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August 30, 2006

Advice 2896-E

(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: Establish Peaker Generation Cost Memorandum Account

In response to the August 15, 2006 *Assigned Commissioner's Ruling Addressing Electric Reliability Needs in Southern California for Summer 2007* ("ACR") and concurrent with PG&E's August 30, 2006 Report submitted pursuant to Ordering Paragraph 2 of the ACR, PG&E requests California Public Utilities Commission ("CPUC" or "Commission") authorization to establish a memorandum account that would allow PG&E to record the costs of acquisition and installation of 200 MW of peaking generation, and associated non-ISO transmission facilities' upgrades consistent with the ACR. Such costs will include initial and future payments to ensure timely equipment deliveries, as well as associated permitting, siting and construction costs necessary to implement PG&E's proposals by the Summer of 2007. PG&E requests this memorandum account be approved expeditiously so that PG&E can proceed with critical tasks necessary to permit, site and install the peaking generation before Summer 2007.

Purpose

PG&E seeks authorization for PG&E to establish Electric Preliminary Statement Part EK -- Peaker Generation Cost Memorandum Account (PGCMA). PG&E's August 30, 2006 Report in response to the ACR contains a proposal for the development by Summer 2007 of 200 MW of new, utility-owned, peaking units for PG&E's service territory. These peakers would promote electric system reliability in PG&E's service territory should a repeat of the Summer 2006 Heat Storm occur in the future. Expeditious approval of PG&E's memorandum account is necessary to ensure appropriate tracking of costs for future review and disposition by the Commission.

To bring its proposals to fruition and to meet an on-line date of August 1, 2007, PG&E expects to start now to secure the needed equipment and permits. First, PG&E expects to make a non-refundable deposit to equipment manufacturers by

mid-September, 2006 to ensure its place in the manufacturing queue. PG&E expects to take these actions in order to ensure the peaker turbines may be delivered in time to meet the on-line date. Second, PG&E expects to begin the site selection and permitting process now if the peakers are to be on-line by August 1, 2007. This process will utilize outside consultants who will may perform analysis of each potential new peaker generation site for environmental (e.g., water and air quality) and geotechnical issues, provide construction management, or perform other tasks as necessary to meet the requested on-line date. Therefore, PG&E requests approval of the memorandum account to track these costs on an expedited basis.

PG&E does not propose to include any internal labor costs in the memorandum account to avoid any possibility of double counting of costs recovered through other rate proceedings. However, if the peaking projects are approved, any internal labor for project management and construction would be included in the initial capital cost of the facilities.

The Commission has a long-standing practice of approving memorandum accounts as a ratemaking vehicle to avoid the prohibition on retroactive ratemaking:

It is a well-established tenet of the Commission that ratemaking is done on a prospective basis. The Commission's practice is not to authorize increased utility rates to account for previously incurred expenses, unless, before the utility incurs those expenses, the Commission has authorized the utility to book those expenses into a memorandum account or balancing account for possible future recovery in rates. This practice is consistent with the rule against retroactive ratemaking.¹

Memorandum accounts were designed to allow utilities the opportunity to record costs incurred prior to the Commission's review of the costs for reasonableness. In order to carry out its ratemaking duties fairly and orderly, the Commission has decided to parallel the prohibition against retroactive ratemaking by requiring that the establishment of a memorandum account not be retroactive. That is, the memorandum account can start to record debits and credits only prospectively from the date the account is authorized. In that way, if recorded costs are subsequently approved for recovery in rates, there will be no confusion or entanglement of issues regarding retroactive ratemaking.²

PG&E's request for a memorandum account to track the costs of the peaker generation is consistent with these ratemaking principles.

¹ *Southern California Water Co.*, Decision 92-03-094 (March 31, 1992), 43 Cal. P.U.C. 2d 600.

² *Re Southern California Edison Co.*, Decision 99-11-057, (November 18, 1999), 1999 Cal. PUC LEXIS 769.

Monthly Reports

PG&E plans to submit a monthly "Planning and Construction" Report to keep the Commission informed of the progress of the projects. The report will include information on the status of the projects, costs incurred from inception to date, and any issues or concerns regarding the projects so that the Commission can provide guidance as the projects advance.

No cost information is required for this filing, nor will this filing increase any rate or charge, cause the withdrawal of service or conflict with any other schedule or rule.

Shortened Protest – 15 Days

In order for PG&E to ensure its place in the manufacturing queue by mid-September, PG&E requests a slightly shortened protest period. Therefore, anyone wishing to protest this filing may do so by letter sent via U.S Mail, by facsimile or electronically, any of which must be received no later than 15 days after the date of this filing, which is **September 14, 2006**. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously.

There are no restrictions on who may file a protest or response, but the protest or response shall set forth specifically the grounds upon which it is based and shall be submitted expeditiously.

