

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



March 2, 2007

Advice Letter 2936-E

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

Subject: Contract for 2007 Demand Response and Approval and Recovery of Program Costs; and Revisions to Electric Preliminary Statement Part CP – Energy Resource Recovery Account (ERRA)

Dear Ms. de la Torre:

Advice Letter 2936-E is effective December 30, 2006. A copy of the advice letter and resolution are returned herewith for your records.

Sincerely,

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

Sean H. Gallagher, Director  
Energy Division

**REGULATORY RELATIONS**  
M Brown Tariffs Section  
R Dela Torre  
B Lam  
D Pester  
M Hughes  
MAR 12 2007  
Return to \_\_\_\_\_ Records \_\_\_\_\_  
File \_\_\_\_\_  
cc to \_\_\_\_\_



**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 20, 2006

**Advice 2936-E**

(Pacific Gas and Electric Company ID U 39 E).

Public Utilities Commission of the State of California

**Subject: Contract for 2007 Demand Response and Approval and Recovery of Program Costs; and Revisions to Electric Preliminary Statement Part CP – Energy Resource Recovery Account (ERRA)**

**A. Purpose**

Pacific Gas and Electric Company (PG&E) hereby submits for approval a Confirmation Letter (Agreement) executed by PG&E with the State of California Department of Water Resources – State Water Resources Development System (DWR) for demand response in Summer 2007. This advice letter is filed pursuant to Resolution E-4020, Ordering Paragraph 3. Commission approval of the Agreement will substantially increase PG&E's demand response portfolio for 2007.

PG&E requests that the Commission consider and approve this Agreement through a resolution that explicitly:

1. Approves the Agreement in its entirety, including payments to be made by PG&E under the Agreement, subject only to PG&E's prudent administration of the Agreement;
2. Finds that the Agreement costs are eligible for recovery in the Energy Resource Recovery Account (ERRA); and
3. Finds that the 200 MW of demand response from DWR currently available from the existing CPA contract continues to count towards PG&E's resource adequacy requirements.

In support of this request, PG&E submits an unredacted version of this advice letter under seal. This material is also protected from public disclosure by D.06-06-066, as specified in the Declaration Seeking Confidential Treatment accompanying this advice letter.

## **B. Background**

PG&E seeks approval of this Agreement in order to retain through September 2007 the 200 MW of DWR pumping load currently enrolled in the California Power Authority – Demand Reserves Partnership (CPA-DRP) program. The DWR CPA-DRP contract expires on May 17, 2007. The DR Settlement requires PG&E to file “its proposed successor to this [CPA-DRP] program by June 1, 2006.” (Section III.C.7, Appendix A of D.06-03-024.)

As noted in Resolution E-4020, the State Water Project is the largest participant in the CPA-DRP program and “contributes approximately 200 MW of demand response per month.”<sup>1</sup> The load reduction was previously provided pursuant to a five-year agreement between The California State Water Project and DWR whereby DWR secured power from the California Power Authority through reductions in demand, rather than generation.<sup>2</sup>

PG&E filed AL 2839-E on June 1, 2006 requesting approval of its retail Capacity Bidding Program (CBP). Resolution E-4020 approved the retail program, with modifications, and ordered PG&E to file the advice letter regarding the DWR demand response program, as discussed in D.06-03-024, within 30 days of the effective date of the Resolution.<sup>3</sup>

## **C. Proposal**

The Agreement requires DWR to provide load reduction for the period of June through September 2007 under terms that are similar to the existing CPA program but with greater certainty and flexibility.

<b>Program Element</b>	<b>Description</b>
Product	PG&E has the right to call the Contract Capacity, without Ancillary Services, that is or would otherwise be scheduled in the CAISO Day-Ahead market by DWR in order to operate its pumps. [REDACTED]

<sup>1</sup> Resolution E-4020, p.2.

<sup>2</sup> Id.

<sup>3</sup> Resolution, pp.3-4; Finding 1, Ordering Paragraph 3.

