January 3, 2005

Advice Letter 2596-E-A

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

Subject: Establishment of a new preliminary statement for the dedicated rate component complying with energy recovery bond decision

Dear Ms de la Torre:

Advice Letter 2596-E-A is effective January 8, 2005. A copy of the advice letter is returned herewith for your records.

Sincerely,

[Signature]

Paul Clanon, Director
Energy Division
December 27, 2004

Advice 2596-E-A  
(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: Supplemental Filing - Establish New Preliminary Statement for the Dedicated Rate Component Complying with Energy Recovery Bond Decision

Pacific Gas and Electric Company (PG&E) hereby submits for filing revisions to its electric tariffs. The tariffs filed in this supplemental filing completely supersede the tariffs filed in Advice 2596-E. The affected tariff sheets are listed on the enclosed Attachment I.

Purpose

The purpose of this supplemental advice filing is to submit revisions to Preliminary Statement Part DP - Dedicated Rate Component (DRC) consistent with PG&E’s, December 23, 2004, response to the protests to Advice 2596-E by Modesto, Merced, and BART. PG&E also clarifies issues surrounding applicability of municipal departing load charges. Finally, PG&E addresses concerns surrounding the tracking of DRC charges for non-exempt departing load customers. On this final issue, PG&E emphasizes that it has not proposed specific preliminary statement language for the tracking accounts established by the financing order. PG&E did provide a general discussion in Advice 2596-E of how it anticipates these accounts will work. PG&E will file proposed preliminary statement language for these tracking accounts in the near future. It is in that future filing, where parties’ concerns surrounding this final issue can be addressed.

Limitation of Recovery of Dedicated Rate Component Charges to Consumers in PG&E’s Service Territory as of December 19, 2003

Both Modesto and Merced expressed concern that PG&E’s proposed tariff language for the DRC Preliminary Statement did not explicitly reference that SB 772 provides, via Public Utilities Code Sections 848(k) and 848.1(a), that the DRC charges shall be collected from “non-exempt” consumers of electricity within the
geographical area that PG&E provided with electric distribution service as of December 19, 2003.

In response, PG&E is modifying paragraph 2 of the DRC preliminary statement to read: “Pursuant to the legislation (SB 772), this DRC charge applies to all consumers of electricity in the geographical area that PG&E provided with distribution service as of December 19, 2003, including all customer classes, except for those specifically excluded by the legislation or by the Commission.”

Applicability of DRC Charges to New Municipal Load Customers Exempt From the Obligation to Pay Certain Customer Responsibility Surcharge (CRS) Charges Pursuant To D. 04-11-014

In its protest, Modesto asserted generally, and noted that PG&E correctly asserts in its advice letter, that pursuant to SB 772, new municipal load customers who are excepted from the DWR power charge in D. 04-11-014 (as modified by D. 04-12-059) are also excepted from the DRC charges.

Merced requested that the Commission ensure that any tariffs PG&E adopts to collect the DRC charge expressly exempt new municipal departing load as a result of the limited rehearing granted in D. 03-08-075.

In its response, PG&E agreed that new municipal load customers who are excepted from the DWR power charge in D. 04-11-014 (as modified by D. 04-12-059) are also excepted from the DRC charges. However, this does not necessitate any changes to PG&E’s proposed preliminary statement language for the DRC charges.

When PG&E’s departing load tariffs are adopted, and modified to reflect the applicability of the DRC charges to departing load customers, it may make sense to incorporate additional detail regarding which departing load customers are exempt from the DRC charges, and which are not in those tariffs.

Effective Date

Consistent with Advice 2596-E, PG&E requests that this advice filing become effective on regular notice, January 8, 2005, which is 40 days after the date of the original filing. Pursuant to Conclusion of Law 46 in D.04-11-015, the tariffs themselves will be effective on the effective date of the DRC charge specified in the Issuance Advice Letter. Pursuant to direction from Energy Division staff, this supplemental filing does not extend the protest period.

