

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Tel. No. (415) 703-1691



May 4, 2005

Advice Letter 2624-E

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

Subject: Establish new preliminary statement for the energy recovery bond balancing account and the energy recovery bond balancing account charge complying with energy recovery bond decision

Dear Ms de la Torre:

Advice Letter 2624-E is effective March 1, 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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February 7, 2005

Advice 2624-E
(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: Establish New Preliminary Statement for the Energy Recovery Bond Balancing Account and the Energy Recovery Bond Balancing Account Charge Complying with Energy Recovery Bond Decision

In compliance with and pursuant to Ordering Paragraphs (OP) 4, 5, 42, 43, and 45 and Conclusions of Law 57 and 58 of Decision (D.) 04-11-015 in Pacific Gas and Electric Company's (PG&E's) Energy Recovery Bonds (ERB) proceeding,¹ PG&E hereby 1) submits for filing a new addition to its electric tariff sheets: Preliminary Statement Part DT — *Energy Recovery Bond Balancing Account (ERBBA)*; 2) requests approval of the initial ERBBA charge; and 3) requests approval to cancel Preliminary Statement Part DC — *Regulatory Asset Revenue Adjustment Mechanism (RARAM)*. The affected tariff sheets are listed on the enclosed Attachment 1.

Purpose

The purpose of this advice filing is to: 1) submit a new preliminary statement related to the ERB transaction and to seek approval of the initial ERBBA charge, in compliance with D.04-11-015; 2) seek approval to eliminate the RARAM, once the ERBBA tariff is approved and any remaining balances in the RARAM are transferred to the ERBBA; and 3) ensure that the benefits of the net after-tax amount of energy supplier refunds, claim offsets and credits received after issuance of the first series of Energy Recovery Bonds are provided to customers.

Background

On July 22, 2004, PG&E submitted Application (A.) 04-07-032 seeking authority, in accordance with Senate Bill (SB) 772² and D.03-12-035³ to issue up to \$3.0

¹ Application (A.) 04-07-032.

² 2004 Stats., ch. 46.

billion of ERBs to refinance PG&E's bankruptcy settlement-related Regulatory Asset. The ERBs will be issued by PG&E Energy Recovery Funding LLC (PERF), a legally separate Special Purpose Entity, which will transfer the ERB proceeds to PG&E in exchange for Recovery Property, which includes the right to receive revenues to repay ERB principal, interest, and related costs. D.04-11-015 authorized PG&E and PERF to proceed with the ERB transaction and authorized PG&E, as servicer, to collect the costs of repayment of principal, interest and related costs of the ERBs through the Dedicated Rate Component (DRC) charge.

D.04-11-015 authorized PG&E to establish the ERBBA to flow through to PG&E's "ratepayers the Bond-related costs and benefits enumerated in the body of this Financing Order."⁴ D.04-11-015 also provided for PG&E to adjust the size of the second series of ERBs to reflect the net amount of certain energy supplier refunds received after issuance of the first series of ERBs, and to provide to customers through the ERBBA the benefits of the net amount of energy supplier refunds received after the second series of ERBs is issued. To implement these purposes, D.04-11-015 directed PG&E to file this advice letter to establish the ERBBA tariff and ERBBA charge and to eliminate the RARAM.⁵

Preliminary Statement Parts I and DT and the ERBBA Charge

Draft pro forma language for Preliminary Statement Part DT was submitted in A.04-07-032 in Appendix C. D.04-11-015 approved the language and states on page 41 that "PG&E shall file a separate advice letter at the same time as the first Issuance Advice Letter to establish an ERBBA tariff and the initial ERBBA charge. The ERBBA tariff shall be based on the *pro forma* tariff in Appendix C of A.04-07-032. This advice letter shall be processed in accordance with normal Commission procedures."

The initial ERBBA charge of 0.141 ¢/kWh is calculated consistent with the proposed ERBBA tariff. As provided for in D.04-11-015, after this initial ERBBA advice letter filing, "the ERBBA charge should be adjusted annually in a proceeding designated by the Commission."⁶

PG&E's Issuance Advice 2626-E, filed today, February 7, 2005, includes an Attachment 3, which shows proposed changes to Part I of PG&E's Preliminary Statement to show the DRC charge and the ERBBA charge filed herein to be effective March 1, 2005. PG&E will supplement Advice 2626-E on February 18, 2005, to provide the tabular listing of total rates reflecting the ERB-related changes.

³ D.03-12-035 adopted the Modified Settlement Agreement in Investigation (I.) 02-04-026 resolving PG&E's Plan of Reorganization under Chapter 11 of the United States Bankruptcy Code.