Contract Capacity	Up to 200 MW.
Delivery Period	June 1 through September 30, 2007
DR Call Window	11:00 a.m. through 6:00 p.m., PPT, Monday – Friday, excluding NERC holidays.
Maximum hours DR can be called per month	[REDACTED]
Call Notice	Day-ahead or hour-ahead, if notification is given no later than 1 hour prior to the close of the CAISO Hour-Ahead market. The current CPA program only allows for day-ahead scheduling.
Capacity Price	June: [REDACTED] July: [REDACTED] August: [REDACTED] September: [REDACTED] subject to performance adjustments
Energy Price	[REDACTED]

#### **D. Resource Adequacy**

Under the RA counting rules adopted by the Commission in D.03-06-072 and confirmed in D.05-10-042, the demand response obtained by PG&E under the Agreement has and should continue to count towards PG&E's RA requirements. As required by D.04-10-035 (the first Resource Adequacy Decision), the Agreement provides up to 96 hours of DR which exceeds the required 48 hours of demand reduction for the summer season.

#### **E. Measurement and Evaluation (M&E)**

Resolution E-4020 approved a combined M&E budget for PG&E's retail and wholesale CBP. PG&E requests no additional M&E funds in this advice letter.

#### **F. Cost Recovery**

The costs of the existing CPA-DRP program are recovered in the ERRA. PG&E proposes that the Agreement costs also be recovered on an actual cost basis through the ERRA.

#### **G. Proposed Tariff Revisions**

To record the costs associated with the demand response delivered by the DWR, PG&E proposes revisions to the following preliminary statement to be effective January 1, 2007:

Part CP – Energy Resource Recovery Account (ERRA)

PG&E adds an accounting procedure to record costs associated with authorized bilateral demand response agreements.

**H. Protests**

Anyone wishing to protest this filing may do so by sending a letter by **December 11, 2006**, which is 21 days from the date of this filing.<sup>4</sup> 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: mas@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 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.

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**

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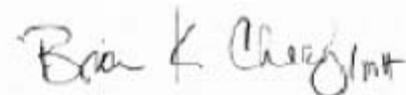
<sup>4</sup> The 20 day protest period concludes on a weekend. PG&E is hereby moving this date to the following business day.

PG&E requests this advice letter be approved effective **January 1, 2007**, but that the Energy Division provide approval upon regular notice, **December 20, 2006**, which is 30 calendar days from the date of filing. In addition, if the transaction is not approved by the CPUC by March 31, 2007 it terminates by its terms. A notice of approval ensures PG&E has adequate time to incorporate the approved amounts in rates for January 1, 2007.

### **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 to the service list for 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>



Vice President - Regulatory Relations

cc: Service List – A.05-06-006

Attachments

### **Limited Access to Confidential Material:**

The portions of this advice letter so marked Confidential Protected Material are submitted under the confidentiality protection of Section 583 of the Public Utilities Code and General Order 66-C. Pursuant to the Administrative Law Judge's Ruling Clarifying Interim Procedures For Complying with Decision 06-06-066, issued August 22, 2006 in Rulemaking 05-06-040, a separate Declaration of Confidential Treatment regarding the confidential information is filed concurrently herewith.

### **Confidential Attachments:**

**Appendix B**

**Invoice Calculation Illustration**

# 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) #: 2936-E

Subject of AL: Contract for 2007 Demand Response and Approval and Recovery of Program Costs; and Revisions to Electric Preliminary Statement Part CP – Energy Resource Recovery Account (ERRA)

Keywords (choose from CPUC listing): Preliminary Statement, Demand Side Management

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

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution: E-4020

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 AL<sup>1</sup>:

Resolution Required?  Yes  No

Requested effective date: January 1, 2007

No. of tariff sheets: 5

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: Electric Preliminary Statement CP

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  
jnj@cpuc.ca.gov

Utility Info (including e-mail)  
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

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

**DECLARATION OF MARC J. BOMMERSBACH  
SEEKING CONFIDENTIAL TREATMENT  
FOR CERTAIN INFORMATION CONTAINED  
IN ADVICE LETTER 2936-E FILED BY  
PACIFIC GAS AND ELECTRIC COMPANY (U 39-E)**

I, Marc J. Bommersbach, declare:

1. I have been employed by Pacific Gas and Electric Company (PG&E) since December 2003. My current title is Principal, Structured Transactions in PG&E's Energy Supply Department. In this position, my responsibilities include negotiating power purchase agreements with sellers and other counter parties in the business of producing electric energy. In my previous job, I was responsible for marketing power through structured transactions to electric utilities. In carrying out these responsibilities, I have acquired knowledge of PG&E's contracts with such sellers, including contract restructurings and amendments, and the negotiation of such transactions and knowledge of how companies seeking to sell power to utilities might determine what prices to offer.

