

## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



February 28, 2007

Advice Letter 2834-E

Mr. Brian Cherry, Vice President, Regulatory Relations  
Pacific Gas and Electric Company  
Mail Code B10C, P.O. Box 770000  
San Francisco, CA 94177

Subject: Rejection without prejudice of Advice Letter 2834-E – Bill Credit Arrangement for  
Specified Irrigation Districts/Water Agencies

Dear Mr. Cherry:

With this letter Energy Division rejects without prejudice PG&E's Advice Letter (AL) 2834-E. Issues raised by PG&E's advice letter would best be considered by the Commission in a formal proceeding, e.g., initiated by an application, rather than through the advice letter process. Energy Division has withdrawn draft resolution E-4029 addressing AL 2834-E which had been on the agenda for the Commission's March 1, 2007 meeting.

PG&E filed AL 2834-E on May 25, 2006 requesting approval to offer an optional service to selected irrigation districts and water agencies to distribute the proceeds of the agency's hydroelectric power sales via bill credits to PG&E's electric customers within the agency's jurisdictional boundaries. By June 14, 2006, five parties, Oakdale Irrigation District, Yuba County Water Agency, the County of Butte, South San Joaquin Irrigation District, and the Agricultural Energy Consumers Association timely protested or responded to PG&E AL 2834-E.

The Commission may need to address factual issues related to PG&E's proposal, requiring evidentiary hearings to fully consider the proposal. PG&E's proposal may have impacts on direct access (DA) and community choice aggregation (CCA), programs currently being considered by the Commission. In the event that PG&E wants to pursue its proposal by formal application, I advise that PG&E serve the application on parties in Petition No. 06-12-002 relating to the reinstatement of DA, and Rulemaking 03-12-003 regarding CCA. Any such application should fully address the impacts of PG&E's proposal on the potential for both CCA and DA.

A copy of the advice letter marked "rejected" is being returned for your use. Please contact Don Lafrenz of the Energy Division staff at (415) 703-1063 if you have any questions.

Sincerely,

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

Sean H. Gallagher, Director  
Energy Division

RECEIVED  
REGULATORY RELATIONS DEPARTMENT

MAR - 2 2007

cc: Steve Knell, General Manager, Oakdale Irrigation District  
Don Schrader, Chairman, Yuba County Water Agency  
Paul McIntosh, Chief Administrative Officer, County of Butte  
Jeffrey Gray, Davis Wright Tremaine LLP, for South San Joaquin Irrigation District  
Michael Boccadoro, Executive Director, Agricultural Energy Consumers Association



**Brian K. Cherry**  
Director  
Regulatory Relations

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San Francisco, CA 94105

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Internet: BKC7@pge.com

May 25, 2006

**Advice 2834-E**

(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

**Subject: Proposal for Providing a Bill Credit Arrangement for Irrigation  
Districts/Water Agencies with Hydroelectric Power**

Pacific Gas and Electric Company (PG&E) hereby submits for California Public Utilities Commission (CPUC or Commission) approval a proposal whereby PG&E would be able to provide selected irrigation districts and/or water agencies (as identified below) with an option whereby the agency could choose to provide PG&E electric customers with bill credits associated with the proceeds the agencies receive from power sales related to the agency's hydroelectric resources. These bill credits would accrue directly to the electric customers within the entity's governmental area via a line-item credit on the customers' PG&E electric bills.

PG&E has discussed this option with various Irrigation Districts and Water Agencies. Initial feedback indicates that this is an option that some agencies would like available to them as they explore alternate opportunities for employing the proceeds associated with their power sales.

