PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION E-3516
JANUARY 21, 1998

RESOLUTION

RESOLUTION E-3516. PACIFIC GAS AND ELECTRIC COMPANY (PG&E) SEEKS COMMISSION APPROVAL OF ITS 1998 BASE REVENUE INCREASE ATTRIBUTABLE TO PUBLIC UTILITIES CODE SECTIONS 368 (c) AND 381 (c). APPROVED AS MODIFIED.

BY ADVICE LETTER 1703-E FILED ON OCTOBER 17, 1997
BY ADVICE LETTER 1692-E-B FILED ON OCTOBER 1, 1997

SUMMARY

1. Pacific Gas and Electric Company (PG&E) is requesting in Advice Letter 1703-E, filed on October 17, 1997, an increase in base revenues of $148.391 million for enhancing system safety and reliability. In addition PG&E is requesting $48 million for funding renewable resource technologies.

2. Timely protests were filed by Enron, Mr. James Weil, and The Utility Reform Network (TURN).

3. An issue raised in Advice Letter 1692-E-B (the structural separation of costs) is also addressed in this Resolution as directed by Resolution E-3510.

4. Protestants in Advice Letter 1703-E question PG&E's application of the Consumer Price Index (CPI), calculation of the Base Revenue Amount, use of the revenues collected in 1997 for safety and reliability, and funding for renewable resource technologies.

5. This resolution adopts an immediate base revenue increase of $86,079,316 by:
    - Application of later CPI data
    - Clarification of the 1997 base revenue amount eligible for escalation to determine the 1998 base revenue increase.
    - Denial of PG&E's request for renewable resource technologies funds that are already provided for in existing authorized revenues and accounting mechanisms.

6. The issue of PG&E's noncompliance with D.96-12-077 by not maintaining accounting systems, as ordered, is deferred to PG&E's general case filing.

BACKGROUND

1. Assembly Bill (AB) 1890 created Public Utilities (PU) Code Sections 368 (e) and 381 (c) (3). PU Code Section 368 authorizes annual increases in PG&E's base revenue, effective January 1, 1997 and January 1, 1998. (PG&E requested the 1997 increase to its electric base revenue amount through Advice Letter 1612-E, filed October 8, 1996. Advice Letter 1612-E was approved as part of PG&E's cost recovery plan in Decision (D.) 96-12-077. These increases are authorized subject to the condition that PG&E's bundled rate not exceed the rates in effect on June 10, 1996.

2. PU Code Sections 381 (c) (3) requires that PG&E fund renewable resource technologies at a level of $48 million per year through 2001.

3. By Advice Letter 1703-E filed on October 17, 1997, PG&E requests the Commission update the amount in PG&E's electric Preliminary Statement Part D—Electric Revenue Adjustment Mechanism (ERAM) that was included in Advice Letter 1692-E-B, PG&E's Cost Separation compliance filing. The amount of base revenue in Appendix D of D. 97-08-056 includes estimates of the amounts required by PU Code Sections 368 (e) and 381 (c). PG&E hereby revises those figures. The increase in the Base Revenue amount attributable to PU Code Section 368 (e) is based on the consumer price index for the prior year (for this filing PG&E has used the information available for the 12 months ended August 1997) plus two percentage points.

4. PG&E's requested increase in base revenue for PU Code Section 368 (e) for PU Code Section 368 (e) for 1998 is $148.391 million; the requested increase in the Base Revenue Amount attributable to PU Code Section 381 (c) (3) is $48.468 million, which equals $48 million plus franchise fees and uncollectibles.

5. PG&E proposed revising Preliminary Statement Part D (or its successor) to include the base revenue and funding for renewable resource technologies authorized by AB 1890, and any changes required by the decision in its annual Cost of Capital Application (Application (A.) 97-05-016).

6. PG&E requests that this advice letter and the base revenue change requested in this filing become effective on January 1, 1998, as authorized by PU Code Sections 368 (e) and 381 (c) (3).

7. Resolution E-3510, dated December 16, 1997, adopts revised tariffs implementing the functional separation of costs adopted by D.97-08-056.

NOTICE

1. In accordance with Section III, Paragraph G., of General Order 96-A, PG&E mailed copies of this advice letter to other utilities, interested parties, and to all parties of record in OIR 94-04-031/OII 94-04-032 and A.97-05-016. Public notice of this filing has been made by publication in the Commission's calendar.

