

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Advisory Branch

RESOLUTION E-3116
December 19, 1988

R E S O L U T I O N

RESOLUTION E-3116, AUTHORIZING PACIFIC GAS AND ELECTRIC COMPANY (PG&E) TO INCREASE ITS ELECTRIC BASE RATES IN ACCORDANCE WITH THE ATTRITION RATE ADJUSTMENT (ARA) MECHANISM AND FOR OTHER FACTORS, EFFECTIVE JANUARY 1, 1989.

BY ADVICE LETTER 1226-E, FILED OCTOBER 3, 1988 AND SUPPLEMENTED NOVEMBER 18, 1988.

SUMMARY

1. By Advice Letter 1226-E filed October 3, 1988, and supplemental Advice Letter 1226-E-A filed November 18, 1988, PG&E requests authorization to increase its electric Base Revenue Amount by \$125,860,000 and concurrently revise its electric rates to reflect this increase. PG&E requests this increase to compensate for operational and capital-related attrition as provided for in Decision (D.) 86-12-095 and for the impacts of the Tax Reform Act of 1986 (TRA 1986), 1988 expense reductions and a voluntary reduction to reflect 1988 rate base true-up, reduced capital expenditures and increased working capital in 1989.

2. Ordering Paragraph 4 of D.88-12-094 requires that the adopted 1989 cost of capital be used in conjunction with PG&E's advice letter filing. By this Resolution, PG&E is authorized an increase in its Base Revenue Amount of \$116,806,000.

BACKGROUND

1. D.86-12-095 authorized PG&E to revise electric base rates to compensate for 1989 operational and capital-related attrition.

2. Operational attrition is a decrease in a utility's net operating income due to increases in operation and maintenance expenses attributable to inflation between general rate case test years.
3. Capital-related attrition is a change in a utility's net operating income due to changes in rate base and cost of capital between general rate case test years.
4. PG&E's presently authorized capital structure and its requested 1989 capital structure are shown in Attachment A to this Resolution.

DISCUSSION

1. In accordance with the Attrition Rate Adjustment (ARA) mechanism, PG&E requests an attrition increase of \$125,920,000. The staff of the Commission Advisory and Compliance Division (CACD) recalculated the appropriate increase to be \$116,683,000 at the rate of return adopted in D.88-12-094. This is a decrease of \$9,237,000 from PG&E's request. This and other revenue changes are shown in Attachment B. The adopted rate of return is shown in Attachment A.
2. PG&E has also requested an increase of \$18,278,000 to compensate for the effects of TRA 1986. PG&E's request is granted.
3. In Resolution E-3061 dated December 17, 1987 the Commission adopted a 1988 revenue reduction of \$47,466,000 for PG&E's Voluntary Retirement Incentive and Severance Workforce Reduction programs. For 1989, PG&E requests a further reduction of \$2,423,000 to reflect the impact of 1989 operational attrition on the 1988 revenue reduction. PG&E's request is granted.
4. In Resolution E-3061 the Commission also adopted a 1988 revenue reduction of \$43,117,000 for PG&E's Attrition Workforce Reduction. For 1989, PG&E requests a further reduction of \$2,200,000 to reflect the impact of 1989 operational attrition on the 1988 revenue reduction. PG&E's request is granted.
5. In D.86-12-095, the Commission included some of the Administrative and General (A&G) expenses related to Diablo Canyon Nuclear Power Plant (Diablo) in PG&E's general rate case (GRC) proceeding. The Commission later decided to remove these expenses from the GRC results of operations and consider them in the Diablo proceedings, Application (A.) 84-06-014 and A.85-08-025. PG&E requests a revenue reduction of \$739,000 to reflect the impact of 1989

operational attrition on the removal of Diablo related A&G expenses from the GRC proceeding. PG&E's request is granted.

6. In Resolution E-3061 the Commission adopted a 1988 revenue reduction of \$17,396,000 for PG&E's expected reduction in rate base from the level that was authorized in PG&E's GRC proceeding in D.86-12-095. In its Advice Letter filing for attrition year 1988, Advice Letter 1178-E, PG&E indicated that it had decided against certain capital projects and therefore did not expect to achieve the 1988 authorized rate base level that was adopted in D.86-12-095. No protests were received regarding Advice Letter 1178-E, and Resolution E-3061 granted PG&E's request. PG&E now expects its 1988 rate base to be higher than the level that was adopted in Resolution E-3061. PG&E now requests a revenue increase of \$6,130,000 to compensate for the difference between its latest expectation of 1988 rate base and that which was adopted in Resolution E-3061.

