

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE

SAN FRANCISCO, CA 94102-3298



February 27, 2007

Advice Letter 2972-E

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

Subject: Implementation of 2007-2009 Nuclear Decommissioning Trust Revenue Requirements

Dear Ms. de la Torre:

Advice Letter 2972-E is effective January 01, 2007. A copy of the advice letter is returned herewith for your records.

Sincerely,

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

Sean H. Gallagher, Director
Energy Division



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

January 22, 2007

Advice 2972-E
(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: Implementation of 2007-2009 Nuclear Decommissioning Trust Revenue Requirements

Purpose

Pacific Gas and Electric Company (PG&E) hereby submits the revised revenue requirement for nuclear decommissioning in accordance with Ordering Paragraph (OP) 5 of Decision (D.) 07-01-003.

As also provided in Ordering Paragraph 5, PG&E will consolidate the rate change required as a result of D.07-01-003 with the advice letter for the next planned rate change. PG&E currently expects to consolidate the nuclear decommissioning rate change with other rate changes expected to be implemented on March 1, 2007.

Background

On November 10, 2005, PG&E filed its 2005 Nuclear Decommissioning Cost Triennial Proceeding Application (A).05-11-009. Commissioner Brown and Administrative Law Judge (ALJ) Long later decided to combine PG&E's application with SCE and SDG&E's joint application, A.05-11-008, requesting approval of nuclear decommissioning related items, into one combined proceeding. In A.05-11-009, PG&E requested, among other items, the authorization of a nuclear decommissioning revenue requirement for 2007 through 2009, with rates effective January 1, 2007. On May 25, 2006, PG&E entered into a Settlement Agreement with DRA and TURN (Settlement Agreement). Decision 07-01-003 adopts the terms of the Settlement Agreement.

In compliance with D.07-01-003, PG&E has performed the actions listed below to implement the terms of the Settlement Agreement specifically Item 3, "Nuclear Decommissioning Trust Contribution Modeling Assumptions" and Item 6, "Additional Filings." Using PG&E's A.05-11-009 Exhibits 5, "Prepared Testimony," 5-W1 and 2, "Supporting Workpapers," 7, "Supplemental Testimony," and 7-W, "Supporting Workpapers," as a basis, PG&E has included the following updates to its models in calculating the 2007-2009 nuclear decommissioning Qualified and Non-Qualified Trust fund contribution amounts and revenue requirements:

1. Updated the Nuclear Decommissioning Annual Funding calculations for Diablo Canyon Units 1 and 2 using:
 - a. 2024 decommissioning start date for Unit 2;
 - b. Trust fund balances for the Qualified Trusts as of September 30, 2006;
 - c. 23.65% and 24.49% equity turnover rate for Qualified and Non-Qualified Trusts respectively;
 - d. 8.5% and 5.8% pre-tax, before fees return on equity and fixed assets respectively;
 - e. 57%/43% equity bond allocation; and
 - f. Begin equity ramp down in 2020.

2. Updated the Nuclear Decommissioning Annual Funding calculation for Humboldt Unit 3 using:
 - a. Trust fund balances for the Qualified and Non-Qualified Trusts as of September 30, 2006;
 - b. 23.65% and 24.49% equity turnover rate for Qualified and Non-Qualified Trusts respectively;
 - c. 8.5% and 5.8% pre-tax, before fees return on equity and fixed assets respectively; and
 - d. Transfer of Non-Qualified Trust balance and associated tax benefits to Qualified Trust.

3. Updated the revenue requirements adopted in the Settlement Agreement Item 4, "2007-2009 Diablo Canyon Nuclear Decommissioning Revenue Requirement" and Item 5, "2007-2009 Humboldt Nuclear Decommissioning Revenue Requirement" to incorporate the updated nuclear decommissioning annual funding balances as described in items 1 and 2 above. These updated revenue requirements shall become effective January 1, 2007.