PROTESTS

1. Timely protests were filed by Enron, Mr. James Weil, and TURN on November 6, 1997.

2. Enron raises two issues:
   a. Enron believes the amount is computed correctly but is concerned that PG&E did not show how revenue collected in 1997 will be used to comply with the terms of Section 368 (e) (2). The revenues collected pursuant to PU Code Section 368 (e) (2) are to be used exclusively for improvement to PG&E's transmission and distribution system safety and reliability. Enron urges the Commission require a full accounting of these monies to establish that money was spent for authorized purposes only.

   b. Enron alleges the second amount, $48,468,000, that PG&E proposes to add to the Base Revenue Amount is not authorized by PU Code Section 381 (c) (3). The $48,468,000 that PG&E proposes to add to its revenue requirements is already included in the 1997 Base Revenue Amount. Enron believes that PU Code Section 381 is intended to identify a minimum level of funding which is already included in the 1997 rate levels, and Section 381 does not authorize increases in the Base Revenue Amounts. Enron recommends this second proposed increase in PG&E's Base Revenues Amounts be rejected by the Commission.

3. Mr. Weil raises the following issues:

a. Inflation Rate: Mr. Weil objects to PG&E's reliance on August data which unfairly ignores a clear trend of decreasing inflation figures during 1997 and does not allow for updating of CPI-U data published after mid-September 1997. The Commission should reject PG&E's proxy and should instead forecast a full-year 1997 inflation rate by extrapolation of data for the first 10 -11 months of 1997. Such an extrapolation is the best available estimate of the full year 1997 inflation rate. Mr. Weil provides an extrapolation of nine months of data which results in a revenue estimate of $128,348,000. If the Commission does not accept the arguments regarding base revenues below, it should adopt this increase, which is approximately $20 million less than PG&E's request, or should update this method to include BLS data for October and possibly November 1997. If the Commission does not adopt the above method for determining 1997 inflation rate, it should at least update the August data presented by PG&E by substituting September, October or preferably November 1997 data, which may be publicly available by the time the Commission acts on Advice Letter 1703-E. PG&E's 1997 base revenue increase was calculated using August-to-August data, and last year's practice was uncontested.

b. Base Revenues. PU Code Section 368 (e) requires "annual increase in base revenues." PG&E interprets base revenues to mean the Base Revenue Amount set forth in the Electric Revenue Adjustment Mechanism (ERAM) section of its Preliminary Statement. In separate paragraphs the tariff states (Revised Cal. P.U.C. Sheet No. 14289-E, effective January 1, 1997):

"The purpose of this Electric Revenue Adjustment Mechanism (ERAM) is to adjust revenues for sales fluctuations."

* * *

"The Base Rates are the rates for electric service in effect at any time, exclusive of adjustment rates for which a balance or adjustment account is specifically provided in the Preliminary Statement."

* * *

"The Base Revenue Amount is the annual operating revenue to be collected in Base Rates. The Base Revenue Amount shall be increased or decreased to incorporate changes in the level of authorized operating revenue specified in the decisions of the Commission...."

PU Code Section 368 does not define base revenues or operating revenue. When PG&E filed Advice Letter 1612-E last year, the Base Revenue Amount excluded fuel-related revenues, which were covered by the Energy Cost Adjustment Clause (ECAC) mechanism and the associated ECAC balancing account. The costs of PG&E's generation, transmission and distribution functions were included in the Base Revenue Amount. This year the situation is more complicated. In Mr. Weil's opinion, PG&E's current ERAM tariff definition of base rates will be inadequate when electric rates and services are unbundled on January 1, 1998. Under the upcoming electric industry restructuring, PG&E will no longer be able to adjust most generation and transmission revenues for sales fluctuations, except by limited balancing or adjustment accounts specifically provided in the Preliminary Statement. PG&E will recover: (1) the costs of economic generation facilities through the new power exchange (PX), without protection for sales fluctuations; (2) the costs of uneconomic generation facilities through a transition cost balancing accounts; (3) the costs of certain hydroelectric and geothermal generation facilities through conventional ERAM accounting; (4) the costs of transmission facilities through rates and ratemaking mechanisms approved by the Federal Energy Commission (FERC); and (5) the costs of distribution facilities through conventional ERAM accounting.

PG&E has not proposed or justified any revised ERAM definition. Therefore, the Commission should construe the current tariff rigorously. Item (1) above will not be subject to sales fluctuation protections and will not be subject to a specific level of operating revenues authorized by the Commission. Therefore, it is outside the scope of the ERAM. Item (2) is covered by a balancing account, which excludes it from the ERAM. Item (4) is under FERC jurisdiction. Only Items (3) and (5) qualify for ERAM treatment. Therefore, only those costs should be included in the Base Revenue Amount, as defined in the ERAM tariff.

