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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-3154
December 21, 1994

R E S O L U T I O N

RESOLUTION G-3154. PACIFIC GAS AND ELECTRIC COMPANY
REQUESTS REVISION OF ITS BASE RATE REVENUES AND GAS
RATES EFFECTIVE JANUARY 1, 1995, TO IMPLEMENT THE 1995
GAS ATTRITION RATE ADJUSTMENT ADOPTED IN D.92-12-057.

BY ADVICE LETTER 1866-G, AND 1873-G, FILED ON OCTOBER 3,
1994, AND DECEMBER 19, 1994.

SUMMARY

1. Pacific Gas and Electric Company [PG&E] submits for
Commission approval revisions to its gas tariff sheets as
authorized in the general rate case Decision [D.] 92-12-057 for
its 1995 gas attrition rate adjustment [ARA].

2. The following is the summary of the proposed and authorized
amounts:

	Requested [\$000]	Adopted [\$000]
Updated Authorized 1995 Attrition	68,557	68,557
1995 Cost of Capital	43,427	33,240
DSM Funding	[33,131]	[33,131]
Pipeline Expansion	[12]	[6]
Interstate Transition Cost Surcharge	31,268	31,268
	-----	-----
	110,109	99,928
	=====	=====

3. Towards Utility Rate Normalization [TURN] and Division of
Ratepayer Advocates [DRA] protested AL 1866-G concerning the
attrition mechanism and the workforce reduction savings.

4. This Resolution grants the request, subject to specified
conditions discussed below, because AL 1866-G and AL 1873-G are
in compliance with the decisions referred to below.

BACKGROUND

1. The ARA mechanism provides for changes in base revenue requirements, between general rate cases, to offset the effects on earnings of changes in non-fuel operational expenses and capital-related expenses [e.g., taxes, depreciation, and financing costs]. D.85-12-076 provides ARA general provisions and generic attrition guidelines.
2. The purpose of this filing is to revise PG&E base revenues and gas rates effective January 1, 1995 to comply specifically with the 1995 ARA adopted in the 1993 general rate case D.92-12-057.
3. Attrition year 1995 is the second of the two attrition years authorized by D.92-12-057. For 1994, the first of the two attrition years, PG&E was granted a \$2,281,000 decrease in base revenues [Resolution E-3352/ AL 1801-G-B].
4. PG&E's AL 1866-G proposal for 1995 is a consolidated \$78,841,000 increase in base revenues, consisting of
 - o a \$68,557,000 updated authorized attrition amount and
 - o a \$10,284,000 non-attrition-related revenue increase.
5. The \$68,557,000 updated authorized attrition amount for 1995 consists of the following:

Authorized 1995 Attrition [D.92-12-057]	\$ 70,740,000
1993 TEFRA and Property Tax Settlement	[1,428,000]
1993 Omnibus Budget Reconciliation Act	1,617,000
1994 Cost of Capital [D.93-12-022]	[2,189,000]
Updated Escalation Factors [August 1994]	[183,000]

Adjusted 1995 Authorized Attrition	\$ 68,557,000
	=====

6. The \$10,284,000 non-attrition requested increase in 1995 revenues consists of the following:

1995 Cost of Capital [A.94-05-011]	\$ 43,427,000
Petition to Modify D.92-12-057 DSM Funding	[33,131,000]
PG&E Pipeline Expansion D.91-06-017 Costs	[12,000]

Total non-attrition change in revenues	\$ 10,284,000
	=====

7. PG&E subsequently updated the above amounts to reflect the effects of the later cost of capital adopted in D.94-11-076.
8. PG&E, in Advice Letter 1873-G, requested recovery in this resolution, of PG&E's Interstate Transition Cost Surcharge [ITCS] of \$31,268,000, as ordered in D.94-11-024.

NOTICE

1. PG&E served notice of AL 1866-G by mailing copies to other utilities, government agencies, and all parties that requested such information.

PROTESTS

1. TURN and DRA protested AL 1866-G on October 21, 1994 and October 24, 1994, respectively. PG&E responded to the protests by TURN and DRA on October 28, 1994 and November 2, 1994. The protests and responses are discussed below.