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 List for A. 04-07-032
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PRELIMINARY STATEMENT
(Continued)

DP. DEDICATED RATE COMPONENT (DRC)

1. PURPOSE: The purpose of this section is to establish a Fixed Recovery Amount charge (also known as Dedicated Rate Component (DRC) charge), as mandated in Senate Bill (SB) 772 in connection with Energy Recovery Bonds (ERBs). A separate DRC charge will apply to each series of ERBs issued. SB 772 authorizes PG&E to recover a portion of its Modified Settlement Agreement Regulatory Asset (Regulatory Asset) through the issuance of one or more series of ERBs. The DRC charge is defined by SB 772 as a non-bypassable, separate charge that is authorized by the Commission in a financing order to recover, inter alia, the unamortized balance of the Regulatory Asset, associated taxes and the costs of providing, recovering, financing or refinancing the Regulatory Asset, including the costs of issuing, servicing, and retiring ERBs. The DRC charge will be comprised of the following components: (1) scheduled debt service on the ERBs; (2) servicing fees; (3) Bond Trustee fees and other administrative expenses; (4) overcollateralization; (5) allowance for uncollectibles; and (6) other ongoing expenses. A separate DRC charge will apply to each series of ERBs issued.

The rights to the DRC charge constitute "recovery property" as defined in the legislation (SB 772) and will be established pursuant to a Financing Order (Decision 04-11-015) issued by the California Public Utilities Commission and an Issuance Advice Letter (IAL) to be filed by PG&E. PG&E will sell all of its rights with respect to such recovery property to PG&E Energy Recovery Funding LLC, a Delaware Limited Liability Company (Special Purpose Entity). The sale of recovery property will include: (1) all rights, titles, and interest in all revenues, collections, claims, payments, money, or proceeds of or from or constituting amounts that are subject of the IAL and the Financing Order; (2) the rights to be paid the amounts set forth in the IAL and the Financing Order, and (3) the right to seek and obtain adjustment to the DRC charge as provided in the IAL and the Financing Order. After each series of ERBs has been issued, PG&E will have no continuing rights to the recovery property, DRC charge or any amounts payable thereunder.

2. APPLICABILITY: Pursuant to the legislation (SB 772), this DRC charge applies to all consumers of electricity in the geographical area that PG&E provided with distribution service as of December 19, 2003, including all customer classes, except for those specifically excluded by the legislation or by the Commission.

3. ISSUANCE ADVICE LETTER: No later than four business days after each series of ERBs is priced, PG&E will file an IAL with the Commission for that series. The IAL will be effective upon filing, and the DRC charge established in each IAL will be effective automatically 10 days after the advice letter is filed or a later date if requested by PG&E, but no more than 60 days after the issuance of the associated bonds. The IAL for each series of ERBs shall include a description of the DRC charge calculation and the bond issuance amount, and shall identify the Special Purpose Entity and identify the DRC charge as recovery property.

(Continued)
DP. DEDICATED RATE COMPONENT (DRC) (Cont’d.)

4. DRC CHARGE ADJUSTMENTS: PG&E will file a Routine True-Up Mechanism Advice Letter one or more times per year as identified in the IAL and the Financing Order to adjust the DRC charge for each series of ERBs. The purpose of the adjustment is to ensure that DRC charge revenues are sufficient to make remittances of DRC charge collections to the Bond Trustee in amounts sufficient to make scheduled payments and deposits required under the indenture pursuant to which the series of ERBs is issued. The adjustment will be based on the following: (1) the most recent test-year sales; (2) the test-year projected amortization schedule; (3) estimated administrative fees and expenses; (4) an adjustment to reflect collections from the prior period; and (5) changes to projected uncollectibles. The advice letter will be filed at least 15 days before the end of the quarter and will adjust the DRC charge for each series of ERBs issued and become effective on the 1st day of the following calendar quarter.

In addition to the routine revisions to be effective on January 1 each year, PG&E may also make changes to the DRC charge based on changes to the cash flow model not specified above. In this case, PG&E will file a Non-Routine True-Up Mechanism Advice Letter no later than 90 days before the end of any calendar quarter and request that the revised DRC charge become effective in 90 days at the beginning of the next calendar quarter.

5. DRC CHARGE:

   (cents/kWh)

   ERB Series 1 .......................................................... 0.xxx
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PG&E Gas and Electric Advice
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Anderson Donovan & Poole P.C.
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Braun & Associates
C & H Sugar Co.
CA Bldg Industry Association
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City of Healdsburg
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 Tremain LLP
Davis, Wright, Tremaine, LLP
Defense Fuel Support Center
Department of the Army

Dept of the Air Force
DGS Natural Gas Services
DMM Customer Services
Douglass & Liddell
Downey, Brand, Seymour & Rothwer
Duke Energy
Duke Energy North America
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Energy Law Group LLP
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Exelon Energy Ohio, Inc
Exeter Associates
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13-Oct-04