The Commission should reject any argument by PG&E that PU Code Section 368 (e) requires a 1998 revenue increase that is based on 1997 authorized revenues. The Code states that the Commission "shall provide for annual increases in base revenues, effective January 1, 1997, and January 1, 1998,..."
Absent specification by the Legislature, the Commission should assume that the effective dates refer to annual increases and base revenues.
There is no mention of prior year base revenues. PG&E should receive a January 1, 1998 increase based on January 1, 1998 base revenues.

According to PG&E's pending Advice Letter 1692-E-B, Attachment II., the January 1, 1997 Base Revenue Amount of $3,516,381,000 should be unbundled in 1998 as follows:

TABLE 1

Function	Amount
Generation	$1,189,913,000
Transmission	286,691,000
Distribution	1,841,326,000
Public Purpose Programs	165,744,000
Nuclear Decommissioning	+ 32,707,000
Total	$3,516,381,000

In Application (A.) 96-07-018, consolidated with A.96-07-009 and known as the performance-based ratemaking (PBR) proceeding, PG&E seeks ratemaking treatment for the costs of certain hydroelectric and geothermal generation facilities. Revenue requirements would be adjusted monthly based on recorded rate base amounts. PG&E presents illustrative revenue requirements that total $655,453,000, based on an 11.60% return on equity (ROE). (A.96-07-018, Exhibit 1, Tables 2,3, and 4 at pp. 2-18, 2-19 and 2-20.) Other parties dispute PG&E's revenue requirement in two proceedings: (1) in the PBR proceeding, parties dispute the inclusion of certain line items within the illustrative amounts; and (2) in A.97-05-016, PG&E's current cost of capital application, parties have proposed lower ROEs. On October 31, 1997, assigned administrative Law Judge Orville Wright issued a proposed decision that would adopt an ROE of 11.40%. In addition, the concurrent protest of Advice Letter 1692-E-B, Mr. Weil disputes the allocation of the 1998 base revenue increase between transmission and distribution.

Even if PG&E prevails in the PBR proceeding, the cost of capital application, and Advice Letter 1692-E-B, the Commission should approve only the following Base Rate Amount:

TABLE 2

Function	Amount
Generation	$ 655,453,000
Distribution	1,841,326,000
Public Purpose Programs	165,744,000
Nuclear Decommissioning	+ 32,707,000
Total	$2,695,230,000

The Commission may also wish to allocate the costs of Public Purpose Programs among generation, transmission and distribution functions, and then exclude a share of generation and transmission costs from base revenues. Mr. Weil takes no position on this issue in his protest.

Reduction of the Base Revenue Amount from PG&E's $3,516,381,000 to the above $2,695,230,000 results in a base revenue increase of $98,376,000. The calculation assumes a 1.65% prior year inflation rate. The increase would be $113,739,000 using PG&E's 2.22% inflation rate.

Mr. Weil recommends that the Commission's adopt a base revenue increase of $74,452,000, subject to revision depending on the outcome of the PBR and cost of capital proceedings. As an accounting matter, the Commission could allocate this increase entirely to distribution because the revised Base Revenue Amount effective January 1, 1998, will exclude transmission costs. Mr. Weil has no objection, however, to expenditure of the amount on both transmission and distribution enhancements, in accordance with PU Code Section 368 (e)(2).

Mr. Weil states that the Commission's Energy Division can easily modify his spread sheets to determine base revenue increases under different scenarios for Base Revenue Amount and prior year inflation rate. Evidentiary hearings on these technical issues are not necessary.

4. Turn raises three issues:

a. The first issue is PG&E's lack of compliance with the record-keeping and reporting requirements set forth in Attachment A to D.96-12-077. Attachment A sets forth very specific directions on the incremental expenditures and capital-related costs to be recorded in the "System Safety and Reliability Enhancement Funds Balancing Account (SSREFBA), and the manner in which those expenditures and costs were to be recorded.

TURN believes that the Commission should require compliance with the requirements of D.96-12-077 in regard to the 1997 base revenue increase before authorizing another increase in 1998. TURN notes that PG&E's accounting system no longer tracks by sub-account, and that this change in its system has hindered its ability to comply with the reporting requirements for the $164.2 million base revenue increase authorized in D.96-12-077. If PG&E had already changed its accounting system at the time D.96-12-077 was issued, such that it could not comply with the terms of that decision, it should have brought that fact to the Commission's attention. If the accounting system was changed subsequent to the issuance of D.96-12-077, then the utility acted in a manner inconsistent with a standing Commission order. Whatever the explanation, TURN alleges,"...

it would be irresponsible to approve the 1998 increase without greater assurance that the 1997 increase can be sufficiently accounted for."

