

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2838
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 GAS BASE RATES IN ACCORDANCE WITH THE ATTRITION RATE ADJUSTMENT (ARA) MECHANISM AND FOR OTHER FACTORS, EFFECTIVE JANUARY 1, 1989; BY ADVICE LETTER 1499-G, FILED OCTOBER 3, 1988 AND SUPPLEMENTED NOVEMBER 3, 1988 AND NOVEMBER 18, 1988.

SUMMARY

1. By Advice Letter 1499-G filed October 3, 1988, and supplemental Advice Letters 1499-G-A and 1499-G-B filed November 3, 1988 and November 18, 1988 respectively, PG&E requests authorization to increase its gas Base Revenue Amount by \$39,588,000 and concurrently revise its gas 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 \$37,183,000. Adopted revenue allocation and rate tables are attached to this Resolution.

BACKGROUND

1. D.86-12-095 authorized PG&E to revise gas 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 \$46,454,000. The staff of the Commission Advisory and Compliance Division (CACD) recalculated the appropriate increase to be \$43,942,000 at the rate of return adopted in D.88-12-094. This is a decrease of \$2,512,000 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 \$13,479,000 to compensate for the effects of TRA 1986. PG&E's request is granted.
3. In Resolution G-2755 dated December 17, 1987 the Commission adopted a 1988 revenue reduction of \$17,168,000 for PG&E's Voluntary Retirement Incentive and Severance Workforce Reduction programs. For 1989, PG&E requests a further reduction of \$868,000 to reflect the impact of 1989 operational attrition on the 1988 revenue reduction. PG&E's request is granted.
4. In Resolution G-2755 the Commission also adopted a 1988 revenue reduction of \$15,593,000 for PG&E's Attrition Workforce Reduction. For 1989, PG&E requests a further reduction of \$788,000 to reflect the impact of 1989 operational attrition on the 1988 revenue reduction. PG&E's request is granted.
5. In D.87-12-039, the Commission ordered PG&E to remove the Pacific Gas Transmission (PGT) transport costs from base rates and to recover these costs through the Annual Cost Allocation Proceeding (ACAP). PG&E requests a revenue reduction of \$3,178,000 to reflect the impact of 1989 operational attrition on the removal of PGT transport costs from base rates. PG&E's request is granted.

6. In Resolution G-2755 the Commission adopted a 1988 revenue reduction of \$23,110,000 for PG&E's expected reduction in rate base from the level that was authorized in PG&E's general rate case (GRC) proceeding in D.86-12-095. In its Advice Letter filing for attrition year 1988, Advice Letter 1431-G, 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 1431-G, and Resolution G-2755 granted PG&E's request. PG&E now expects its 1988 rate base to be even lower than the level that was adopted in Resolution G-2755. PG&E now requests a revenue decrease of \$12,543,000 to compensate for the difference between its latest expectation of 1988 rate base and that which was adopted in Resolution G-2755.

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 \$6,873,000 to compensate for this reduction in rate base. The CACD notes that the revenue decrease of \$6,873,000 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 \$10,205,000 and the effect of the increase in 1989 working capital is a revenue increase of \$3,332,000 for a net revenue decrease of \$6,873,000.

8. PG&E also requests a decrease of \$78,000 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 \$29,000 at rates of return adopted in D.88-12-094.

9. PG&E, in its Supplemental Filing dated November 18, 1988, has characterized its request for rate base changes and related cost of capital adjustment as discussed in paragraphs 6, 7 and 8 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 PGE'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 \$19,387,000 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 protest is denied.

15. The Commission, in granting PG&E's request in paragraph 13 above, 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. Coincident with its attrition increase, PG&E also seeks a rate increase to recover \$3,983,000 previously authorized in Resolution E-3105. That request is granted.

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.

PROTESTS BY DRA

1. On December 7, 1988 the DRA protested PG&E's supplemental Advice Letter 1499-G-B, for two reasons. First, DRA argues that for revenue allocation and rate design purposes PG&E should allocate 1989 attrition revenues on the equal percentage method proposed by Toward Utility Rate Normalization (TURN) in its protest to PG&E Advice Letter 1453-G. Therein TURN argued that Commission attrition procedures do not provide enough time to review detailed allocations of attrition revenues to gas cost-of-service categories. In Resolution G-2787 issued April 13, 1988 the Commission addressed the issue squarely and denied TURN's protest. Such attrition allocations are permitted.

