PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

I.D. 6129

ENERGY DIVISION **RESOLUTION E-4032**

November 30, 2006

R E S O L U T I O N

Resolution E-4032. Pacific Gas and Electric Company (PG&E) submits electric tariff revisions to recover balances in balancing accounts, establish the Energy Recovery Bonds Balancing Account revenue requirement, and consolidate changes to electric rates effective January 1, 2007. Approved with modifications.

By Advice Letter 2895-E filed on September 1, 2006.

SUMMARY

PG&E's proposal to revise electric rates effective January 1, 2007 to recover balancing account balances, establish the 2007 Energy Recovery Bonds Balancing Account (ERBBA) Revenue Requirement, consolidate authorized rate changes in its Annual Electric True-up (AET), and hold electric revenues constant until March 1, 2007, is approved with the following modifications:

- Balances in balancing accounts authorized for recovery in rates shall be subject to future audit, verification, and adjustment as necessary.
- Recovery of balances in the Demand-Responsiveness Program Memorandum Account (DRPMA) are subject to Commission review before recovery through a separate application or advice letter; any action taken by the Commission on the DRPMA prior to the end of 2006 may be reflected in rates effective January 1, 2007 authorized pursuant to this resolution.
- All residential Tier 1 and 2 rates, and CARE rates in all tiers resulting from interpretation of Senate Bill (SB)1 California Solar Initiative (CSI) legislation have been deferred subject to review in Phase 2 of PG&E's 2007 General Rate Case (GRC) (A.06-03-005).
- Consideration of exemption from CSI-legislated increases for FERA customer use in Tiers 3 through 5 will be deferred to Phase 2 of PG&E's 2007 GRC.

In addition to recovering balances in accounts previously authorized in Resolutions E-3906 and E-3956, PG&E is authorized to recover balances in the Procurement Energy Efficiency Revenue Adjustment Mechanism (PEERAM), the Customer Energy Efficiency Incentive Account (CEEIA), the SmartMeter ™ Balancing Account (SBA), the Demand Response Revenue Balancing Account (DRRBA), and the Pension Contribution Balancing Account (PCBA).

In AL 2895-E, PG&E estimates that its 2007 AET revenue requirement increase request will be $68 million, to be offset by a settlement of approximately $200 million in the November 2006 Energy Resources Recovery Account (ERRA) update.

PG&E estimates that electric rates from accounts approved for recovery in the AET will increase by approximately $68 million, while the Qualifying Facilities (QF) settlement adopted in D.06-07-032—which will be included in the November 2006 ERRA update—will be approximately $200 million. This would result in a net revenue requirement decrease of approximately $132 million on January 1, 2007.

PG&E is authorized to hold electric revenues constant until March 1, 2007, in anticipation of an overall net revenue increase, rather than implementing a temporary rate decrease followed shortly by a rate increase.

To avoid an electric rate "roller coaster", PG&E proposed in AL 2895-E to hold total electric revenue the same on January 1, 2007—subject to later true-up—to minimize the revenue requirement and resulting rate increase anticipated for March 1, 2007. At this time, PG&E forecasts a $192 million increase related to its 2007 GRC and a $113 million increase in its Federal Energy Regulatory Commission (FERC)-jurisdictional Transmission Owners (TO)9 rate case. Netting the forecasted AET decrease of $132 million against a combined GRC and TO9 increase of $305 million would result in an overall forecasted increase of $173 million effective March 1, 2007. PG&E is authorized to hold revenues constant through the beginning of 2007 in anticipation of a net revenue requirement increase authorized by a decision in PG&E's 2007 GRC.

PG&E shall revise its AL 2895-E AET estimate to reflect actual changes authorized by the Commission and FERC prior to the end of 2006.