Section 368 (e) requires that the increase authorized therein be used for specified purposes. If PG&E cannot demonstrate that it has limited the use of the 1997 increase consistent with the statute, then the Commission can deny the 1998 increase consistent with the statute. TURN urges the Commission to do precisely that.

b. TURN wholeheartedly supports the proposed changes to the inflation rate and base revenue amounts Mr. Weil has proposed in his protest of Advice Letter 1703-E.

c. In D.96-12-077 (the Cost Recovery Plan decision) the Commission recognized that the accelerated depreciation of generation assets will cause the associated revenue requirement to decline. As a result, the base revenue requirement "must be adjusted periodically to account for accelerated depreciation of generation rate base." D.96-12-077, (slip opinion p. 15). There is no indication that PG&E has made any such adjustment for the 1998 base revenue requirement, even though the accelerated recovery will begin as of January 1, 1998. TURN urges that, if the Commission chooses not to use the base revenue amounts suggested by Mr. Weil, it must adjust PG&E's calculation of the Base Revenue Amount effective January 1, 1998 to reflect the impact of accelerated recovery.

5. PG&E responded to the protests of Mr. Weil, TURN, and Enron on November 14, 17, and 19 respectively. The responses to TURN's and Enron's protests were filed late.

a. Response to Mr. Weil's protest. PG&E argues that it used the same methodology (for the August Consumer Price Index and its definition of "base revenue") in Advice Letter 1612-E which was adopted in D.96-12-077. PG&E believes that a change in methodology would require a petition to modify D.96-12-077.

b. Response to TURN's protest:

i. PG&E must first demonstrate to the Commission that the 1997 increase to enhance transmission and distribution safety and reliability was spent appropriately. PG&E states that TURN's contention is without merit for it finds no basis or supporting authority in the Public Utilities Code and the Commission's decision authorizing the 1997 base revenue increase. The Commission stated that it would:

> ... review or audit [the System Safety and Reliability Enhancement Funds Balancing Account] <u>after the end of each year</u> to determine how much of the incremental revenues was spent and to verify that expenditures recorded in the balancing account were incremental to the previously established base rates. (Emphasis added.) (Decision 96-12-077, page 30.)

In addition, PG&E's Advice Letter 1612-E-B states that PG&E will file on or before May 1, 1998, a report with the Commission on its 1997 spending of the base revenue increases authorized by PU Code Section 368 (e). That advice letter was approved without modification on April 11, 1997. In this advice letter, PG&E filed an addition to the Preliminary Statement section of its tariffs, the System Safety and Reliability Enhancement Funds Balancing Account, which requires a report of calendar year 1997 recorded data on or before May 1, 1998. Such is the fullest extent of the regulatory reporting requirements set forth by the Commission.

Furthermore, PU Code Section 368 (e) does not require any review of 1997 expenditures before the 1998 increase is approved. It states that the funds must be used for the purposes of "enhancing [PG&E's] transmission and distribution system safety and reliability. . ., "[t]o the extent the revenues are not expended for system safety and reliability, they shall be credited against subsequent safety and reliability base revenue requirements." There is no statutory nor Commission requirement that PG&E report on its 1997 expenditures of the base revenue increase prior to the adoption of the 1998 base revenue increase. The suggestion that PG&E report on 1997 expenditures prior to authorization of 1998 expenditures may in no way be construed to be part of the requirements or rules set forth by the statute and the Commission.

Contrary to TURN's assertion that changes in PG&E's accounting system will hinder PG&E's ability to report on the 1997 base revenue increase, PG&E will report on the expenditures as required after the end of 1997, based on the reportable accounts set forth in D.96-12-077.

ii The 1998 base revenue increase should not be adjusted for accelerated recovery of generation assets. PG&E argues that such an adjustment would be inappropriate and unwarranted, since the base revenue increase authorized by the Commission and the statute is to be used in the areas of distribution and transmission system safety and reliability.

iii TURN's support of Mr. Weil's protest. PG&E responded directly to Mr. Weil. (See paragraph 5.a. above)

c. Response to Enron's protest.

i. Compliance with PU Code Section 368 (e)(2) regarding a full accounting of these monies collected in 1997. (See paragraph 5.b.i above.)

ii. Renewable Resource Technologies. PG&E responds that PU Code Section 381 (c) (3) requires that PG&E fund renewable resource technologies at a level of $48 million per year through 2001. The increases in the Base Revenue Amount attributable to PU Code Section 381 (c) (3) is $48.468 million, which equals $48 million plus franchise fees and uncollectibles. Furthermore, referring to PG&E's 1998 revenue requirement, D.97-08-056 (the Cost Separation decision) states that "PG&E also increases revenue requirements by $48 million to fund renewable resource technologies, consistent with Section 381 (c)." (Emphasis added.) (D.97-08-056, P.11.).

