

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY  
AND COMPLIANCE DIVISION  
ENERGY BRANCH

RESOLUTION G-2755  
December 17, 1987

R E S O L U T I O N

PACIFIC GAS AND ELECTRIC COMPANY (PG&E), GAS DEPARTMENT.  
ORDER AUTHORIZING IMPLEMENTATION OF THE ATTRITION RATE  
ADJUSTMENT MECHANISM TO DECREASE AUTHORIZED GAS BASE  
RATES, EFFECTIVE JANUARY 1, 1988.  
(Advice Letter 1431-G, Filed October 1, 1987 and  
Supplement Filed December 8, 1987.)

SUMMARY

1. By Advice Letter 1431-G, filed October 1, 1987 and Supplemental Advice Letter 1431-G-A, filed December 8, 1987, PG&E requests authorization to revise gas rates to compensate for operational and financial attrition as provided for in Decision (D.)86-12-095, and for reduced workforce, reduced capital expenditures, voluntary expense reductions, and estimated reductions in 1988 taxes due to the Tax Reform Act of 1986 (TRA). PG&E is requesting a net annual decrease of \$6,260,000 in Gas Department authorized base revenues, which reflects favorable effects of the TRA and PG&E's efforts to control costs.

2. D.87-12-068 requires that the adopted cost of capital from Ordering Paragraph 4 be used in conjunction with PG&E's advice letter filing. By this Resolution, PG&E is authorized a greater decrease of \$16,949,000.

3. PG&E's request includes an estimated decrease in 1988 revenue requirement as a consequence of the TRA, in the amount of \$24,656,000. The 1987 effects of the TRA are not considered in PG&E's request.

BACKGROUND

4. D.86-12-095 authorized PG&E to revise gas base rates in its service territory to compensate for 1988 operational and financial attrition.

5. 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.

6. Financial attrition is a change in a utility's net operating income due to changes in plant in service and cost of capital between general rate case test years.

7. PG&E's existing capital structure and rate of return for test year 1987 were adopted in D.86-12-095. Capital structure and rate of return for Attrition Year 1988 were adopted in D.87-12-068 to Application (A.)87-08-006 which heard testimony regarding rate of return for Attrition Year 1988. Capital structures and rates of return for each of these years are shown in Attachment 1 to this Resolution.

#### DISCUSSION

8. By the Attrition Rate Adjustment (ARA) mechanism, PG&E requests an attrition increase of \$82,307,000, excluding the effects of TRA and other reductions. The Staff of the Commission Advisory and Compliance Division (CACD) has reviewed the request and recommends an attrition increase of \$68,959,000.

9. The difference of \$13,348,000 is due to the lower rate of return adopted in D.87-12-068. Attachment 2 to this Resolution lists PG&E's requested and Commission adopted ARA for 1988, by line item.

10. In addition to the conventional attrition adjustment, PG&E requests a decrease of \$88,567,000 for reduced workforce, reduced capital expenditures, voluntary expense reductions and estimated reductions in 1988 taxes due to the TRA.

11. On November 14, 1986, the Commission issued Order Instituting Investigation (I.)86-11-019, for the purpose of reflecting the impacts of the 1986 TRA in rates. PG&E proposes that the 1988 revenue requirement be adjusted to include an estimate of the impact on Attrition Year 1988 revenue requirements. PG&E's revised request for conventional operational and financial attrition incorporates the old Federal tax rate of 46% and the old State tax rate of 9.6%. Estimated TRA effects are considered as a separate line item. PG&E proposes to subsequently true up its estimate to conform to the Commission's anticipated decision in I.86-11-019. As shown in Attachment 2, PG&E's estimated TRA decrease of \$24,656,000 was adjusted by CACD to \$22,424,000 to reflect the rate of return adopted in D.87-12-068.

12. The amount included in Attachment 2 for capital related items represents PG&E's reduced revenue requirement in that area. This revenue change takes into account the end-of-year 1987 rate base and projections of capital expenditures for 1988. PG&E's estimated decrease of \$23,537,000 was adjusted by CACD to \$23,110,000 to reflect the rate of return adopted in D.87-12-068.

13. PG&E proposes reductions of \$17,168,000 for Voluntary Retirement Incentive (VRI) and Severance, and \$15,593,000 for Workforce Attrition as indicated in Attachment 2. These reductions are in response to D.87-04-074 which directed PG&E to file, as an exhibit in I.86-07-032, an advisory update setting forth the projected costs and benefits of the workforce reduction plan authorized by its Board of Directors at its December 17, 1986 meeting. These amounts do not depend upon the adopted 1988 rate of return.

14. PG&E proposes a voluntary reduction of \$7,613,000 for Operation and Maintenance (O&M) Non-labor Inflation reduction as indicated in Attachment 2. This amount does not depend upon 1988 rate of return.

