

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION E-3956

December 15, 2005

R E S O L U T I O N

Resolution E-3956. 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, 2006. Approved with modifications.

By Advice Letter 2706-E filed September 1, 2005.

SUMMARY

PG&E's proposal to revise electric rates effective January 1, 2006 to recover balancing account balances, establish the 2006 Energy Recovery Bonds Balancing Account revenue requirement (which replaces the Regulatory Asset Revenue Adjustment Mechanism), and consolidate authorized rate changes, 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.

In addition to recovering balances in accounts previously authorized in Resolution E-3906, PG&E is authorized to recover balances in the California Alternate Rates for Energy Account (CAREA), the Energy Recovery Bonds Balancing Account (ERBBA) which replaces the Regulatory Asset Rate Adjustment Mechanism (RARAM) as authorized in D.04-11-015, the Headroom Account (HA), the Electric Vehicle Balancing Account (EVBA), the Family Energy Rate Assistance Program (FERABA), the Affiliate Transfer Fees Account (ATFA), and the Interruptible Load Program Memorandum Account (ILPMA).

- PG&E may recover in rates Self-Generation Program Memorandum Account (SGPMA) balances associated with the Self-Generation Incentive

Program (SGIP), recorded through June 30, 2005. Any balances for the period from November 2004 through June 2005 that were not reviewed on an actual, recorded basis in A.04-07-044, are subject to future review and verification by the Commission.

- PG&E's request to recover its SGIP costs for the period from July 1, 2005 through December 31, 2006, and include these and future SGPMA balances for recovery through the AET, is subject to the Commission's consideration of PG&E's AL 2673-G/2732-E, and in R.04-03-017. Any action taken by the Commission on AL 2673-G/2732-E or R.04-03-017 prior to the end of 2005 may be reflected in rates effective January 1, 2006 authorized pursuant to this resolution.

PG&E estimates in AL 2706-E that its 2006 revenue requirement increase request will be \$599 million, which includes a \$256 million decrease in rates authorized by the Federal Energy Regulatory Commission (FERC).

PG&E estimates that electric rates will increase by about \$855 million in 2006 resulting from changes authorized by the California Public Utilities Commission (Commission or CPUC). The FERC-authorized changes result in a decrease of about \$256 million, resulting in a net \$599 million increase.

PG&E shall revise the estimate to reflect actual changes authorized by the Commission and FERC prior to the end of 2005.

PG&E will supplement AL 2706-E before the end of 2005 to reflect the actual rate changes authorized by the Commission in various proceedings and advice letters, and actual changes authorized by the FERC. The supplement to AL 2706-E will also incorporate updated balances to accounts to be amortized in rates on January 1, 2006. The rates PG&E files in its supplemental advice letter will be reviewed for compliance after the January 1, 2006 effective date. 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 are authorized by FERC and subject to refund are just and reasonable.

BACKGROUND

PG&E proposed in AL 2570-E to amortize for recovery the balances in various balancing accounts, establish the 2005 Regulatory Asset Rate Adjustment Mechanism (RARAM) revenue requirement, and consolidate rate changes effective January 1, 2005.

PG&E proposed that balances in the RARAM, the Distribution Revenue Adjustment Mechanism (DRAM), the Public Purpose Program Revenue Adjustment Mechanism (PPPRAM), the Nuclear Decommissioning Adjustment Mechanism (NDAM) the Utility Generation Balancing Account (UGBA), the Electric Reimbursable Fees Balancing Account (ERFBA), the Power Charge Collection Balancing Account (PCCBA), the Rate Reduction Bond Memorandum Account (RRBMA), the Hazardous Substance Mechanism (HSM), and the Streamlining Residual Account (SRA) be approved for recovery.

All of these regulatory accounts with the exception of the HSM (established pursuant to D.94-05-020) and SRA (established pursuant to Resolution E-3514) were addressed by Resolution E-3862. PG&E proposed that an annual true-up advice letter be the vehicle to true-up these balances in accordance with D.04-02-062, Advice Letter 2460-E-A, and Resolution E-3862. D.04-02-062 authorized PG&E to implement its post-rate freeze ratemaking mechanisms to ensure that overcollections and undercollections in various accounts are “trued up” in future rates.

