

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Tel. No. (415) 703-1691



July 20, 2004

Advice Letter 2499G-B|2446E-B

Ms Anita Smith, Rate Analyst
Pacific Gas and Electric Company
77 Beale Street, 10B Mail Code
San Francisco, CA 94177

Subject: 2003 General Rate Case – Attrition Rate Adjustment for 2004

Dear Ms Smith:

Advice Letter 2499G-B|2446E-B is effective January 1, 2004. A copy of the advice letter is sent herewith for your records.

Sincerely,

A handwritten signature in cursive script that reads "Paul Clavin".

Director
Energy Division



Karen A. Tomcala
Vice President
Regulatory Relations

77 Beale Street, Room 1065
San Francisco, CA 94105

Mailing Address
Mail Code B10A
P.O. Box 770000
San Francisco, CA 94177

415.972.5209
Internal: 222.5209
Fax: 415.972.5625
Internet: kat5@pge.com

June 16, 2004

Advice 2499-G-B/2446-E-B
(Pacific Gas and Electric Company ID U 39 M)

Subject: 2003 General Rate Case — Attrition Rate Adjustment for 2004

Public Utilities Commission of the State of California

Pacific Gas and Electric Company (PG&E) hereby submits this supplemental advice filing to implement its Attrition Rate Adjustment (ARA) for 2004 for electric and gas distribution and electric generation revenue requirements. This supplemental filing consolidates the material included in Advice 2499-G/2446-E, dated November 21, 2003, and Advice 2499-G-A/2446-E-A dated January 23, 2004, and conforms the requested attrition adjustment amounts to the elements included in Decision (D.) 04-05-055 in PG&E's 2003 General Rate Case (GRC). Specifically, the calculations in this supplemental advice filing are the exact same calculations presented in the two previous filings for the GRC decision outcome where PG&E's estimate of a pension contribution is excluded.

Purpose

PG&E requests that the Commission find that the ARA revenue requirement presented here effective January 1, 2004, is in compliance with the findings in D. 04-05-055.

Background

In D. 04-05-055, the Commission adopted without modification two settlements in PG&E's 2003 GRC: a Generation Settlement Agreement filed with the Commission on July 31, 2003 and a Distribution Settlement Agreement filed with the Commission on September 15, 2003.

Generation Settlement Agreement

On July 31, 2003, PG&E, the Office of Ratepayer Advocates (ORA), The Utility Reform Network (TURN), Aglet Consumer Alliance (Aglet), and the City and County of San Francisco (CCSF) filed a settlement resolving issues regarding electric generation (Generation Settlement Agreement). (CCSF joined in the settlement on a limited issue.) The Generation Settlement Agreement



acknowledged that the generation revenue requirement would change upon final execution of the Results of Operations model, due to the final determination and allocation of Administrative and General expense and common plant, and due to the resolution of certain tax-related issues not specifically addressed or resolved in the Generation Settlement Agreement, including those issues raised by recent revisions to the U. S. tax code.

Regarding Attrition for 2004 and 2005, Paragraph 9 in the Generation Settlement Agreement provides as follows:

PG&E shall be authorized annual electric generation attrition adjustments for 2004 and 2005 equal to the previous year authorized revenue requirement times the forecast change in CPI-All Urban Consumers; CPI change equals the latest Global Insight forecast prior to filing (for example October 2003, for year 2004) divided by the concurrent forecast for the current year (for example October 2003, for the year 2003), minus one. The annual attrition increase for 2004 and 2005 will have a minimum of 1.5 percent and a maximum of 3.0 percent. PG&E shall file 2004 and 2005 attrition revenue requirements by advice letter due November 1 of the prior year.

Paragraph 9 in the Generation Settlement Agreement further provides for an adjustment to reflect the number of refueling outages at Diablo Canyon as follows:

Refueling Outage Adjustment

The base revenue requirement for Diablo Canyon currently includes one refueling outage. If PG&E forecasts a second refueling outage in any one year, the authorized revenue requirement for 2003, 2004, 2005 and, if applicable, 2006, shall be increased to reflect a fixed revenue requirement of \$32 million (in 2003 dollars) per refueling outage at Diablo Canyon power plant, adjusted only for CPI using the same formula described above for attrition year adjustments. The \$32 million (in 2003 dollars) fixed revenue requirement per refueling outage reflects only the incremental operations and maintenance (O&M) forecast associated with refueling outage activities.