2. TURN and DRA separately protested the advice letter on two grounds as follows:

- [a] TURN and DRA submit that they protested last year's PG&E attrition advice letter filing [AL 1447-E & 1801-G] and asked for termination of the attrition mechanism. The Commission, in Resolution E-3352, denied their request on the grounds that the advice letter mechanism was not the proper venue for such requests. TURN and DRA point out that on May 5, 1993, they submitted, together with other concerned parties, a Joint Petition to Modify D.93887 [Dated December 30, 1981], the original attrition decision; and filed once again on July 14, 1994 a motion to suspend the attrition adjustment for PG&E for 1995 and beyond. Since the Commission has not yet responded to these filings, the petitioners request that the Commission either act on these filings in this proceeding or specify the appropriate procedure to request review of the attrition mechanism.

DRA in particular argues that PG&E's gas rates are not competitive because since January 1993 PG&E filed a dozen discounted contracts with individual customers in the Expedited Application Docket [EAD] aimed at preventing by-passes to its system and, lately in 1994, through AL 1838-G and a Petition to Modify EAD D.92-11-052, requested approval of the G-LT tariff to enable it to meet intensified competition in the market. Furthermore, DRA contends that Southern California Gas Company D.93-12-043, the latter's 1994 general rate case, and Global Settlement D.94-04-088 indicated that the Commission considered ending the automatic attrition increases. DRA, in further support of its contention, quotes the following from D.93-12-043 [page 26, mimeo]:

The state's depressed economy is no longer as volatile as it was during the late 1970s and early 1980s. Inflation rates have been and are expected to be low. Financial markets have been stable for several years. The economic circumstances which

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motivated the Commission to adopt attrition year adjustments in 1981 no longer exist.

and

Under the circumstances, we would be abrogating our duty to the public if we granted ... rate increases ... knowing that those increases would likely promote system bypass and subsequent rate increases...The attrition mechanism is not an entitlement. Nor is it a method of insulating the company from the economic pressures which all businesses experience.

- [b] TURN and DRA take issue with AL 1866-G because, in their opinion, it fails to account for savings from the Workforce Reduction Rate Mechanism [WRRM] as directed by D.93-05-025. In 1993 gas attrition filing on October 1, 1993 [AL 1801-G], PG&E indicated the savings of \$24.5 million from WRRM and deducted the amount from the attrition request. The protestants want to know how those benefits were treated in this year's advice letter and whether those benefits are flowed through to the ratepayers. Paragraph 10 of page 10 of Resolution E-3352, adopting PG&E's 1994 ARA, states:

...PG&E estimated that its workforce reduction program would save ...its Gas Department \$49.140 million from its inception until the end of 1995. PG&E requested to return half of this amount [\$24.5 million] in 1994 and the other half in 1995...CACD does not take exception with PG&E's request to amortize the effect of the WRRM over a two year period.

3. PG&E's reply to the protestants' first concern [item (a) above] is that the Commission has not eliminated or changed the ARA mechanism. This attrition filing, according to PG&E, is mandatory and in compliance with the past Commission decisions. PG&E contends that the ARA should be reviewed prospectively, and the proper forum for this is PG&E's test year 1996 general rate case, filed on December 9, 1994 [A.94-12-005].

4. CACD is aware of the concerns of TURN and DRA. The idea of ARA came about in a time when inflation rates were higher than normal and increasing. At present, however, the prevailing low inflation rates are expected to continue in the near future and there may be no continued need for the ARA mechanism. Moreover, it is well known that the Federal Reserve Bank has declared its firm policy of containing forces that could lead to high inflation rates. CACD notes the pronouncements of the Commission in SoCalGas D.94-04-088 and D.93-12-043 concerning attrition, albeit specific to SoCalGas. The protestants' request can be properly presented in a proceeding which would allow all interested parties to be heard. CACD recommends that the protestants bring this matter to the attention of the

Commission in the 1996 general rate case proceedings [A.94-12-005].

5. PG&E's response to the protestants' second concern [Item (b) above] is that the base revenues have already been lowered to account for the 1993 Work Force Management Program. The \$49 million savings that are attributable to the program, however, will be amortized over two years and flowed to the customers in 1994 and 1995 as approved in Resolution E-3352 [see Appendix A].