D.03-12-035 approved the Modified Settlement Agreement (MSA), which adopted the mechanism to change the annual revenue requirement for the Regulatory Asset included in the MSA. PG&E proposed that advice letter 2570-E be the vehicle for compliance with the provision.

AL 2570-E included tables showing account balances requested for recovery as recorded through August 31, 2004, and proposed that a supplement to AL 2570-E be submitted in December to fully amortize end-of-November 2004 recorded balances, in order to effect and consolidate rate changes as of January 1, 2005.

In response to Advice Letter 2570-E, Resolution E-3906 approved the recovery of balances in balancing accounts, established the RARAM revenue requirement, and approved consolidated changes to electric rates effective January, 1, 2005, with modifications.

Recovery of balances in all of these accounts was approved by Resolution E-3906. Resolution E-3906 required that these balances be subject to future audit, verification, and adjustment as necessary. PG&E complied by submitting supplemental AL 2570-E-A, with recorded balances through November 30, 2004, to consolidate electric rate tariffs January 1, 2005. In compliance with Resolution E-3906, PG&E set its 2005 RARAM revenue requirement using the rate of return adopted in D.04-12-047. PG&E recalculated its 2004 RA to reflect the change in the 2004 cost of capital, and recalculated its 2005 RA revenue requirement using the reset 2004 revenue requirement as a starting point. PG&E then used the 2005 cost of capital components from D.04-12-047 to develop its 2005 RA revenue requirement.

Advice Letter 2706-E complied with Resolution E-3906, in submitting previously approved balancing accounts for cost recovery by September 1, 2005 for rates effective January 1, 2006.

In addition to requesting in AL 2706-E recovery of balances previously approved in Resolution E-3906, PG&E also requested recovery of balances in the CAREA, the ERBBA, the HA, the EVBA, the FERABA, the ATFA, and the SGPMA. Pursuant to D.04-11-015, the ERBBA replaced the RARAM.

Resolution E-3944 authorized PG&E to recover in electric rates balances recorded in the electric SGPMA through October 31, 2004. PG&E presented forecasted electric SPGMA balances through June 30, 2005 in A.04-07-044.

D.01-03-073 required PG&E to allocate costs for the SGIP between gas and electric customers, based on the percentage allocation of energy efficiency program costs between those customers. PG&E records electric SGIP costs in its electric SGPMA, and gas SGIP costs in its gas SPGMA. Resolution E-3944, addressing PG&E's AL 2580-E, authorized PG&E to recover \$35.6 million recorded in the electric account through October 31, 2004. From November 1, 2004 through June 30, 2005, PG&E's recorded electric SGPMA costs were \$30.5 million, for a total SGPMA balance of \$66.1 million through June 30, 2005.

D.05-06-029 in A.04-07-044, PG&E's biennial gas cost allocation proceeding, accepted PG&E's gas SGIP costs for the funding period beginning July 1, 2005, noting that ORA had reviewed the accounts. D.05-06-029 also states that recovery of SGIP- related expenses in future periods will only be authorized after

the reasonableness of those funds have been reviewed by the Commission, either in the SGIP proceeding (R.04-03-017), or as part of the advice letter process. However, no specific reference was made to cost recovery through the AET.

PG&E presented both electric and gas SPGMA balances on a forecasted basis from August 2004 through June 2005 in A.04-07-044. No party to that proceeding objected to these forecasted balances.

In AL 2706-E, PG&E estimates a consolidated revenue requirement increase for 2006 of \$599 million; of this amount, \$855 million is related to Commission-authorized cost increases; this is offset by a \$256 million decrease related to FERC-authorized costs.