⁴ D.04-11-015, Conclusion of Law (COL) 57.

⁵ D.04-11-015, COL 58, OP 43.

⁶ D.04-11-015, COL 59.

Cancellation of Preliminary Statement Part DC

As noted above, OP 43 of D.04-11-015 provides that, once the first series of ERBs is issued, PG&E shall eliminate the RARAM and transfer any remaining balances under the RARAM to the ERBBA for amortization in future ERBBA charges. Accordingly, PG&E seeks approval to cancel Preliminary Statement Part DC once the ERBBA tariff is approved and any remaining balances under the RARAM are transferred to the ERBBA.

Protests

Anyone wishing to protest this filing may do so by sending a letter by **February 28, 2005**, which is 21 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 Cherry
Director, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, California 94177
Facsimile: (415) 973-7226
E-mail: RxDd@pge.com

Effective Date

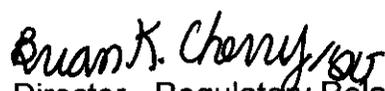
PG&E requests that this advice filing become effective on **March 1, 2005**, which is the day on which the DRC charge will go into effect. In accordance with D.04-11-015, the DRC charge and the resulting revised rates shall be effective March 1, 2005, twenty-two days after filing of the Issuance Advice Letter. PG&E requests that this ERBBA advice letter go into effect on the same day as the Issuance

Advice Letter. The timing of this ERBBA advice filing should have no effect on the date on which the DRC charge goes into effect.

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. Address changes 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/tariffs>


Director - Regulatory Relations

Attachments

cc: Service List for A. 04-07-032.

Cal P.U.C. Sheet No.	Title of Sheet	Cancelling Cal P.U.C. Sheet No.
22875-E	Electric Preliminary Statement Part DT – Energy Recovery Bond Balancing Account (ERBBA)	New
22876-E	Electric Preliminary Statement DT - Continued	New
22877-E	Table of Contents—Preliminary Statements (Cont'd)	22643-E
22878-E	Table of Contents	22635-E



PRELIMINARY STATEMENT
(Continued)

DT. ENERGY RECOVERY BOND BALANCING ACCOUNT (ERBBA)

(N)

1. **PURPOSE:** The purpose of the ERBBA is to record the benefits and costs associated with Energy Recovery Bonds (ERBs) that are not provided to customers elsewhere and to return those benefits or charge those costs to customers. In addition, the purpose of the ERBBA is to ensure that the benefits of the net amount of energy supplier refunds, claim offsets and other credits received after the second series of ERBs are issued are provided to customers. The ERBBA also provides the methodology for calculating the pre-tax amount of energy supplier refunds, claim offsets and other credits received after the first series of ERBs are issued but before the second series of ERBs are issued, which amount is to be used to reduce the principal amount of the second series of ERBs to be issued. An Energy Supplier Refund Litigation Cost (ESRLC) subaccount is established in the ERBBA in order to record litigation costs and litigation recovery amounts relating to energy supplier refunds, and to debit or credit those costs and recovery amounts to the ERBBA on a periodic basis consistent with the purpose of the ERBBA. ERBs are authorized by the Commission in Decision (D.) 04-11-015 to provide the funds necessary to refinance PG&E's Modified Settlement Agreement Regulatory Asset (Regulatory Asset) in accordance with D.03-12-035 and Senate Bill 772.
2. **APPLICABILITY:** The ERBBA shall apply to all rate schedules as identified in Part DP of this Preliminary Statement.
3. **REVISION DATE:** Disposition of the balance in the account shall be determined through the advice letter process.
4. **ERBBA RATES:** The ERBBA rates are set forth in the Electric Preliminary Statement Part I.
5. **TIME PERIOD:** The ERBBA will become effective upon approval of Advice 2624-E and will expire after the ERBs are fully repaid and any remaining balance is returned to or recovered from customers.
6. **ENERGY SUPPLIER REFUND LITIGATION COST SUBACCOUNT (ESRLC).** The Energy Supplier Refund Litigation Cost subaccount is established in the ERBBA to record litigation costs actually incurred that are reasonably related to energy supplier refund settlements, as well as amounts separately allocated and received by PG&E from claimants' escrow accounts for litigation costs established under energy supplier refund settlements. The ESRLC is subject to audit under the Energy Resource Recovery Account (ERRA) proceeding. PG&E may apply separately to the Commission for recovery of any under-collected amount of litigation costs remaining in the ESRLC when the ERBBA is terminated. Any remaining balance of amounts from claimants' escrow accounts in the ESRLC after PG&E has fully recovered its reasonable litigation costs actually incurred that are related to energy supplier refunds shall reduce the balance of the ERBBA by the amount over-collected.
7. **ACCOUNTING PROCEDURES:** PG&E shall maintain the ERBBA by making entries at the end of each month. Entries shall be reviewed and verified by the Commission in a proceeding designated by it or by the Energy Division as necessary. The monthly entries are as follows:
 - a. A credit entry equal to the revenue from the ERBBA rate component, less an adjustment for franchise fees and uncollectible accounts expenses.
 - b. A credit entry equal to the interest earnings of funds held by PG&E before transfer to the Bond Trustee.
 - c. An entry equal to the servicing fees paid to PG&E in excess of PG&E's recorded incremental cost of billing and collecting the Dedicated Rate Component (DRC) charges as specified in Preliminary Statement Part DP.

