

December 31, 2007

Advice 3188-E
(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: Negative Indifference Amount Memorandum Account

Pacific Gas and Electric Company (PG&E) hereby submits this advice letter in compliance with Decisions (D.) 06-07-030, *Opinion Regarding Direct Access and Departing Load Cost Responsibility Surcharge Obligations*, and D.07-05-005, *Opinion Regarding Petition for Modification of Decision 06-07-030 Filed By Pacific Gas And Electric Company*. This advice letter proposes accounting entries to PG&E's Negative Indifference Amount Memorandum Account (NIAMA) for 2007 and the second half of 2006.

Background and Purpose:

On July 20, 2006, the Commission issued D.06-07-030, *Opinion Regarding Direct Access and Departing Load Cost Responsibility Surcharge Obligations*, addressing issues related to the cost responsibility surcharge (CRS) applicable to Direct Access (DA) and Departing Load (DL) customers¹. This decision described a methodology for preventing cost shifting to remaining bundled customers when customers depart PG&E bundled service for DA, DL or Community Choice Aggregation (CCA). To keep bundled customers indifferent, departed customers are responsible for "their proportion of the above market component of the sum of (1) PG&E's 2006 DWR Power Charge revenue requirement plus (2) PG&E's old world generation²". This amount is to be recovered from departed customers through the Competition Transition Charge (CTC) and Power Charge Indifference Adjustment (PCIA) non-bypassable charges.

¹ D.07-01-025 later ruled D.06-07-030 applicable to Community Choice Aggregation (CCA) customers as well.

² D.06-07-030, p. 16

To determine the level of the CTC and PCIA charges, PG&E must calculate the difference between the cost of its old world portfolio, including power from Department of Water Resources (DWR) contracts, and the amount it would have cost to procure the same amount of power at a hypothetical market price, called the “benchmark” price. This difference is called the “indifference amount”. If PG&E’s portfolio is above market, then indifference is positive, and departed customers must pay to make bundled customers indifferent.

If PG&E’s portfolio is below market, then indifference is negative, and departed customers do not need to pay to make bundled customers indifferent. This negative indifference amount is recorded in the NIAMA, and may be used to offset positive indifference in future years.

D.06-07-030 orders the utilities to calculate the indifference amount each year in their annual Energy Resources Recovery Account (ERRA) forecast proceedings. Chapter 7 of PG&E’s June 1, 2007 testimony accompanying its 2008 ERRA forecast application describes this calculation in greater detail.

On August 4, 2006, PG&E filed Advice Letter (AL) 2871-E, implementing D.06-07-030 and establishing of the NIAMA. On November 11, 2006, PG&E filed a petition for modification of D.06-07-030, seeking clarification that PG&E did not need to track negative indifference, since its undercollection reached zero on June 30, 2006. On May 4, 2007, the Commission issued D.07-05-005, which included clarification that PG&E did need to track negative indifference.

PG&E’s approved preliminary statement EH describes that PG&E’s NIAMA “shall be updated through the advice letter process prior to the end of each year coinciding with filing of the revised benchmark power cost”. Therefore, in compliance with D.06-07-030, D.07-05-005, and PG&E’s preliminary statement EH, PG&E herein files its first annual advice letter updating the NIAMA.

2006 Indifference

PG&E did not propose an indifference amount for 2006 in its 2006 ERRA Forecast proceeding, because its 2006 ERRA forecast was filed and approved before D.06-07-030 was issued. However, the components needed to calculate indifference for 2006 were approved in D.05-12-045 and D.06-07-030.

The required components include:

- the 2006 market benchmark;
- PG&E’s old world portfolio costs;
- and PG&E’s costs of DWR power.

D.06-07-030, OP 5 approved a 2006 benchmark for PG&E of \$90.12/MWh. The cost of PG&E’s old world portfolio for 2006, with the exception of the cost of

DWR power, was included in PG&E's 2006 ERRA Forecast, Application (A.) 05-06-007. PG&E's 2006 DWR revenue requirement, which reflects the cost of DWR power, can be found in the decision allocating DWR's 2006 revenue requirement³. The forecast energy delivered from DWR power contracts allocated to PG&E was originally redacted in the 2006 ERRA forecast application. However, this value is necessary for the calculation of 2006 indifference, so PG&E agrees to disclose it here.

PG&E's indifference calculation for 2006, originally provided to the Energy Division in response to a data request on October 18, 2007, is attached to this advice letter. Because PG&E is required to track negative indifference subsequent to June 30, 2006⁴, PG&E will make an entry in to the NIAMA for the second half of 2006 only. Indifference for the second half of 2006 was negative \$1,094,329,000.

2007 Indifference

PG&E proposed indifference for 2007 in its 2007 ERRA Forecast proceeding, A.06-06-001. Decision 06-12-018, OP1 adopted PG&E's 2007 forecast revenue requirement, as updated in prepared testimony on November 7, 2007. Indifference in 2007 was negative \$1,036,942,000.

2008 Indifference

PG&E proposed indifference for 2008 in its 2008 ERRA Forecast proceeding, A.07-06-006, in prepared testimony on November 7, 2007. PG&E proposed negative indifference of \$939,563,000. However, as of the filing of this advice letter, PG&E's forecast revenue requirement for 2008 has not yet been adopted. Therefore, PG&E does not yet propose an entry into the NIAMA for 2008.