In AL 2706-E, PG&E provided illustrative rates based on balancing account balances as of July 31, 2005, and revenue requirement requests filed in the applications and advice letters pending before the Commission. The total annual revenue requirement increase for 2006 reflecting these illustrative rates is approximately \$599 million. The following is a breakdown of the components of the annual revenue requirement increase estimated in AL 2706-E:

- Estimated CPUC-Authorized 2005 increase: \$855 million
 - ERRA and Ongoing CTC: -\$236 million
 - DWR Bond and Power Charges (including PCCBA): \$435 million
 - Utility Retained Generation/UGBA: \$345 million
 - Self-Generation: \$143 million
 - Distribution/DRAM: \$90 million
 - Demand Response/AMDRA: \$70 million
 - Energy Recovery Bonds including ERBBA revenue requirement and Rate Reduction Bonds (RRBs): -\$137 million
 - Public Purpose Programs/PPPRAM/CAREA; \$63 million
 - Headroom Account: \$87 million
 - Other: -\$5 million

- Estimated FERC-Authorized 2006 decrease: \$256 million
 - Reliability Services: -\$227 million
 - Transmission Revenue Adjustment: -\$29 million

PG&E proposes to supplement AL 2706-E prior to January 1, 2006 to incorporate updated balancing account balances and the revenue requirement changes approved by the Commission and FERC.

PG&E proposes to supplement the AL prior to the end of 2005 to incorporate the sum of balancing account balances recorded as of November 30, 2005 and forecasted balancing account balances through December 31, 2005, and the 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, 2006.

NOTICE

Notice of AL 2706-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.99-03-039, A.00-11-038, A.02-03-020, A.02-11-017, A.04-06-024, A.04-07-032, A.05-03-016, A.05-05-006, A.05-06-004, A.05-06-005, A.05-06-006, and A.05-06-007.

PROTESTS

Merced and Modesto Irrigation Districts (MMID) filed a timely protest to AL 2706-E on September 20, 2005.

MMID filed the protest due to previous claims by PG&E that such failure constituted a waiver to protest any later advice letter. MMID takes issue with PG&E's advice letter treatment of Ongoing Competition Transition Charges (OCTC) to be collected from Municipal Departing Load (MDL) customers. MMID also takes issue with PG&E's plans to supplement another advice letter (AL 2650-E) by proposing the billing of CTC owing from past periods to departing load customers, and further states that the revenue requirement as shown in AL 2706-E is in error. Finally, MMID states that CTC was substantially overcollected in 2004, which calls for credits or refunds to be factored into the 2006 OCTC revenue requirement.

PG&E responded that only actual outcomes of pending proceedings and advice letters authorized by the Commission by year-end will be included in PG&E's supplement to its Annual Electric-True-up advice filings. PG&E further

responded that MMID's issues with the treatment and disposition of the OCTC, along with over- or undercollected balances and credits or refunds are not appropriate for consideration in this advice letter, and should be addressed through the 2006 Energy Resource Recovery Account (ERRA) application (A.05-06-007), within which the OCTC is determined.

DISCUSSION

MMID's protest is denied without prejudice.

The Commission denies without prejudice MMID's protest of AL 2706-E. All of the issues described above should be determined through disposition of the 2006 ERRA or other proceedings. The supplement to AL 2706-E, to be submitted by PG&E in December by order of this Resolution, will only reflect the current Commission authorized OCTC revenue requirement. Today's resolution authorizes only the recovery of charges for MDL customers resulting from Commission orders issued in other cases prior to the end of 2005. We do not authorize PG&E to implement any charges or make any accounting changes affecting MDL customers that are not approved by other Commission orders prior to the end of 2005. This resolution does not prejudge any issue affecting MDL customers pending in any Commission proceedings or in other advice letters.

PG&E shall reflect in rates all Commission and FERC-authorized revenue requirement changes approved before the end of 2005 through a supplemental advice letter.