2. Based on my knowledge and experience, I make this declaration seeking confidential treatment of certain prices and terms contained in PG&E's Advice letter 2936-E "Contract for 2007 Demand Response and Approval and Recovery of Program Costs" which is being filed concurrently with this declaration pursuant to Resolution E-4020, Ordering Paragraph

3. The Advice Letter seeks Commission approval of an agreement with the State of California Department of Water Resources – State Water Resources Development System (DWR) for up to 200 MW of contract capacity during summer 2007. The data and information for which PG&E is seeking confidential treatment are the prices and certain operational provisions associated with product specifications and scheduling in the agreement, including the sample payment and penalty calculations included in Appendices A and B.

3. The data for which PG&E seeks confidential treatment corresponds to categories of protected, confidential information specified in Appendix 1 of the Commission's recent confidentiality decision, D.06-06-066 (Confidentiality Matrix). (Confidentiality Matrix, Appendix 1, VII (B) and (E).) These categories protect confidential terms in bilateral power purchase agreements with non-affiliates, excluding only counterparty, resource type, location, capacity, expected deliveries, delivery point, length of contract and on-line date. In accordance with the Matrix, PG&E does not seek confidential treatment of these non-confidential terms. This category allows the confidential contract terms to remain confidential for three years from the date of the contract or one year following the expiration of the agreement, whichever comes first. PG&E proposes that the data remain confidential until September 30, 2008, or 1 year following the expiration of the agreement, consistent with the Confidentiality Matrix.

4. The category in the Matrix that includes "interruptible tariff and other dispatchable demand response programs" should not apply to this agreement. (See Confidentiality Matrix, Appendix 1, VII (D).) This agreement is not part of a tariff or program that would be available to other suppliers or to customers. While the agreement is a type of demand response product, it has many attributes that are typically associated with supply-side power purchase agreements, including specifically negotiated terms (versus a tariff), and the delivery of energy to PG&E in NP-15 as a scheduling coordinator to scheduling coordinator trade. The agreement also includes a capacity commitment with a payment that is subject to adjustment based on DWR's performance.

5. To the best of my knowledge the pricing and other terms PG&E seeks to maintain as confidential are not already public and representatives of DWR have indicated to me that they do not wish or intend to disclose such terms.

6. In my experience, energy suppliers typically attempt to use information about a buyer's other purchase prices or terms to negotiate a more favorable deal with such buyer. Historically, PG&E has attempted to protect the confidentiality of contract-specific pricing information to the extent possible, consistent with this Commission's decisions and orders, in order to procure, on behalf of electric customers, the most favorable prices and terms with energy suppliers.

7. If the Commission orders disclosure of the prices and other key terms, PG&E would be at a disadvantage in future negotiations for demand response products. On October 27, 2006, PG&E issued a request for proposal for additional demand response products. PG&E is accepting bids in response to that solicitation and is scheduled to conclude negotiations with bidders in January 2007. Bidders likely would use the information in the DWR agreement during negotiations as a benchmark for pricing and other terms. This could limit PG&E's ability to obtain the most cost-effective demand response agreements for PG&E's customers.

8. The confidential information cannot be meaningfully aggregated, redacted, summarized, masked or otherwise protected in a way that allows additional disclosure.

I declare under penalty, under the laws of the State of California, that the foregoing is true and correct. Executed on November 20, 2006, at San Francisco, California.