7. PG&E also expects its 1989 rate base level to be lower than that which was authorized in its GRC proceeding, D.86-12-095. PG&E seeks a revenue decrease of \$18,973,000 to compensate for this reduction in rate base. The CACD notes that the revenue decrease of \$18,973,000 is the net of the effects of a decrease in 1989 plant, an increase in 1989 working capital and other changes. The effect of the decrease in 1989 plant and other changes is a revenue decrease of \$33,484,000 and the effect of the increase in 1989 working capital is a revenue increase of \$14,511,000 for a net revenue decrease of \$18,973,000.

8. PG&E also requests a decrease of \$133,000 to compensate for the cost of capital adjustment related to rate base changes discussed in paragraphs 12 and 13 above. The CACD has recalculated the adjustment to be an increase of \$50,000 at rates of return adopted in D.88-12-094.

9. PG&E, in its Advice Letter 1226-E-A dated November 18, 1988, has characterized its request for rate base changes and related cost of capital adjustment as discussed in paragraphs 12, 13 and 14 above as "voluntary". PG&E indicates that the method used to develop the net reduction is not intended by PG&E to set a precedent for future attrition filings.

10. On November 28, 1988, the Commission's Division of Ratepayer Advocates (DRA) filed comments (a) objecting to PG&E's characterization of its reduction request as "voluntary", and (b) recommending that PG&E be denied attrition relief for increases in working capital in accordance with D.85-12-076.

11. In D.83-12-068, the Commission adopted ratemaking estimates for PG&E's test year 1984 and attrition year 1985. At the end of 1984, PG&E filed for an attrition increase for 1985. The DRA (then the Public Staff Division) made a motion to deny PG&E's request for an attrition increase for 1985 on grounds that at the end of 1984, PG&E was earning a rate of return in excess of its authorized level for 1984. D.84-12-062 required PG&E to provide a detailed comparison of 1984 authorized vs. recorded operations and granted PG&E the attrition increase for 1985 subject to refund. D.85-12-071 addressed the reasonableness of ratemaking estimates for 1985 which were adopted by the Commission in D.83-12-068 and discussed PG&E's recorded operations for 1984. In Conclusion of Law 1 in D.85-12-071, the Commission noted that it should consider adjustments to attrition year increases for accounts which are overearning, in cases where overearnings do not result from management efficiency or increased productivity. In Conclusion of Law 3 in the same decision, the Commission noted that because of PG&E's actions which delayed plant construction, ratepayers should be protected from the risk of PG&E not achieving the rate base adopted in rates for 1985. Thereupon, the Commission affirmed PG&E's 1985 attrition increase that it had granted in D.84-12-062 with the exception that PG&E had to refund any shortfall due to recorded 1985 rate base.

12. In PG&E's last GRC decision for test year 1987, D.86-12-095, the Commission presented attrition tables for 1988 and 1989. In Conclusion of Law 24, the Commission noted that the attrition amounts and factors set forth in the attrition tables should be used for calculating any increase for attrition which may be granted in 1988 and 1989.

13. The CACD finds that Conclusion of Law 24 in D.86-12-095 supersedes Conclusions of Law 1 and 3 in D.85-12-071 which were specific to 1985. PG&E's request, after adjustment for the rate of return adopted in D.88-12-094, for a revenue reduction of \$12,793,000 is granted.

14. Although DRA's comments on unrealized rate base additions in attrition years are well taken, PG&E's request is in compliance with D.86-12-095 and DRA's comments are not adopted.

15. The Commission, in granting PG&E's request in does not in any way approve or endorse the revenue components that lead to PG&E's revenue reduction request. The CACD also notes that Southern California Edison Company (Edison) did not adjust its 1989 rate base to reflect its latest rate base estimate which is lower than that adopted in its recent GRC A.86-12-047, D.87-12-066. We will require that PG&E file testimony on unrealized attrition year rate base in its

test year 1990 GRC A.88-12-005. We urge the DRA and other energy utilities to participate in any litigation of this issue.