Consistent with the procedure followed in Resolution E-3906, we shall allow PG&E to supplement AL 2706-E prior to December 31, 2005 to reflect the revenue requirements authorized 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, 2006. The rates filed in this supplement will be reviewed by Energy Division after January 1, 2006. It is possible that after the new rates become effective, Energy Division or a party reviewing the supplement may discover compliance issues that require modification of rates filed in the supplement. In that event, 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 2706-E, PG&E shall reflect revenue requirements approved before the end of 2005, 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 31, 2005, in the following proceedings:

- Cost of Capital (COC) proceeding, A.05-05-006
- Energy Resource Recovery Account (ERRA) and Ongoing Competition Transition Charge (CTC), A.05-06-007
- Public Purpose Programs (PPP) –Low Income Energy Efficiency (LIEE); and California Alternate Rates for Energy (CARE) Administration, A.05-06-005
- Energy Efficiency (EE) and Procurement Energy Efficiency (Procurement (EE), A.05-06-004
- Annual Earnings Assessment Proceeding (AEAP), A.00-05-004
- 2006 DWR Bond Charge Revenue Requirement, A.00-11-038
- 2006 DWR Power Charge Revenue Requirement, A.00-11-038
- 2006 Dedicated Rate Component (DRC) revenue requirement, I.02-04-026
- Demand Response (DR), A.05-06-006
- Catastrophic Event Memorandum Account (CEMA) application, A.05-09-001
- Pension Application; Pending a decision on PG&E's July 2005 petition to modify D.04-05-055 in A.02-11-017, addressing contributions to employee pension trust beginning in 2006
- Order Instituting Rulemaking (OIR) Regarding Policies, Procedures and Incentives for Distributed Generation and Distributed Energy Resources, R.04-03-017

PG&E is also authorized to incorporate in rates revenue requirement changes resulting from the advice letters listed below that are made effective by December 31, 2005:

- DRC, AL 2709-E and 2709-E-A
- 2006 Attrition, AL 2667-G/2722-E
- Fixed Transition Amount (FTA) (pending an anticipated December-issued AL)
- Advanced Metering and Demand Response Memorandum Account (AMDRA) AL-2701-E

- Recovery of 2005-2006 SGIP Costs, etc., AL 2673-G/2732-E

PG&E should be allowed to amortize balances in accounts previously authorized by Resolution E-3906 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 Resolution E-3906: The DRAM, PPPRAM, NDAM, UGBA, ERFBA, PCCBA, RRBMA (to be amortized over two years), HSM and the SRA.

PG&E is authorized to recover balances in the CAREA, ERBBA, HA, EVBA, FERABA, ATFA, and ILPMA accounts.

We have reviewed each account's preliminary statement and related advice letters and Commission orders. The CAREA balancing account records the California Alternate Rates for Energy (CARE) program revenue shortfall associated with the Low-Income Ratepayer Assistance program, CARE program administrative costs, and revenues received through the CARE component of the public purpose charge. In D.02-09-021, the Commission approved PG&E's AL 2175-E, authorizing recovery of all reasonable administrative costs associated with implementation of the CARE program through a balancing account mechanism. PG&E may recover CAREA balances through the AET AL subject to audit, verification, and review of the account.

The ERBBA records the benefits and costs associated with Energy Recovery Bonds (ERBs) that are not provided to customers elsewhere and return the benefits or charges the costs to customers. It has replaced the Regulatory Asset Revenue Adjustment Mechanism (RARAM). Since the RARAM was amortized by last year's AET advice letter, it is appropriate to amortize the ERBBA through AL 2706-E.

The HA records the headroom balance as defined in PG&E's Chapter 11 Settlement Agreement and clarified in D.03-12-035; in D.03-12-035 the Commission generally defines headroom as the difference between recovered revenues at frozen rate levels and the reasonable costs of providing utility services. Headroom revenues were to be used for utility purposes, including paying creditors in PG&E's Chapter 11 case. For post-bankruptcy purposes, accrued or overcollected HA balances are now being amortized (returned to customers).