2. DRA argues that the language in Resolution G-2787 on attrition revenue allocation is permissive, and that the Commission should now adopt the TURN allocation method. Although PG&E's allocation method is permissive, it is documented and within the authority granted in Resolution G-2787. CACD recommends that the Commission not change its mind on this issue. We agree with CACD that PG&E has complied with Resolution G-2787, and we will accept the PG&E methodology in this case. However, the continuing complaints about the burdensome nature of this method convince us that we should reconsider that resolution. PG&E should attempt to develop a simpler method. This issue should be considered in PG&E's current ACAP proceeding, A.88-09-032.

3. DRA's second protest concerns revenue shortfall resulting from discounted contract sales to approximately 80 noncore customers. The shortfall is related to the requested attrition increase only, not all of PG&E's contract revenues. DRA claims the amount at issue is \$1.2 million annually. PG&E responded to DRA's protests by

letter dated December 15, 1988, claiming that the disputed amount is \$470,000.

4. PG&E requests that any such contract revenue shortfall be recovered from noncore customers on standard service contracts under tariff schedules G-P2B and G-IND. DRA argues that the shortfall should be assigned to PG&E's shareholders, not other customers. DRA believes that because PG&E elected not to include attrition escalation terms in its negotiated contracts, other ratepayers should be exempt from making up the shortfall. DRA further argues that if the shortfall is recovered in rates, the shortfall revenues should at least be placed in a memorandum account for possible return to ratepayers following a reasonableness review.

5. CACD staff agrees with DRA's reasoning. Under the Commission's recently adopted gas regulatory program PG&E and its noncore customers are free to negotiate mutually agreeable contracts. If PG&E is concerned about contract revenue shortfalls following revenue requirement changes then it is equally free to negotiate appropriate escalation terms into its contracts. If this has been an oversight by PG&E the Commission should not be obliged to make PG&E whole. DRA's protest on this issue is upheld. Because PG&E will not be authorized to recover the shortfall in rates, DRA's requested memorandum account is unnecessary.

REVENUE ALLOCATION AND RATES

1. The attrition revenue allocation and gas rates reflecting the terms of this Resolution are shown in Attachment C.

FINDINGS

1. For the reasons stated above a gas revenue requirement increase of \$37,183,000 is just and reasonable.

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

3. PG&E's method complies with Resolution G-2787, and DRA's request to use an equal percentage method should be denied. However, we find that PG&E's method is overly burdensome, and DRA's concern that a simpler method be found is justifiable.

4. DRA's protest and request that contract revenue shortfall related to attrition revenues not be recovered from other customers are reasonable and should be granted. The requested memorandum account is not necessary.

THEREFORE, IT IS ORDERED, that:

1. Pacific Gas and Electric Company is authorized to increase its gas Base Revenue Amount by \$37,183,000 and to increase 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, as shown on Attachment C.
3. Pacific Gas and Electric Company shall not recover in rates from other customers any attrition revenue shortfall due to discounted contract sales.
4. The attrition revenue increase shall be applied to default or standard service tariffs as if all customers on tariff Schedules G-2PB and G-IND are standard service customers.
5. The tariff sheets shall be marked to show that they were authorized for filing by Commission Resolution G-2838 and that the Base Revenue Amount and rates are effective January 1, 1989.
6. 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.
7. The development of a simpler gas attrition methodology shall be an issue in Pacific Gas and Electric Company's Annual Cost Allocation Proceeding, Application 88-09-032.
8. This Resolution is effective today.

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

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

Executive Director

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

<u>Description</u>	<u>Requested</u>	<u>Adopted</u>
Operational Attrition		
Labor Inflation	\$11,563	\$11,563
Non-Labor Inflation	14,358	14,358
Capital-Related Attrition	45,234	42,722
Project Amortization	(24,701)	(24,701)
ARA Mechanism for 1989	\$46,454	\$43,942
Tax Reform Act of 1986	\$13,479	\$13,479
1988 Expense Reductions		
VRI and Severance	(\$868)	(\$868)
Attrition Workforce Reduction	(788)	(788)
PGT Removal	(3,178)	(3,178)
Subtotal	\$55,099	\$52,587
1989 Voluntary Capital Reductions		
1988 Rate Base True-up	(\$12,543)	(\$12,543)
1989 Reduced Plant and Other Changes	(10,205)	(10,205)
1989 Increased Working Capital	3,332	3,332
Cost of Capital adjustment	(78)	29
Subtotal Voluntary Reductions	(\$19,494)	(\$19,387)
SUBTOTAL	\$35,605	\$33,200
Resolution E-3105	3,983	3,983
TOTAL INCREASE	\$39,588	\$37,183

