STATE OF CALIFORNIA
ARNOLD SCHWARZENEGGER, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

February 20, 2007

Advice Letter 2928-E

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

Subject: Request for Approval of Increase in Capital Cost and Resulting Revenue Requirement for Contra Costa 8

Dear Ms. de la Torre:

Advice Letter 2928-E is effective February 15, 2007. A copy of the advice letter and resolution are returned herewith for your records.

Sincerely,

Sean H. Gallagher, Director
Energy Division

Pacific Gas and Electric Company

Brian K. Cherry
Vice President
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

415.973.4977
Internal: 223.4977
Fax: 415.973.7226
Internet: BKC7@pge.com

November 8, 2006

Advice 2928-E
(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

<u>Subject</u>: **Request for Approval of Increase in Capital Cost and Resulting Revenue Requirement for Contra Costa 8**

<u>Purpose</u>

Pacific Gas and Electric Company ("PG&E") hereby submits for California Public Utilities Commission ("Commission") review and approval a request to increase by $75.5 million the reasonable and prudent estimate of the initial capital cost of completing Contra Costa 8 ("CC8") for commercial operation ("reasonable and prudent estimate") and the associated dollar thresholds in Sections 4.1, 4.2 and 4.3 of Attachment A to Decision ("D.") 06-06-035.[1] PG&E is requesting this increase to convert the facility from fresh water cooling to dry cooling, as necessitated by changes in the project's permitting environment. PG&E also requests authorization to increase the resulting revenue requirement by $13.2 million.

In support of this request, PG&E provides comparison of initial capital cost adopted in D. 06-06-0335 and the current estimate in Attachment 1. Attachment 2 provides a comparison of the corresponding CC8 revenue requirement.

---

[1] Section 6 of Attachment A to D.06-06-035 approved on June 15, 2006, authorizes PG&E to file an advice letter to increase the reasonable and prudent estimate, the associated dollar thresholds and the revenue requirement "if the costs associated with CC8 are increased as a result of any material changes to the project (as defined by the project and associated permits and permit requirements that were certified by the CEC on May 30, 2001) that are required to implement or comply with any permits, approvals, or conditions thereof, or the issuance of any order, judgment, award, or decree which affects the project."

Background

In D.06-06-035 issued June 15, 2006, the Commission approved PG&E's acquisition of CC8 via an Asset Transfer Agreement ("ATA") between Mirant Delta LLC and Mirant Special Procurement ("Mirant") and PG&E. The decision also adopted $295 million as the reasonable and prudent estimate of the initial capital cost of completing CC8. This cost of completion was developed based on Mirant's original design and permits obtained for CC8, which included the use of fresh water from the San Joaquin River for cooling.

The original ATA with Mirant assigned permitting duties and responsibilities to Mirant, including securing a final California Energy Commission ("CEC") license to construct and operate, and resolving all biological issues with federal and state resources agencies. The CEC license obtained in 2001 included a biological section with conditions which required the federal and state resource agencies' approval for mitigation and monitoring plans related to marine impacts of CC8, as well as the existing Contra Costa units 6 and 7. Mirant will continue to own and operate units 6 and 7.

Since the CEC issued the license in 2001, state agencies have intensified their focus on a number of larger Delta habitat issues including the Delta smelt habitat decline, the salmon and steelhead populations and overall water quality. Earlier this year, the State Lands Commission evaluated the water quality and marine life impact issues. Since May of 2006, the State Water Resources Control Board has been examining further regulation and water use reduction of all power plants in California which rely on the Delta and Pacific Ocean water to operate. Further, the Ocean Protection Council passed a resolution in 2006 to study the impacts of power plants on the marine environment.

