STATE OF CALIFORNIA

ARNOLD SCHWARZENEGGER, *Governor*

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,

Director
Energy Division

STATE OF CALIFORNIA

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Dear Ms Smith:

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Sincerely,

Paul Clanon

Director
Energy Division

Pacific Gas and Electric Company

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

November 21, 2003

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

Public Utilities Commission of the State of California

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

Pacific Gas and Electric Company (PG&E) hereby submits the Attrition Rate Adjustment (ARA) for electric and gas rates for the year 2004, consistent with the Distribution and Generation Settlement Agreements pending before the Commission in Application 02-11-017, PG&E's 2003 test year General Rate Case (GRC). This Advice Letter is submitted in compliance with the terms of the Settlement Agreements. PG&E recognizes that the Commission has not yet issued a decision on A. 02-11-017. However, in order to present PG&E's 2004 ARA calculation to the Commission and interested parties in a timely fashion, PG&E submits this Advice Letter in anticipation of potential Commission approval of the Settlement Agreements and a decision resolving contested issues.[1]

Purpose

PG&E requests that the Commission approve the ARA revenue requirement presented here effective January 1, 2004, contingent on the Commission issuing a decision in PG&E's General Rate Case consistent with the calculations presented herein. PG&E will file a supplement to this Advice Letter, if needed, after the Commission issues a decision in PG&E's General Rate Case.

Background

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

[1] PG&E reserves all legal rights to challenge the decisions or statutes under which it has been required to make this advice filing, and nothing in this advice filing constitutes a waiver of such rights. Also, PG&E reserves any additional legal rights to challenge the requirement to make this advice filing by reason of its status as a debtor under Chapter 11 of the Bankruptcy Code, and nothing in this advice filing constitutes a waiver of such rights.

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 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 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 relates 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 are issues raised by a non-settling party, the Greenlining Institute and Latino Issues Forum. The Distribution Settlement Agreement resolves 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.

	2004	**2005**	**2006**
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 is 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. This advice filing presents the 2004 ARA calculation both ways: *with* the pension contribution (as argued by PG&E) and *without* the pension contribution.

ARA Calculations

Generation

Under the Generation and Distribution Settlement Agreements, the Generation revenue requirement for 2003 is $912.258 million without the pension contribution and $929.14 million with the pension contribution. 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 floor of 1.5 percent, the calculation uses 1.5 percent.

TABLE 1
PACIFIC GAS AND ELECTRIC COMPANY
GLOBAL INSIGHT OCTOBER 2003 US MACRO FORECAST
(USSIM/CONTROL1003)

	2003	**2004**
CPI	1.839	1.862
% change	(1.865/1.840) – 1 = .014; .014 * 100 = **1.4%**	

The 2003 authorized revenue requirement times the forecast change in CPI-All Urban Consumers thus is either $912.258 million times 1.5 percent, or $46.164 million (without pension contribution), or $929.14 million times 1.5 percent, or $46.417 million (with pension contribution). There is an adjustment to reflect the number of refueling outages at Diablo Canyon Power Plant.

TABLE 2
PACIFIC GAS AND ELECTRIC COMPANY
GENERATION ATTRITION CALCULATION AT FLOOR
($ THOUSANDS)

	2003 RRQ		CPI Floor		DCPP Refueling Outage*		2004 Attrition
2003 Generation RRQ without Pension	912,258	*	1.50%	+	32,480	=	46,164
2003 Generation RRQ with Pension	929,140	*	1.50%	+	32,480	=	46,417

* Generation calculations include $32 million (Y2003$) additional attrition in 2004 for 2nd 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)

	2003 RRQ	2004 RRQ
Generation without Pension	912,258	958,422
Generation with Pension	929,140	975,557

Distribution

Under the Distribution Settlement Agreement, the Distribution revenue requirements for 2003 are $2,493.034 million for electric and $926.513 million for gas without the pension contribution and $2,529.6 million for electric and $948.1 million for gas with the pension contribution. 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 floor of 2.0 percent, the calculation uses 2.0 percent. The 2003 authorized revenue requirement for electric distribution times the forecast change in CPI-All Urban Consumers thus is either $2,493.034 million times 2.0 percent, or $48.864 million (without pension contribution), or $2,529.6 million times 2.0 percent, or $50.592 million (with pension contribution). The 2003 authorized revenue requirement for gas distribution times the forecast change in CPI-All Urban Consumers thus is either $926.513 million times 2.0 percent, or $18.530 million (without pension contribution), or $948.1 million times 2.0 percent, or $18.962 million (with pension contribution).

TABLE 4
PACIFIC GAS AND ELECTRIC COMPANY
ELECTRIC AND GAS DISTRIBUTION ATTRITION CALCULATION AT FLOORS
($ THOUSANDS)

	2003 RRQ		CPI Floor		2004 Attrition
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
2003 Electric Distribution RRQ with Pension	2,529,600	*	2.0%	=	50,592
2003 Gas Distribution RRQ with Pension	948,100	*	2.0%	=	18,962

TABLE 5
PACIFIC GAS AND ELECTRIC COMPANY
TOTAL ELECTRIC AND GAS DISTRIBUTION 2003 AND 2004
REVENUE REQUIREMENT
($ THOUSANDS)

	2003	2004
Electric Distribution without pension	2,493,034	2,542,895
Gas Distribution without pension	926,513	945,043
Total Electric and Gas without pension	3,419,547	3,487,938
Electric Distribution with pension	2,529,600	2,580,192
Gas Distribution with pension	948,100	967,062
Total Electric and Gas with pension	3,477,700	3,547,254

Total Distribution and Generation Attrition Increase

In summary, the calculated ARA increase with and without the pension contribution for 2004 is as follows:

TABLE 6
PACIFIC GAS AND ELECTRIC COMPANY
TOTAL DISTRIBUTION AND GENERATION 2004 ARA INCREASE
($ THOUSANDS)

	Without Pension Contribution	With Pension Contribution
Electric Distribution	49,861	50,592
Gas Distribution	18,530	18,962
Generation	46,164	46,417
Total	$114,555	$115,971

Protests

Anyone wishing to protest this filing may do so by sending a letter by **December 11, 2003**, 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 K. 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

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

PG&E requests this advice filing be 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 service list parties for Application (A.) 02-11-017. Address changes should be directed to Sandra Ciach at (415) 973-7572. Advice letter filings can also be accessed electronically at:

http://www.pge.com/customer_services/business/tariffs/

Karen A. Tomcala/BKT
Vice President - Regulatory Relations

cc: Service List – A. 02-11-017

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

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Agnews Developmental Center
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Matthew V. Brady & Associates
Maynor, Donald H.
McKenzie & Assoc
McKenzie & Associates
Meek, Daniel W.
Meyer, Joseph
Mirant California, LLC
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Morrison & Foerster
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New United Motor Mfg, Inc
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North Coast Solar Resources
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WMA