

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Commission Advisory and  
Compliance Division  
Energy Branch

RESOLUTION G-2975  
December 18, 1991

R E S O L U T I O N

RESOLUTION G-2975. PACIFIC GAS AND ELECTRIC COMPANY (PG&E) REQUESTS REVISING ITS PRELIMINARY STATEMENT TO REFLECT AN INCREASE IN GAS DEPARTMENT REVENUE OF \$89,227,000 WHICH WILL RESULT FROM OPERATIONAL AND CAPITAL-RELATED ATTRITION ADJUSTMENT IN 1992.

BY ADVICE LETTER 1666-G, FILED ON OCTOBER 1, 1991.

SUMMARY

1. On October 1, 1991, PG&E filed Advice Letter 1666-G requesting Commission authority to revise its gas base revenues and rates effective January 1, 1992, to implement the 1992 Attrition Rate Adjustment (ARA) adopted in PG&E's 1990 General Rate Case, Decision (D.)89-12-057. The requested ARA for 1992 is \$47,669,000. Additionally, PG&E is requesting to consolidate three decisions and two proceedings currently pending before the Commission. The three decisions which PG&E has incorporated are:

- D.90-12-070: Earthquake Recovery Proceeding with a revenue requirement of (\$63,000).
- D.91-07-006: Post-Retirement Benefits Other than Pensions (PBOP) with a revenue requirement of \$33,635,000.
- D.89-11-058 The California Corporate Franchise Tax (CCFT) Timing with a revenue requirement of (\$762,000). This revenue requirement is included in the ARA.

The two pending proceedings are:

- A.91-05-016 Cost of Capital proceeding with a revenue requirement of (\$7,363,000). This revenue requirement is included in the ARA.

A.91-04-003 Customer Energy Efficiency (CEE) related costs requested in PG&E's energy Cost Adjustment Clause (ECAC) with a revenue requirement of \$7,986,000.

The estimated amount of the consolidated increase in revenue requirements is \$89,227,000.

2. This Resolution adopts a level of revenue requirements of \$83,967,000 which is \$5,260,000 less than PG&E is requesting. The difference is due to the Commission Advisory and Compliance Division (CACD) recommending different levels of revenues for capital-related items, payroll taxes, PBOP, and CEE as explained later in this Resolution.

#### BACKGROUND

1. In D.89-12-057 (PG&E's test year 1990 General Rate Case), the Commission authorized PG&E to revise its gas base rates to compensate for operational and financial attrition in 1992.

2. Operational attrition compensates a utility for increases or decreases in a utility's net operating income because of decreases or increases in operation and maintenance expenses related to inflation between general rate case test years.

3. Capital-related attrition compensates a utility for a change in its net operating income because of rate base and cost of capital changes between general rate case test years.

4. In D.91-11-059 (the energy Cost of Capital proceeding), the Commission adopted the 1992 capital structure and cost of capital for PG&E as shown in Attachment A.

#### NOTICE

1. Public notice of this Advice Letter was accomplished by PG&E mailing copies to other utilities, government agencies, and to all interested parties who requested notification.

2. No protests to this Advice Letter have been received.

#### DISCUSSION

1. On October 1, 1991, PG&E filed Advice Letter 1666-G requesting an increase of \$89,227,000 to its Gas Department Base Rate Revenues and Rates comprised of labor and non-labor inflation, cost of capital related revenue requirement changes, PBOP, payroll tax changes, postage rate changes, CEE, change in the calculation of ratemaking Federal Income Tax (FIT), earthquake recovery, and the 1992 portion of a Four Year Phase-in Revenue Requirement.

2. PG&E is requesting \$7,974,000 for labor inflation and

\$4,984,000 for non-labor inflation. These requests are based on D.89-12-057 which authorizes these amounts and the use of updated inflation factors.

3. PG&E is requesting a \$34,368,000 increase for its capital-related revenue requirement changes. PG&E's request is based on the joint recommendation exhibit filed in the 1992 cost of capital proceeding. However, in D.91-11-059, issued on November 20, 1991 after this Advice letter was filed, the Commission adopted a cost of long-term debt updated to reflect the October DRI control forecast which was more current than the cost of debt shown in the joint recommendation exhibit in the 1992 cost of capital proceeding. Incorporating the cost of long-term debt adopted in D.91-11-059 results in PG&E's capital-related revenue requirement changes to change to \$33,878,000, \$490,000 less than PG&E is requesting. CACD recommends that the \$33,878,000 be used.

4. PG&E is requesting a \$76,000 decrease in revenue requirement for payroll taxes specifically California Unemployment Tax. Additionally, the Federal Insurance Contribution Act (FICA) base amount will be increasing in 1992, resulting in an increase in payroll taxes of \$102,000. CACD recommends that payroll taxes be increased by the net amount of \$26,000 (\$102,000 less \$76,000).

5. PG&E has included in this filing \$33,635,000 for PBOP. D.91-07-006 authorized PG&E to recover both 1991 and 1992 prefunding expenses for PG&E's PBOP liability through the 1992 ARA filing. Using the rates adopted for PG&E in D.91-11-059 the amount of PBOP should be decreased by \$3,000.

6. As required by D.89-11-058, PG&E is requesting a reduction in revenue requirements by \$762,000 to recognize the change in the calculation of 1992 Federal Income Tax (FIT) expense. D.89-11-058 requires PG&E to deduct the 1991 adopted California Corporate Franchise Tax (CCFT) rather than the 1992 CCFT, when calculating the 1992 ratemaking FIT.