PG&E will supplement AL 2895-E before the end of 2006 to reflect the actual rate and revenue changes authorized by the Commission in various proceedings and advice letters, and actual changes authorized by the FERC. The supplement to AL 2895-E will also incorporate updated balances to accounts to be amortized in rates on January 1, 2007. The rates PG&E files in its supplemental advice letter will be reviewed for compliance after the January 1, 2007. If any rates filed in the supplement are not in compliance with this order, PG&E shall modify rates as required and make necessary billing adjustments.

The rate changes which may be authorized by FERC and subject to refund are just and reasonable.

BACKGROUND

The Commission has authorized PG&E to consolidate revenue requirements and amortize balances in regulatory accounts through the AET advice letter process..

In AL 2706-E dated September 1, 2005, PG&E filed its 2005 AET advice letter for rates effective January 1, 2006. In that AL, PG&E proposed to consolidate revenue requirements authorized by the Commission and the FERC prior to the end of 2005, and recover balances in regulatory accounts previously considered in Resolution E-3906 (December 15, 2004) which addressed PG&E's 2004 AET advice letter. PG&E also requested in AL 2706-E authority to recover balances in the California Alternate Rates for Energy Account (CAREA), the ERBBA, the Headroom Account (HA), The Electric Vehicle Balancing Account (EVBA), the Family Electric Rate Assistance Balancing Account (FERABA), the Affiliate Transfer Fees Account (ATFA), the Interruptible Load Programs Memorandum Account (ILPMA), and the Self-Generation Program Memorandum Account (SGPMA), for rates effective January 1, 2006.

PG&E included in AL 2706-E tables showing account balances requested for recovery as recorded through July 31, 2005. PG&E proposed that it submit a supplement to AL 2706-E in December 2005 to amortize balances recorded through November 2005, and forecasted December 2005 balances, and to consolidate all Commission and FERC authorized revenue requirements for new rates effective January 1, 2006.

Resolution E-3956 addressed PG&E's AL 2706-E request to add additional accounts for recovery in the AET, including those balances included in the SGPMA.

Resolution E-3956 approved PG&E's request with modifications, allowing the balances in the CAREA, ERBBA, HA, EVBA, FERABA, ATFA, and ILPMA to be included for recovery through PG&E's AET and effective in rates January 1, 2006.

In Resolution E-3956 the Commission allowed PG&E to recover SGPMA balances recorded through June 30, 2005 associated with the Self-Generation Incentive Program (SGIP). In that resolution the Commission also allowed PG&E to recover SGIP costs recorded from July 1, 2005 through December 31, 2006 subject to Commission action on PG&E's AL 2673-E, or in Rulemaking (R.)04-03-017, in which those balances were being reviewed.

On December 15, 2005, the Commission issued D.05-12-044 in R.04-03-017, authorizing PG&E to (1) recover SGIP costs recorded from July 1, 2005 through December 31, 2005, and (2) "to include its share of the amount authorized for the SGIP in 2006…following the effective date of this decision" while reserving the "prerogative to audit or otherwise review related accounts at any time." As such, PG&E was allowed to recover these balances in rates effective January 1, 2006 as part of the AET advice letter process.

Advice Letter 2895-E complied with Resolution E-3956 in submitting by September 1, 2006 estimated revenue requirements and balances in regulatory accounts to be amortized in rates effective January 1, 2007.

On September 1, 2006, PG&E filed AL 2895-E, its third AET advice letter addressing electric revenues and rates effective January 1, 2007. In addition to requesting recovery of revenue requirements authorized prior to the end of 2006 by the Commission and the FERC, and recovery of balances in accounts previously considered in Resolution E-3956, PG&E requested in AL 2895-E recovery of balances in the PEERAM, the CEEIA, the SBA, the DRRBA, the DRPMA, and the PCBA. PG&E proposes that disposition of balances in the PCBA be amortized through the Distribution Revenue Adjustment Mechanism (DRAM) and the Utility Generation Balancing Account (UGBA).

The Commission must authorize the recovery of balances in memorandum accounts prior to their being included in the AET AL process.

