

Decision 84-12-062      December 28, 1984

# ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY for authority among other things, to increase its rates and charges for electric and gas service.

Application 82-12-48  
(Filed December 20, 1982)

(Electric and Gas)

## INTERIM OPINION

On November 28, 1984, the Commission's Public Staff Division (PSD) filed a motion to: (1) reopen Application (A.) 82-12-48, Pacific Gas and Electric Company's (PG&E) 1984 Test Year General Rate Case, and (2) suspend PG&E Advice Letter Nos. 1046-E and 1286-G, requesting 1985 Attrition Rate Adjustment (ARA) increases, effective January 1, 1985. These advice letters cover increases of \$173.8 million or 3.6% for the electric department and \$70.0 million or 2.3% for the gas department for 1985.

The PSD motion is made in view of the earnings levels of both electric and gas departments of PG&E for 1984, which are in excess of rates of return authorized by D.83-12-068, according to reports filed by PG&E.

On December 3, 1984 PG&E filed a response to the PSD motion. PG&E argues that:

- (1) PSD's request is not based on an analysis of projected 1985 results, but is based solely on the fact that estimated 1984 earned rates of return will be in excess of the rates found just and reasonable in D.83-12-068.

- (2) PSD's formulation of utility rate of return policy is incorrect and leads it to propose an improper usage of the attrition mechanism. The fact that in 1984 PG&E may earn in excess of the rate of return found just and reasonable should not expose it to a re-analysis of the procedures to be utilized to mechanically set rates in the attrition year, any more than its failure to earn at the stated level should trigger a right to greater revenues during the subsequent year. PSD's motion ignores this fundamental regulatory principle and should be rejected.

PG&E also states that if PSD's motion is granted, the Commission should nonetheless approve PG&E's pending advice filings effective January 1, 1985, subject to refund.

PG&E further states that it has been evaluating whether and to what extent changes proposed in federal income tax regulations will affect PG&E's expected results of operations in the 1985 attrition year. Based on a preliminary analysis of its likely 1985 tax liability, PG&E believes that proposed changes in allowable tax deductions available for 1985 will decrease PG&E's electric and gas department revenue requirements. According to PG&E, the proposed changes in allowable tax deductions available for 1985 will decrease PG&E's electric and gas department revenue requirements by approximately \$32,763,000 and \$4,841,000 respectively.

PG&E notes, however, that Congress is presently considering significant changes to the overall federal income tax structure. Depending on the nature and timing of any changes adopted, PG&E's 1985 attrition year revenue requirements may further decrease or may increase.

In addition to increases for attrition, the advice letter filings include revenue increases related to certain other Commission decisions which are separate from PG&E's general rate case. The following tabulation details the various revenue increase components of the advice letter filings:

Dollars in Thousands

<u>Electric Department</u>		<u>Gas Department</u>	
Indexed Attrition	\$ 40,730	Indexed Attrition	\$18,567
Fixed Attrition	91,146	Fixed Attrition	30,772
Total Attrition	<u>\$131,876</u>	Total Attrition	<u>\$49,339</u>
Cons. Load Mgt. Refunds			
1984	22,996	LNG Project	
1985	(106)	Cost Recovery	20,676
Utah Coal Sale Refund	19,012		
TURN Reimbursement	50		
Subtotal	<u>\$ 41,952</u>		
Total Electric Revenue		Total Gas Revenue	
Increase	<u>\$173,828</u>	Increase	<u>\$70,015</u>

The Commission decisions authorizing the above items are as follows:

	<u>Electric</u>	<u>Gas</u>
Attrition - Fixed	D.83-12-068	D.83-12-068
Attrition - Indexed	D.83-12-068	D.83-12-068
Conservation Load		
Management Refunds	D.83-12-068	-
Utah Coal Sale Refund	D.84-05-100	-
LNG Project Cost	-	D.84-09-089
TURN Reimbursement	D.84-08-033	-

Discussion

The PSD motion is granted in part and denied in part.

In the interest of rate stability, we conclude that some portion of PG&E's request should be reflected in rates effective January 1, 1985. Accordingly, we will reduce PG&E's request to reflect the tax allowance deductions discussed previously and correct the interest calculation related to the LNG project cost recovery. Also, we will adjust postage expense since the increased rate for 1985 will not be in effect for a full year. We reserve for hearing the issue whether a postage increase allowance coupled with the escalation of Administrative and General expenses in the attrition year represents double counting of an expense.