PG&E expects that on December 31, 2005 there will be an \$11.4 million overcollection in the HA account, as shown in table 2 of AL 2706-E. Rates are currently set to return to customers an overcollection in the HA of approximately \$98.7 million annually. If this amount remains in effect for 2006, it would exceed the forecasted \$11.4 million overcollection by approximately \$87 million, thus necessitating an unnecessary rate increase in 2007, or subsequent years. While the HA calculation is still being reviewed in AL 2521-E/-E-A, we will allow PG&E to amortize an \$11.4 million overcollection beginning on January 1, 2006. In allowing PG&E to amortize the \$11.4 million overcollection in the HA through the AET, we do not prejudge staff's review or any protests submitted on AL 2521-E/-E-A.

Through AL 2520-E effective January 1, 2003, and in compliance with D.03-10-086, the EVBA records in a one-way balancing account all revenue from customers receiving service under electric vehicle rate schedules (EV) and PG&E's EV program expenses, not to exceed the amount authorized by the CPUC, and not included as part of the revenue requirement authorized in PG&E's General Rate Case(s) (GRCs) as of January 1, 2003. As a one-way balancing account, if recorded expenses do not meet the allowed forecast expense, the unspent amount is returned to ratepayers. If expenses exceed the allowed forecast expense, the amount by which expenses exceed the allowed forecast is not recoverable through rates. Balances recorded in the EVBA should be amortized in rates through this AET AL.

The FERABA records revenue shortfalls and program administrative costs for the large household program (also called the Family Electric Rate Assistance (FERA) program) approved by D.04-02-057. The FERA program exempts program participants from paying additional charges when consuming electricity in tier 3 residential rates (130% to 200% of baseline). The FERABA balance should be recovered in rates through the AET AL.

The ATFA records employee transfer fees paid to PG&E by its holding company and affiliates for future ratemaking treatment to ensure that PG&E's customers receive the fees, in compliance with AL 1891-E and pursuant to D.96-11-017. In order for the benefits of this yearly balance to accrue to PG&E's customers, the balance in the ATFA should be recovered through the AET AL.

The ILPMA records costs incurred by PG&E to implement and administer interruptible load and rotating outage programs. D.05-09-039 allows PG&E to amortize the balance in this account through the 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 if necessary by the Commission.

PG&E should be allowed to recover \$35.6 million in the electric SPGMA recorded through October 31, 2004, as authorized by Resolution E-3944.

On July 21, 2005, Resolution E-3944 approved PG&E's request to recover \$35.6 million in SGPMA balances recorded through October 31, 2004. The SPGMA was designed to track SGIP costs paid to qualifying distributed generation projects in compliance with Assembly Bill (AB) 970. The Commission originally authorized funding for SGIP until December 31, 2004. AB 1685 extended the SGIP until January 1, 2008.

PG&E filed AL 2580-E on November 5, 2004, requesting Commission review and approval of the program cost balance through October 31, 2004. While the costs of the self-generation program are almost completely attributed to commercial and industrial customers, D.01-03-073 directed that all utility customers (both gas and electric) obtain environmental benefits from self-generation and should share the cost associated with the program. Resolution E-3944 allowed PG&E to recover SGPMA balances recorded through October 31, 2004 in the annual electric true-up advice letter.

PG&E should be allowed to recover an additional \$30.5 in electric SPGMA costs recorded from November 1, 2004 through June 30, 2005.

We will allow PG&E to recover in rates an additional \$30.5 million in recorded electric SGPMA costs from November 1, 2004 through June 30, 2005. In A.04-07-044, PG&E presented the electric SPGMA balances on a forecasted basis for this time period. No party contested those balances in the A.04-07-044 proceeding.

No party to any proceeding has reviewed the balances for the November 2004 through June 2005 time period on an actual, recorded basis. Therefore, although we authorize PG&E to recover balances recorded in the SPGMA through June 30, 2005 for rates effective on January 1, 2006, balances that PG&E recorded in the electric SPGMA from November 2004 through June 2005 are subject to future review and verification by the Commission.

The total amount allowed for recovery through June 30, 2005 is \$66.1 million.

PG&E's request for recovery of electric SGIP costs from July 1, 2005 through December 31, 2006 SGIP is subject to the outcome of AL 2673-G/2732-E, or R.04-03-017.