6. Another protest, also filed by Mr. Weil, is discussed here pursuant to Resolution E-3510, dated December 16, 1997, which adopts revised tariffs implementing the functional separation of costs adopted by D.97-08-056. Ordering Paragraph 39 of Resolution E-3510 directs Energy Division to consider Mr. Weil's protest to PG&E Advice Letter 1692-E-B in this Resolution. Mr. Weil protests PG&E's allocation of the bulk of 1998 revenue increases to distribution rather than transmission costs. Mr. Weil points out that PG&E allocates 96.52% of it's 1998 base revenue increase to distribution without providing workpapers to justify this allocation. Mr. Weil suggests that the Commission order PG&E to provide work papers to justify this allocation, reject PG&E's proposed allocation of its1998 base revenue increase, or order PG&E to allocate the authorized base revenue increase based upon allocation of ERAM base revenues effective January 1, 1997.

7. PG&E responded to Mr. Weil's protest of Advice Letter 1692-E-B. PG&E argues that PG&E's allocation of the 1998 base revenue increase was approved in D.97-08-056, as shown in Table I of Appendix D.

DISCUSSION

1. There are four issues in Advice Letter 1703-E and one issue from Advice Letter 1692-E-B that need to be answered in this Resolution:
   - Use of the Consumer Price Index (1703-E).
   - Base Revenue Amount (1703-E).
   - Use of revenue collected in 1997 (1703-E).
   - Funds for renewable resource technologies (1703-E).
   - Functional separation of costs (1692-E).

Consumer Price Index

2. Section 368 (c) establishes that PG&E's base revenue increase to be applied in 1997 and 1998 shall be equal to the inflation rate for the prior year plus two percentage points. The statute's reference to January 1, of 1997 and 1998 for implementing the base revenue increase clearly indicates that the prior year inflation rate should be used for the prior calendar year. In this case, implementation of the statute requires use of actual CPI data for calendar year 1997 or a suitable proxy.

3. Mr. Weil's protest provides two options for the Commission to consider. First, Mr. Weil recommends that the Commission should adopt a "trended" estimate for the 1997 inflation rate based on 9 months recorded 1997 CPI data or 10 or 11 months recorded 1997 CPI data if available. Second, Mr. Weil recommends, as an alternative, that the Commission update PG&E's estimate with the latest available 12 months recorded CPI data, up to November 1997.

4. Energy Division recommends Mr. Weil's alternate proposal using the most recent 1997 data available. PU Code Section 368 (e) should be "...equal to the inflation rate for the prior year..." In order to accomplish this requirement and have the rates effective on January 1st, fidelity to the statute would require the latest available data. December CPI data is available for this Resolution and should be used. Energy Division recommends that December CPI data be used in calculating the base revenue increase. In doing so, the Commission would not be modifying PG&E's methodology, it would only be using more recent data. Using PG&E's method and substituting December data results in the following calculation:

a.	December1996 CPI-U	158.6
b.	December 1997 CPI-U	161.3
c.	Increase in CPI-U {(b-a) / a}	1.70%
d.	PG&E's estimate	2.22%
e.	Difference	0.52%

Base Revenue Amount

5. In the traditional regulatory framework, generation related base revenues were recovered through the Electric Revenue Adjustment Mechanism (ERAM) and were subject to after the fact true-ups to ensure full recovery in spite of any deviations of actual sales from forecast sales. Beginning in 1998 generation-related revenue recovery will be handled in the Transition Cost Balancing Account (TCBA), with concurrent tracking through associated transition cost memorandum accounts. The TCBA differs substantially from the previous ERAM treatment because 1) revenues are to be recovered through market transactions to the greatest extent possible; 2) revenues will not be afforded true-ups to account for deviations of actual sales from forecast sales and; 3) utilities are not guaranteed full recovery of revenues and an authorized rate of return, but instead are provided a reasonable opportunity for recovery, with utilities bearing a risk that revenues from market transactions and the Competition Transition Charge will not be adequate to recover all costs. This method of providing for recovery of generation-related revenues is a substantial deviation from the mix of risks associated with previous ERAM treatment, and it is inappropriate to consider 1998 generation related revenues as base rate revenues. Therefore, all 1997 generation-related revenues, including fossil revenues, revenues associated with Diablo Canyon nuclear generating station, and hydro-electric and geothermal revenues authorized for recovery pursuant to D.97-12-096, shall be excluded from the base rate revenues eligible for escalation pursuant to Section 368(e).