6. CACD has reviewed DRA and TURN protests and PG&E's response to the protests. The protests of DRA and TURN are denied for the reasons cited above.

DISCUSSION

Components Of The Proposal

A. 1995 Attrition

1. Unlike its electric attrition filing [AL-1479-E], PG&E in this gas attrition filing requests the full attrition amount authorized in D.92-12-057.

2. The core of this request is the initial ARA of \$70,740,000 authorized in D.92-12-057 and the updated Exhibits in that proceeding denoting \$1,428,000 reduction to 1995 base revenues from TEFRA Memorandum Account Recovery and Property Tax Settlement Adjustment.

3. The passage of the Omnibus Budget Reconciliation Act of 1993 changed the federal income tax rate from 34% to 35%, thus increasing the net-to-gross multiplier. Because taxes constitute as cost of service and recoverable through rates, PG&E requests an increase of \$1,617,000 in its 1995 attrition allowance.

4. D.93-12-022 [1994 Cost of Capital] decreases 1995 financial costs, therefore revenue requirements, by \$2,189,000. The reduction is the result of reduced return on the change in rate base from 1994 to 1995.

5. D.85-12-076 and D.92-12-057 allow updating of inflation expectations and revisions of escalation rates for labor, non-labor, and medical benefits. PG&E estimates a reduction in 1995 revenues of \$183,000 as a result of this update. PG&E has used the WEFA [Wharton Econometric Forecasting Association] forecasts available in August 1994.

6. The total of the above adjusted attrition amounts for 1995 is \$68,557,000 [see Appendix B]. CACD has reviewed the above attrition-related amounts and finds them reasonable.

B. Non-Attrition Items

The following have already been authorized in separate decisions or expected to be approved in this proceeding.

a. The \$43,427,000 requested increase in financial costs.

7. This amount is based on the rate of return proposed by PG&E in A.94-05-011, the 1995 Cost of Capital proceeding. The amount consists of \$40,973,000 which is the 1995 Cost of Capital impact on 1994 rate base, plus \$2,454,000 which is the 1995 Cost of Capital impact on the 1994/1995 change in rate base. In other words, it is the result of applying the change in the rate of return to the 1995 rate base adopted in D.92-12-057. Subsequently, after the issuance of D.94-11-076, PG&E updated the above amount, reducing it to \$33,240,000.

8. CACD has reviewed the effects of the 1995 cost of capital D.94-11-076 on the 1995 ARA and has adjudged the request reasonable.

b. The \$12,000 requested decrease in base revenue

9. This request is associated with the allocation of costs from PG&E's existing gas pipeline system to PG&E's Pipeline Expansion [D.91-06-017]. The latter decision requires allocated incremental cost allocation, i.e., the Expansion Project shall pay PG&E ratepayers a portion of the capital cost of the existing facilities to be used by the Expansion, based on relative throughput. The present proposal would reduce core and noncore gas base revenues by \$12,000 and increase the pipeline expansion base revenue by that amount. Subsequently, after the appearance of the cost of capital D.94-11-076, PG&E updated the above amount, reducing it to \$6,000.

10. Total non-attrition amount, after taking into consideration the recent D.94-11-076, and deferring the DSM request to the decision on petition to modify D.92-12-057, is \$33,234,000 = \$33,240,000 - \$6,000 [see Appendix B].

11. CACD has reviewed the non-attrition amounts and finds them reasonable.

c. The \$33,131,000 requested decrease in DSM Funding

12. PG&E filed a Petition to Modify test year 1993 GRC D.92-12-057 on September 12, 1994. In the petition, PG&E proposes a reduction of \$33,131,000 in the funding level for gas demand-side management [DSM] programs. This reduction will flow through to ratepayers starting January 1, 1995 by decreasing gas base revenues by the authorized decrease in DSM spending. The Petition is granted in the companion Decision addressing the Petition simultaneous with this resolution.

d. The \$31,268,000 ITCS recovery

13. Pursuant to D.94-11-024, PG&E requests recovery of \$31,268,000 through an interim surcharge to non-core customers of \$0.007 per therm effective January 1, 1995. Ordering Paragraph 4 of D.94-11-024 states:

PG&E shall implement this interim rate through an Advice Letter filing to be effective not earlier than December 1, 1994.

