December 30, 2004

Advice 2555-G-A/2521-E-A
(Pacific Gas and Electric Company ID U 39 M)

Public Utilities Commission of the State of California

Subject: Supplemental Filing - 2003 Headroom Calculation Complying with Bankruptcy Settlement Decision and Accounting for Certain Executive Compensation Complying with 2003 General Rate Case Decision

Pacific Gas and Electric Company (PG&E) hereby submits for filing revisions to its electric tariffs. The affected tariff sheets are listed on the enclosed Attachment I.

Purpose

Pursuant to Ordering Paragraph (OP) 4 of Resolution E-3906, PG&E is hereby submitting changes to Preliminary Statement Part DE - Headroom Account.

Changes to Part DE were originally proposed in Advice 2570-E. However, OP 3d and 4 of Resolution E-3906 required PG&E to remove the Part DE changes proposed in Advice 2570-E, and instead file the changes as a supplement to Advice 2555-G/2521-E.

Background

On June 14, 2004, PG&E filed Advice 2555-G/2521-E, which provided the calculation of and accounting for PG&E's 2003 headroom revenues and requested to replace the 2004 beginning balance in the Headroom Account (HA) previously adopted by the Commission with the revised excess 2003 headroom. PG&E also provided information on its accounting for certain executive compensation expenses pursuant to OP 11 of Decision (D.) 04-05-055. Finally, PG&E requested approval to revise the name of the revised Utility Generation Balancing Account (UGBA) to the Generation Revenue Adjustment Mechanism (GRAM). PG&E requested an effective date for Advice 2555-G/2521-E of July 24, 2004, which was 40 days after the date of filing. No protests were received to Advice 2555-G/2521-E.
On October 15, 2004, PG&E filed its Annual Electric Rate True-up filing (Advice 2570-E) to: (1) establish 2005 electric rates for recovery of the balances in balancing accounts already approved for amortization in 2005; (2) establish the 2005 Regulatory Asset revenue requirement; and (3) consolidate other CPUC and Federal Energy Regulatory Commission (FERC)-authorized revenue requirement changes effective January 1, 2005. Advice 2570-E is consistent with the requirements of D.03-12-035 and D.04-02-062 implementing PG&E’s post-rate freeze ratemaking mechanisms and the Rate Design Settlement Agreement. PG&E requested a January 1, 2005, effective date for Advice 2570-E.

As part of Advice 2570-E, PG&E filed revisions to Preliminary Statement Part DE, to reflect credits to customers for additional excess headroom consistent with D.03-12-035. Specifically, Part DE is modified to account for certain transmission related refund obligations that have resulted from specific FERC orders issued during 2004: 1) the Transmission Owner (TO) 3 refund; 2) the TO6 refund; and 3) the PBOP/LTD (Post-Retirement Benefits Other than Pension/Long-Term Disability) refund. PG&E will file a supplement to this Advice implementing rate changes related to the revised 2005 revenue requirement for the HA once the Commission approves this Advice 2555-G-A/2521-E-A.

**Effective Date**

As described in OP 4 of Resolution E-3906 this supplemental filing is not subject to protests. PG&E requests that this supplement become effective **July 24, 2004**, which is effective date requested in the original 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. 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

[Brian K. cherry]

Director - Regulatory Relations

**Attachments**

cc: Service Lists for A.02-11-017 and I.02-04-026.
<table>
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DE. HEADROOM ACCOUNT (HA)

1. PURPOSE: The purpose of the HA is to record and recover an adjustment, if necessary, to the 2003 headroom revenues, as defined in the Chapter 11 Modified Settlement Agreement (MSA), Paragraph 8b as clarified by Decision 03-12-035 for purposes of calculating the headroom for 2003. The HA will also be used to implement three refunds to customers that occurred in 2004: (1) the Transmission Owner (TO) 3 refund (FERC Docket ER99-2326-000); (2) the TO6 refund (FERC Docket ER03-409-000, et al.; and (3) the PBOP/LTD (Post-Retirement Benefits Other than Pension/Long-Term Disability) refund (CPUC Resolution G-3362, dated March 16, 2004).

2. APPLICABILITY: The HA shall apply to all customer classes, except for those specifically excluded by the Commission.

3. REVISION DATE: Disposition of amounts in this account shall be determined in the Annual Electric True-up Proceeding or any other proceeding or advice letter process as authorized by the Commission.

4. RATES: The HA rates are set forth in electric Preliminary Statement Part I.

5. ACCOUNTING PROCEDURE: PG&E shall maintain the HA by making entries to this account at the end of each month as follows:
   a. A credit or debit entry equal to an adjustment, if necessary, to the 2003 headroom revenues, as defined in the MSA Paragraph 8b (i.e., if the 2003 headroom revenue is greater than $875 million the difference (adjustment) will be a credit to this account; and if the headroom revenue is less than $775 million the difference (adjustment) will be a debit to this account)
   b. An entry equal to the revenue from the HA amortization rate component.
   c. An 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 the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H-15 or its successor.
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BART
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City of Glendale
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CLECA Law Office
Constellation New Energy
Cooperative Community Energy
CPUC
Creative Technology
Cross Border Inc
Crossborder Inc
CSC Energy Services
Davis, Wright Tremaine LLP
Davis, Wright, Tremaine, LLP
Defense Fuel Support Center
Department of the Army
Department of Water & Power City
Dept of the Air Force
DGS Natural Gas Services
DMM Customer Services
Douglass & Liddell
Downey, Brand, Seymour & Rohwer
Duke Energy
Duke Energy North America
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Dynegy Inc.
Ellison Schneider
Energy Law Group LLP
Energy Management Services, LLC
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Exelon Energy Ohio, Inc
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G. A. Krause & Assoc
Gas Transmission Northwest Corporation
GLJ Energy Publications
Goodin, MacBrige, Squeri, Schlotz & Hanna & Morton
Heeg, Peggy A.
Hogan Manufacturing, Inc
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Imperial Irrigation District
Integrated Utility Consulting Group
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J. R. Wood, Inc
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Marcus, David
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