Summary

PG&E proposes two entries into the NIAMA: negative \$1,094,329,000 for the second half of 2006; and negative \$1,036,942,000 for 2007. PG&E's proposed balance for the NIAMA is \$2,131,271,000. Upon approval of this advice filing, PG&E will enter the approved amounts into the NIAMA.

Tariff Changes

This advice letter does not propose revisions to any PG&E tariffs.

³ D.05-12-010, Appendix A

⁴ D.07-05-005, Conclusion of Law 8

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 **January 21, 2008**, which is 21 days from the date of this filing⁵. 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: jjj@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.

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

PG&E requests that this advice filing become effective **January 30, 2008**.

⁵ The 20th day of the protest period is on a weekend; therefore PG&E proposes moving the protest end date to the following business day.

Notice

In accordance with General Order 96-B, Section IV, 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 list for Rulemaking (R.) 02-01-011. Address changes to the General Order 96-B service list 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 cursive script that reads "Brian K. Cherry / dc".

Vice President, Regulatory Relations

Attachments

cc: Service List R.02-01-011

AL 3188-E - NIAMA

Indifference Calculation for the Second Half of 2006

	A	B	C	D	E	F	G	H
1								
2			INDIFFERENCE ANNUAL FORECAST		2006 Generation (GWh)		2006 Costs (\$1000's)	Proceeding / Data Source
3								Unless otherwise stated, all data are from 2006 ERRa forecast (A.05-06-007) testimony filed 6/1/05
4								
5			DWR		DWR RRQ Proposed Determination			
6								
7			Generation and Costs		\$ 23,501		\$ 1,732,000	GWh from energy balance p. 2-13 (21,201 + 2,300) Cost from DWR 2006 RRQ Determination, PG&E allocation, App A
8								
9			Utility Owned Generation		2006 ERRa Energy Balance		2006 GRC	
10			O&M and Capital		29,737		\$ 1,099,519	ERRa p. 6-6
11								
12			CTC Eligible Qualifying Facilities		2006 ERRa Energy Balance		2006 ERRa Forecast RRQ	
13								
14			Generation and Costs		19,433		\$ 1,783,591	ERRa p. 6-6
15								
16			Metropolitan Water District					
17			Generation and Costs		98		\$ 6,542	ERRa p. 6-6
18								
19			Irrigation Districts and Water Agencies					
20			Generation and Costs		3,643		\$ 77,339	ERRa p. 6-6
21			EBMUD					
22			Revenues				\$ (1,400)	ERRa p. 6-6
23			Subtotal CTC-related Costs		23,174		1,866,072	
24								
25								
26			Total Old World Generation Portfolio Cost		76,412		4,697,591	
27			Average Portfolio Cost (\$/MWh)				\$ 61.48	
28								
29								
30			Market Generation Portfolio Cost		76,412		\$ 6,886,249	
31			Benchmark (\$/MWh)				\$90.12	D.06-07-030, OP 5
32								
33			Below Market Rate				\$ (28.64)	\$/MWh
34			Annual Indifference Result				\$ (2,188,658)	
35			1/2 * Annual Indifference				\$ (1,094,329)	
36								

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 M)**

Utility type:

ELC GAS
 PLC HEAT WATER

Contact Person: Daren Chan

Phone #: (415) 973-5361

E-mail: d1ct@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) #: **3188-E**

Tier: 2

Subject of AL: Negative Indifference Amount Memorandum Account

Keywords (choose from CPUC listing): Compliance, Memorandum Account

AL filing type: Monthly Quarterly Annual One-Time Other _____

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: D.06-07-03, D.07-05-005

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 AL¹: _____

Is AL requesting confidential treatment? If so, what information is the utility seeking confidential treatment for:

Confidential information will be made available to those who have executed a nondisclosure agreement: Yes No

Name(s) and contact information of the person(s) who will provide the nondisclosure agreement and access to the confidential information: _____

Resolution Required? Yes No

Requested effective date: **January 30, 2008**

No. of tariff sheets: N/A

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: N/A

Service affected and changes proposed¹: N/A

Pending advice letters that revise the same tariff sheets:

Protests, dispositions, 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

**PG&E Gas and Electric
Advice Filing List
General Order 96-B, Section IV**

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	Sutherland, Asbill & Brennan
California ISO	International Power Technology	Tabors Caramanis & Associates
Calpine	Interstate Gas Services, Inc.	Tecogen, Inc
Calpine Corp	IUCG/Sunshine Design LLC	TFS Energy
Calpine Gilroy Cogen	J. R. Wood, Inc	Transcanada
Cambridge Energy Research Assoc	JTM, Inc	Turlock Irrigation District
Cameron McKenna	Luce, Forward, Hamilton & Scripps	U S Borax, Inc
Cardinal Cogen	Manatt, Phelps & Phillips	United Cogen Inc.
Cellnet Data Systems	Marcus, David	URM Groups
Chevron Texaco	Matthew V. Brady & Associates	Utility Resource Network
Chevron USA Production Co.	Maynor, Donald H.	Wellhead Electric Company
City of Glendale	MBMC, Inc.	White & Case
City of Healdsburg	McKenzie & Assoc	WMA
City of Palo Alto	McKenzie & Associates	
City of Redding	Meek, Daniel W.	
CLECA Law Office	Mirant California, LLC	
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	