PG&E has filed AL 1873-G requesting that this Commission resolution consolidate the ITCS request into a single rate change effective January 1, 1995. CACD has reviewed the request and recommends its adoption.

14. Total CACD-recommended amount for PG&E's gas attrition is \$99,928,000, [see Appendix B], comprising of \$68,557,000 of attrition-related and \$31,371,000 non-attrition-related requests.

FINDINGS

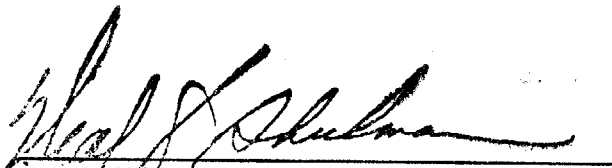
1. PG&E is authorized by D.93887 and D.85-12-076 to apply for attrition relief.
2. PG&E filed AL 1866-G in compliance with the 1993 general rate case D.92-12-057.
3. The updated 1995 authorized attrition revenue amount of \$68,557,000 is reasonable.
4. The increase of \$33,240,000 in 1995 revenues as a result of 1995 Cost of Capital D.94-11-076 is reasonable.
5. PG&E request for a \$33,131,000 decrease in 1995 funding level for gas Demand Side Management programs is approved in today's companion Decision addressing PG&E's Petition to Modify D.92-12-057.
6. PG&E's updated request to reduce 1995 revenues by \$6,000 associated with the allocation of costs from PG&E's existing gas pipeline system to its Pipeline Expansion is reasonable.
7. The advice letter process is not the proper vehicle to address the continued use of the attrition rate adjustment mechanism.
8. PG&E's Workforce Reduction Rate Mechanism is properly set to implement the flow of the benefits to ratepayers in 1995.
9. PG&E's requested \$31,268,000 for recovery of ITCS interim surcharge to noncore customers is incorporated herein.

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THEREFORE, IT IS ORDERED that:

1. Pacific Gas and Electric Company Advice Letter 1866-G and 1873-G are approved as in Appendix B.
2. Pacific Gas and Electric Company shall file updated tariffs, no later than December 30, 1994, incorporating the effects of the 1995 Cost of Capital D.94-11-076, The ITCS D.94-11-024, and the Decision addressing Petition to Modify D.92-12-057 and D.93-05-011. The new tariffs shall be effective January 1, 1995.
3. The protests of Towards Utility Rate Normalization and Division of Ratepayer Advocates to AL 1866-G are denied.
4. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 21, 1994. The following Commissioners approved it:



NEAL J. SHULMAN
Executive Director

DANIEL Wm. FESSLER
President
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
P. GREGORY CONLON
JESSIE J. KNIGHT, Jr.
Commissioners

**PACIFIC GAS AND ELECTRIC COMPANY
GAS DEPARTMENT
BASE REVENUE AMOUNTS
(000's)**

APPENDIX A

Line No.	DESCRIPTION	BASE REVENUE AMOUNTS	REFERENCES
1	Base Revenue Amount (Effective 1/1/93)	\$1,280,574	Decision 92-10-057; Advice Letter 1743-G
2	Other Operating Revenue Adjustment (Effective 7/1/93)	85	
<u>1994 ARA Adopted:</u>			
3	Workforce Reduction Savings	-24,570	Resolution E-3352; Advice Letter 1801-G-B
4	Transfer to PG&E Pipeline Expansion	-314	
5	Other	32,391	
6	Total 1994 ARA	7,507	
7	Base Revenue Amount (Effective 1/1/94) (a) (Line 1+ Line 2+ Line 6)	1,288,166	
<u>1995 ARA Requested:</u>			
8	Workforce Reduction Savings	0	Advice Letter 1866-G
9	Transfer to PG&E Pipeline Expansion	-6	
	Other	68,666	
	Total 1995 ARA	68,660	
12	Base Revenue Amount (Effective 1/1/95) (a) (Line 7 + Line 11)	\$1,356,826	

	1994	1995
13	\$1,280,574	\$1,280,574
14	85	85
<u>1994 ARA Adopted:</u>		
15	-24,570	-24,570
16	-314	-314
17	32,391	32,391
<u>1995 ARA Request:</u>		
18	---	0
19	---	-6
20	---	68,666
21	\$1,288,166	\$1,356,826
	(Effective January 1, 1994 and 1995)	

(a) Including the transfer to PG&E Pipeline Expansion.