Costs recorded in memorandum accounts are subject to Commission review and approval prior to their being amortized in rates. In the AET advice letter process, the Commission consolidates revenue requirements and account balances it has previously authorized for recovery in prior orders. Costs tracked in memorandum accounts such as the DRPMA are subject to Commission review and approval, either through a separate advice letter or an application prior to their being included for recovery in the AET advice letter process.

In AL 2895-E, PG&E estimates a consolidated $68 million revenue requirement increase for 2007. Of this amount, $82 million is related to Commission-authorized revenue increases, offset by a $14 million decrease related to FERC-authorized revenues, seeks to implement a revenue requirement increase of $82 million related to Commission-authorized increases and a $14 million decrease related to FERC-authorized revenue requirement. The net result is a revenue requirement increase of $68 million.

In AL 2895-E, PG&E provided illustrative rates effective January 2007 based on balancing account balances as of July 31, 2006, and revenue requirement requests filed in the applications and advice letters pending before the Commission. The total annual revenue requirement increase reflecting these illustrative rates is $68 million. The following is a breakdown of the components of the annual revenue requirement increase estimated in AL 2895-E:

- Estimated CPUC-authorized 2006 increase: $82 million
    - ERRA and Ongoing Competition Transition Charge (CTC)/Modified Transition Cost Balancing Account (MTCBA): $279 million
    - Department of Water Resources (DWR) Bond, Power (including Power Charge Cost Balancing Account)(PCCBA), and Franchise Fees: $129 million
    - Public Purpose Programs (PPP)/Public Purpose Program Revenue Adjustment Mechanism (PPPRAM)/CAREA/PEERAM: $62 million
    - Advanced Metering/SBA: $26 million
    - Demand Response/DRRBA: $14 million
    - HA: $13 million
    - CSI: $10 million
    - Energy Recovery Bonds (ERBs), Rate Reduction Bonds (RRBs): -$218 million

  - Distribution/DRAM -$121 million
  - Utility Retained Generation/UGBA: -$87 million
  - Self-Generation: -$16 million
  - Nuclear Decommissioning/Nuclear Decommissioning Adjustment Mechanism (NDAM): -$9 million

- Estimated FERC-authorized 2007 decrease: -$14 million
  - Reliability Services: -$19 million
  - Transmission Revenue Balancing Account Adjustment: $5 million

PG&E anticipates a reduction of $200 million in its November 2006 ERRA revenue requirement due to a decrease of $200 million in QF-related costs, pursuant to a recent settlement adopted by the Commission update.

D.06-07-032 adopted a proposed settlement between PG&E and the Independent Energy Producers Association regarding QFs, and PG&E estimates that total procurement costs and the Ongoing CTC will be lower than previously forecasted by approximately $200 million. PG&E will file an updated forecast of its 2007 procurement revenue requirement in November 2006 in its ERRA proceeding A.06-06-001. PG&E will consolidate this decrease in its supplemental advice letter (described below) if the Commission approves this updated amount in a final decision by the end of 2006.

The consolidated revenue requirement change, including the $200 million ERRA decrease, would be an overall decrease of $132 million on January 1, 2007.

PG&E proposes to supplement AL 2895-E prior to January 1, 2007 to incorporate updated balancing account balances and the revenue requirement change approved by the Commission and FERC.

PG&E proposes to supplement AL 2895-E prior to the end of 2006 to incorporate the sum of (1) balancing account balances recorded through November 30, 2006 and forecasted balancing account balances through December 31, 2006, and (2) revenue requirement changes authorized by the Commission and FERC by the end of the year. The supplemental AL would include the new rates and revised tariffs to become effective on January 1, 2007.

NOTICE

Notice of AL 2895-E was made by publication in the Commission's Daily Calendar. PG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A, and served on parties to A.00-11-038, A.02-11-017, A.05-05-006, A.05-06-004, A.05-06-006, A.05-06-007, A.05-11-009, A.05-12-002, A.05-12-021, A.06-05-016, A.06-06-001, A.06-06-034, A.06-08-004, A.06-08-011, R.02-01-011, and R.06-07-010.

