 10, 2004

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

Public Utilities Commission of the State of California

Subject: PG&E's Request to Track Long Term Resource Acquisition and Development Expenses

Pacific Gas and Electric Company (PG&E) hereby submits for filing a request to establish a memorandum account to record costs associated with new long-term procurement activities.

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.

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 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.

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.

The proposed memorandum account will track the costs associated with PG&E's new long-term procurement activities as authorized in Decision (D.) 04-01-050 through 2006. 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's proposes to recover costs recorded in the memorandum account as part of PG&E's filings requesting Commission approval of its long-term resource commitments. Upon Commission approval of the filings, PG&E proposes to record and recover the 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 **December 30, 2004**, which is 20 days from the date of this filing. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. Protests should be mailed to:

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

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

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

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

Given the upcoming holidays, PG&E would like to respond on January 6, 2005, (which is five-business days following the conclusion of the protest period), to any protests or comments filed on or before December 30, 2004. Should any parties file a protest or comments prior to December 30, 2004, PG&E intends to request formal permission to respond on or before January 6, 2005.

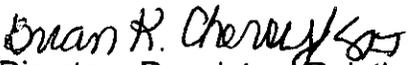
Effective Date

PG&E requests that this advice filing become effective on **January 19, 2005**, which is either the greater of 40 days after the date of filing or 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 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

Cal P.U.C. Sheet No.	Title of Sheet	Cancelling Cal P.U.C. Sheet No.
22469-E	Electric Preliminary Statement DQ – Long Term Procurement Memorandum Account	New
22470-E	Table of Contents – Preliminary Statements (Continued)	22319-E
22471-E	Table of Contents	22320-E



PRELIMINARY STATEMENT

(Continued)

DQ. LONG TERM PROCUREMENT MEMORANDUM ACCOUNT (LTPMA)

(N)

1. PURPOSE:

The purpose of the LTPMA is to track the costs incurred by PG&E for long-term procurement expenses that were not addressed in the 2003 General Rate Case (GRC) settlement agreement. The GRC settlement provides an opportunity for PG&E to seek recovery of procurement related expenses in excess of the GRC revenue requirement to the extent the Commission has further defined PG&E's role in this area.

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:

Disposition of amounts in this account shall be determined in the General Rate Case Proceeding, 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 acquisition of generation resources, including, but not limited to 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 procurement expenses associated with the execution of long-term power purchase agreements with sellers, including, but not limited to 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., 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, and any additional activities as PG&E's role is further defined in R.04-04-003.
- 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
Aglet Consumer Alliance
Agnews Developmental Center
Ahmed, Ali
Alcantar & Elsesser
Anderson Donovan & Poole P.C.
Applied Power Technologies
APS Energy Services Co Inc
Arter & Hadden LLP
Avista Corp
Barkovich & Yap, Inc.
BART
Bartle Wells Associates
Blue Ridge Gas
Bohannon Development Co
BP Energy Company
Braun & Associates
C & H Sugar Co.
CA Bldg Industry Association
CA Cotton Ginners & Growers Assoc.
CA League of Food Processors
CA Water Service Group
California Energy Commission
California Farm Bureau Federation
California ISO
Calpine
Calpine Corp
Calpine Gilroy Cogen
Cambridge Energy Research Assoc
Cameron McKenna
Cardinal Cogen
Cellnet Data Systems
Chevron Texaco
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City of Healdsburg
City of Palo Alto
City of Redding
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Constellation New Energy
Cooperative Community Energy
CPUC
Creative Technology
Crossborder Inc
CSC Energy Services
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Davis, Wright, Tremaine, LLP
Defense Fuel Support Center
Department of the Army
Department of Water & Power City
Dept of the Air Force
DGS Natural Gas Services
DMM Customer Services
Douglass & Liddell

Downey, Brand, Seymour & Rohwer
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Duke Energy North America
Duncan, Virgil E.
Dutcher, John
Dynege Inc.
Ellison Schneider
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Enron Energy Services
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Future Resources Associates, Inc
G. A. Krause & Assoc
Gas Transmission Northwest Corporation
GLJ Energy Publications
Goodin, MacBride, Squeri, Schlotz &
Hanna & Morton
Heeg, Peggy A.
Hogan Manufacturing, Inc
House, Lon
Imperial Irrigation District
Integrated Utility Consulting Group
International Power Technology
J. R. Wood, Inc
JTM, Inc
Kaiser Cement Corp
Korea Elec Power Corp
Marcus, David
Masonite Corporation
Matthew V. Brady & Associates
Maynor, Donald H.
McKenzie & Assoc
McKenzie & Associates
Meek, Daniel W.
Mirant California, LLC
Modesto Irrigation Dist
Morrison & Foerster
Morse Richard Weisenmiller & Assoc.
New United Motor Mfg, Inc
Norris & Wong Associates
North Coast Solar Resources
Northern California Power Agency
PG&E National Energy Group
Pinnacle CNG Company
PITCO
PPL EnergyPlus, LLC
Praxair, Inc.
Price, Roy
Product Development Dept
R. M. Hairston & Company
R. W. Beck & Associates
Recon Research

Regional Cogeneration Service
RMC Lonestar
Sacramento Municipal Utility District
SCD Energy Solutions
Seattle City Light
Sempra
Sempra Energy
Sequoia Union HS Dist
SESCO
Sierra Pacific Power Company
Silicon Valley Power
Simpson Paper Company
Smurfit Stone Container Corp
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SPURR
St. Paul Assoc
Stanford University
Sutherland, Asbill & Brennan
Tabors Caramanis & Associates
Tansev and Associates
Tecogen, Inc
TFS Energy
TJ Cross Engineers
Transwestern Pipeline Co
Turlock Irrigation District
U S Borax, Inc
United Cogen Inc.
URM Groups
Utility Cost Management LLC
Utility Resource Network
Wellhead Electric Company
Western Hub Properties, LLC
White & Case
WMA