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July 13, 2006

John L. Geesman
Commissioner
California Energy Commission
1516 Ninth Street, MS-2000
Sacramento, CA 95814

Re: **Contra Costa Unit 8 Power Project**
Docket No. 00-AFC-1C
Second Revised Verified Statement Attesting To Compliance with Conditions of Certification

Dear Commissioner Geesman:

On April 6, 2006, Pacific Gas & Electric Company (PG&E) submitted a Verified Statement to the California Energy Commission (Commission). On June 29, 2006 PG&E submitted a Revised Verified Statement to clarify its understanding and agreement with the Statements of Understanding contained in the Staff Analysis dated June 16, 2006, entitled "Contra Costa Power Plant Unit 8 (00-AFC-1C), Staff Analysis of the proposed addition of PG&E as an owner, extension of the construction milestones, and four facility enhancements" (Staff Analysis). Shortly prior to the July 5, 2005 Business Meeting the Staff issued an errata making minor modifications to the Statements of Understanding and adding a new Statement of Understanding 3. At the Business Meeting on July 5, 2006, the Commission directed PG&E to file this Second Revised Verified Statement to formally reflect its agreement to the changes contained in the Staff's Errata and to address the policy guidance contained in the 2003 and 2005 Integrated Energy Policy Reports (IEPR).

The Asset Transfer Agreement

On June 10, 2005, PG&E entered into an Asset Transfer Agreement (ATA) with Mirant Delta, LLC and Mirant Special Procurement, Inc. (Mirant) that provided for PG&E to acquire certain assets associated with the planned development of Contra Costa Unit 8 (CC8 Assets). The ATA established a timeline that would allow PG&E to exercise its option to acquire the CC8 assets as late as June 30, 2008. The reason for this long option period was to provide the greatest amount of flexibility for PG&E. On June 15, 2006, the California Public Utilities Commission (CPUC) approved PG&E's acquisition of the CC8 assets. With the CPUC approval, PG&E is currently working toward closing in the near future as the CC8 asset will be a much needed generation asset in PG&E's portfolio. If

closing under the ATA occurs as PG&E intends, PG&E will acquire ownership of the CC8 Assets, and will own, construct, use, operate and maintain Contra Costa Unit 8 Power Project in accordance with all applicable CEC requirements and in compliance with all applicable laws, ordinances, regulations and standards. While PG&E is currently working to close under the ATA and acquire CC8, it is not currently the owner.

Water Policy Guidance

PG&E understands the Commission policy articulated in the 2003 IEPR that favors use of cooling technology that does not rely on fresh water for cooling. PG&E further understands the ongoing policy debate within the State concerning the use of one-through cooling for power plants.

While the Commission granted the license for CC8 prior to the formal establishment of these policy guidance documents, PG&E believes that if it acquires the CC8 asset, it will be developed in such a manner as it will comply with spirit and intent of that guidance. While the current configuration of CC8 relies on the use of river water that either has been already used by CC Units 6 and/or 7, or is diverted from the river for use by CC8 only, that current method of operation is subject to resolution of biological issues associated with intake of river water and discharge to the river under existing permits currently held by Mirant. Mirant has taken the lead to resolve the biological issues with the resource agencies.

Staff proposed Statement of Understandings 1, 2 and 3 to ensure that CC8 will only use river water for cooling if a new biological opinion and associated biological permits are obtained authorizing the use of river water.

If PG&E acquires CC8, and if the biological authorizations are not in place, Statement of Understanding 2 specifically acknowledges that PG&E may seek alternative cooling methodology. The Staff Analysis included a preliminary evaluation of the use of reclaimed water for cooling as an alternative to use of river water. PG&E and Mirant are investigating this option further. Preliminary research into the availability of treated waste water appears somewhat favorable. PG&E is committed to actively pursuing waste water as an alternative if becomes a feasible and economic option.

Statement of Understanding 3 further prevents CC8 from being constructed in a manner that will prevent the switching to an alternative cooling technology. PG&E's understanding of this option is that construction could commence as long as certain components were not constructed in a manner that would rely solely on river water for cooling. PG&E agrees with this approach.

Construction Timeline

PG&E desires to close on the ATA as soon as possible and desires to begin construction as soon as possible. Once PG&E acquires the asset, PG&E will immediately begin preconstruction activities. PG&E will continue to evaluate the use of reclaimed water during the preconstruction activities and, if such reclaimed water proves feasible as Staff suggests, PG&E will take steps to modify the project design to use reclaimed water for cooling.

Required Compliance Statement

PG&E submits this Second Revised Verified Statement attesting as follows: (1) PG&E understands the conditions of certification set forth in the Commission Decision for the Contra Costa Unit 8 Power Project (Docket 00-AFC-1); (2) PG&E understands the Staff Analysis; and (3) PG&E agrees that, if it acquires the CC8 Assets, PG&E will comply with and be bound by those conditions of certification and the Statements of Understanding 1, 2 and 3 contained in the Staff Analysis and errata.

I am an officer of PG&E and I hereby attest under penalty of perjury to the truth and accuracy of the required verified statement above.

Executed By:

Name: Fong Wan
Title: Vice President, Energy Procurement
Date: July 13, 2006

cc: Jeffrey S. Russell
President, Mirant Delta, LLC.