PROTESTS

TURN protests PG&E's proposed implementation of Senate Bill 1 (SB1).

The Utility Reform Network (TURN) filed a timely protest to AL 2895-E on September 21, 2006.

TURN protests PG&E's illustrative January 1, 2007 electric rates because they reflect an allocation of CSI revenue requirements to non-CARE and non-FERA residential tier 1 and 2 rates for usage below 130 percent of baseline.

The CSI was signed into law through SB1 on August 21, 2006. SB1 requires that the cost of the CSI be funded by all electric customers (1) except those customer taking service under CARE or FERA rate options, including (2) residential customers subject to the rate cap required by Section 80110 of the Water Code for existing baseline quantities or usage up to 130 percent (including tier 1 and 2 rates) for non-CARE and non-FERA residential customers.

TURN objects to PG&E's attempt to implement SB1 through an advice letter. TURN maintains that "legal and factual issues regarding the proper interpretation and implementation of that statute" existed "that cannot be adequately resolved through the advice letter process."

TURN also states that PG&E's request "is an improper interpretation of the statute, because PG&E's current rates, including Tier 1 and 2 rates, already include some amount of funding for solar and related programs." As a result, TURN states that "only an incremental increase in the cost of such programs should be added on to current Tier 1 and Tier 2 rates." Additionally, TURN states that "the advice letter itself does not address the basis upon which CSI

costs will be allocated among customer classes. That issue is certainly more appropriate for Phase 2 of the GRC than an advice letter filing."

PG&E replied to TURN's protest on September 28, 2006. PG&E agrees to defer consideration of the interpretation of SB1 and CSI revenue requirements to Phase 2 of PG&E's 2007 GRC in A.06-03-005, so that non-CARE and non-FERA residential rates for use up to 130 percent of baseline will not increase through approval of AL 2895-E. In the interim between January 1, 2007 and a decision in PG&E's GRC, PG&E proposes that the CSI-related surcharges for non-CARE and non-FERA residential use in excess of 130 percent of baseline (tiers 3 through 5) will be "increased proportionately to ensure that the total allocation to the residential class is collected in residential rates."

PG&E's reply also addresses TURN' s statement regarding PG&E's interpretation of the statute and associated tier 1 and 2 rates already including "some amount of funding for solar and related programs." PG&E states that "If the issue is deferred, then this section does not need to be addressed in connection with Advice 2895-E."

PG&E adds in its reply "If the Commission declines to defer consideration of the tier 1 and tier 2 rate issues to PG&E's Phase 2, PG&E believes its proposed allocation of CSI costs is reasonable and should be approved."

DISCUSSION

TURN's protest is granted; consideration of the allocation of CSI-legislated residential rate increases to non-CARE and non-FERA tiers 1 and 2 shall be deferred to Phase 2 of PG&E's 2007 GRC.

Interpretation of SB 1 for purposes of designing rates is a matter properly considered in phase 2 of PG&E's pending 2007 GRC, A.06-03-005. TURN's protest is granted. PG&E's proposal that CSI legislation-related revenues allocated to the residential class be assessed to rate tiers 3 through 5 for all non-CARE residential customers, pending a decision in A.06-03-005 is reasonable and should be adopted.

PG&E shall reflect in rates all Commission and FERC-authorized revenue requirement changes approved before the end of 2006 through a supplemental advice letter.

Consistent with the procedure established in Resolution E-3906, for rates effective January 2005, and followed in Resolution E-3956 for rates effective January 2006, we authorize PG&E to supplement AL 2895-E by December 29, 2006 to reflect the revenue requirements approved by the Commission in various proceedings and advice letters. We authorize PG&E to make the rates filed in the supplemental advice letter effective on January 1, 2007. The rates filed in this supplement will be reviewed by the Energy Division after January 1, 2007. In the event that after new rates become effective, the Energy Division or a party reviewing the supplement discovers compliance issues that require modification of rates filed in the supplement, PG&E shall modify the rates as required and re-bill customers if necessary, or make other appropriate adjustments in a timely manner.