In AL 2706-E, PG&E requested recovery of \$29.7 million in electric SGPMA balances from July 1, 2005, through December 31, 2005, and 2006 forecasted electric SGIP program costs of \$46.2 million. Since filing AL 2706-E, PG&E filed AL 2673-G/2732-E, requesting recovery of the July 2005 through December 2005 electric SGPMA balances, and a 2006 forecasted electric SGIP revenue requirement. Additionally, a decision in R.04-03-017 may rule on SGIP recovery by the end of this year. If the Commission acts on AL 2673-G/2732-E, or recovery of SGIP costs in R.04-03-017 prior to the end of 2005, PG&E may incorporate the results of that action in rates effective January 1, 2006, authorized by this resolution. If the Commission does not act on AL 2673-G/2732-E or SGIP matters addressed in R. 04-03-017 prior to the end of 2005, PG&E shall not recover in rates effective January 1, 2006, electric SPGMA balances from July 2005 through December 2005, or any forecasted electric SGIP revenue requirement for 2006.

The Residential Generation Revenue Memorandum Account (RGRMA) was eliminated by D.05-11-005 in A.04-06-024.

Resolution E-3906 (O.P.5) ordered PG&E to establish an account to track the revenues allocated to the upper tiers of residential generation rates associated with adjusting rates for residential usage below 130% of baseline to comply with AB1X, beginning January 1, 2005. PG&E tracked these revenues in the RGRMA. AL 2706-E states that Resolution E-3930 requires tracking of amounts that are collected in residential rates for usage in excess of 130 percent that would have been allocated to increase rates for usage less than 130 percent of baseline, but for the requirements of AB 1X. On November 18, 2005 the Commission issued D.05-

11-005, which approved a settlement in Phase 2 of PG&E's 2003 general rate case, A.04-06-024, resolving this issue. No further tracking of revenues to this account is required, and the account will be eliminated.

FERC-authorized revenue requirements are just and reasonable.

Under the filed rate doctrine, the Commission is generally obligated to pass through FERC-authorized rates to PG&E's customers. It is just and reasonable for PG&E to implement all rate changes referenced in AL 2706-E that are subject to approval by FERC, when FERC makes those new rates effective subject to refund to the same extent as at the FERC. It is reasonable and makes administrative sense that all Commission- and FERC-authorized rates should be consolidated for the purpose of this filing, effective January 1, 2006.

COMMENTS

Public Utilities Code section 311(g)(1) provides that a draft 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 issued to parties for comments no later than 30 days prior to being considered by the Commission. Comments were filed by PG&E on November 16, 2005.

PG&E states that the Commission should allow the HA rate to be adjusted to amortize the end of year 2005 balance. The draft resolution is modified to allow PG&E to refund an \$11.4 million HA overcollection.

PG&E requests in comments that it be allowed to amortize its 2005 year-end balance in the HA, an \$11.4 million overcollection, prior to resolution of AL 2521-E/-E-A. PG&E states this is necessary to avoid a rate increase in subsequent years, since the amount currently included in rates is a \$98.7 million overcollection.

We have modified the draft resolution to allow PG&E to amortize the \$11.4 million overcollection beginning January 1, 2006. The HA balance is subject to review, verification, and adjustment as necessary, and calculation of the HA amount remains subject to the outcome of AL 2521-E/-E-A.

PG&E states that the draft resolution should be revised to allow recovery of an additional \$30.5 million in electric SGPMA costs recorded from November 1,

2004 through June 30, 2005. The draft resolution is modified to allow PG&E to collect these costs.

PG&E states in comments that SPGMA balances from November 2004 through June 2005 were reviewed in A.04-07-044, and it should thus be allowed to amortize balances recorded through June 30, 2005, on January 1, 2006. In the BCAP proceeding (A.04-07-044), PG&E presented forecasted SGIP costs through June 30, 2005, and D.05-06-029 indicates that no party to the proceeding raised concerns regarding those forecasted costs. We have modified the draft resolution to allow PG&E to amortize recorded balances through June 2005 in rates effective on January 1, 2006 subject to future review, verification, and adjustment as necessary.