6. Beginning in 1998 the Federal Energy Regulatory Commission (FERC) will have exclusive authority to set transmission revenues. This Commission has no authority to implement a transmission base rate revenue escalation for 1998. Therefore, in general, transmission revenues should not be included in the base revenue amount used to determine the base revenue escalation amount.

7. Due to the delay in the implementation date of direct access resulting from the delayed operational dates for the Independent System Operator and Power Exchange, this Commission will have jurisdiction over transmission revenues for a limited time during 1998. Therefore, transmission revenues should be included in base revenues used to calculate the base revenue increase to account for this limited period of time. PG&E should divide the base revenue increase attributable to inclusion of transmission revenues by 12, and after implementation of direct access, PG&E shall back out of base revenues this monthly pro-rated increase amount multiplied by the number of months remaining in 1998 after implementation of direct access. PG&E should file an advice letter to adjust base revenues in this way no more than 20 days after implementation of direct access.

8. Decision 97-12-089 adopts a 1998 return on equity (ROE) for PG&E. Although protestants have suggested that the base revenues used to calculate the increase should be adjusted downward to reflect the lower ROE, Energy Division disagrees. The ROE is intended to reflect various shareholder risks in 1998, There is no reasonable justification for imputing lower risk conditions in 1998 onto 1997 base revenues used to calculate the base revenue increase, and Energy Division recommends rejection of proposals to do this.

Use of Revenue Collected in 1997

9. The purpose of Advice Letter 1703-E is to update the amounts authorized by PU Code Section 368 (e) and 381 (c) (3) for calendar year 1998.

10. PG&E was required by D.96-12-077 to track specific subaccounts. Energy Division recommends that PG&E's lack of compliance and reasonableness of expenditures for 1997 be reviewed in a different forum.

11. The Commission has authorized $164.231 million for 1997 for System Safety and Reliability Enhancement activities. To the extent these revenues are not expended for enhanced system safety and reliability, they shall be carried over and credited against subsequent safety and reliability base revenue requirements. PG&E's 1999 GRC is the appropriate forum for reviewing how excess revenues are credited against subsequent safety and reliability base revenue requirements. Excess revenues shall

not be used to pay monetary sanctions imposed by the Commission. (D.96-12-077, Appendix A, p.2).

12. While TURN and Enron raise a valid concern, it should not be addressed in this Resolution

13. The protest of TURN and Enron on this issue should be denied without prejudice.

14. PU Code section 368(e) requires that the base revenue increases for both 1997 and 1998 shall be used for "enhancing [PG&E's] transmission and distribution system safety and reliability." For 1998 the cumulative 1997 and 1998 base revenue increase amount of $250,310,316 of PG&E's base revenues, as authorized by PU Code 368(e) and implemented by this Resolution and acceptance of Advice Letter 1612-E, shall be classified as incremental revenues subject to the System Safety and Reliability Enhancement Funds Balancing Account. This is the cumulative increase above 1996 authorized base revenues. By March 19, 1999 PG&E shall submit a report detailing the expenditures of these base revenue amounts in 1998.

<u>Funds for Renewable Resource Technologies</u>

15. Enron argues that PG&E already has embedded in its base revenues the $48 million authorized by PU Code 381 (c) (3). PG&E in its response does not answer Enron's protest regarding the double counting of the funds for renewable resource technologies. Instead, PG&E cites a reference to this issue in D.97-08-056 which only verifies that the funds for renewable resource technologies are embedded in Base Rates. Data made available by PG&E in a response to an Energy Division data request pursuant to PG&E Advice Letter 1692-E-B indicates that PG&E's 1998 base rate revenues include an annual allocation of $48 million as of August 1, 1997.[1]

16. Section 381 establishes funding amounts for various public purpose programs, including renewable resource technologies. The section states that these programs should be recovered by a nonbypassable rate component that should fall within rate levels identified in Section 368.a. D.97-02-026 implements Section 381, stating that PG&E shall spend $48 million on renewable resource technologies for each of the four years 1998 through 2002. The decision clarifies that Section 381.c.3 established this as a minimum funding level.

17. Renewable resource technologies are already funded in the amount of $48 million annually and included in PG&E base rate revenues. Therefore compliance with Section 381 and D.97-02-026 has already been implemented for the years 1998

[1] See PG&E Workpaper for AL 1692-E-B, Table 2-3, Line 35 (Public Purpose Programs)

through 2001. Because of the rate freeze, D.97-08-056 does not adjust total 1998 revenues to reflect increased costs associated with the renewable resource technologies revenue requirement but instead reflects these increased costs in the functionally separated public purpose program revenues. The effect of the increased public purpose program revenue requirement is that residual revenues available to credit the TCBA are reduced. However, D.97-06-060 provides PG&E a means to recover the increased renewable resource technologies costs to the extent that they preclude recovery of generation-related costs before 2002. Therefore PG&E has been provided a means to recover the annual $48 million cost associated with renewable resource technologies and it is inappropriate to allow another $48 million for these costs in this resolution.