Pending CPUC proceedings and advice letters will affect the calculation of the amounts approved for recovery. In its supplement to AL 2895-E, PG&E shall reflect revenue requirements approved before the end of 2006, and shall update balances in balancing accounts approved for recovery by this Resolution:

PG&E is authorized to incorporate revenue requirement changes resulting from decisions issued by December 29, 2006, in the following proceedings:

- 2007 GRC, A.05-12-002
- ERRA and Ongoing CTC, A.06-06-001
- PPP – Low Income Energy Efficiency (LIEE) and CARE Administration, A.06-06-034
- 2007 DWR Bond Charge Revenue Requirement, A.00-11-038
- 2007 DWR Power Charge Revenue Requirement, A.00-11-038
- General Divestiture Transaction Costs Memorandum Account (GDTCMA) Application, A.06-08-004
- British Columbia Renewable Power Feasibility Study Application, A.06-08-011
- Climate Protection Tariff Application, A.06-01-012
- SB1, signed into law August 21, 2006 (due to possible changes in gas and electric forward prices caused by market volatility)

PG&E is also authorized to incorporate in rates revenue requirement changes resulting from the following advice letters that are made effective by December 29, 2006:

- Capacity Bidding Program (CBP), AL 2839-E

- GDTCMA, AL 2883-E
- PCBA, AL 2881-E
- Real Property Gain/Loss on Sale Memorandum Account, AL 2866-E
- HA, AL 2521-E
- Heat Storm Bill Credit, AL 2885-E
- Fixed Transition Amount (FTA), pending an anticipated December-issued AL
- Dedicated Rate Component (DRC) Charges Annual True-Up Advice Letter, pending an anticipated December-issued AL
- Advanced Metering and Demand Response Memorandum Account Advice Letters, AL 2772-E and AL 2836-E

PG&E should be allowed to amortize balances in accounts previously authorized by Resolutions E-3906 and E-3956 for recovery through the AET advice letter.

This resolution also allows the following accounts to be amortized through the same advice letter process allowed by Resolutions E-3906 and E-3956: The DRAM, PPPRAM, NDAM, UGBA, Electric Reimbursable Fees Balancing Account (ERFBA), PCCBA, Rate Reduction Bond Memorandum Account (RRBMA), Hazardous Substance Mechanism (HSM), CAREA, ERBBA, HA, EVBA, FERABA, ATFA, and ILPMA accounts.

PG&E is also authorized to recover balances in the PEERAM, CEEIA, SBA, DRRBA, and the PCBA.

Energy Division has reviewed the applicable tariffs, advice letters and Commission orders relating to the PEERAM, the CEEIA, the SBA, the DRRBA, and the PCBA. The PEERAM ensures the collection of PG&E's procurement energy efficiency revenues associated with authorized programs; it tracks actual revenues for authorized procurement energy efficiency activities against the authorized revenue requirement for those activities, per D.03-12-062, and as approved in compliance AL 2838-E. PG&E may recover PEERAM balances through the AET AL subject to audit, verification, and review of the account.

The CEEIA is a subaccount of the Customer Energy Efficiency Adjustment (CEEA); it collects the remaining amount of a settlement adopted in D.05-10-041, in which the Division of Ratepayer Advocates (DRA) and PG&E resolved all shareholder incentive claims in the consolidated Annual Earnings Assessment

Proceeding (AEAP) (A.00-05-004). Per the decision, the settlement amount shall be collected through the Customer Energy Efficiency Incentive rate, which is a subcomponent of distribution revenues. The CEEA was established to track the settlement costs upon Commission approval of compliance AL 2750-E. Energy Division made AL 2750-E effective December 13, 2005.