PG&E filed AL 2673-G/2732-E on November 9, 2005 to seek approval for recovery of electric SGPMA balances from July 1, 2005 through December 31, 2006 in the 2006 AET. The draft resolution is modified to note that PG&E has submitted an AL to seek recovery of these costs, and to additionally note that a decision in R.04-03-017 may also rule on cost recovery.

PG&E notes in comments that it recently filed AL 2673-G/2732-E requesting recovery of approximately \$76 million: \$29.7 in electric SGPMA balances from July 1, 2005 through December 31, 2005, and \$46.2 million in forecasted electric SGIP revenue requirement for 2006. We have modified the draft resolution to indicate that if the Commission acts on AL 2673-G/2732-E prior to the end of 2005, PG&E may reflect the results of the Commission's action in rates effective January 1, 2006. We have also modified the draft resolution to indicate that if the Commission issues a decision regarding SGIP matters in R.04-03-017 prior to the end of 2005, PG&E may also reflect the results of the Commission's action in rates effective January 1, 2006. If the Commission does not act on that advice letter or SGIP matters in R. 04-03-017 prior to the end 2005, PG&E shall not reflect amortization of electric SPGMA balances from July 2005 through December 2005, or any forecasted 2006 electric SGIP revenue requirement in rates effective on January 1, 2006.

PG&E states that the draft resolution should be modified to permit it to amortize in rates forecasted balances for December 2005 in balancing accounts. Minor clarifications to the draft resolutions are made in response to this comment.

We have clarified the draft resolution, including certain findings and ordering paragraphs to set forth that balances in the accounts authorized to be amortized reflect “the sum of balancing account balances recorded as of November 30, 2005 and forecasted balancing account balances through December 31, 2005”, as requested by PG&E in comments on the draft resolution.

Minor clarifications to the draft resolution have been made to clarify recovery of the “2006” ERBBA revenue requirement.

PG&E states in comments on that draft resolution that revisions should be made to reflect that recovery of the “2006” ERBBA revenue requirement is authorized. Clarifications have been made to incorporate this comment.

The draft resolution has been revised to clarify that the ERBBA may be amortized through future AET advice letters.

PG&E states in comments that the draft resolution should be revised to allow it to include the ERBBA with the accounts requested for amortization through future AET AL filings. The draft resolution has been clarified to reflect this comment.

The draft resolution has been revised to reflect that PG&E may recover costs recorded to the ILPMA beginning January 1, 2006.

PG&E states in comments that D.05-09-039 allows it to recover approximately \$150,000 in costs recorded to the ILPMA via the AET advice letter. The draft resolution was revised to indicate that PG&E shall include these costs in rates effective on January 1, 2006.

FINDINGS

1. Resolution E-3906 directed PG&E to file an Advice Letter by September 1 of each year to amortize various balancing account balances in electric rates, for rates effective January 1 of the following year.
2. PG&E filed AL 2706-E on September 1, 2005, proposing to establish 2006 electric rates to recover balances in these authorized balancing accounts, establish the 2006 Energy Recovery Bonds Balancing Account (ERBBA)

revenue requirement, and consolidate Commission- and FERC-authorized rate changes effective January 1, 2006.

3. AL 2706-E was protested by MMID on September 20, 2005.
4. 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.
5. It is just and reasonable for PG&E to begin recovering in rates, FERC-authorized revenues addressed in AL 2706-E, on the date that FERC makes rates effective to recover those revenues.
6. PG&E should consolidate in rates effective January 1, 2006 amortization of December 31, 2005 forecast balances updated to reflect recorded data as of November 30, 2005, in the ERBBA, as D.04-11-015 established that the ERBBA succeeds the RARAM.
7. PG&E should consolidate in rates effective January 1, 2006 amortization of December 31, 2005 forecast balances updated to reflect recorded data as of November 30, 2005 in the CAREA, HA, EVBA, FERABA, ATFA, and ILPMA.
8. 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 2005 as specified in this resolution.
9. 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.
10. PG&E presented forecasted balances in the electric SPMGA through June 30, 2005, in A.04-07-044.
11. PG&E should include in rates effective January 1, 2006 amortization of balances recorded through June 30, 2005 in the electric SGPMA.
12. PG&E filed AL 2673-G/2732-E on November 9, 2005, requesting recovery of electric SGPMA balances from July 1, 2005 through December 31, 2005, and of forecasted 2006 electric SGIP costs in the AET.