Accordingly, PG&E's pending advice letters should be modified as follows:

	<u>Electric Revenue</u> <u>Thousands of Dollars</u>	<u>Gas Revenue</u> <u>Dollars</u>
Increase Requested	\$173,828	\$70,015
<u>Less</u>		
Tax Allowance	32,763	4,841
Postage	44	36
LNG Interest	<u>-</u>	<u>1,561</u>
Total	\$141,021	\$63,577

Since the above revenue increases for 1985 are authorized subject to refund, we expect PG&E to provide an affirmative showing on the reasonableness of its 1985 ARA request. This showing should be provided during the hearings to be scheduled in 1985 on changes necessary to the ARA mechanism as a result of the shift from a two-year to a three-year Rate Case Plan.

PG&E should file its showing no later than March 31, 1985. The showing should include a detailed comparison of 1984 authorized and 1984 recorded operations, brief explanations of any significant deviations of recorded from authorized amounts, and whether PG&E expects such deviations to continue during the 1985 and 1986 attrition years. All parties are placed on notice that we do not intend to conduct a PG&E-mini rate case for 1985, and the hearing on this matter will be limited. The scope of the hearing will be prescribed at a prehearing conference to be scheduled following receipt of PG&E's showing.

#### Findings of Fact

1. PG&E should modify Advice Letter Nos. 1046-E and 1286-G as set forth in this opinion.

2. PG&E should present an affirmative showing to demonstrate the reasonableness of its requested 1985 ARA increase. PG&E should file its showing no later than March 31, 1985. The scope of the hearing on this matter should be limited since it is not intended that the proceeding evolve into a 1985 general rate case for PG&E.

3. Effective January 1, 1985, PG&E should be granted an interim ARA revenue increase for 1985 of \$141,021,000 for its electric department and \$63,577,000 for its gas department. Both increases will be subject to refund following hearings on the reasonableness of PG&E's request. These amount to increases of 2.9% and 2.1%, respectively. ✓

Conclusions of Law

1. It is reasonable that PG&E's 1985 ARA increase request, as modified by this opinion, be included in rates subject to refund.

2. It is reasonable that the increase become effective on January 1, 1985. Therefore, this interim order should be effective as of the date of signature. ✓

3. This opinion is not a final determination on the merits of PG&E's request.

INTERIM ORDER

IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E) may file Advice Letter Nos. 1046-E and 1286-G as modified by this opinion. The advice letters shall be effective on the date of filing but no earlier than January 1, 1985. Rates shall apply to service rendered on and after the effective date of the advice letters.

2. PG&E should provide an affirmative showing to support the reasonableness of its ARA increase for 1985. PG&E should file its showing no later than March 31, 1985.

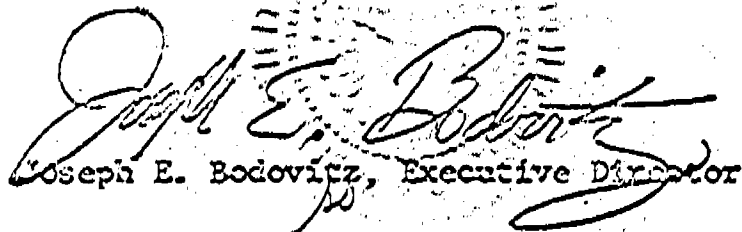
3. This interim decision grants the PSD motion in part. The proceeding will remain open until review of PG&E's 1985 ARA filing is complete and a final determination is made on the reasonableness of PG&E's request. Until such time, the revenues covered by the above advice letters will be subject to refund. ✓

This order is effective today.

Dated December 28, 1984, at San Francisco, California.

DONALD VIAL  
President  
VICTOR CALVO  
PRISCILLA C. GREW  
WILLIAM T. BAGLEY  
FREDERICK R. DUDA  
Commissioners

I CERTIFY THAT THIS DECISION  
WAS APPROVED BY THE ABOVE  
COMMISSIONERS TODAY.

  
Joseph E. Bodovitz, Executive Director