In accordance with Item 3, "Nuclear Decommissioning Trust Contribution Modeling Assumptions", Item 6, "Additional Filings," and Item 7, "Revenue Requirement Effective Date," of the Settlement Agreement and Ordering Paragraph 5 of the Decision. The updated 2007 through 2009 annual revenue requirement is presented in this advice filing. The resulting 2007 through 2009 annual revenue requirement amounts are as follows¹:

	Annual Revenue Requirement In Millions of Dollars		
	2007	2008	2009
Humboldt SAFSTOR	13.234	13.389	13.405
Diablo Canyon Unit 1 Nuclear Decommissioning	1.643	1.643	1.643
Diablo Canyon Unit 2 Nuclear Decommissioning	0.000	0.000	0.000
Humboldt Nuclear Decommissioning	11.686	11.686	11.686
Total	26.562	26.718	26.734

¹ Supporting workpapers for the Diablo Canyon Units 1 and 2 and Humboldt Unit 3 2007 through 2009 nuclear decommissioning annual funding calculation and revenue requirement are available upon request.

Attachment 1 sets forth the funding assumptions incorporated in the Settlement Agreement adopted by D.07-01-003 and used in the supporting workpapers. This Attachment will be provided to the tax authorities who will review PG&E's eligibility for funding of the Qualified Trusts.

Pursuant to the Settlement Agreement and state law, PG&E will make the maximum allowable transfer from the Humboldt Non-Qualified to the Humboldt Qualified Trust, pending the receipt of appropriate tax approvals. Based on the allowed revenue requirement for 2007 to 2009, PG&E will also contribute the maximum eligible amount to the Humboldt and Diablo Canyon Qualified Trusts. In this respect, PG&E notes that the State of California has not yet conformed to the favorable Federal law changes increasing the qualifying percentage for funding of the Humboldt Trust to 100% (from 50%) and allowing for the transfer of Humboldt's Non-Qualified Trust funds to the Qualified Trust. We anticipate State of California conformity based on previous California conformity practice. However, should the State of California not conform for the 2007 tax year, PG&E would be unable to take advantage of the Federal law change during 2007. PG&E will keep appropriate officials in the Energy Division apprised of developments and make any appropriate additional filings.

Protests

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 **February 12, 2007**, 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: 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 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:

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

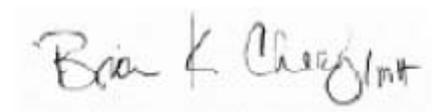
Effective Date

Per D.07-01-003, PG&E requests this advice letter approved effective 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 as well as those on Service Lists – A.05-11-008 and A.05-11-009. Workpapers supporting this filing are available upon written request to: Pacific Gas and Electric Company, Regulatory Relations Department, Attention: Rose de la Torre, 77 Beale Street, Mail Code B10C, P.O. Box 770000, San Francisco, CA 94177 or email: PGETariffs@pge.com. 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

Attachment 1: Funding Assumptions

cc: Service Lists – A.05-11-008; A.05-11-009
Honorable Patty Berg, California Assembly

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) #: **2972-E**

Subject of AL: Implementation of 2007-2009 Nuclear Decommissioning Trust Revenue Requirements

Keywords (choose from CPUC listing): Nuclear

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: **January 1, 2007**

No. of tariff sheets: 0

Estimated system annual revenue effect: (%)

Estimated system average rate effect (%)

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:

Service affected and changes proposed¹:

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

inj@cpuc.ca.gov and mas@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

¹ Discuss in AL if more space is needed.

Attachment 1

**Attachment 1 - DCCP #1
Pacific Gas and Electric Company
2005 Nuclear Decommissioning Cost Triennial Proceeding
Diablo Canyon Power Plant - Unit 1
Nuclear Decommissioning Costs
Proposed Tax Qualifying Portion**