18. Enron's protest regarding funds for renewable resource technologies should be granted.

Functional Separation of Costs

19. Transmission revenue requirements presented in A.96-12-009 were illustrative, serving only as a placeholder for transmission revenue requirements that will ultimately be adopted by FERC. It is inappropriate to determine allocation of base rate revenue escalation on revenue requirements that have not undergone thorough review by this Commission or FERC. Instead it is prudent to use the most recent available revenues resulting from adopted ratemaking mechanisms. We will use distribution and transmission revenue requirements reflected in ERAM on January 1, 1997 to determine allocation of the 1998 base revenue escalation. Using this approach, 86.53% of the 1998 base revenue increase should be allocated to distribution, and 13.47% should be allocated to transmission.

20. Mr. Weil's protest on the issue of functional separation of costs is granted.

Other

21. In summary, the modifications to PG&E's requested increase are presented in the following table:

TABLE 3

Function		Amount
Generation		$0
Transmission		286,691,000
Distribution		1,841,326,000
Public Purpose Programs		165,744,000
Nuclear Decommissioning	+	32,707,000
Total Base Revenues for Escalation		$2,326,468,000
1+ CPI + 2% = 1.017	x	1.037
Total Escalated Revenues		$2,412,547,316
Renewable Resource Technologies		0
Base Revenue Increase:		$86,079,316

22. PU Code 368(e)(1) states that "... increases in base revenue amounts authorized by this subdivision shall create no presumption that the level of base revenue reflecting those increases constitute the appropriate starting point for subsequent revenues." PG&E filed its test year 1999 General Rate Case application on December 12th, 1997. To the extent this application reflects base revenue increases resulting from implementation of section PU Code 368(e) the Commission will not make a presumption that these amounts are reasonable for recovery.

23. Because AB 1890 requires the increase in base revenues for system safety and reliability to begin January 1, 1998, statutory direction should allow PG&E to accrue these revenues as of January 1, 1998. PG&E seeks to file a single Advice Letter which would implement this Resolution and accomplish compliance with Resolution E-3510, the unbundling compliance filing.[2] Energy Division recommends that PG&E's proposal be adopted, with an effective date of this combined compliance advice filing of January 1, 1998.

---

[2] By a letter dated December 17, 1997 PG&E requested an extension of time to file in compliance with Resolution E-3510 from December 23, 1997 to December 31, 1997. PG&E's request was granted on December 19, 1997. Because of the delay in determining its 1998 base revenue increase, on January 9, 1998 PG&E requested a second extension of the filing date for this compliance filing. PG&E now seeks to submit the unbundling compliance filing one week after the Commission acts on PG&E Advice Letter 1703-E and that this compliance filing reflect results of both this Resolution and Resolution E-3510.

FINDINGS

1. PG&E filed Advice Letter 1703-E on October 17, 1997 requesting an increase in base revenues effective January 1, 1998 as authorized by PU Code Sections 368 (c) and 381 (c) (3) for enhancing system safety and reliability and funding renewable resource technologies.

2. The requested increase for system safety and reliability is $148.391 million and for renewable resource technologies is $48 million.

3. Resolution E-3510, dated December 16, 1997, adopted tariffs implementing the functional separation of costs adopted by D.97-08-056.

4. Timely protests were filed by Enron, Mr. James Weil and TURN.

5. Protestants raise the following issues:
   a. PG&E's use of 12 months CPI data from August 1996 to August 1997.
   b. PG&E's calculation of the Base Revenue Amount.
   c. PG&E's use of revenue collected in 1997.
   d. Double counting of funds for renewable resource technologies.

6. PG&E responded to the protest of Mr. Weil, TURN, and Enron on November 14, 17, and 19 respectively. The responses to TURN's and Enron's protests were filed late.

7. PG&E argues that the calculation of the CPI and base revenue were adopted in D.96-12-077, and any change in methodology would require a petition to modify D.96-12-077.

8. PG&E responds that it will file on or before May 1, 1998 a report to the Commission on its expenditures for enhancing transmission and distribution system safety and reliability.

9. Regarding Mr. Weil's protest of Advice Letter 1692-E-B, PG&E argues that its allocation of the 1998 base revenue increase was approved in D.97-08-056.