**Purpose**

The purpose of this filing is to establish an optional mechanism which could be used by selected governmental agencies, i.e., irrigation districts and water agencies, which have traditionally entered into power sales agreements with PG&E, to distribute proceeds from such sales to PG&E's electric customers within the governmental agency's jurisdictional boundaries. The proceeds would be distributed directly to said customers via a line-item credit on the customers' PG&E electric bills. By providing this service on an optional basis, PG&E will offer these governmental agencies a way to share the benefits of their ownership in generation facilities. By giving the governmental agencies this option, it is expected that they would be able to meet many of their overall customer-related objectives without resorting to an alternative approach that is more costly and

more disruptive for both customers within and outside a participating district, such as going through the often time-consuming and potentially costly process of condemning PG&E's electric distribution facilities.

### **Background**

Six irrigation districts and water agencies within PG&E's service territory own or share ownership of water storage and delivery systems that were constructed during the late 1950s through mid-1980s. The facilities were typically built for a multitude of purposes, including most notably the storage and delivery of water, as the governmental agencies were primarily in the business of delivering water for consumptive purposes, e.g., irrigation and potable water. This generally remains true today. In order to fund the construction of the water storage facilities, hydroelectric generating plants were incorporated into the projects, with the electrical output typically sold to PG&E under long-term contracts.

Over the years, these contracts have benefited PG&E's customers, as they represent an important part of PG&E's low-cost resource mix, with the power being provided to PG&E's customers at cost. These long-term contracts at stable prices have also benefited the agencies by enabling them to secure the needed financing for the construction of the water storage facilities. Many of these contracts have terminated or will be terminating within the next 10 years. For example, the contract with Tri-Dam (a hydroelectric project owned jointly by South San Joaquin Irrigation District and Oakdale Irrigation District) terminated at the end of 2004, although a subsequent contract was renegotiated for the 2005-2009 time frame. Other contracts, e.g., those with Placer County Water Agency, Merced Irrigation District, will be terminating over the next 5 – 10 years. Table 1 provides the details of recent and pending terminations.

Table 1  
Termination of Hydro Agreements  
(2004 – 2016)

Agency	Hydro Capacity	Termination Year
Tri-Dam (SSJID and OID)	100 MW	2004
South Feather Water & Power Agency	118 MW	2010
Nevada Irrigation District	77 MW	2013
Placer County Water Agency	245 MW	2013
Merced Irrigation District	105 MW	2014
Yuba County Water Agency	405 MW	2016

As contract termination approaches, the owner of the facility will look for ways in which it can capitalize on the value of the low-cost power available from the hydro facility. Quite often, the agencies that own the facilities are motivated to seek means by which they can return the benefit of the hydro facility to their constituents. One option would be for the power to be delivered within the agency's jurisdictional boundaries through community choice aggregation (CCA). However, since only cities and counties currently possess the authority to act as a CCA, the districts and water agencies that own these hydro facilities would not be able to serve in the capacity of a CCA; they could do so indirectly by selling the power to cities and/or counties, which would then sell the power to the citizens within their respective areas<sup>1</sup>. Another option would be to either condemn (or duplicate) an IOU's facilities within the agency's political boundaries, and deliver the power over such facilities. A third option would be to sell the power into the market, and flow the proceeds from the sale to its constituents.

However, agencies pursuing this last option need a means by which the revenue collected could be redirected back to the customers within the agency's boundaries. In some cases the irrigation or consumptive water customers comprise most or all of the intended beneficiaries, and the agency can flow the proceeds through to their customers by reducing irrigation or water rates. However, in a number of these areas, the irrigation or water customers represent a small subset of the total number of residents and businesses. Thus, reducing irrigation or water rates will not impact a large enough percentage of the intended beneficiaries.

### **Proposal**

The general approach of the bill credit proposal would involve establishing an account into which an eligible agency's funds are deposited (either directly from the agency, or indirectly through payments associated with the purchase of power – if it is under contract to PG&E), and drawing down this account in order to provide bill credits to PG&E electric customers within the agency's jurisdictional boundaries. The credits would appear as a line item on the customer's PG&E electric bill, applied to all customers within the agency's jurisdictional boundaries and would likely be on either a specified per-kWh or percentage of bill basis. PG&E would work with the affected agency to develop what they consider the best mechanism for them. The per-kWh or percentage credit could change on a predetermined schedule based on the expected revenues available from the agency to fund the credit. The fund established to underwrite the bill credit would carry reserves sufficient to cover the costs of the credit for a pre-defined period (e.g., 60 days).