After significant review and consultation, and after researching and analyzing the changes in various permitting requirements, PG&E determined a need to clarify next steps with the CEC. In May 2006, PG&E and Mirant representatives met with CEC commissioners and senior staff to determine the feasibility of resolving the biological issues in a timeframe which would allow for successful construction and operation of CC8 by 2009. After these meetings, it was apparent that the use of fresh water for once-through cooling was contrary to both current CEC policy and the goals of the State's Energy Action Plan. The CEC Commissioners, siting division staff and siting committee only allowed progress on the CEC license with the condition that alternatives to the use of fresh water for cooling would be pursued by PG&E. In a July 19, 2006 order amending its prior decision in order to add PG&E as an owner of CC8, the CEC adopted the following staff recommendations:

"1) PG&E and Mirant will obtain Energy Commission approval of an amendment reflecting a new mitigation program which mitigates the cooling system impacts to a less than significant level and is acceptable to the federal and state resource agencies and obtain all required permits prior to the start of operation. (The previously drafted Biological Opinions from the USFWS and the National Marine Fisheries Service would not satisfy this requirement.)
2) If such a mitigation program is not developed and/or the federal permits are not obtained prior to the start of operation, PG&E and Mirant will obtain approval of an amendment switching to an alternative cooling method (such as reclaimed water) prior to beginning operation.
3) Until the resource agency permits are obtained, Unit 8 will be designed and constructed in such a manner that will not preclude the switch to an alternative cooling technology."

PG&E believes that, in order to stay on schedule to have the facility online in the 2008-2009 timeframe when it is needed, alternatives to using water from the Delta for plant operation must be pursued.

PG&E investigated permitting, construction, and operational costs as well as schedule delays and risks of using either reclaimed water or dry cooling as an alternative to the use of fresh water. Neither of these alternative cooling methods would rely on the use of river water. After a thorough investigation, PG&E has determined that changing the plant's design to incorporate dry cooling is the preferred option. Dry cooling uses air-cooled radiators to minimize the plant's use of water.

In addition to eliminating the use of river water for cooling, the change to dry cooling will provide additional environmental benefits:

- Approximately 97% less water is used.
- The visual plume of an evaporative cooling tower is eliminated.
- PM10 air emissions associated with cooling tower drift are eliminated.
- Chemical additives are not needed to treat cooling water.

Meet and Confer

Section 6 of Attachment A to D.06-06-035 requires that PG&E meet and confer with the other settling parties and the Commission staff and that best efforts be used to determine the increase in costs. Accordingly, PG&E met with the Division of Ratepayer Advocates ("DRA")[2] and The Utility Reform Network ("TURN") on October 5, 2006, and has conferred with DRA, TURN and the

[2] Formerly the Office of Ratepayer Advocates.

California Unions for Reliable Energy by telephone. PG&E met with Energy Division staff on November 6, 2006. In these discussions PG&E described the need for dry cooling and the associated costs.

Protest Period

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 **November 28, 2006**, which is 20 days after the date of this filing. Protests should be mailed to:

CPUC Energy Division
Tariff Files, Room 4005
DMS Branch
505 Van Ness Avenue
San Francisco, California 94102

Facsimile: (415) 703-2200
E-mail: jjr@cpuc.ca.gov and mas@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.

Brian K. Cherry
Vice President, Regulatory Relations
Pacific Gas and Electric Company
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 regular notice, **December 8, 2006**, which is 30 calendar 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 the service list for Application (A.) 05-06-029. Address changes to the General Order 96-A service list should be directed to Rose De La Torre at (415) 973-4716 (RxDd@pge.com). Advice letter filings can also be accessed electronically at:

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

Brian K. Cherry /BK

Vice President – Regulatory Relations

Attachments

cc: Service List A.05-06-029

Attachment 1
Pacific Gas And Electric Company
Contra Costa Unit 8
Initial Capital Cost
Settlement vs. Advice Letter
(Thousands of Dollars)