10. It is reasonable to use the most recent CPI data available. Substitution of December data instead of August data does not modify PG&E's methodology. Mr. Weil's protest should be granted in part by use of December CPI data in calculating the base revenue increase.

11. The CPI-U factor for 1998 is 1.7%.

12. PG&E should implement the base revenue increase using January 1, 1997 ERAM base revenues for distribution, public purpose, nuclear decommissioning , and transmission costs, and excluding costs associated with generation. After implementation of direct access PG&E should file an advice letter to back out of base revenues 1/12 the amount of the base revenue increase associated with transmission revenues multiplied by the number of months remaining in 1998 after implementation of direct access. To the extent this Resolution adopts Mr. Weil's protest of November 6, 1997 in part, the protest should be granted.

13. It is reasonable to reject proposals to impute lower risk conditions in 1998 onto 1997 base revenues used to calculate the base revenue increase.

14. PG&E will file on or before May 1, 1998, a report with the Commission on its 1997 spending of the base revenue increases authorized by PU Code Section 368 (e).

15. PU Code section 368(e) requires that the base revenue increases for both 1997 and 1998 shall be used for "enhancing [PG&E's] transmission and distribution system safety and reliability." It is reasonable to require PG&E to submit a report detailing the use of System Safety and Reliability Enhancement Funds authorized by this Resolution.

16. PG&E's 1999 general rate case is the appropriate forum for reviewing how excess revenues are credited against subsequent safety and reliability base revenue requirements.

17. The protests of Enron and TURN on the use of 1997 expenditures are denied without prejudice.

18. Pursuant to D.97-08-056 and Resolution E-3510, PG&E already has embedded in its authorized base revenues a $48 million increase in revenues allocated to renewable resource technologies, pursuant to PU Code 381 (c) (3). PG&E is provided a means of recovering any generation-related costs to the extent recovery is precluded by the increase in renewable resource technologies costs. Enron's protest should be granted.

19. It is reasonable to use distribution and transmission revenue requirements reflected in ERAM on January 1, 1997 to determine the allocation of the 1998 base revenue allocation.

20. For the 1998 base revenue increase, 86.532% of the increase should be allocated to distribution, and 13.47% should be allocated to transmission.

21. PU Code 368(e)(1) states that " . . . increases in base revenue amounts authorized by this subdivision shall create no presumption that the level of base revenue reflecting those increases constitute the appropriate starting point for subsequent revenues."

22. PG&E filed its test year 1999 General Rate Case application on December 12th, 1997. Consistent with PU Code 368(e)(1), to the extent this application reflects base revenue increases called for in Section 368(e) the Commission should not make a presumption that these revenues amounts are reasonable.

23. Statutory direction should allow PG&E to accrue these revenues as of January 1, 1998.

THEREFORE, IT IS ORDERED THAT:

1. PG&E Advice Letter 1703-E is approved with a revised immediate base revenue increase of $86,079,316.

2. PG&E shall file a new Advice Letter within seven days of the effective date of this Resolution. The Advice Letter shall implement the base revenue increase described in Ordering Paragraph 1 and as discussed elsewhere in this Resolution. The Advice Letter shall also execute the orders of Resolution E-3510 and, in so doing, shall constitute the compliance filing ordered by in that Resolution. The Advice Letter shall be effective on January 1, 1998.

3. Within 20 days of implementation of direct access PG&E shall file an advice letter to back out 1/12 of that portion of the base revenue increase associated with transmission revenues multiplied by the number of months remaining in the year after implementation of direct access.

4. The protest of Mr. Weil regarding the use of recorded CPI data, recalculation of the base amount, and functional separation of cost to the extent they are adopted herein is granted.

5. The protests of Enron and TURN regarding the use of 1997 expenditures are denied without prejudice.

6. By March 19, 1999 PG&E shall submit a report to the Director of the Commission's Energy Division detailing 1998 spending of System Safety and Reliability Enhancement Funds authorized by this Resolution. PG&E shall provide copies of this report to the Office of Ratepayer Advocates, TURN, Enron, and other parties who request it.

7. The protest of Enron regarding the funding of renewable technologies is granted.

8. This resolution is effective today.

Resolution E-3516 January 21, 1998
PG&E AL 1703-E / STV/KPC

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on January 21, 1998. The following Commissioners approved it:

Wesley Franklin

WESLEY M. FRANKLIN
Executive Director

Jessie J. Knight, Jr.
Henry M. Duque
Richard A. Bilas
Commissioners

I dissent.
/s/ P. Gregory Conlon
President

I dissent.
/s/ Josiah L. Neeper
Commissioner