Protests should be mailed to:

CPUC Energy Division
Attention: Tariff Unit, 4th Floor
505 Van Ness Avenue
San Francisco, California 94102

Facsimile: (415) 703-2200
E-mail: jjr@cpuc.ca.gov and 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 via U.S. mail (and by 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

Effective Date

PG&E requests that this advice filing become effective on **August 30, 2006**, the date this filing was submitted to the Commission.

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 parties on the service list for R.05-12-013, R.06-02-013, and A.05-06-006. 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>

A handwritten signature in dark ink, appearing to read "Brian K. Cherry". The signature is written in a cursive, flowing style.

Vice President, Regulatory Relations

Attachments

cc: Service Lists R.05-12-013, R.06-02-013, and A.05-06-006

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: Megan Hughes

Phone #: (415) 973-1877

E-mail: MEHr@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) #: **2896-E**

Subject of AL: Establish Peaker Generation Cost Memorandum Account

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

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

Resolution Required? ☐ Yes ☒ No

Requested effective date: **8-30-2006**

No. of tariff sheets: 3

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).

Tariff schedules affected: Preliminary Statement Part EK

Service affected and changes proposed¹: 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 15 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

¹ Discuss in AL if more space is needed.

**ATTACHMENT 1
Advice 2896-E**

Cal P.U.C. Sheet No.	Title of Sheet	Cancelling Cal P.U.C. Sheet No.
25241-E	Preliminary Statement Part EK--Peaker Generation Cost Memorandum Account	New
25242-E	Table of Contents -- Rate Schedules	25229-E
25243-E	Table of Contents -- Preliminary Statements	25230-E



PRELIMINARY STATEMENT
(Continued)

EK. PEAKER GENERATION COST MEMORANDUM ACCOUNT (PGCMA)

(N)

1. PURPOSE:

The purpose of the PGCMA is to track costs associated with PG&E's new utility-owned peaker generation proposals as set forth in PG&E's August 30, 2006 Report in response to the August 15, 2006 Assigned Commissioner Ruling.

2. APPLICABILITY:

The PGCMA 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 appropriate applications or a future proceeding as authorized by the CPUC.

4. RATES:

This account does not have a rate component.

5. ACCOUNTING PROCEDURE:

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

- a. A debit entry for the equipment expenses associated with the execution of PG&E's peaker generation proposal, including any reservation payments to vendors and other equipment payments.
- b. A debit entry equal to the cost of external review and studies of the development process (which includes siting, engineering, construction, procurement, transmission, environmental assessment, and permitting), due diligence on existing facilities, external legal review, contract negotiation and structuring, 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.06-02-013.
- c. A credit entry equal to the amounts recorded in entries 'a' and 'b' that are recovered through the capital-related revenue requirement.
- d. A credit entry equal to the interest expense associated with amounts in entry 'c'.
- e. A debit entry equal to the interest on the average of the balance at the beginning of the month and the balance after entries 'a' and 'b' above, at a rate equal to one-twelfth the interest rate on a 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 Gas and Electric Advice
Filing List
General Order 96-A, Section III(G)**

ABAG Power Pool
Accent Energy
Aglet Consumer Alliance
Agnews Developmental Center
Ahmed, Ali
Alcantar & Elsesser
Ancillary Services Coalition
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 Gas Acquisition Svcs
California ISO
Calpine
Calpine Corp
Calpine Gilroy Cogen
Cambridge Energy Research Assoc
Cameron McKenna
Cardinal Cogen
Cellnet Data Systems
Chevron Texaco
Chevron USA Production Co.
Childress, David A.
City of Glendale
City of Healdsburg
City of Palo Alto
City of Redding
CLECA Law Office
Commerce Energy
Constellation New Energy
CPUC
Cross Border Inc
Crossborder Inc
CSC Energy Services
Davis, Wright, Tremaine LLP
Defense Fuel Support Center
Department of the Army
Department of Water & Power City

DGS Natural Gas Services
Douglass & Liddell
Downey, Brand, Seymour & Rohwer
Duke Energy
Duke Energy North America
Duncan, Virgil E.
Dutcher, John
Dynergy Inc.
Ellison Schneider
Energy Law Group LLP
Energy Management Services, LLC
Exelon Energy Ohio, Inc
Exeter Associates
Foster Farms
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
Interstate Gas Services, Inc.
IUCG/Sunshine Design LLC
J. R. Wood, Inc
JTM, Inc
Luce, Forward, Hamilton & Scripps
Manatt, Phelps & Phillips
Marcus, David
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.
Navigant Consulting
New United Motor Mfg, Inc
Norris & Wong Associates
North Coast Solar Resources
Northern California Power Agency
Office of Energy Assessments
OnGrid Solar
Palo Alto Muni Utilities

PG&E National Energy Group
Pinnacle CNG Company
PITCO
Plurimi, Inc.
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
Smurfit Stone Container Corp
Southern California Edison
SPURR
St. Paul Assoc
Stanford University
Sutherland, Asbill & Brennan
Tabors Caramanis & Associates
Tecogen, Inc
TFS Energy
Transcanada
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