Line No. Types of Assumption

1	Proposed method of decommissioning	DECON
2	Year in which substantial decommissioning costs first will be incurred	2022
3	Year in which substantial decommissioning will be substantially completed	2038
4	Total Cost of decommissioning (2004\$)	\$715,979,293
5	Total Cost of decommissioning (\$future nominal)	\$2,291,341,522
For each year between 2 and 3 above, the annual costs of		
6	decommissioning (\$future nominal)	See Table 3-3
7	After-tax annualized rate of return	2007 - 5.27% 2008 - 5.17% 2009 - 5.10% 2010 - 5.05% 2011 - 5.01% 2012 - 4.99% 2013 - 4.97% 2014 - 4.95% 2015 - 4.94% 2016 - 4.93% 2017 - 4.61% 2018 - 4.33% 2019 - 4.11% 2020 - 3.95% 2021 through 2041 - 3.84%
8	Period over which decommissioning costs will be included in cost of service	January 1, 2007 through September 22, 2021
9	Projected amount to be included in cost of service per year	\$1,620,000
10	Date on which plant will no longer be included in rate base	September 22, 2021
11	Frequency of deposit in external fund	Variable
12	Projected fund balance on January 1, 2007 using 9/30/06 balances	\$662,060,682
13	Fund balance on January 1, 2006	\$622,524,547

**Attachment 1 - DCP #2
Pacific Gas and Electric Company
2005 Nuclear Decommissioning Cost Triennial Proceeding
Diablo Canyon Nuclear Plant, Unit 2
Nuclear Decommissioning Costs
Proposed Tax Qualifying Portion**

Line No. Types of Assumption

1	Proposed method of decommissioning	DECON
2	Year in which substantial decommissioning costs first will be incurred	2025
3	Year in which substantial decommissioning will be substantially completed	2038
4	Total Cost of decommissioning (2004\$)	\$880,424,486
5	Total Cost of decommissioning (\$future nominal)	\$2,668,124,350
For each year between 2 and 3 above, the annual costs of		
6	decommissioning (\$future nominal)	See Table 3-6
7	After-tax annualized rate of return	2007 - 5.27% 2008 - 5.17% 2009 - 5.09% 2010 - 5.04% 2011 - 5.00% 2012 - 4.97% 2013 - 4.95% 2014 - 4.94% 2015 - 4.93% 2016 - 4.92% 2017 - 4.91% 2018 - 4.91% 2019 - 4.90% 2020 - 4.90% 2021 - 4.59% 2022 - 4.31% 2023 - 4.10% 2024 - 3.95% 2025 through 2041 - 3.84%
8	Period over which decommissioning costs will be included in cost of service	January 1, 2007 through April 26, 2025
9	Projected amount to be included in cost of service per year	zero
10	Date on which plant will no longer be included in rate base	April 26, 2025
11	Frequency of deposit in external fund	Variable
12	Projected fund balance on January 1, 2007 using 9/30/06 balances	\$895,610,948
13	Fund balance on January 1, 2006	\$842,118,717

**Attachment 1 - HBPP
Pacific Gas and Electric Company
2005 Nuclear Decommissioning Cost Triennial Proceeding
Humboldt Bay Power Plant, Unit 3
Nuclear Decommissioning Costs
Proposed Tax Qualifying Portion**

Line No.			Line No.
1	Proposed method of decommissioning	SAFSTOR 2009	1
2	Year in which substantial decommissioning costs first will be incurred	2008	2
3	Year in which substantial decommissioning will be substantially complete	2012	3
4	Total Cost of decommissioning (\$2004)	\$350,013,213	4
5	Total cost of decommissioning (\$future nominal)	\$462,465,541	5
6	For each year between 2 and 3 above, the annual cost of decommissioning (\$future nominal)	See Table 5-4	6
7	After-tax annualized rate of return	Qualified Trust 2007 - 4.62% 2008 - 4.28% 2009 - 4.01% 2010 through 2015 - 3.84%	7
8	Period over which decommissioning costs will be included in cost of service	January 1, 2007 through December 31, 2009	8
9	Projected annual amount to be included in cost of service	\$11,525,000	9
10	Date on which plant will no longer be included in rate base	N/A	10
11	Frequency of deposit in external fund	Variable	11
12	Projected Qualified fund balance on January 1, 2007 - Assuming a transfer of the Non-Qualified trust assets and associated tax benefits to the Qualified trust during 2006 and balances as of 9/30/06	\$354,670,734	12
13	Qualified fund balance on January 1, 2006	\$156,770,656	13
14	Non-Qualified fund balance on January 1, 2006	\$97,725,684	14

**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	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	Dynergy 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	