  
MARC J. BOMMERSBACH

# Western Systems Power Pool Agreement

## CONFIRMATION LETTER FOR DEMAND RESPONSE OPTION

**Seller:** The State of California  
Department of Water Resources –  
State Water Resources  
Development System

**Buyer:** Pacific Gas and Electric  
Company

This confirmation letter (“Confirmation Letter”) confirms the transaction between Pacific Gas and Electric Company (“Buyer”) and the State of California Department of Water Resources — State Water Resources Development System (“Seller”). This transaction is governed by the Western Systems Power Pool (“WSPP”) Agreement (“Master WSPP Agreement”). This Confirmation Letter is being provided pursuant to and in accordance with the Master WSPP Agreement dated September 1, 2005 and as supplemented and modified herein, and constitutes part of and is subject to all of the terms and provisions of that version of such Master WSPP Agreement. The Confirmation Letter is not subject to any subsequent modification or amendment to the Master WSPP Agreement unless the Parties agree in writing that such modification or amendment to the Master WSPP Agreement shall apply to the transactions in this Confirmation Letter. Terms used but not defined herein shall have the meanings ascribed to them in the Master WSPP Agreement. In the event of any conflict between this Confirmation Letter and the Master WSPP Agreement, the provisions of this Confirmation Letter shall control. The definitions and provisions contained in the Master WSPP Agreement shall apply to this Confirmation Letter; provided that, to the extent that this Confirmation Letter is inconsistent with any provision of the Master WSPP Agreement, this Confirmation Letter shall govern the rights and obligations of the Parties hereunder. Defined terms not found in this Confirmation Letter or the Master WSPP Agreement shall have the meaning in the California Independent System Operator (“CAISO”) tariff. The Seller agrees to provide and the Buyer agrees to purchase the Product under the terms of this Confirmation Letter.

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**Product:** Resource Adequacy and a “Demand Response Option” whereby Buyer has the right to call on and receive Energy from Seller in an amount up to and including the Contract Capacity, without Ancillary Services, that is or would otherwise be scheduled in the CAISO Day-Ahead market by Seller in order to operate Seller’s pumps (“Pump Load”).

**Term:** From the Effective Date to the end of the Delivery Period.

**Effective Date:** This Confirmation Letter shall be effective on the date executed by both Parties (“Effective Date”). However, the Demand Response

Option shall not be exercised, nor shall any payments under this Confirmation Letter be due or owing between the Parties until CPUC Approval of this Confirmation Letter is received by Buyer.

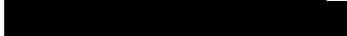
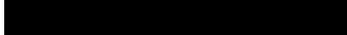
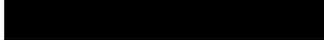
Buyer is responsible for all costs in obtaining CPUC Approval. Upon receipt Buyer shall provide a copy of CPUC Approval to Seller. If Buyer does not obtain approval by March 31, 2007, this Confirmation Letter shall terminate.

For the purposes of this Confirmation Letter the following definitions shall apply:

“CPUC” means the California Public Utilities Commission.

“CPUC Approval” means the final, non-appealable order issued by the CPUC approving this Confirmation Letter (without modification or condition unacceptable to either Party in its sole discretion) as reasonable and assuring the full recovery by Buyer of all of its costs hereunder, subject only to a review of the reasonableness of Buyer’s administration of this Confirmation Letter.

**Capacity Price:**

June:   
July:   
August:   
September: 

**Monthly Capacity Payment/Penalty:**

If Buyer does not exercise the Demand Response Option during a Month, then the Capacity Payment for such month shall be equal to the product of the Contract Capacity and Capacity Price for such month.

If Buyer exercises the Demand Response Option during a Month, then the Capacity Payment for such month shall be the sum of the Adjusted Hourly Capacity Payment/Penalty for such month as determined below and shown as examples in Appendix A.