(N)



PRELIMINARY STATEMENT
(Continued)

DT. ENERGY RECOVERY BOND BALANCING ACCOUNT (ERBBA) (Continued)

(N)

- d. A credit entry – after the second series of ERBs is issued – equal to the pretax carrying costs (at PG&E's adopted rate of return on rate base) on the average unamortized ERB principal amount (excluding unamortized issuance expenses) from the second series of ERBs and on the average unamortized energy supplier refunds used to reduce the size of the second series of ERBs.
- e. A credit entry equal to any distributions for return of or return on investment made by PG&E Energy Recovery Funding LLC (PERF) to PG&E, other than those related to the Capital Subaccount for PG&E's equity investment in PERF.
- f. A debit entry equal to federal income and state franchise tax accruals on revenues received to fund the ERB repayment in excess of the amortization of ERB proceeds and energy supplier refunds available to cover those income taxes.
- g. A debit entry equal to the estimated franchise fee requirements on the DRC charge revenues received from customers.
- h. A credit or debit entry to reflect the balance in the ESRLC subaccount.
- i. An entry – between the issuance of the first and second series of ERBs – equal to the carrying cost at the short-term commercial paper rate on the difference between the proceeds from the first series of ERBs (less issuance expenses) and the unrecovered balance of the Regulatory Asset at the time of issuance. After the issuance of the second series of ERBs, this entry is zero.
- j. A credit entry equal to the carrying cost at the short-term commercial paper rate on the average balance for the month of after-tax energy supplier refunds received between the issuance of the first and second series of ERBs. The pre-tax amount of any energy supplier refunds that PG&E receives on or after the date the first series of ERBs is issued but before the second series is issued is used to reduce the size of the second series of ERBs.
- k. After the second series of ERBs is issued:
 - i. An entry equal to the net pre-tax amount of refunds, claim offsets or other credits received from generators or other energy suppliers.
 - ii. An entry to reflect any difference between the net pre-tax amounts of such refunds, claim offsets or other credits received and the amounts calculated for purposes of sizing the second series of ERBs.
- l. A one-time entry equal to the amount transferred from the Regulatory Asset Revenue Requirement Account needed to close that account and eliminate the Regulatory Asset and the Regulatory Asset Revenue Adjustment Mechanism.
- m. An entry equal to interest on the average balance in the account at the beginning of the month and the balance after the above entries, 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)



PRELIMINARY STATEMENT
(Continued)

DT. ENERGY RECOVERY BOND BALANCING ACCOUNT (ERBBA) (Continued)

(N)

8. DEFINITION OF NET AMOUNT OF ENERGY SUPPLIER REFUNDS: The term "energy supplier refund, claim offset or other credit" as used in this Preliminary Statement applies to the net amount of refunds, claim offsets or other credits received from generators or other energy suppliers as defined in paragraph 2.d of Appendix C of D.03-12-035. Reasonable interest costs on supplier claims and escrowed amounts relating to such refunds, claim offsets and credits, net of interest income earned on amounts escrowed in connection with such claims, incurred subsequent to issuance of the first series of ERBs shall be deducted in order to calculate the net amount of such refunds, claim offsets and other credits. The support for refund-related entries to the ERBBA (including the ESRLC subaccount) will include the details of the calculation as separate line items, listing, for example, refunds, litigation expense, interest, etc.