The SBA records and recovers incremental operations and maintenance and administrative and general expenditures, capital-related costs, capital-related revenue requirements, benefits, and revenues associated with PG&E's SmartMeter ™ project (Advanced Metering Infrastructure in A.05-06-028); any under- or overcollection will be incorporated into distribution rates in the AET. The project was authorized in D.06-07-027 and approved through compliance AL 2877-E.

The DRRBA records the difference between authorized Demand Response revenue requirements and dedicated distribution rate revenues to provide full recovery of Demand Response program revenue requirements during the 2006 through 2008 program cycle budget. The DRRBA allows recovery of Demand Response program costs recorded in the Demand Response Expenditure Balancing Account (DREBA), not to exceed the program cycle budget. The DRRBA was authorized in D.06-03-024, and approved through compliance AL 2804-E.

The PCBA records the electric distribution and generation revenue requirement associated with the difference between adopted annual pension contributions as authorized in D.06-06-014, and a) lower contributions for any reason, or b) federally mandated higher contributions. Any under- or overcollection will be recovered (or returned) through the AET via the DRAM (electric distribution) and UGBA (generation). Authorizing the PCBA to recover or refund balances through the AET is subject to approval of compliance AL 2881-E.

Balances recorded after September 2004 in PG&E's DRPMA shall be reviewed through a separate application or advice letter prior to being recovered through the AET advice letter process.

Resolution E-3944 addressed AL 2580-E; that advice letter requested recovery of expenses tracked in PG&E's SGPMA and DRPMA memorandum accounts. Resolution E-3944 addressed the advice letter by approving SGPMA and DRPMA costs through October 31 and September 30, 2004, respectively. That

resolution approved recovery of these amounts for these respective periods through the 2005 or 2006 AET. DRPMA expenses tracked after September 30, 2004 have not been reviewed, and therefore remain subject to approval by the Commission. Costs recorded after September 30, 2004 in PG&E's DRPMA may not be recovered through PG&E's 2006 AET advice letter process unless the Commission specifically authorizes recovery of those costs in a separate order prior to the end of 2006.

Memorandum accounts track costs that utilities may seek to recover after the Commission has reviewed and approved recovery of those costs; they do not become part of a utility's revenue requirement until Commission review and approval occurs. The AET is a process in which PG&E's revenue requirements authorized by the Commission are consolidated. The AET is a forum for PG&E to recover costs recorded in a memorandum account such as the DRPMA, which have been reviewed and approved for recovery by the Commission in a separate proceeding (or are pending review that is scheduled to be completed prior to the end of the year). As such, it is appropriate for costs recorded in a memorandum account to be evaluated through a separate application or advice letter. Any action taken by the Commission, i.e. separately from the AET, prior to the end of 2006 regarding DRPMA balances tracked after September 30, 2004 may be reflected in rates effective January 1, 2007.

PG&E will no longer amortize the Streamlining Residual Account (SRA) for recovery in the AET.

The Energy Division made AL 2892-E effective on September 22, 2006 by staff disposition, which eliminates the SRA; balances previously recorded in the SRA will be recovered through the DRAM in this AET.

The balances in all accounts authorized for recovery in rates are subject to audit, verification, and adjustment as necessary.

The balances in the accounts authorized for recovery by this resolution are subject to future review, verification, and adjustment as if necessary by the Commission.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Accordingly, this draft resolution was mailed for comments at least 30 days before being considered by the Commission.