The Generation Settlement Agreement further provides for additional security costs at Diablo Canyon Power Plant in 2003 through 2006. These have been incorporated into the 2003 revenue requirement. In addition, the Generation Settlement Agreement provides an ARA calculation for 2006.



Distribution Settlement Agreement

On September 15, 2003, PG&E, ORA, TURN, Aglet, Modesto Irrigation District (MID), the Natural Resources Defense Council (NRDC), and the Agricultural Energy Consumers Association (AECA) filed a settlement resolving, with one exception, all issues raised by the settling parties regarding electric and gas distribution (Distribution Settlement Agreement). (MID, NRDC, and AECA joined in the settlement on limited issues.) The one unresolved issue related to PG&E's request that the Commission adopt a revenue requirement that includes the cost of a contribution to PG&E's pension fund. Also unresolved were issues raised by a non-settling party, the Greenlining Institute and Latino Issues Forum. The Distribution Settlement Agreement resolved the issues noted above regarding the generation revenue requirement that were not resolved by the Generation Settlement Agreement.

Regarding Attrition for 2004, Paragraphs 5.2 and 5.3 of the Distribution Settlement Agreement provide as follows:

The Settling Parties agree that attrition relief for 2004, 2005, and 2006 will be authorized in this GRC, and implemented by advice letter. The Settling Parties agree that PG&E's annual distribution attrition adjustment for 2004 and 2005 will be equal to the previous year authorized revenue requirement times the forecast change in CPI-All Urban Consumers. PG&E's annual distribution attrition adjustment for 2006 will be equal to the previous year authorized revenue requirement times the forecast change in CPI-All Urban Consumers plus 1%. Notwithstanding the forecast change in CPI-All Urban Consumers, the minimum and maximum revenue requirement adjustments will be as follows.

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Minimum	2.0%	2.25%	3.0%
Maximum	3.0%	3.25%	4.0%

The CPI change equals the latest Global Insight forecast prior to filing (for example October 2003, for year 2004) divided by the concurrent forecast for the current year (for example October 2003, for year 2003), minus one.

**Unresolved Revenue Requirements Issue**

The only revenue requirements issue left unresolved by the Distribution and Generation Settlement Agreements was whether PG&E's adopted revenue requirement should include, as one component, the proposed pension contribution. The pension contribution issue was argued in opening and reply briefs submitted September 17 and October 8, 2003, respectively. In D. 04-05-055, the Commission declined to include the pension contribution in computing the authorized revenue requirement.

ARA Calculations**Generation**

Under the Generation Settlement Agreement approved in D. 04-05-055, the generation revenue requirement for 2003 is \$912.258 million. The latest available Global Insight forecast (November) for 2004 is 1.865, and the concurrent Global Insight forecast for 2003 is 1.840. Therefore, the latest available Global Insight forecast for 2004 divided by the concurrent Global Insight forecast for 2003, minus one, is 1.865 divided by 1.840, minus one, or .014, which represents the forecast change in CPI-All Urban Consumers. Since .014, or 1.4 percent, falls below the 2004 floor of 1.5 percent, the calculation uses 1.5 percent.

TABLE 1

**PACIFIC GAS AND ELECTRIC COMPANY
GLOBAL INSIGHT NOVEMBER 2003 US MACRO FORECAST
(USSIM/CONTROL1003)**

	2003	2004
CPI	1.840	1.865
% change	$(1.865/1.840) - 1 = .014; .014 * 100 = 1.4\%$	

The 2003 authorized revenue requirement times the 2004 floor for the forecast change in CPI-All Urban Consumers thus is \$912.258 million times 1.5 percent, or \$13.684 million. As noted earlier, there is an adjustment to reflect the number of refueling outages at Diablo Canyon Power Plant, bringing the total generation attrition increase to \$46.164 million.