7. A postage rate increase took effect February 1991. D.85-12-076 allows a utility to recover this type of expense in an attrition year. PG&E requests an increase in revenue requirements of \$1,181,000 for the postage rate increase.

8. PG&E's 1991 ECAC, Application 91-04-003, requests an expansion of the utility's CEE program in 1992 and recovery of the incentives earned in 1990 on CEE programs. PG&E requests revenue requirements of \$7,063,000 to include the expended program in base rates. Additionally, PG&E requests \$923,000 for shareholder incentives in the revised gas rates to be effective January 1, 1992, but this revenue requirement will not increase the 1992 base revenues. D.91-12-015, issued on December 4, 1991, authorized \$2,220,000 for the expended portion of the program and \$898,000 in shareholder incentives. CACD recommends that the revenue requirements authorized in D.91-12-015 be used in setting rates.

9. As authorized by D.90-12-070, PG&E is requesting a decrease of \$63,000 in base revenues associated with the October 1989 Loma Prieta Earthquake (Earthquake Recovery Adjustment). This adjustment is the difference between the authorized amounts for 1991 and 1992, \$928,000 and \$876,000, respectively, plus a reduction of \$11,000 to reflect the rate of return shown in the joint recommendation exhibit filed in the 1992 cost of capital proceeding. The amount to incorporate the effects of the change in cost of capital adopted in D.91-11-059 for this item is insignificant.

10. CACD recommends that PG&E's increase for rate design purposes should be \$83,967,000 as is shown in Attachment B.

11. PG&E should allocate the total increase in base revenues and rates between the core and noncore customers based on the Equal Percentage of Base Revenue Method, which is the current method for allocation.

#### FINDINGS

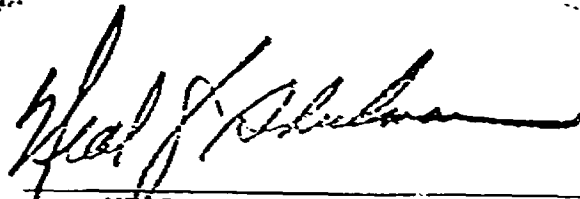
1. On October 1, 1991, PG&E filed Advice Letter 1666-G requesting an increase of \$89,227,000 to its Gas Base Rate Revenues and Rates.
2. CACD recommends that PG&E's Gas Department's revenue requirements be increased by \$83,967,000 as shown on Attachment B.
3. PG&E should allocate the \$83,967,000 increase in base revenue and rates between core and noncore customers based on the Equal Percentage of Base Revenue Method, which is the current method of allocation.

December 18, 1991

THEREFORE, IT IS ORDERED that:

1. Pacific Gas and Electric Company is authorized to increase its Gas Department's revenue requirements by \$83,967,000.
2. Pacific Gas and Electric Company shall allocate the total increase between core and noncore customers based on the Equal Percentage of Base Revenue Method.
3. Pacific Gas and Electric Company shall submit a supplement to Advice Letter 1666-G with a revised Preliminary Statement and tariff schedules incorporating the increases granted herein within five business days from the effective date of this Resolution and to all other parties of record as soon as possible but no later than December 26, 1991.
4. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 18, 1991. The following Commissioners approved it:



NEAL J. SHULMAN  
Executive Director

PATRICIA M. ECKERT  
President  
JOHN B. OHANIAN  
DANIEL Wm. FESSLER  
NORMAN D. SHUMWAY  
Commissioners

Attachment A

Pacific Gas and Electric Company  
Summary of Capital Structures  
for Attrition Year 1992

Authorized Capital Structure 1991  
(D.90-11-057)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long-Term Debt	47.25%	9.35%	4.42%
Preferred Stock	6.00	8.76	0.53
Common Equity	46.75	12.90	6.03
Total	100.00%		10.98%

Requested Capital Structure 1992  
(D.91-11-059)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long-Term Debt	47.50%	9.20%	4.37%
Preferred Stock	5.75	8.74	0.50
Common Equity	<u>46.75</u>	12.65	<u>5.91</u>
Total	100.00%		10.78%

Authorized Capital Structure 1992  
(D.91-11-059)

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long-Term Debt	47.50%	9.15%	4.35%
Preferred Stock	5.75	8.74	0.50
Common Equity	<u>46.75</u>	12.65	<u>5.91</u>
Total	100.00%		10.76%

Attachment B

Pacific Gas and Electric Company  
 Gas Department  
 1992 Attrition Allowance  
 Revenue Requirements  
 (\$000)

Description	Requested	Adopted
<b>Operational Attrition:</b>		
Labor Inflation	\$ 7,974	\$ 7,974
Non-Labor Inflation	4,984	4,984
Capital-Related Items	34,368	33,878
ARA Mechanism for 1991	\$ 47,326	\$ 46,836
<b>Payroll Taxes:</b>		
FICA	-0-	102
California Unemployment	(76)	(76)
PBOP	33,635	33,632
FIT/CCFT Per D.89-11-058	(762)	(762)
Postal Increase	1,181	1,181
CEE Program Costs	7,003	2,220
Earthquake Recovery	(63)	(64)
Total ARA Base Revenue		
Amount Change	\$ 88,304	\$ 83,069
CEE Incentives	923	898
Total Increase for Rate		
Design Purposes	\$ 89,227	\$ 83,967
=====		
Previously Authorized Base		
Revenue Amount	\$1,099,853	\$1,099,853
Attrition Increase for 1992	88,304	83,069
Adopted Base Revenue for 1992	\$1,188,157	\$1,182,922

1/ Reflects PG&E's requested Cost of Capital as filed in  
 A.91-05-016.