FINDINGS

1. Resolution E-3906 allowed PG&E to file an advice letter by September 1, 2005, to amortize various regulatory account balances and consolidate revenue requirements authorized by the Commission and the FERC in electric rates effective January 1, 2006.
2. Consistent with the procedure followed in Resolution E-3906, Resolution E-3956 directed PG&E to file a supplemental advice letter by December 31, 2005, to show account balances updated with recorded data as of November 30, 2005, and to amortize the account balances and consolidate authorized revenue requirements in rates effective January 1, 2006.
3. PG&E filed AL 2895-E on September 1, 2006, proposing to establish 2007 electric rates to recover balances in accounts, establish the 2006 Energy Recovery Bonds Balancing Account (ERBBA) revenue requirement, and consolidate Commission- and FERC-authorized rate changes effective January 1, 2007.
4. AL 2895-E was protested by TURN on September 21, 2006. PG&E replied to TURN's protest on September 28, 2006, agreeing to defer implementation of residential electric rate design required by SB1 until after the Commission issues a decision in Phase 2 of PG&E's 2007 GRC, A.06-03-005.
5. According to the filed rate doctrine the Commission is obligated to allow PG&E to recover FERC-authorized costs for reliability services, transmission access, transmission revenue adjustments, and end use customer refunds.
6. It is just and reasonable for PG&E to begin recovering in rates FERC-authorized revenues addressed in AL 2895-E, on the date that FERC makes rates effective to recover those revenues.
7. In Resolution E-3956, the Commission allowed PG&E to consolidate in rates effective January 1, 2006 amortization of December forecast balances updated to reflect recorded data as of November 30, 2005 in the DRAM, PPPRAM, NDAM, UGBA, ERFBA, PCCBA, RRBMA, HSM, CAREA, ERBBA, HA, EVBA, FERABA, ATFA, and ILPMA.
8. Along with recovery of previously approved account balances in the AET through Resolutions E-3906 and E-3956, PG&E should consolidate in rates

effective January 1, 2007 amortization of December forecast balances updated to reflect recorded data as of November 30, 2006 in the PEERAM, CEEIA, SBA, DRRBA, and PCBA.

9. PG&E should reflect in rates the revenue requirement changes approved in formal Commission and FERC proceedings, and approved in advice letters prior to the end of 2006 as specified in this resolution.
10. PG&E should be allowed to amortize, subject to future review and adjustment if necessary by the Commission, all accounts authorized in the ordering paragraphs of this resolution.
11. Resolution E-3944 addressing AL 2580-E approved recovery of balances in the DRPMA for a specific period through September 30, 2004, but did not approve recovery of DRPMA balances recorded after September 30, 2004 through AET disposition.
12. The Commission has not authorized PG&E to amortize DRPMA balances from October 1, 2004 through December 31, 2006; that should be subject to the outcome of another advice letter or application.
13. The AET is a process in which PG&E's revenue requirements authorized by the Commission in other proceedings are consolidated. The AET is a forum for PG&E to recover costs recorded in memorandum accounts which have been reviewed and approved for recovery by the Commission in a separate proceeding, or are pending review in a separate proceeding that is scheduled to be completed prior to the end of the year.
14. PG&E's recovery of balances in the DRPMA is subject to Commission review through a separate application or advice letter; any action taken by the Commission on the DRPMA prior to the end of 2006 may be reflected in rates effective January 1, 2007 authorized pursuant to this resolution.
15. PG&E should supplement AL 2895-E before the end of 2006 to reflect the revenue requirement changes authorized by the Commission and FERC prior to the end of 2006, and to update balances in accounts specified in this resolution to be amortized on January 1, 2007. The updated balances, revenues, and rates should be subject to future adjustment pending review of the supplement to AL 2895-E.
16. The balances in all accounts authorized for recovery by this resolution should be subject to future review by the Commission. PG&E may seek future recovery of balances in these accounts by advice letter filed no later than September 1 for rates effective on January 1 of the following year.
17. The protest of TURN on AL 2895-E is granted.