15. PG&E requests a net attrition decrease of \$6,260,000. The CACD recommends a net attrition decrease of \$16,949,000 which reflects the adopted capital structure and rate of return adopted in D.87-12-068. The CACD recommends no other adjustments to PG&E's request.

16. Because this revenue change is small relative to other pending gas adjustments, this decrease should not be included in rates effective January 1, 1988. However, the gas Base Revenue Amount should be reduced by \$18,206,000 \$16,949,000 effective January 1, 1988. Rates should incorporate this decrease in conjunction with rates determined in I.86-06-005 and A.87-04-040.

17. No protests were received regarding Advice Letter 1431-G.

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

#### FINDINGS

1. We find that the attrition allowance adopted in this Resolution complies with D.87-12-068.

2. We further find that the attrition allowance shown in Attachment 2 is reasonable.

THEREFORE

IT IS ORDERED, that:

1. Pacific Gas and Electric Company shall decrease its gas Base Revenue Amount by \$18,206,000 ~~\$16,949,000~~ effective January 1, 1988 to compensate for operational and financial attrition, the estimated 1988 effects of the Tax Reform Act of 1986 and other adjustments requested in Advice Letter 1431-G and Supplement 1431-G-A.
2. Pacific Gas and Electric Company shall defer the corresponding gas base rate decrease until the effective date of rates resulting from the recent gas implementation order, Decision 87-12-039.
3. Within seven (7) days of the effective date of this Resolution, Pacific Gas and Electric Company shall file revised tariff sheets reflecting this decrease in Base Revenue Amount. The revised tariff sheets shall become effective no earlier than three (3) days after the date of filing.
4. The tariff sheets shall be marked to show that they were authorize for filing by Commission Resolution G-2755 and that they are effective January 1, 1988.
5. Final consideration of the impacts of the Tax Reform Act of 1986 is deferred to Investigation 86-11-019, including 1987 effects of the act, true up of the estimated 1988 tax reduction adopted herein and adjustments for the period from January 1, 1988 to the effective date of the rate revisions ordered by the decision in that investigation.
6. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at the December 22, 1987 continuation of its regular meeting of December 17, 1987. The following Commissioners approved it:

STANLEY W. HULETT  
President  
DONALD VIAL  
FREDERICK R. DUDA  
G MITCHELL WILK  
JOHN B. OHANIAN  
Comissioners



Executive Director

PACIFIC GAS AND ELECTRIC COMPANY  
GAS DEPARTMENT  
1988 ATTRITION ALLOWANCE

Present Authorized Capital Structure  
(Test Year 1987)

	<u>Capital Ratio</u> (%)	<u>Cost</u> (%)	<u>Weighted Cost</u> (%)
Long-Term Debt	46.50	9.65	4.49
Preferred Stock	9.00	9.02	0.81
Common Equity	<u>44.50</u>	<u>13.80</u>	<u>6.14</u>
Total	100.00		
Rate of Return			11.44

Requested Capital Structure  
(Attrition Year 1988)

	<u>Capital Ratio</u> (%)	<u>Cost</u> (%)	<u>Weighted Cost</u> (%)
Long-Term Debt	45.50	9.42	4.29
Preferred Stock	8.50	8.80	0.75
Common Equity	<u>46.00</u>	<u>13.80</u>	<u>6.35</u>
Total	100.00		
Rate of Return			11.39

Adopted Capital Structure  
(Attrition Year 1988)

	<u>Capital Ratio</u> (%)	<u>Cost</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>	<u>13.10*</u>	<u>6.03*</u>
Total	100.00		
Rate of Return			11.02*

\* Revised Entries

PACIFIC GAS AND ELECTRIC COMPANY  
GAS DEPARTMENT  
1988 ATTRITION ALLOWANCE  
REVENUE REQUIREMENTS  
(\$000)

<u>DESCRIPTION</u>	<u>AMENDED REQUEST</u>	<u>ADOPTED</u>
OPERATIONAL ATTRITION		
Labor Inflation	\$9,678	\$9,678
Non-Labor Inflation	\$7,613	\$7,613
CAPITAL RELATED ITEMS	\$68,613	\$55,265*
OTHER AUTHORIZED ITEMS	<u>(\$3,597)</u>	<u>(\$3,597)</u>
ARA MECHANISM FOR 1988 (Subtotal)	\$82,307	\$68,959*
LESS OTHER ITEMS:		
Tax Reform Act of 1986	(\$24,656)	(\$22,424)*
Reduced Capital Related Items	(\$23,537)	(\$23,110)*
VRI and Severance Impact	(\$17,168)	(\$17,168)
Workforce Attrition Reduction	(\$15,593)	(\$15,593)
Voluntary O&M Non-Labor Adjustments	<u>(\$7,613)</u>	<u>(\$7,613)</u>
NET 1988 ATTRITION ALLOWANCE	(\$6,260)	(\$16,949)*

\* Revised Entries