1989 ATTRITION COST ALLOCATION BY FUNCTION

	Total	Core	Noncore	
			Retail	Wholesale
Margin at May 1, 1989				
Common Distribution	\$252,497	\$212,034	\$40,853	\$0
Demand Related Transmission (net LNG)	163,156	74,492	88,237	2,438
LNG Amortization	24,271	11,069	12,828	363
Demand Related Storage	44,371	24,059	19,509	833
Customer Related	428,410	429,285	7,923	197
Commodity Related	6,784	2,872	3,797	95
SOX AIS	70,422	39,304	39,783	536
Franchise & Uncollectibles	9,349	7,310	1,937	12
Total Margin	\$999,641	\$782,417	\$212,718	\$4,505
Revenue Change in Margin for 1989 Attrition				
Common Distribution	\$7,304	\$5,129	\$1,176	\$0
Demand Related Transmission (net LNG)	16,601	7,579	9,772	249
LNG Amortization	-24,271	-11,659	-12,828	-363
Demand Related Storage	459	357	290	12
Customer Related	32,228	31,816	598	15
Commodity Related	615	262	344	8
SOX AIS	3,651	1,564	2,052	33
Franchise & Uncollectibles	358	373	29	-3
Total Attrition plus TRA	\$37,184	\$36,805	1433	4-54
Percent Change of Margin for 1989 Attrition				
Common Distribution	2.9%	2.9%	2.9%	.01
Demand Related Transmission (net LNG)	10.2%	16.2%	10.2%	10.2%
LNG Amortization	-100.0%	-100.0%	-100.0%	-100.0%
Demand Related Storage	1.5%	1.5%	1.5%	1.4%
Customer Related	7.5%	7.5%	7.5%	7.5%
Commodity Related	9.1%	9.1%	9.1%	9.1%
SOX AIS	5.2%	5.2%	5.2%	5.2%
Franchise & Uncollectibles	4.5%	5.2%	1.5%	-19.0%
Allocation of 1989 Margin by Function				
Common Distribution	\$259,991	\$218,163	\$41,829	\$0
Demand Related Transmission (net LNG)	179,757	82,061	93,009	2,687
LNG Amortization	0	0	0	0
Demand Related Storage	45,031	24,387	19,798	845
Customer Related	460,638	451,901	8,523	214
Commodity Related	7,399	3,154	4,141	103
SOX AIS	74,273	31,868	41,835	569
Franchise & Uncollectibles	9,738	7,698	2,016	34
Total Margin	\$1,036,627	\$819,222	\$213,151	\$4,452

PACIFIC GAS AND ELECTRIC COMPANY
ADOPTED CODE RATES AND REVENUES
1989 ATTRITION RATE ADJUSTMENT

	Billing	Present		Adopted 1 Jan 89		Adopted Change	
	Determinants (May 1 rates)	Rates	Revenue	Rates	Revenue	revenue	percent
	(MTH)	¢/kWh	K\$	¢/kWh	K\$	K\$	%
Residential:							
Tier I	1,450,389	.01151	613,310	.01544	620,658	7,348	1.2
Tier II	592,643	.01174	491,072	.02146	496,833	5,760	1.2
GS/ST adjustment			-8,478		-8,479		
TOTAL	2,043,032	.02227	1,097,903	.02856	1,101,011	13,108	1.2
6-AR1:							
customer charge (\$/mo)	192,823	11.37	24,331	12.12	28,036	1,735	6.6
summer rate	372,050	.42267	157,251	.43233	160,668	3,597	2.3
winter rate	375,999	.57057	214,537	.58364	219,443	4,906	2.3
TOTAL	742,610	.53218	376,659	.54556	408,327	10,239	2.6
6-AR2:							
customer charge (\$/mo)	299	129.83	466	139.52	497	31	6.7
summer rate	73,650	.36686	27,238	.37350	27,583	345	1.3
winter rate	75,320	.49793	37,524	.50423	37,979	475	1.3
TOTAL	149,170	.43714	65,268	.44284	65,659	851	1.3
Total Commercial:	697,210	.51838	453,297	.52673	474,366	11,069	2.4
Total Cores:	2,980,242	.52049	1,551,200	.52851	1,575,397	24,197	1.6
Plus Residential Adjustment (1)					12,636	12,636	
	2,980,242	.52049	1,551,200	.52851	1,588,033	36,833	2.4

(1) Reflects difference in present residential rates due to 1989 phase-in of baseline quantities.