THEREFORE IT IS ORDERED THAT:

1. PG&E's request in Advice Letter AL 2895-E is approved with modifications described herein.
2. The rates authorized by this resolution shall be subject to refund to the same extent that they are subject to refund at the FERC.
3. No later than December 29, 2006, PG&E shall file a supplement to AL 2895-E with revised tariffs. The supplemental filing shall be effective on January 1, 2007, subject to Energy Division determination that PG&E is in compliance with this Resolution. PG&E shall provide to the Energy Division and any party requesting, workpapers supporting the rates filed in this supplemental advice letter and the revenue allocation underlying those rates. The supplement shall do the following:
   a. Amortize over one year based on December 31, 2006 forecast amounts, updated with recorded data as of November 30, 2005, balances in the following accounts: DRAM, PPPRAM, NDAM, UGBA, ERFBA, PCCBA, RRBMA, HSM, CAREA, ERBBA, HA, EVBA, FERABA, ATFA, ILPMA, PEERAM, CEEIA, SBA, DRRBA, and PCBA;
   b. Reflect in rates the 2007 ERBBA revenue requirement using the most recent Commission adopted rate of return;
   c. Reflect in rates all Commission and FERC-authorized revenue requirement changes approved before the end of 2006 as specified in this resolution.
4. Balances in all accounts authorized for recovery by this resolution are subject to review, verification, and adjustment if necessary by the Commission.
5. In accordance with balances authorized for amortization in Resolutions E-3906 and E-3956, if PG&E requests amortization of future balances in the PEERAM, CEEIA, SBA, DRRBA, and/or PCBA by the annual electric true-up advice letter for rates effective January 1, it shall file the advice letter no later than September 1 of the year prior to when rates become effective. The advice letter shall reflect balances recorded as of July 31 of the year in which the advice letter is filed, and the estimated balances for August through December of that year.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on November 30, 2006; the following Commissioners voting favorably thereon:

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STEVE LARSON
Executive Director

ID# 6129

October 31, 2006
Commission Meeting Date: November 30, 2006

TO: PARTIES INTERESTED IN Pacific Gas and Electric Company's Annual Electric True-up (AET) Advice Letter 2895-E.

Enclosed is draft Resolution E-4032 of the Energy Division. It addresses PG&E's request for the CPUC to allow full recovery of costs for several accounts through their AET. The draft Resolution will be on the agenda at the November 30, 2006 Commission meeting. The Commission may then vote on this draft Resolution, or it may postpone a vote until later.

When the Commission votes on a draft Resolution, it may adopt all or part of it as written, amend, modify or set it aside and prepare a different Resolution. Only when the Commission acts does the Resolution become binding on the parties.

Parties may submit comments on the draft Resolution.

An original and two copies of the comments, with a certificate of service, should be submitted to:

Honesto Gatchalian

Energy Division

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Fax: 415-703-2200; jnj@cpuc.ca.gov

A copy of the comments should be submitted by electronic mail to Felix Robles in the Energy Division at: fvr@cpuc.ca.gov.

Any comments on the draft Resolution must be received by the Energy Division by November 20, 2006. Those submitting comments must serve a copy of their comments on 1) all parties listed on the service list attached to this letter, 2) all Commissioners, and 3) the Chief Administrative Law Judge and General Counsel for the CPUC, on the same date that the comments are submitted to the Energy Division. Comments may be submitted electronically.

Comments shall be limited to five pages in length, and list the recommended changes to the draft Resolution. Comments shall focus on factual, legal or technical errors in the proposed draft Resolution. Comments that merely reargue positions taken in the advice letter or protests will be accorded no weight and are not to be submitted.

Replies to comments on the draft resolution may be submitted (i.e. received by the Energy Division) on November 27, 2006, and shall be limited to identifying misrepresentations of law or fact contained in the comments of other parties. Replies shall not exceed five pages in length and shall be served as set forth above for comments.

Late submitted comments or replies will not be considered.

Gurbux Kahlon

Program Manager

Energy Division

1.1 Enclosures:

CERTIFICATE OF SERVICE

1.2

1.3 Service List

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of Draft Resolution E-4032 on all parties in these filings or their attorneys as shown on the attached list.

Dated October 31, 2006 at San Francisco, California.

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Honesto Gatchalian

NOTICE

Parties should notify the Energy Division, Public Utilities Commission, 505 Van Ness Avenue, Room 4002 San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the Resolution number on the service list on which your name appears.

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