March 2, 2005

Advice Letter 2584-E

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

Subject: Establishment of the Reliability Cost Balancing Account

Dear Ms de la Torre:

Advice Letter 2584-E is effective July 8, 2004. A copy of the advice letter is returned herewith for your records. This corrects the subject line in our letter dated February 3, 2005.

Sincerely,

Sean H. Gallagher, Director
Energy Division
November 9, 2004

Advice 2584-E
(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: Establishment of the Reliability Cost Balancing Account

In accordance with Decision (D.) 04-07-028, Interim Opinion Regarding Electricity Reliability Issues, Pacific Gas and Electric Company (PG&E) hereby submits for filing the following changes to its tariff schedules. The affected tariff sheets are listed on the enclosed Attachment I.

Purpose

This advice filing creates a new Electric Preliminary Statement Part DO for a new balancing account, the Reliability Cost Balancing Account (RCBA), consistent with the direction provided in D.04-07-028.

Background

On July 8, 2004, the California Public Utilities Commission (CPUC, Commission) issued D.04-07-028 to clarify and modify past Commission orders regarding the principles that utilities shall follow when making resource scheduling and procurement decisions. D.04-07-028 ordered utilities to consider additional categories of California Independent System Operator (CAISO)-related costs in their evaluation of resource scheduling and procurement options incorporating “all known and reasonably anticipated [CAISO]-related costs (including congestion, re-dispatch and must-offer costs).”

In accordance with D.04-07-028, PG&E will request cost recovery for any additional reliability-related costs that it incurs as a result of implementing the requirements of D.04-07-028 through its Federal Energy Regulatory Commission (FERC) Reliability Services tariff provisions. The CPUC recognized that utilities may not be able to recover all reliability-related costs through these FERC tariff provisions, and it authorized utilities to seek recovery, for any disallowances by FERC, from the CPUC in the appropriate Energy Resource Recovery Account (ERRA) proceeding.
PG&E requests that this advice filing become effective on July 8, 2004, the same effective date as D.04-07-028.¹ PG&E will immediately begin recording reliability-related costs it incurs as a result of implementing D.04-07-028. At the time that these costs are deemed recoverable by FERC, PG&E will reduce (offset) the costs recorded in the RCBA by the amounts recovered through FERC-approved Reliability Services rates.

**Protest Period**

Anyone wishing to protest this filing may do so by sending a letter by **November 29, 2004**, which is 20 days from the date of this filing. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. Protests should be mailed to:

IMC Branch Chief – Energy Division  
California Public Utilities Commission  
505 Van Ness Avenue, 4th Floor  
San Francisco, California 94102  
Facsimile: (415) 703-2200  
E-mail: jjr@cpuc.ca.gov

Copies should also be mailed to the attention of the Director, Energy Division, Room 4005 and Jerry Royer, Energy Division, at the address shown above. It is also requested that a copy of the protest be sent via e-mail and facsimile to Pacific Gas and Electric Company on the same date it is mailed or delivered to the Commission at the address shown below.

Pacific Gas and Electric Company  
Attention: Brian Cherry  
Director, Regulatory Relations  
77 Beale Street, Mail Code B10C  
P.O. Box 770000  
San Francisco, California 94177  
Facsimile: (415) 973-7226  
E-mail: RxDd@pge.com

¹ As of October 29, 2004, PG&E has not incurred any reliability-related costs that would be recorded to the RCTA.
Effective Date

PG&E requests that this advice filing become effective on July 8, 2004, the same effective date as D.04-07-028.

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 parties on the service list for Rulemaking (R.04-04-003). Address changes should be directed to Rose De La Torre (RxDd@pge.com) 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 List - R. 04-04-003
<table>
<thead>
<tr>
<th>Cal P.U.C. Sheet No.</th>
<th>Title of Sheet</th>
<th>Cancelling Cal P.U.C. Sheet No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>22440-E</td>
<td>Preliminary Statement DO – Reliability Cost Balancing Account</td>
<td>N/A</td>
</tr>
</tbody>
</table>
PRELIMINARY STATEMENT
(Continued)

DO. RELIABILITY COST BALANCING ACCOUNT (RCBA)

1. PURPOSE:

The purpose of the RCBA is to track the reliability premium associated with deviations from least cost dispatch practices to incorporate known or reasonably anticipated California Independent System Operator (CAISO)-related costs incurred to address reliability issues in areas where PG&E serves load. Decision 04-07-028 dated July 8, 2004, in Ordering Paragraph 1c noted these CAISO costs include congestion, re-dispatch, and must-offer costs.