TABLE 2

**PACIFIC GAS AND ELECTRIC COMPANY
2004 GENERATION ATTRITION CALCULATION AT FLOOR
(THOUSANDS OF DOLLARS)**

	<u>2003 RRQ</u>		<u>CPI Floor</u>		<u>DCPP Refueling Outage*</u>		<u>2004 Attrition</u>
2003 Generation RRQ without Pension	\$912,258	*	1.50%	+	\$32,480	=	\$46,164

* Generation calculations include \$32 million (in 2003 dollars) additional attrition in 2004 for a second Diablo Canyon Power Plant Refueling: $\$32,000 (1 + 1.5\%) = \$32,480$

TABLE 3

**PACIFIC GAS AND ELECTRIC COMPANY
TOTAL GENERATION 2004 REVENUE REQUIREMENT
(THOUSANDS OF DOLLARS)**

	<u>2003 RRQ</u>	<u>2004 RRQ</u>
Generation without Pension	\$912,258	\$958,422

Distribution

Under the Distribution Settlement Agreement approved in D.04-05-055, the Distribution revenue requirements for 2003 are \$2,493.034 million for electric distribution and \$926.513 million for gas distribution. The latest available (November) Global Insight forecast for 2004 is 1.865, and the concurrent Global Insight forecast for 2003 is 1.840. Therefore, the latest available Global Insight forecast for 2004 divided by the concurrent Global Insight forecast for 2003, minus one, is 1.865 divided by 1.840, minus one, or .014, which represents the forecast change in CPI-All Urban Consumers (see Table 1 above). Since .014, or 1.4 percent, falls below the 2004 floor of 2.0 percent, the calculation uses 2.0 percent. The 2003 authorized revenue requirement for electric distribution times the 2004 floor for the forecast change in CPI-All Urban Consumers thus is \$2,493.034 million times 2.0 percent, or \$48.864 million. The 2003 authorized revenue requirement for gas distribution times the 2004 floor for the forecast change in CPI-All Urban Consumers thus is \$926.513 million times 2.0 percent, or \$18.530 million.



TABLE 4

**PACIFIC GAS AND ELECTRIC COMPANY
2004 ELECTRIC AND GAS DISTRIBUTION ATTRITION CALCULATION AT FLOORS
(THOUSANDS OF DOLLARS)**

	<u>2003 RRQ</u>	*	<u>CPI Floor</u>	=	<u>2004 Attrition</u>
2003 Electric Distribution RRQ without Pension	\$2,493,034		2.0%		\$49,861
2003 Gas Distribution RRQ without Pension	\$926,513		2.0%		\$18,530

TABLE 5

**PACIFIC GAS AND ELECTRIC COMPANY
TOTAL ELECTRIC AND GAS DISTRIBUTION 2003 AND 2004
REVENUE REQUIREMENT
(THOUSANDS OF DOLLARS)**

	<u>2003</u>	<u>2004</u>
Electric Distribution without pension	\$2,493,034	\$2,542,895
Gas Distribution without pension	<u>926,513</u>	<u>945,043</u>
Total Electric and Gas without pension	\$3,419,547	\$3,487,938

Allocation of Common Costs

In the Distribution Settlement approved in D. 04-05-055, Paragraph 3.1.4 states:

The Settling Parties agree that it is more efficient to litigate common costs like A&G only once, in the GRC, and then to use the results in other CPUC proceedings, rather than re-litigating these common A&G costs multiple times. The Settling Parties agree that the A&G expenses allocated to the Unbundled Cost Categories (UCCs) adopted in this 2003 GRC should be used in determining the A&G expenses in related proceedings in 2003 and future years until the 2007 test year GRC, if the outcome of those proceedings would otherwise require specific calculation of A&G expenses. Specifically, the UCCs and related proceedings are: Gas Transmission (Gas Accord II and Gas Accord III), Humboldt (Nuclear Decommissioning Cost Triennial Proceeding), Gas public purpose programs (PPP) and Electric PPP. *To the extent that Commission decisions in 2004 through 2006 on PPP include less A&G expense than the amounts allocated to PPP UCCs in this Agreement, any shortfall will be recovered through GRC distribution attrition revenues [emphasis added].*



On November 21, 2003, PG&E filed Advice 2499-G/2446-E to request an Attrition Rate Adjustment for 2004 in accordance with the then-pending 2003 GRC Settlement Agreements. Subsequently, on December 18, 2003, the Commission issued D. 03-12-060, Interim Opinion Adopting Funding For 2004-05 Energy Efficiency Programs and Studies. In D. 03-12-060, – Part III, “2004-05 Energy Efficiency Program Proposals for Funding with PGC Revenues,” Section E – “PG&E Overhead Costs,” the Commission states:

We are aware that the other three utilities recover some of their costs (e.g., pensions and benefits) from sources other than PGC and have considered that when making these budget reductions. ...Accordingly, we reduce PG&E’s overhead allocations to 7% for all of its program budgets.