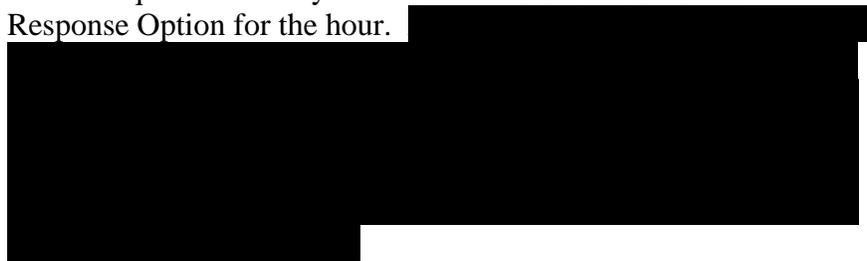
**Adjusted Hourly Capacity Payment/ Penalty:**

Buyer shall pay Seller an “Adjusted Hourly Capacity Payment” or Seller shall pay Buyer an “Adjusted Hourly Capacity Penalty” based on the Hourly Delivered Capacity Ratio as set forth in the following chart:

<b>Hourly Delivered Capacity Ratio</b>	<b>Adjusted Hourly Capacity Payment/Penalty</b>
>= 0.90 and <= 1.00	Adjusted Hourly Capacity Payment = Unadjusted Hourly Capacity Payment * Hourly Delivered Capacity Ratio  Adjusted Hourly Capacity Penalty = 0
>= 0.75 and <0.90	Adjusted Hourly Capacity Payment = Unadjusted Hourly Capacity Payment * 50%  Adjusted Hourly Capacity Penalty = 0
>= 0.50 and <0.75	Adjusted Hourly Capacity Payment = 0  Adjusted Hourly Capacity Penalty = 0
>= 0 and < 0.50	Adjusted Hourly Capacity Payment = 0  Adjusted Hourly Capacity Penalty = Unadjusted Hourly Capacity Payment * (0.50 – Hourly Delivered Capacity Ratio)

Where:

1. The “Hourly Delivered Capacity Ratio” in any Event Hour is equal to the Delivered Demand Response Energy divided by the Demand Response Energy. The Hourly Delivered Capacity Ratio shall be equal to 1 if Buyer does not exercise the Demand Response Option for the hour.



2. “Event Hour” is an hour in which Demand Response Energy is called by the Buyer.

3. “Demand Response Energy” means the amount of Energy called on by Buyer in an Event Hour when exercising the Demand Response Option.

4 “Delivered Demand Response Energy” means [REDACTED]

5. The Unadjusted Hourly Capacity Payment is [REDACTED]

**Energy Price:** [REDACTED]

For the purposes of this Confirmation Letter, the Platt’s *Gas Daily* Index” shall mean that price, expressed in \$/MMBtu as published by Platt’s *Gas Daily* (in the internet publication currently accessed through [www.platts.com](http://www.platts.com)) in the table entitled “Daily price survey” under the heading “Midpoint” for Monday through Saturday deliveries -- “PG&E city-gate” for the date of delivery (which known hereafter as the “Gas Index”).

**Energy Payment:** The energy payment shall be equal to the product of the Energy Price and the amount of Demand Response Energy delivered by an SC-SC trade from Seller to Buyer.

**Contract Capacity:** [REDACTED]

**Delivery Period:** June 1, 2007 through September 30, 2007  
HE 1200 through HE 1900, PPT, Monday through Friday  
excluding NERC Holidays

**Delivery Point:** NP-15

Seller's Pump Load is primarily in ZP26 and SP15. Consequently, Seller may fulfill its Demand Response Option commitment by dropping Pump Load associated with Seller's pumps in ZP26 and SP15 and delivering to NP15 the associated energy.

**Scheduling:** Buyer may exercise the Demand Response Option day-ahead or hour-ahead if Buyer notifies Seller of desired dispatch no later than 1 hour prior to the close of the hour-ahead market as defined in the CAISO tariff. Additional scheduling requirements are:

- Each scheduled Demand Response Energy delivery shall be in four hour increments only.
- Buyer must schedule the full Contract Capacity amount.
- Buyer shall not schedule more than 24 total hours of Demand Response Energy in a single month.
- Buyer shall not exercise the Demand Response Option more than once per day.