Line No.		Settlement	Advice Letter	Diff
	Direct Cost Previous Line Items			
1	Project Mgt/Site Office	5,874	6,763	889
2	Engineering and Procurement Contract	228,735	223,607	(5,128)
3	Owners Engineer	500	560	60
4	Owner Furnished Equipment	9,941	10,998	1,057
5	Sales Tax	2,375	2,375	-
6	Combustion Turbine Shipping	1,680	1,680	-
7	Construction Security	500	540	40
8	Misc Mirant Reimbursement	8,071	6,530	(1,541)
9	PG&E O&M Pre-COD	4,586	4,586	-
10	Chief Building Official	755	947	192
11	Direct Cost Previous Line Items	263,017	258,586	(4,431)
	Additional Direct Cost			
12	Air Cooled Condenser	-	43,920	43,920
13	Chillers	-	12,050	12,050
14	CEC Amendment for Dry Cooling		2,332	2,332
15	Water Interconnection Construction	-	7,050	7,050
16	Additional Direct Cost	-	65,352	65,352
17	**Total Direct Cost**	263,017	323,938	60,921
18	**Contingency**	4,442	11,033	6,592
19	**AFUDC**	26,022	33,898	7,876
20	**A&G**	1,519	1,673	154
21	**Total Capital Cost**	295,000	370,542	75,542
	Contingency	1.7%	3.4%	

Attachment 2
Pacific Gas And Electric Company
Contra Costa Unit 8
Components Of Initial Revenue Requirement
Settlement vs. Advice Letter
(Thousands of Nominal Dollars)

Line No.		Settlement	Advice Letter	Increase
1	**Operating Revenue**	67,475	80,693	13,218
	Operating Expense			
2	Operations and Maintenance	13,511	13,511	0
	Administrative and General			
3	Employee Benefits	778	778	0
4	Insurance	188	232	44
5	Subtotal	966	1,010	44
6	Uncollectibles	135	161	27
7	Franchise Requirements	506	607	101
8	Subtotal Operating expenses	15,118	15,290	172
	Taxes			
9	Property	942	166	(775)
10	Payroll	277	277	0
11	State Corporation Franchise	1,820	3,461	1,641
12	Federal Income	11,071	13,897	2,826
13	Subtotal Taxes	14,110	17,802	3,691
14	**Depreciation**	9,827	12,351	2,524
15	**Decommissioning Accrual**	666	666	0
16	**Total Operating Expenses**	39,721	46,108	6,387
17	**Net For Return**	27,754	34,584	6,830
18	**Weighted Average Rate Base**	316,452	393,515	77,064
	Rate of Return			
19	On Rate Base	8.77%	8.79%	
20	On Equity	11.22%	11.35%	
	Total Capital Cost	295,000	370,542	75,542
	Commercial Operative Date	Aug-08	Feb-09	

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 (ID U39)**

Utility type:	Contact Person: Bernard Lam
☑ ELC ☑ GAS	Phone #: (415) 973-4878
☐ PLC ☐ HEAT ☐ WATER	E-mail: bxlc@pge.com

EXPLANATION OF UTILITY TYPE	(Date Filed/ Received Stamp by CPUC)
ELC = Electric GAS = Gas	
PLC = Pipeline HEAT = Heat WATER = Water	

Advice Letter (AL) #: 2928-E

Subject of AL: Request for Approval of Increase in Capital Cost and Resulting Revenue Requirement for Contra Costa 8

Keywords (choose from CPUC listing): Agreements, Utility Elect. Generation,

AL filing type: ☐ Monthly ☐ Quarterly ☐ Annual ☑ One-Time ☐ Other ______________

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

D.06-06-035

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: No

Summarize differences between the AL and the prior withdrawn or rejected AL[1]: ______________

____

Resolution Required? ☐ Yes ☑ No

Requested effective date: December 8, 2006 No. of tariff sheets: 0

Estimated system annual revenue effect (%): TBD

Estimated system average rate effect (%): TBD

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 proposed[1]: N/A

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
Tariff Files, Room 4005
DMS Branch
505 Van Ness Ave.,
San Francisco, CA 94102
jnj@cpuc.ca.gov and mas@cpuc.ca.gov

Pacific Gas and Electric Company
Attn: Brian K. Cherry
Vice President, 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.

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.
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
Dynegy 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.
MBMC, Inc.
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