

February 4, 2008

TO: STATE, COUNTY AND CITY
OFFICIALS

**NOTIFICATION OF APPLICATION BY PG&E
TO INCREASE ELECTRIC RATES TO RECOVER INCREASED
PROCUREMENT COSTS
APPLICATION 08-01-014, FILED JANUARY 23, 2008**

Each year, Pacific Gas and Electric Company (PG&E) is required to forecast how much it will spend the following year to ensure adequate electricity supplies for its customers. This forecast is reviewed and approved by the California Public Utilities Commission (CPUC). Under California law, if PG&E's power procurement costs (that is, the costs of purchasing electricity for PG&E's customers) exceed the CPUC-authorized revenues by 5% or more, PG&E must file an application for expedited recovery of such costs. PG&E recovers these costs dollar-for-dollar through rates charged to customers, with no profit margin.

On January 23, 2008, PG&E filed Application A.08-01-014 forecasting that its power procurement costs will exceed its CPUC-authorized revenues by more than 5% at the end of March 2008, and that its power procurement costs in 2008 will be \$531 million higher than previously forecasted. **This increase in procurement costs is due to the Department of Water Resources' (DWR) recent termination and replacement of its so-called Calpine 2 power contract, which was expected to have provided PG&E's customers with 1000 megawatts (MW) of power in 2008, and PG&E's need to procure additional sources of electricity to replace the Calpine 2 power.** In this application, PG&E requests that it be permitted to recover this increase in costs over the 8 months remaining in 2008, assuming a May 1 implementation date for new rates. PG&E asks that a decision approving its application be issued by April 10, 2008.

Does this mean electricity will cost me more?

PG&E's request in this proceeding will increase rates, but PG&E has proposed rate reductions in related CPUC proceedings that, if adopted, would largely offset the requested rate increase.

To collect the \$531 million in higher costs by the end of 2008, PG&E's application A.08-01-014 requests an overall electric rate increase of 6.8% to go into effect with usage beginning May 1, 2008. The proposed rate changes by customer class will be outlined in a bill insert to be sent directly to customers starting in mid February, 2008

As noted above, PG&E has proposed rate reductions in other CPUC proceedings that, if adopted, would largely offset the rate increase requested in the A.08-01-014. PG&E anticipates that it will receive a \$253 million reduction in costs as part of DWR's 2008 revenue requirement proceeding, and PG&E has proposed in a related proceeding that it receive an additional \$275 million reduction in costs to compensate PG&E's customers for the power lost by the Calpine 2 termination. In other words, PG&E has proposed that the \$531 million requested in A.08-01-014 be offset by a \$510 million reduction in costs in other CPUC proceedings.

If the CPUC approves A.08-01-014, without any of the offsetting decreases proposed in the other proceedings described above, the bill for a typical bundled customer (a customer who receives electric generation as well as transmission and distribution service from PG&E) using 550 kWh per month would increase \$1.55 from \$72.28 to \$73.83. The bill for a typical bundled customer using approximately twice the average baseline allowance, or 850 kWh per month, would increase \$10.93 from \$147.49 to \$158.42 per month.

PG&E has requested that the rate changes associated with PG&E's A.08-01-014 be consolidated with changes in other CPUC proceedings and incorporated into rates on or after May 1, 2008, so the eventual net change in rates for individual customers is difficult to predict.

The CPUC Process

The CPUC's independent Division of Ratepayer Advocates (DRA) will review this application, analyze the proposal, and present an independent analysis and recommendations for the CPUC's consideration. Other parties of record will also participate.

The CPUC may hold evidentiary hearings where parties of record present their proposals in testimony and are subject to cross-examination before an Administrative Law Judge (ALJ). These hearings are open to the public, but only those who are parties of record are allowed to present evidence or cross-examine witnesses during evidentiary hearings.

After considering all proposals and evidence presented during the hearing process, the ALJ will issue a draft decision. When the CPUC acts on this application, it may adopt all or part of PG&E's request, amend or modify it, or deny the application. The CPUC's final decision may be different from PG&E's proposed application filing.

FOR FURTHER INFORMATION

For more details, call PG&E at **800-743-5000** • Para más detalles llame **800-660-6789**
詳情請致電 **800-893-9555** • For TDD/TTY (speech-hearing impaired), call **800-652-4712**

You may contact the CPUC's Public Advisor with comments or questions as follows:

Public Advisor's Office
505 Van Ness Avenue, Room 2103
San Francisco, CA 94102
415-703-2074 or **866-849-8390** (toll free)
TTY **415-703-5282**, TTY **866-836-7825** (toll free)
E-mail to public.advisor@cpuc.ca.gov

If you are writing a letter to the Public Advisor's Office, please refer to A.08-01-014. All comments will be circulated to the Commissioners, the assigned ALJ and the CPUC's Energy Division staff.