Each of Seller and Buyer shall be its own Scheduling Coordinator ("SC"), and all deliveries shall be SC to SC transfers as defined in CAISO tariff. Scheduling shall be in full compliance with CAISO Tariffs' protocols and WECC scheduling practices for day-ahead or hour-ahead Energy. Buyer shall have no obligation or liability of any kind with respect to any real-time deliveries or any uninstructed deviations. In the real-time market, all schedules by Seller shall be solely for the account of Seller, and will be settled by Seller.

No later than two Business Days following the end of each month for HE 1200 through HE 1900 during the Delivery Period, Seller shall provide Buyer with Seller's previous month's final Day-Ahead CAISO schedules and meter data from CAISO approved meters for Pump Load that participated in the Demand Response Option as well as Pump Load that did not participate but are in the same load group for scheduling purposes.

**Resource Adequacy:** Seller and Buyer agree that throughout the Delivery Period the Parties shall consider all commercially reasonable actions and execute any and all documents or instruments reasonably necessary to enable Buyer to use the RA Capacity to satisfy Buyer's Resource Adequacy Requirements.

For the purposes of this Confirmation Letter the following definitions shall apply:

"RA Capacity" means the maximum amount of deliverable Contract Capacity that qualifies for Buyer's Resource Adequacy Requirements.

"Resource Adequacy" means the procurement obligation of load serving entities, including Buyer, as such obligations are described in CPUC D.04-10-035 and D. 05-10-042 and subsequent CPUC decisions addressing Resource Adequacy issues, as those obligations may be altered from time to time in the CPUC Resource Adequacy Rulemakings (R.) 04-04-003 and (R.) 05-12-013.

**Representation/Audit Rights/Documentation:**



**Invoicing:**

As per the Master WSPP Agreement and in accordance with the illustrative examples contained in Appendix A and B to this Confirmation Letter.

**Collateral Requirements:**



**Notice Information:**

If to Buyer: Pacific Gas and Electric Company  
Attn: Power Scheduling  
245 Market Street, N12E  
San Francisco, CA 94105-1702

Phone: (415) 973-  
Fax: (415) 973-9176

If to Seller: Attn: Power Scheduling  
3310 El Camino Avenue  
P.O. Box 219000  
Sacramento, CA 95821  
Phone: (916) 574-2693  
Fax: (916) 574-2782

**Confidentiality:**

Consistent with the provisions of Article 30 of the Master WSPP Agreement and to the extent permitted by law, the Parties agree to maintain the confidentiality of pricing terms contained in this Confirmation Letter as well as any scheduling and meter data provided by Seller to Buyer under this Confirmation Letter.

**Special Terms & Exceptions:**

- 1) DWR-SWP Separate from DWR-CERS: The transactions agreed to in this Confirmation Letter are pursuant to DWR-SWP's powers and responsibilities with respect to the State Water Resources Development System and all obligations incurred and the funding for all such obligations shall be the responsibility of DWR-SWP, and shall be separate and distinct from the funds, monies and obligations of the California Energy Resources Scheduling Division (DWR-CERS), including the Electric Power Fund administered by DWR-CERS. DWR-SWP's creditworthiness, financial responsibility, and performance viability are thus independent of DWR-CERS for all purposes in this Confirmation Letter and the Master WSPP Agreement, including, but not limited to the following: A (counter party) may only invoke the creditworthiness provisions of Section 27 of the Master WSPP Agreement based on the financial status of DWR-SWP. The set-off provisions of Section 22 and the netting provision in Section 28 of the Master WSPP Agreement may be applied only between transactions between DWR-SWP and (counter party) arising out of the Master WSPP Agreement and this Confirmation Letter. Any transactions between DWR-CERS and (counter party) shall not be used to set-off or net between DWR-SWP and (counter party) arising out of the Master WSPP Agreement and any other Confirmation Letter.
- 2) Governing Law: The first sentence of Section 24 of the Master WSPP Agreement shall be amended as follows: "This Agreement and any Confirmation Letter shall be governed by and construed in accordance with the laws of the State of California,

without regard to the conflicts of laws rules thereof.”

3) Binding Dispute Resolution: The written consent of both Parties shall be required before a dispute may be submitted to binding arbitration pursuant to Master WSPP Agreement Section 34.2.