13. The Commission may also issue a decision in R.04-03-017 concerning SGIP/SGPMA cost recovery.
14. The Commission has not authorized PG&E to amortize SGPMA balances from July 1, 2005 through December 31, 2005; this is subject to the outcome of AL 2673-G/2732-E or R.04-03-017.
15. The Commission has not yet authorized PG&E to establish a 2006 electric SGIP revenue requirement; this is subject to the outcome of AL 2673-G/2732-E or R.04-03-017.
16. D.05-11-004 in A. 04-06-024 approved a settlement which eliminates the requirement to track revenues in the RGRMA.
17. PG&E should supplement AL 2706-E before the end of 2005 to reflect the revenue requirement changes actually authorized by the Commission and FERC prior to the end of 2005, and to update balances in accounts specified in this resolution to be amortized on January 1, 2006. The updated balances, revenues, and rates should be subject to future adjustment pending review of the supplement to AL 2706-E by Commission staff.
18. The balances in all accounts authorized for recovery by this resolution should be subject to future review by the Commission. PG&E should 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.
19. PG&E should update its estimate of the 2006 ERBBA revenue requirement filed in AL 2706-E using the return on equity adopted by the Commission in A.05-05-006.
20. This resolution does not prejudice any issue affecting MDL customers pending in any proceedings or other advice letters.

THEREFORE IT IS ORDERED THAT:

1. The request of PG&E in Advice Letter AL 2706-E is approved with modifications.

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 30, 2005, PG&E shall file a supplement to AL 2706-E with revised tariffs. The supplemental filing shall be effective on January 1, 2006 subject to Energy Division determining that it is in compliance with this resolution. PG&E shall provide to 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 in rates the balances recorded as of June 30, 2005 in the electric SPGMA;
 - b. Amortize over one year based on December 31, 2005 forecast amounts, updated with recorded data as of November 30, 2005, balances in the following accounts: DRAM, PPPRAM, NDAM, UGBA, ERFBA, PCCBA, HSM, SRA, CAREA, ERBBA, HA, EVBA, FERABA, ATFA, and the ILPMA;
 - c. Amortize over two years the amounts recorded in the RRBMA;
 - d. Reflect in rates the 2006 ERBBA revenue requirement using the most recent Commission adopted rate of return;
 - e. Reflect in rates all Commission and FERC-authorized revenue requirement changes approved before the end of 2005 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. If PG&E requests amortization of future balances in the CAREA, ERBBA, HA, EVBA, FERABA, ATFA, and/or ILPMA 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.
6. PG&E's request to recover SGIPMA balances from July 1, through December 31, 2005, and establish an electric SGIP revenue requirement for 2006 is subject to the Commission's action on AL 2673-G/2732-E or SGIP

matters in R.04-03-017. If the Commission acts on AL 2673-G/2732-E or R.04-03-017 prior to the end of 2005, PG&E may incorporate the results of that action in rates effective January 1, 2006, authorized by this resolution. If the Commission does not act on AL 2673-G/2732-E or issue a decision regarding SGIP matters in R.04-03-017 prior to the end of 2005, PG&E shall not recover in rates effective January 1, 2006 electric SGPMA balances from July 2005 through December 2005, or any forecasted electric SGIP revenue requirement for 2006.

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 December 15, 2005, the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
PRESIDENT
GEOFFREY F. BROWN
SUSAN P. KENNEDY
DIAN M. GRUENEICH
JOHN A. BOHN
Commissioners