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<sup>1</sup> PG&E sponsored legislation during the 2005 legislative session (AB 650, Cogdill) that would have enabled special districts to become CCAs. However, the bill was dropped when a number of entities expressed their opposition.

There is flexibility in terms of how the arrangement would ultimately be implemented with respect to the specific interests of a given agency. PG&E would work cooperatively with the affected agency to determine the specific customers that would benefit from the bill credit, define how the benefiting customers might change over time and identify responsibility for tracking any changes. However, PG&E believes it would need at least 90 days from the date of an executed agreement until the credit could actually be implemented and begin showing up on an affected customer's PG&E bill.

Since this is new type of service being offered by PG&E, in order to avoid potential unforeseen consequences, PG&E reserves the right to not offer this option if the Commission expands the eligibility beyond those agencies identified above, or imposes conditions other than those presented herein.

### **Protests**

Anyone wishing to protest this filing may do so by sending a letter by **June 14, 2006**, 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:

CPUC Energy Division  
Attention: Tariff Unit, 4<sup>th</sup> Floor  
505 Van Ness Avenue  
San Francisco, California 94102  
Facsimile: (415) 703-2200  
E-mail: [jjr@cpuc.ca.gov](mailto:jjr@cpuc.ca.gov) and [jnj@cpuc.ca.gov](mailto:jnj@cpuc.ca.gov)

Copies of protests also should be mailed to the attention of the Director, Energy Division, Room 4004, at the address shown above.

The protest also should be sent by U.S. mail, facsimile and electronically (if possible) to PG&E at the address shown below on the same date it is mailed or delivered to the Commission:

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: [PGETariffs@pge.com](mailto:PGETariffs@pge.com)

**Effective Date**

PG&E requests that this advice filing become effective on regular notice, **June 24, 2006**, which is 30 days after the date of filing.

**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 Service List R.02-01-011. 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

Cc: Service List R.02-01-011  
Tri-Dam Project  
South Feather Water and Power Agency  
Nevada Irrigation District  
Placer County Water Agency  
Merced Irrigation District  
Yuba County Water Agency

# 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. Pacific Gas and Electric Company U39M

Utility type:

ELC       GAS  
 PLC       HEAT       WATER

Contact Person: Shilpa Ramaiya

Phone #: (415) 973-3186

E-mail: srrd@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) #: **2834-E**

Subject of AL: Proposal for Providing a Bill Credit Arrangement for Irrigation Districts/Water Agencies with Hydroelectric Power

Keywords (choose from CPUC listing): Contract, Bill Credit

AL filing type:  Monthly  Quarterly  Annual  One-Time  Other \_\_\_\_\_

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

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 AL<sup>1</sup>: N/A

Resolution Required?  Yes  No

Requested effective date: **6-24-06**

No. of tariff sheets: 0

Estimated system annual revenue effect (%): N/A

Estimated system average rate effect (%): N/A

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). N/A

Tariff schedules affected: N/A

Service affected and changes proposed<sup>1</sup>: See advice letter

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**  
**Attention: Tariff Unit**  
**505 Van Ness Ave.,**  
**San Francisco, CA 94102**  
**jjr@cpuc.ca.gov and jnj@cpuc.ca.gov**

**Utility Info (including e-mail)**  
**Attn: Brian K. Cherry**  
**Director, Regulatory Relations**  
**77 Beale Street, Mail Code B10C**  
**P.O. Box 770000**  
**San Francisco, CA 94177**  
**E-mail: [PGETariffs@pge.com](mailto:PGETariffs@pge.com)**

<sup>1</sup> Discuss in AL if more space is needed.

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

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