4) Forum and Venue for Legal Proceedings: In the event the Parties agree to binding arbitration pursuant to Master WSPP Agreement Section 34.2, the arbitration hearing shall be held in Sacramento, California. In the event the parties do not agree to binding dispute resolution under Section 34.2, any lawsuit concerning any dispute that may arise under the Master WSPP Agreement and this Confirmation Letter shall be filed and heard in Sacramento County Superior Court of the State.

5) State of California General Terms and Conditions: The State of California General Terms and Conditions for Contracts (GTC-306), as modified for purposes of this Confirmation Letter, are attached hereto and made a part of the terms of this Confirmation Letter; provided, however, that a breach by a party of the terms set forth in the GTCs, including the Contractor Certification Clauses (CCC-1005), shall not constitute an Event of Default under the Master WSPP Agreement. For the sake of clarity, the word “deleted” in the attached, refers to deletions from the unmodified version of GTC-306.

PACIFIC GAS AND ELECTRIC COMPANY THE STATE OF CALIFORNIA  
DEPARTMENT OF WATER RESOURCES –  
STAE WATER RESOURCES  
DEVELOPMENT SYSTEM

By: \_\_\_\_\_

By: \_\_\_\_\_

Name: Roy Kuga

Name: George T. Qualley

Title: V. P Energy Supply

Title: Chief, Power Planning & Contracts Management

Date: \_\_\_\_\_

Date: \_\_\_\_\_

**Appendix A**

**Examples of Calculation for Adjusted Hourly Capacity Payment/Penalty**

[Redacted]

**Case 1: The Hourly Delivered Capacity Ratio in any given hour is greater than or equal to .90:**

[Redacted]

**Case 2: The Hourly Delivered Capacity Ratio in any given hour is greater than or equal to .75 and less than .90:**

[Redacted]

**Case 3: The Hourly Delivered Capacity Ratio in any given hour is greater than or equal to .50 and less than .75:**



**Case 4: The Hourly Delivered Capacity Ratio in any given hour is less than .50:**



## **Appendix B**

CONFIDENTIALITY PROTECTED  
Under D.06-06-066 App 1 Item VII "Contracts and PPAs"

**ATTACHMENT 1  
Advice 2936-E**

<b>Cal P.U.C. Sheet No.</b>	<b>Title of Sheet</b>	<b>Cancelling Cal P.U.C. Sheet No.</b>
25456-E	Preliminary Statement Part CP--Energy Resource Recovery Account	24323-E
25457-E	Preliminary Statement Part CP (Cont.)	24325-E
25458-E	Preliminary Statement Part CP (Cont.)	New
25459-E	Table of Contents -- Rate Schedules	25371-E
25460-E	Table of Contents -- Preliminary Statements	25373-E



PRELIMINARY STATEMENT  
(Continued)

CP. ENERGY RESOURCE RECOVERY ACCOUNT (ERRA)

1. **PURPOSE:** The purpose of the Energy Resource Recovery Account (ERRA) is to record and recover power costs, excluding California Department of Water Resources (DWR) contract costs, associated with PG&E's authorized procurement plan, pursuant to Decision 02-10-062, Decision 02-12-074 and California Public Utilities Code § 454.5(d)(3). Power costs recorded in ERRA include, but are not limited to, utility retained generation fuels, Qualifying Facility (QF) contracts, inter-utility contracts, California Independent System Operator (ISO) charges, irrigation district contracts and other Power Purchase Agreements (PPA), bilateral contracts, forward hedges, bilateral demand response agreements, pre-payments and collateral requirements associated with procurement (including disposition of surplus power), and ancillary services. These costs are offset by reliability-must-run revenues (RMR), PG&E's allocation of surplus sales revenues and the ERRA revenue. Revenues received from Schedule TBCC will also be recorded to the ERRA. (T)

California Public Utilities Code § 454.5(d)(3) mandates a trigger mechanism to ensure that an undercollection or overcollection in the ERRA does not exceed 5 percent of a utility's recorded generation revenues for the prior year excluding revenues collected for the Department of Water Resources.