PG&E’s 2004-2005 energy efficiency program filing included A&G expenses as part of overhead costs. As noted by the Commission, the other utilities recover these costs through their distribution revenue requirement (D. 03-12-060 at 17 and 18). In compliance with the 7% cap on overhead costs, PG&E reclassified the A&G expenses associated with labor in its energy efficiency programs from overhead costs to another classification within the administrative costs category. At this time, PG&E’s A&G expenses continue to be imputed to the administrative category. Due to the amount of operational expense included in the overhead budget, the Commission’s reduction of PG&E’s requested overhead costs to seven percent effectively denied recovery of the A&G expenses included in the PPP filing. Therefore, consistent with the Distribution and Generation Settlement Agreements approved in D. 04-05-055, and to put PG&E on equal footing with the other utilities, PG&E is requesting full recovery of its PGC-funded energy efficiency program-related A&G expenses through this advice filing. The requested amounts are shown in Table 6, below.

TABLE 6

**PACIFIC GAS AND ELECTRIC COMPANY
SHORTFALL OF PUBLIC PURPOSE PROGRAM A&G EXPENSE
IN D. 03-12-060 UNDER 2003 GRC DISTRIBUTION SETTLEMENT AGREEMENT
(THOUSANDS OF DOLLARS)**

<u>Without Pension Contribution:</u>	
CEE	\$9,899
CARE	1,002
Low Income	<u>2,232</u>
Total PPP A&G <i>without</i> pension contribution	\$13,133
Electric Department Portion of Total	\$10,573
Gas Department Portion of Total	\$2,560



In summary, the calculated ARA increase for 2004 is as follows:

TABLE 7

**PACIFIC GAS AND ELECTRIC COMPANY
TOTAL DISTRIBUTION AND GENERATION 2004 ARA INCREASE
(THOUSANDS OF DOLLARS)**

	<u>Computed Attrition Increase</u>	<u>Allocation of A&G Expense</u>	<u>Increase for 2004</u>
Electric Distribution	\$49,861	\$10,573	\$60,434
Gas Distribution	18,530	2,560	21,090
Generation	46,164		46,164
Total	\$114,555	\$13,133	\$127,688

Revenue requirements for electric and gas distribution and for generation that the Commission approved in the 2003 GRC are effective January 1, 2003, in accordance with D. 02-12-073, issued December 19, 2002. Similarly, the revenue requirement increase associated with the ARA for 2004 that the Commission approved in the 2003 GRC will be effective January 1, 2004.

Protests

Anyone wishing to protest this filing may do so by sending a letter by **July 6, 2004**, which is 20 days from the date of this filing. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. Protests should be mailed to:

IMC Branch Chief – Energy Division
California Public Utilities Commission
505 Van Ness Avenue, 4th Floor
San Francisco, California 94102

Facsimile: (415) 703-2200
E-mail: jjr@cpuc.ca.gov

Protests also should be sent by e-mail and facsimile to Mr. Jerry Royer, Energy Division, as shown above, and by U.S. mail to Mr. Royer at the above address.

The protest should be sent via both e-mail and facsimile to PG&E on the same date it is mailed or delivered to the Commission at the address shown below.



Pacific Gas and Electric Company
Attention: Brian Cherry
Director, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, California 94177

Facsimile: (415) 973-7226
E-mail: RxDd@pge.com

Effective Date

This supplemental Advice 2499-G-B/2446-E-B consolidates the material in Advice 2499-G/2446-E and Advice 2499-G-A/2446-E-A and conforms that material to the Commission's findings in D. 04-05-055. No protests were filed in response to Advice 2499-G/2446-E or to Advice 2499-G-A/2446-E-A. As stated in the Purpose section of this filing, PG&E requests that this advice filing become effective **January 1, 2004**.

