

September 16, 2005

Mr. Peter Brundage  
Sacramento Local Agency Formation Commission  
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**Thomas E. Bottorff**  
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Dear Mr. Brundage:

In response to your June 17 letter regarding the "Proposed SMUD Annexation of Territory Within Pacific Gas and Electric Company's Service Area in Yolo County", I am providing PG&E's reply. In short, our updated analysis and supporting material support our ongoing belief that SMUD's annexation into Yolo County will significantly increase rates to our Yolo customers. We currently estimate a 19% rate increase over the 20 year period following annexation, based on recent CEC staff gas price forecasts.

The first question in your letter asked for PG&E's detailed response to the proposed SMUD Annexation in Yolo County. As you know, this Application was delivered to LAFCO on August 1. As a threshold matter, there are a number of inconsistencies between SMUD's July 29, 2005 LAFCO Application, and the SMUD Staff study dated April 18. Most notably, as I mentioned in my September 8 letter, the map identified in the July 29 Application is 35% different from the map that was included with your letter, and that had served as the basis for much of our work. Earlier this week, SMUD staff clarified that the area is over 40% different (26% added, and 15% removed). Given the timing, we have thus focused most of our analysis on the original area, and made qualitative or quantitative adjustments as appropriate. However, we plan on supplementing our response as we are able to develop additional information.

Your first request is for PG&E to provide comments related to SMUD's proposal to annex the Yolo area. Our comments are included in the attached 3-Volume Report entitled: "PG&E's Response to Sacramento County LAFCo Regarding SMUD's Proposed Annexation into Yolo County". Volume I provides a summary of PG&E's response, and was prepared jointly by PG&E and its two consultants – Black and Veatch, and Global Energy Advisors. Volume II is a more detailed discussion of the facilities costs associated with the proposed annexation, prepared by Black and Veatch. Volume III is a more detailed discussion of the costs of providing power to the Yolo area were SMUD to annex, prepared by Global Energy Advisors.

In addition, you requested additional information as follows. My response to each is indicated after each item.



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9. Electric Franchise Fee by jurisdictions.

This information is presented in Volume I, Section V.

10. Property tax information for the proposed facilities that are to be annexed or stranded by jurisdictions.

This information is presented in Volume I, Section V.

11. Impacts on Pacific Gas & Electric Company staff such as layoffs, displacement, relocation, etc., within the territory proposed for annexation.

It is premature to produce such an estimate, and PG&E has not done so, since the SMUD annexation has yet to have received approval from LAFCO, voters, or the condemnation court.

12. Impacts on Pacific Gas & Electric facilities such as corporation yards; call centers, and service centers, which are located within the territory proposed for annexation.

SMUD has not proposed condemning any of these PG&E facilities. PG&E will continue to make use of the service centers, albeit at a somewhat more limited capacity, as it will continue to provide natural gas to the annexation area. In addition, the Woodland service center is used to serve the areas East of Woodland including the town of Winters, Esparta and the Capay Valley, which are outside of the annexation area. Finally, PG&E has no current plans to make any changes to the payment processing center, but will continue to review our options, as it may be the case that we can better serve our remaining customers by relocating these facilities to other locations.

Please feel free to contact me at (415) 973-3889 if you have any questions.

Sincerely,

Thomas E. Bottorff  
Senior Vice President  
Customer Service & Revenue

cc: LAFCo Directors (w/o attachments)  
Nancy Miller, Esq.  
Edward T. Bedwell

Ms. Marie Jordan  
Ms. Jan Schori, SMUD



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6. A detail of the estimated book value of Pacific Gas & Electric Company electric facilities described above based on the two alternative service plans described below:

- (a) SMUD Proposed Service Plan
- (b) R. W. Beck Proposed Service Plan

Volumes I (Sections II and III) and Volume II discuss the fair market value of the PG&E facilities, with differences noted between the R.W. Beck and SMUD estimates.

7. Analyses performed by Pacific Gas & Electric Company addressing the economic or financial impacts that will result from the proposed annexation such as the number of customers, electric sales, and electric revenues by rate schedule, forecast of Pacific Gas & Electric Company rates and non-by-passable charges, forecast of market electricity and natural gas prices, lost revenue and expected cost reduction, and any other economic impacts Pacific Gas & Electric Company deems relevant to this proposal.

This information is presented in both Volume I, as well as PG&E's August 29 submission to the California Public Utilities Commission (attached). We note that, On September 12, SMUD responded to our August 29 submission. We will provide a response to SMUD's claims shortly.

8 Number of Direct Access Program customers by rate schedule.

This information is presented in the following table:

PG&E Rate Schedule	Number of DA Customers In the Annexation Area
E-1	206
E-7	3
E-8	3
A-1	70
A-6/AG1-A	15
A-10S	44
E-19S/E-19P/E-20P	39
TOTAL	380



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1. A detailed description (inventory, age and book value) and analysis of Pacific Gas and Electric Company electric facilities compared with the SMUD inventory of assets to be acquired in the territory proposed for annexation.

Volume I (Section II) and Volume II provide an analysis of the inventory, age and fair market value of the facilities. As I mentioned in my letter of June 29, we have not developed book value estimates of these facilities, and do not believe it to be relevant to the determination of fair market value. I am also providing detailed records of the PG&E facilities in this area.

2. Electronic and/or paper geographic maps showing the boundary and locations of all Pacific Gas & Electric Company electric facilities identified in the analysis of the territory proposed for annexation.

Unfortunately, due to security considerations, we are not in a position to provide maps of our facilities. We are, however, happy to make our maps available for inspection at our Sacramento Service Center, located at 5555 Florin Perkins Road. Please contact Ms. Marie Jordan at (916) 386-5000 at your convenience to arrange for inspection.

3. Electronic and/or paper geographic maps showing the location of all Rights-of-Way and Easements for electric facilities identified in the analysis of the territory proposed for annexation.

As mentioned in my June 29 letter, the Rights of Way and Easements are not mapped. But I am providing copies of the ROW documents. They fill 4 boxes. Volume II includes a description of how we have determined a value for these property rights.

4. A detailed inventory including book values of those Rights-of-Way and Easements for facilities identified in the territory proposed for annexation.

See response to question 3.

5. A detailed description (inventory, age and book value) of facilities that will be stranded, or no longer needed, by Pacific Gas & Electric Company in the territory proposed for annexation and an explanation regarding why these facilities will be stranded.

The detailed discussion of the stranded assets and associated fair market value are provided in Volume I (Sections II and III) and Volume II.