Pursuant to Decision 02-12-074, Conclusion of Law 23 and Ordering Paragraph (O.P.) 15, PG&E is authorized to file an expedited trigger application at any time that its forecast indicates the undercollection in the ERRA will be in excess of the 5 percent threshold or 5 percent of the prior calendar year generation revenues less revenues collected for DWR during that year.

Pursuant to Decision 04-01-050, the ERRA trigger mechanism for 2004 and subsequent years would be established annually through an Advice Letter on or before April of each year.

Decision 04-12-048 extended the ERRA Trigger to be in effect during the term of the long-term procurement contracts, or ten years, whichever is longer.

2. **APPLICABILITY:** The ERRA shall apply to all customer classes, except for those specifically excluded by the Commission.
3. **REVISION DATES:** Pursuant to Decision 04-01-050, the revision dates applicable to the ERRA shall be (i) June 1 of each year for the forecast filing, (ii) February of each year for the compliance review filing, (iii) as determined in Section 1 above in the case of an ERRA Trigger Application, and (iv) through the advice letter process.

Decision 04-01-050 modified ERRA revision dates for 2004 and beyond specifically that (i) forecast filing date is June 1 of each year, (ii) the reasonableness review in February 2005, and (iii) the ERRA trigger for 2004 and subsequent years would be established annually through an Advice Letter on or before April 1 of each year.

(Continued)



PRELIMINARY STATEMENT  
(Continued)

CP. ENERGY RESOURCE RECOVERY ACCOUNT (ERRA) (Cont'd.)

5. ACCOUNTING PROCEDURES: (Cont'd.)

The following entries reflect the total costs associated with procuring electricity for customers and other related costs:

- i) A debit entry equal to the amount paid for ISO-related charges; (T)
- j) A debit entry equal to the sum for the month of the product of: (1) the Millions of British Thermal Units (MMBtu) of natural gas burned daily for all purposes at PG&E's fossil plants; and (2) that day's weighted-average cost of gas on a Utility Electric Generation (UEG) portfolio basis (\$/MMBtu); (T)
- k) A debit entry equal to the sum for the month of the product of: (1) the barrels of distillate and heavy fuel oil burned daily for all purposes at the fossil plants; and (2) that day's weighted-average cost of distillate or fuel oil per barrel on a "last-in-first-out" (LIFO) basis; (T)
- l) A debit entry equal to the hydroelectric fuel expenses. The fuel expenses include water purchase costs for the hydroelectric plants; (T)
- m) A debit entry equal to fuel expenses for the Diablo Canyon Nuclear Power Plant; (T)
- n) A debit entry equal to total costs associated with QF obligations that are eligible for recovery as an ongoing CTC; (T)
- o) A debit entry equal to total costs associated with QF obligations that are not eligible for recovery as an ongoing CTC; (T)
- p) A debit entry equal to bilateral contract obligations; (T)
- q) A debit entry equal to hedging contract obligations; (T)
- r) A debit entry equal to renewable contract obligations; (T)
- s) A debit entry equal to costs associated with irrigation district contracts and other purchase power obligations, excluding WAPA but including capacity contract obligations; (T)
- t) A debit entry equal to spot market purchases; (T)
- u) A debit entry equal to system tolling or capacity contract obligations; (T)
- v) A debit or credit entry equal to pre-payments and credit and collateral payments, including all associated fees, for procurement purchase and, if applicable, reimbursements of pre-payments, credit and collateral payments; (T)
- w) A debit entry equal to incentive payments authorized in the Phase 1 decision of the Advanced Metering, Demand Response, and Dynamic Pricing Proceeding pursuant to Decision 03-03-036; (T)
- x) A debit entry equal to any other power costs associated with procurement; (T)



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PRELIMINARY STATEMENT  
(Continued)

CP. ENERGY RESOURCE RECOVERY ACCOUNT (ERRA) (Cont'd.)

5. ACCOUNTING PROCEDURES: (Cont'd.)

- y) A debit entry equal to incentive payments related to authorized bilateral demand response agreements; and (N)  
(N)
- z) A monthly 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 of the rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15 or its successor. (T)



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