(N)



TABLE OF CONTENTS

		<u>CAL P.U.C. SHEET NO.</u>	
Title Page		8285-E	
Table of Contents:			
Rate Schedules	22878,22632,22233,22634-E		(T)
Preliminary Statements	22646,21631,22877-E		(T)
Rules, Maps, Contracts and Deviations	21627,21637-E		
Sample Forms	19880,20472,21583,19236,20509,19572,22628-E		

RATE SCHEDULES

<u>SCHEDULE</u>	<u>TITLE OF SHEET</u>	<u>CAL P.U.C. SHEET NO.</u>
RESIDENTIAL RATES		
E-1	Residential Service	22493,22494,21219,19910,22495,21221-E
E-2	Experimental Residential Time-of-Use Service	22122,22118,22266,22120,22267,22122,22297,22124,22268,21231,21614,21232,22126-E
E-3	Experimental Residential Critical Peak Pricing Service	21234,22496,22497,22498,22499,22131,22500,22133,22501,21243,21615,19896,22135-E
EE	Service to Company Employees	22502-E
EM	Master-Metered Multifamily Service	22503,22504,21248,20648,22505,21250-E
ES	Multifamily Service	22506,22507,21253,22142,22508,21256-E
ESR	Residential RV Park and Residential Marina Service	22509,22510,21259,20657,22511,21261-E
ET	Mobilehome Park Service	22512,22513,21264,22149,22514,21267-E
E-7	Residential Time-of-Use Service	21268,22515,22516,21271,21272,22517-E
E-A7	Experimental Residential Alternate Peak Time-of-Use Service	21274,22518,22519,21277,21278,22520-E
E-8	Residential Seasonal Service Option	22521,22522,22523,22159-E
E-9	Experimental Residential Time-of-Use Service for Low Emission Vehicle Customers	20891,22524,22525,22526,22527,21288,21289,22528,21291-E
EL-1	Residential CARE Program Service	22165,22529,21294,21295,22530-E
EML	Master-Metered Multifamily CARE Program Service	22168,22531,21299,22532,22170-E
ESL	Multifamily CARE Program Service	22533,22534,21304,22173,22535,21307-E
ESRL	Residential RV Park and Residential Marina CARE Program Service	22536,22537,21310,21311,22538,21313-E
ETL	Mobilehome Park CARE Program Service	22539,22540,21316,22180,22541,21319-E
EL-7	Residential CARE Program Time-of-Use Service	21320,22182,22542,21323,22543,21325-E
EL-A7	Experimental Residential CARE Program Alternate Peak Time-of-Use Service	21326,22185,22544,19783,22545,21330-E
EL-8	Residential Seasonal CARE Program Service Option	22188,22546,22547,22190-E
E-FERA	Family Electric Rate Assistance	21641,21642,21643-E
COMMERCIAL/INDUSTRIAL		
A-1	Small General Service	22548,22549,21337,22550,21339-E
A-6	Small General Time-of-Use Service	21340,22551,22552,21343,22553,21345-E
A-10	Medium General Demand-Metered Service	21346,22554,22555,22556,22557,21351,22201,22558,21354,21355-E
A-15	Direct-Current General Service	22559,22560-E
E-19	Medium General Demand-Metered Time-of-Use Service	21358,17092,21359,22561,22562,22563,22564,21364,22207,22208,21365,18864,21016,21017,21018,21019,16414,15330,21020,22565,22566,22210,20935,22567,20729,19805,21370,21371-E
E-20	Service to Customers with Maximum Demands of 1,000 Kilowatts or More	21372,21373,22568,22569,21377,22213,19314,22214,21378,21022,21023,21024,21025,21379,15358,21027,22570,22571,22572,20944,17101,20945,21383-E

(Continued)

**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
Childress, David A.
City of Glendale
City of Healdsburg
City of Palo Alto
City of Redding
CLECA Law Office
Constellation New Energy
Cooperative Community Energy
CPUC
Creative Technology
Crossborder Inc
CSC Energy Services
Davis, Wright Tremaine LLP
Davis, Wright, Tremaine, LLP
Defense Fuel Support Center
Department of the Army
Department of Water & Power City
DGS Natural Gas Services
DMM Customer Services
Douglass & Liddell
Downey, Brand, Seymour & Rohwer
Duke Energy

Duke Energy North America
Duncan, Virgil E.
Dutcher, John
Dynegy Inc.
Ellison Schneider
Energy Law Group LLP
Energy Management Services, LLC
Enron Energy Services
Exeter Associates
Foster, Wheeler, Martinez
Franciscan Mobilehome
Future Resources Associates, Inc
G. A. Krause & Assoc
Gas Transmission Northwest Corporation
GLJ Energy Publications
Goodin, MacBride, Squeri, Schlotz &
Hanna & Morton
Heeg, Peggy A.
Hitachi Global Storage Technologies
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
Southern California Edison
SPURR
St. Paul Assoc
Stanford University
Sutherland, Asbill & Brennan
Tabors Caramanis & Associates
Tansev and Associates
Tecogen, Inc
TFS Energy
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