Notice

In accordance with General Order 96-A, Section III, Paragraph G, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list and the parties on the service list for A. 02-11-017. Address changes should be directed to Sharon Tatai at (415) 973-2788. Advice letter filings can also be accessed electronically at: <http://www.pge.com/tariffs>

Karen A. Tomcola /sr

Vice President - Regulatory Relations

Attachments

cc: Service List – 2003 GRC A. 02-11-017

**PG&E Gas and Electric Advice
Filing List
General Order 96-A, Section III(G)**

ABAG Power Pool
Accent Energy
Aglet Consumer Alliance
Agnews Developmental Center
Ahmed, Ali
Alcantar & Elsesser
Anderson Donovan & Poole P.C.
Applied Power Technologies
APS Energy Services Co Inc
Arter & Hadden LLP
Avista Corp
Barkovich & Yap, Inc.
BART
Bartle Wells Associates
Blue Ridge Gas
Bohannon Development Co
BP Energy Company
Braun & Associates
C & H Sugar Co.
CA Bldg Industry Association
CA Cotton Ginners & Growers Assoc.
CA League of Food Processors
CA Water Service Group
California Energy Commission
California Farm Bureau Federation
California Gas Acquisition Svcs
California ISO
Calpine
Calpine Corp
Calpine Gilroy Cogen
Cambridge Energy Research Assoc
Cameron McKenna
Cardinal Cogen
Cellnet Data Systems
Chevron Texaco
Chevron USA Production Co.
Childress, David A.
City of Glendale
City of Healdsburg
City of Palo Alto
City of Redding
CLECA Law Office
Constellation New Energy
CPUC
Creative Technology
Cross Border Inc
Crossborder Inc
CSC Energy Services
Davis, Wright Tremaine LLP
Davis, Wright, Tremaine, LLP
Defense Fuel Support Center
Department of the Army
Department of Water & Power City

Dept of the Air Force
DGS Natural Gas Services
DMM Customer Services
Downey, Brand, Seymour & Rohwer
Duke Energy
Duke Energy North America
Duncan, Virgil E.
Dutcher, John
Dynergy Inc.
Ellison Schneider
Energy Law Group LLP
Enron Energy Services
Exelon Energy Ohio, Inc
Exeter Associates
Foster Farms
Foster, Wheeler, Martinez
Franciscan Mobilehome
Future Resources Associates, Inc
G. A. Krause & Assoc
GLJ Energy Publications
Goodin, MacBride, Squeri, Schlotz &
Gruneich Resource Advocates
Hanna & Morton
Heeg, Peggy A.
Hogan Manufacturing, Inc
House, Lon
Imperial Irrigation District
Integrated Utility Consulting Group
International Power Technology
Interstate Gas Services, Inc.
J. R. Wood, Inc
JTM, Inc
Kaiser Cement Corp
Korea Elec Power Corp
Luce, Forward, Hamilton & Scripps
Marcus, David
Masonite Corporation
Matthew V. Brady & Associates
Maynor, Donald H.
McKenzie & Assoc
McKenzie & Associates
Meek, Daniel W.
Mirant California, LLC
Modesto Irrigation Dist
Morrison & Foerster
Morse Richard Weisenmiller & Assoc.
Navigant Consulting
New United Motor Mfg, Inc
Norris & Wong Associates
North Coast Solar Resources
Northern California Power Agency
Office of Energy Assessments
Palo Alto Muni Utilities

PG&E National Energy Group
Pinnacle CNG Company
PITCO
Plurimi, Inc.
PPL EnergyPlus, LLC
Price, Roy
Product Development Dept
Provost Pritchard
R. M. Hairston & Company
R. W. Beck & Associates
Recon Research
Regional Cogeneration Service
RMC Lonestar
Sacramento Municipal Utility District
SCD Energy Solutions
Seattle City Light
Sempra
Sempra Energy
Sequoia Union HS Dist
SESCO
Sierra Pacific Power Company
Silicon Valley Power
Simpson Paper Company
Smurfit Stone Container Corp
Southern California Edison
SPURR
St. Paul Assoc
Stanford University
Sutherland, Asbill & Brennan
Tabors Caramanis & Associates
Tansev and Associates
Tecogen, Inc
TFS Energy
TJ Cross Engineers
Transwestern Pipeline Co
Turlock Irrigation District
U S Borax, Inc
United Cogen Inc.
URM Groups
Utility Cost Management LLC
Utility Resource Network
Wellhead Electric Company
Western Hub Properties, LLC
White & Case
WMA