PACIFIC GAS AND ELECTRIC COMPANY
PRESENT AND ADOPTED NONCORE CUSTOMER CHARGES

	PRESENT	ADOPTED
	CHARGES	CHARGES
	(\$/MO)	(\$/MO)
6-P2B		
Customer Charge		
0 to 5,000:	4	4
5,001 to 10,000:	42	45
10,001 to 50,000:	108	111
50,001 to 200,000:	249	267
200,001 to 1,000,000:	416	445
1,000,001 and above :	1,000	1,000

	PRESENT	ADOPTED
	CHARGES	CHARGES
	(\$/MO)	(\$/MO)
6-IND		
Customer Charge		
0 to 5,000:	14	15
5,001 to 10,000:	139	148
10,001 to 50,000:	332	354
50,001 to 200,000:	801	854
200,001 to 1,000,000:	1,141	1,217
1,000,001 and above :	3,150	3,358

PACIFIC GAS AND ELECTRIC COMPANY
MONTHLY USE DEMAND CHARGES

Total 05/01/88 Demand Charges 167,420,000
Total ARA Demand Charges 164,062,000

	05/01/88	ARA
	Rates	Rates
January	12,801,468	12,699,169
February	9,736,844	9,639,023
March	10,480,778	10,397,017
April	9,181,309	9,107,933
May	11,339,634	11,249,039
June	14,420,451	14,313,131
July	18,339,430	18,192,664
August	17,801,235	17,659,019
September	14,260,351	14,146,334
October	13,941,322	13,830,103
November	16,987,788	16,832,024
December	18,121,030	17,976,259
		164,062,000

PACIFIC GAS AND ELECTRIC COMPANY
ADOPTED NONCORE RATES AND REVENUES
1987 ATTRITION RATE ADJUSTMENT

	Billing Determinants (May 1 rates)		Present		Adopted 1 Jan 87		Adopted Change	
	(MTH)	Rate	Revenue	Rate	Revenue	Revenue	percent	
		\$/kwh	\$	\$/kwh	\$	\$	%	
221								
customer charge (8/so)	129	11	301	11	322	21	7.0	
01 demand charge	89,185	.09099	8,206	.09844	8,117	-189	-2.7	
02 demand charge - summer	59,897	.01452	861	.01513	891	30	3.5	
- winter	40,313	.03344	1,348	.03456	1,395	37	2.8	
volumetric charge	76,340	.04150	3,168	.04333	3,323	155	4.9	
adj. for negotiated volume					0	0		
total/average	76,340	.15672	11,964	.15767	12,039	74	.6	
ND1								
customer charge (8/so)	632	11	3,785	11	4,037	252	6.7	
01 demand charge	1,403,941	.08179	95,735	.09963	93,717	-3,018	-3.5	
02 demand charge - summer	1,546,211	.00548	10,015	.00571	10,375	359	3.6	
- winter	774,169	.02179	16,871	.02239	17,325	455	2.7	
volumetric charge	1,257,300	.04115	51,753	.04323	54,378	2,625	5.1	
sub					169,834			
total/average - std service	1,257,300	.13454	159,159	.13508	169,834	675	.4	
SG-2	395,220		23,639		23,639	0	.0	
total/average	1,652,520	.11657	192,798	.11709	193,473	675	.3	
551								
total/average - std service	228,250	.11656	26,605	.11638	26,554	-41	-.2	
SG-2	228,250	.11656	26,605	.11638	26,554	-41	-.2	
total/average	194,680		10,119		10,119	0	.0	
total/average	422,930	.09193	36,724	.09673	36,673	-41	-.1	
551								
customer charge (8/so)		70,250	843	74,727	897	54	6.4	
demand charge			167,420		168,082	-1,338	-.8	
volumetric charge - tier I	320,579	.04296	13,772	.04469	14,327	555	4.0	
- tier II	1,412,231	.01409	19,899	.01439	20,323	424	2.1	
total/average	1,732,860	.11653	201,934	.11636	201,628	-306	-.2	
RT1								
demand charge			8,978		8,931	-47	-.5	
volumetric charge	96,990	.01043	1,012	.01040	1,009	-3	-.3	
total/average	96,990	.10300	9,990	.10249	9,940	-50	-.5	
all Noncore			433,410		453,762	352	.1	

24,549

(11) Tiered customer charges shown on attached sheet.