16. The attrition revenue amounts shown in Attachment B do not include the California Corporation Franchise Tax (CCFT) tax timing adjustment. This issue is the subject of a pending supplemental proceeding in PG&E's 1987 GRC (D.86-12-095 in A.85-12-050).

17. Base rate changes authorized by this decision will be incorporated into revenue allocation and rate changes authorized in PG&E's current Energy Cost Adjustment Clause (ECAC) proceeding, A.88-04-020 and A.88-04-057.

18. Public notification of this filing has been made by mailing copies of each filing to other utilities, governmental agencies and to all interested parties who requested such notification.

19. No protests to this advice letter have been received by CACD.

FINDINGS

1. For the reasons stated above, a base revenue requirement increase of \$116,806,000 is just and reasonable.

2. Attrition revenue requirements due to CCFT should not be granted by this Resolution.

3. Base rate changes authorized by this resolution should be incorporated into revenue allocation and rate changes resulting from PG&E's current ECAC proceeding.

4. The issue of unrealized test year and attrition year rate base should be addressed in PG&E's test year 1990 general rate case.

THEREFORE, IT IS ORDERED, that:

1. Pacific Gas and Electric Company is authorized to increase its Base Revenue Amount by \$116,806,000 and to increase base rates to recover that amount in revenues, effective January 1, 1989 as shown in Attachment B.

2. On or before December 28, 1988, Pacific Gas and Electric Company is authorized to file revised tariffs reflecting the effect of revenue changes adopted by this Resolution.

3. The tariff sheets shall be marked to show that they were authorized for filing by Commission Resolution E-3116 and that the Base Revenue Amount and rates are effective January 1, 1989.

4. Pacific Gas and Electric Company shall file testimony on the issue of unrealized test year and attrition year rate base in its test year 1990 general rate case.

5. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 19, 1988. The following Commissioners approved it:

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. O'HANIAN
Commissioners



Executive Director

Pacific Gas and Electric Company
Electric Department
1989 Attrition Allowance

Present Authorized Capital Structure
(Attrition Year 1988)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long Term Debt	45.50%	9.34%	4.25%
Preferred Stock	8.50	8.80	0.75
Common Equity	<u>46.00</u>	13.10	<u>6.03</u>
Total	100.00%		
Rate of Return			11.02%

Requested Capital Structure
(Attrition Year 1989)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long Term Debt	45.25%	9.41%	4.26%
Preferred Stock	8.00	8.79	0.70
Common Equity	<u>46.75</u>	13.10	<u>6.12</u>
TOTAL	100.00%		
Rate of Return			11.08%

Adopted Capital Structure
(Attrition Year 1989)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long Term Debt	46.25%	9.39%	4.34%
Preferred Stock	7.00	8.79	0.62
Common Equity	<u>46.75</u>	13.00	<u>6.08</u>
TOTAL	100.00%		
Rate of Return			11.04%

Pacific Gas and Electric Company
Electric Department
1989 Attrition Allowance
Revenue Requirements
(\$000)

<u>Description</u>	<u>Requested</u>	<u>Adopted</u>
Operational Attrition		
Labor Inflation	\$26,661	\$26,661
Non-Labor Inflation	35,393	35,393
Capital-Related Attrition	67,010	57,773
Jurisdictional Allocation	(1,428)	(1,428)
Project Amortization	(1,716)	(1,716)
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ARA Mechanism for 1989	\$125,920	\$116,683
Tax Reform Act of 1986	\$18,278	\$18,278
1988 Expense Reductions		
VRI and Severance	(\$2,423)	(\$2,423)
Attrition Workforce Reduction	(2,200)	(2,200)
Diablo A&G Removal	(739)	(739)
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Subtotal	\$138,836	\$129,599
1989 Voluntary Capital Reductions		
1988 Rate Base True-up	\$6,130	\$6,130
1989 Reduced Plant and Other Changes	(33,484)	(33,484)
1989 Increased Working Capital	14,511	14,511
Cost of Capital adjustment	(133)	50
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Subtotal	(\$12,976)	(\$12,973)
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NET INCREASE	\$125,860	\$116,806