Reliability related costs are defined as additional costs (beyond the level that would result from strict least-cost dispatch) incurred by PG&E to implement D. 04-07-028. These additional costs are those associated with the dispatch of generating units under PG&E's operational control and designated by the CAISO in its Procedure “M-438”, as being required to meet local area reliability requirements. In an unconstrained, least-cost dispatch of resources, these units may not have been committed at all, or may have been committed for insufficient hours in the day-ahead market in order to satisfy the local area reliability criteria identified in Procedure M-438. The reliability related cost is the incremental cost above that realized by an unconstrained, least-cost dispatch result. It is calculated by comparing the total least-cost dispatch solution in the day ahead timeframe with the total cost incurred as a result of re-dispatching resources according to Procedure M-438. The difference is the reliability related cost.

Pursuant to D. 04-07-028, PG&E will initially apply to recover costs recorded in the RCBA through FERC rates. For costs that are not deemed recoverable through FERC rates, PG&E will apply for recovery through a future ERRA proceeding. The Commission would review costs tracked in the RCBA that are not deemed recoverable through FERC rates in future Energy Resource Recovery Account applications, or other proceeding, as deemed appropriate.

2. APPLICABILITY:

The RCBA shall apply to all customer classes, except for those specifically excluded by the Commission.

3. RCBA RATES:

There is no rate component.

4. ACCOUNTING PROCEDURE:

PG&E shall maintain the RCBA by making entries to this account at the end of each month as follows:

a. A debit entry equal to the total reliability related cost, computed on a daily basis as discussed above.

b. An entry equal to the interest on the average of the balance 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.

c. A credit entry equal to the revenues received through a FERC-approved reliability services rate that is for recovery of reliability costs due to redispach under procedure M438 as discussed above.
PG&E Gas and Electric Advice
Filing List
General Order 96-A, Section III(G)

ABAG Power Pool
Accent Energy
Aglit Consumer Alliance
Agnews Developmental Center
Ahmed, Ali
Alcantar & Elsesser
Anderson Donovan & Poole P.C.
Applied Power Technologies
APS Energy Services Co Inc
Ater & 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.
Childress, David A.
City of Glendale
City of Haaldsburg
City of Palo Alto
City of Redding
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 & Liddle
        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
        Enron Energy Services
        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, Squier, Schlotz &
        Hanna & Morton
        Heeg, Peggy A.
        Hogan Manufacturing, Inc
        House, Lon
        Imperial Irrigation District
        Integrated Utility Consulting Group
        International Power Technology
        Interstate Gas Services, Inc.
        J. R. Wood, Inc
        JTM, Inc
        Kaiser Cement Corp
        Korea Elec Power Corp
        Luce, Forward, Hamilton & Scripps
        Marcus, David
        Masonite Corporation
        Matthew V. Brady & Associates
        Maynor, Donald H.
        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
        Palo Alto Muni Utilities
        PG&E National Energy Group
        Pinnacle CNG Company
        PITCO
        Plurim, Inc.
        PPL EnergyPlus, LLC
        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
        Simpson Paper Company
        Smurfit Stone Container Corp
        Southern California Edison
        SPURR
        St. Paul Assoc
        Stanford University
        Sutherland, Asbill & Brennan
        Tabor's Caramanis & Associates
        Tansev and Associates
        Tecogen, Inc
        TFS Energy
        T.J. Cross Engineers
        Transwestern Pipeline Co
        Turlock Irrigation District
        U.S. Borax, Inc
        United Cogent Inc.
        URM Groups
        Utility Cost Management LLC
        Utility Resource Network
        Wellhead Electric Company
        Western Hub Properties, LLC
        White & Case
        WMA