PACIFIC GAS AND ELECTRIC COMPANY
GAS DEPARTMENT
REVENUE REQUIREMENTS
ATTRITION YEAR 1995
\$(000)

Line No.	DESCRIPTION	GRC Decision #92-12-057	1993 Omnibus Reconciliation Act	1994 Cost of Capital Decision #93-12-022	Subtotal Revised Attrition Year	Updated Escalation Factors	Subtotal Revised Attrition Year	1995 Cost of Capital Decision #94-11-076	Total Revised Attrition Year	Line No.
<u>Operating & Maintenance Expenses</u>										
1	Labor Escalation	8,632	0	0	8,632	1,111	9,743	0	9,743	1
2	Non-Labor Escalation	7,853	0	0	7,853	-1,301	6,553	0	6,553	2
3	Medical Escalation	1,025	0	0	1,025	6	1,032	0	1,032	3
4	Total Oper & Maint Expenses	17,511	0	0	17,511	-183	17,328	0	17,328	4
<u>Capital Related Items</u>										
5	Book Depreciation Expense	36,891	662	0	37,553	0	37,553	0	37,553	5
6	Ad Valorem Taxes	2,464	0	0	2,464	0	2,464	0	2,464	6
7	CCFT Prior Year	-2,388	1,027	0	-1,361	0	-1,361	0	-1,361	7
8	State Tax Depreciation	-2,552	-46	0	-2,598	0	-2,598	0	-2,598	8
9	Fed Tax Depreciation (ACRS/MACRS)	-11,641	-556	0	-12,198	0	-12,198	0	-12,198	9
10	Federal Tax Depreciation Deferred	3,877	185	0	4,063	0	4,063	0	4,063	10
11	Rate Base: Debt Cost	7,367	0	0	7,367	0	7,367	0	7,367	11
12	Preferred Stock Cost	1,527	27	0	1,554	0	1,554	0	1,554	12
13	Comm Stk Equity Cost	17,685	317	0	18,002	0	18,002	0	18,002	13
14	Total Capital Related Items	53,230	1,617	0	54,847	0	54,847	0	54,847	14
<u>Financial Component</u>										
15	Debt Cost	0	0	-991	-991	0	-991	0	-991	15
16	Preferred Stock Cost	0	0	-97	-97	0	-97	-573	-670	16
17	Common Stock Equity Cost	0	0	-1,101	-1,101	0	-1,101	33,813	32,712	17
18	Total Financial Component	0	0	-2,189	-2,189	0	-2,189	33,240	31,051	18
19	Subtotal	70,741	1,617	-2,189	70,169	-183	69,986	33,240	103,226	19
<u>Other Items</u>										
20	1993 Adjustment	0	0	0	0	0	0	0	0	20
21	TEFRA Memorandum Account Recovery	-15	0	0	-15	0	-15	0	-15	21
22	Property Tax Settlement Adjustment	-1,414	0	0	-1,414	0	-1,414	0	-1,414	22
23	Total Other Items	-1,429	0	0	-1,429	0	-1,429	0	-1,429	23
24	Total ARA Revenue Requirements	69,312	1,617	-2,189	68,740	-183	68,557	33,240	101,797	24
<u>Petition to Modify Decisions 92-12-057 and 93-05-011</u>										
25	Decrease 1995 DSM Funding								-33,131	25
26									\$68,666	26
27	Change in Transfer to PG&E Expansion (Decision 91-06-017)								-6	27
28									\$68,660	28
29	Interstate Transition Cost Surcharge (ITCS) (Decision 94-11-024)								31,268	29
30									\$99,928	30