



PRELIMINARY STATEMENT

Sheet 1

II. BALANCING ACCOUNTS
BASELINE BALANCING ACCOUNT (BBA)

1. Purpose

The BBA is an interest bearing balancing account that is recorded on the Utility's financial statements. The purpose of this account is to record the revenues and expenses associated with the utility's baseline programs as authorized in Commission Decision (D.) 02-04-026, D.02-05-010 and D.04-02-057. The BBA contains two subaccounts: the Baseline Allowance Subaccount (BAS) and the Family Electric Rate Assistance (FERA) Subaccount.

The purpose of the BAS is to record the non-commodity revenue under/(over) collection associated with baseline allowance changes as authorized in Commission D.02-04-026, and as modified by D.02-05-010, from May 31, 2002 until a ratemaking decision is issued in Phase 2 of OIR 01-05-047. This account also records the administrative costs for the medical baseline program changes authorized in D.02-04-026. The BAS maintains revenue neutrality for the Utility until customer rates are revised in conjunction with the baseline allowance changes. D.02-04-026 orders the Utility to set its baseline allowances at the highest percentage allowed by Public Utilities Code Section 739 using current energy consumption data. In D.04-02-057, in Phase 2 of OIR 01-05-047, the Commission authorized the adjustment of utility distribution company (UDC) rates to cease further baseline allowance revenue shortfalls (resulting from D.02-04-026) as well as the amortization of the existing BAS balance.

Electric UDC rate impacts due to baseline allowance changes will be recorded in the BAS. Electric commodity impacts due to baseline allowance changes will be recorded in a subaccount within the Energy Resource Recovery Account, which is a balancing account.

The purpose of the FERA Subaccount, pursuant to D.04-02-057, is to record the revenue shortfalls and administrative costs that result from the FERA program, which is called the Large Household Program in D.04-02-057. FERA, as described in Schedule FERA, charges these customers different rates on their otherwise applicable rate schedule. Energy usage at the Tier 3 level (131% - 200% of Baseline) will be billed at the Tier 2 (101% - 130% of Baseline) total UDC rate.

2. Applicability

The BAS shall apply to all residential customers and the FERA Subaccount to all applicable residential customers.

3. Rates

The BAS and FERA Subaccount balances will be included in electric rates upon Commission approval.

4. BAS Accounting Procedure

The Utility shall maintain the BAS by making entries at the end of each month as follows:

- a. A debit or credit entry equal to the recorded revenue shortfall associated with changes to baseline allowances.

(Continued)



PRELIMINARY STATEMENT

II. BALANCING ACCOUNTS
BASELINE BALANCING ACCOUNT (BBA)

4. BAS Accounting Procedure (Continued)

- b. A debit entry equal to the administrative costs associated with the medical baseline program changes.
- c. An entry equal to the recorded revenue from the amortization of the balance in the BAS upon Commission approval.
- d. Interest shall be calculated on the average of the balance at the beginning of the month and the balance after entries 4.a through 4.c above, at a rate equal to one-twelfth of the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15, or its successor publication.

5. FERA Subaccount Accounting Procedure

The Utility shall maintain the FERA Subaccount by making entries at the end of each month as follows:

- a. A debit entry equal to the 2006 RDS revenue that would have been billed customers had they not qualified to be on Schedule FERA.
- b. A credit entry equal to the 2006 RDS revenue billed customers on Schedule FERA.
- c. A debit entry equal to the administrative costs associated with the FERA program.
- d. An entry equal to the recorded revenue from the amortization of the balance in the FERA Subaccount upon Commission approval.
- e. Interest shall be calculated on the average of the balance at the beginning of the month and the balance after entries 5.a through 5.d above, at a rate equal to one-twelfth of the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15, or its successor publication.

6. Disposition

The disposition of the balance in the BAS will be to amortize it as authorized in D.04-02-057 in Phase 2 of OIR 01-05-047. Termination of the subaccount shall be made in the Utility's electric rate design window proceeding or other appropriate proceeding.

The disposition of the balance in the FERA Subaccount will be decided at such time as the Commission issues a decision in the applicable electric rate design window proceeding or other appropriate proceeding as described in D.04-02-057.

T
N
L
L