

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Tel. No. (415) 703-1691



November 22, 2004

Advice Letter 2580-G|2566-E

Ms Rose de la Torre
Pacific Gas and Electric Company
77 Beale Street, Room 1088
Mail Code B10C
San Francisco, CA 94105

Subject: 2003 General Rate Case – 2005 Attrition Rate Adjustment

Dear Ms de la Torre:

Advice Letter 2580-G|2566-E is effective January 1, 2005. A copy of the advice letter is sent herewith for your records.

Sincerely,

A handwritten signature in cursive script, appearing to read "Paul Clanton".

Director
Energy Division



**Pacific Gas and
Electric Company**

Brian K. Cherry
Director
Regulatory Relations

77 Beale Street, Room 1087
San Francisco, CA 94105

Mailing Address
Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177

415.973.4977
Internal: 223.4977
Fax: 415.973.7226
Cellular: 415.517.5067
Internet: BKC7@pge.com

October 14, 2004

Advice 2580-G-G/2566-E
(Pacific Gas and Electric Company ID U39M)

Subject: 2003 General Rate Case — 2005 Attrition Rate Adjustment

Public Utilities Commission of the State of California

Pacific Gas and Electric Company (PG&E) hereby submits the Attrition Rate Adjustment (ARA) for electric and gas rates for the year 2005, consistent with the provisions of Decision (D.) 04-05-055 in Application 02-11-017, PG&E's 2003 test year General Rate Case (GRC). This filing is submitted in compliance with the terms of the Settlement Agreements approved by the Commission in D. 04-05-055. PG&E requests that the Commission approve the ARA revenue requirement presented here effective January 1, 2005.

Background

In D. 04-05-055, the Commission adopted two settlements in PG&E's 2003 GRC, one regarding PG&E's generation revenue requirement request and the other concerning PG&E's gas and electric distribution revenue requirement. The provisions of the adopted settlement agreements related to the ARA are described below.

Generation Settlement Agreement

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.

Distribution Settlement Agreement

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.

ARA Calculations**Forecast Change in CPI**

The latest available Global Insight forecast (October 2004) of the CPI index for 2005 is 1.921339, and the concurrent Global Insight forecast for 2004 is 1.887040. Therefore, the latest available Global Insight forecast for 2005 divided by the concurrent Global Insight forecast for 2004, minus one, is 1.921339 divided by 1.887040, minus one, or 0.018, which represents the forecast change in CPI-All Urban Consumers.

TABLE 1

**GLOBAL INSIGHT OCTOBER 2004 US MACRO FORECAST
(USSIM/CONTROL1003)**

	<u>2004</u>	<u>2005</u>
CPI	1.887040	1.921339
% change	$(1.921339/1.887040) - 1 = .018;$ $.018 * 100 = \mathbf{1.8\%}$	

2004 Authorized Revenue Requirement

By letter dated July 20, 2004, the Commission's Energy Division approved Advice 2499-G-B/2446-E-B, establishing PG&E's 2004 authorized revenue requirements as follows:

Generation (excluding refueling adjustment)¹	\$ 925,942,000
Electric Distribution	2,553,468,000
Gas Distribution	947,603,000

Generation

Since the forecast change in CPI-All Urban Consumers (as calculated above) of 0.018, or 1.8 percent, exceeds the floor of 1.5 percent, the calculation of the 2005 attrition adjustment uses 1.8 percent.

¹ The Diablo Canyon refueling adjustment in 2004 in Advice 2499-G/2446-E was \$32,480,000.

TABLE 2

**GENERATION REVENUE REQUIREMENT ATTRITION CALCULATION
(\$ THOUSANDS)**

	<u>2004 RRQ</u>	<u>CPI Factor</u>	<u>2005 Attrition</u>
2004 Generation RRQ (excluding refueling adjustment)	\$925,942	1.8%	\$16,667

Effective January 1, 2005, the revised generation revenue requirement is \$942,609,000 (\$925,942,000 + \$16,667,000).

Distribution

Since the forecast change in CPI-All Urban Consumers (as calculated above) of 00.018, or 1.8 percent, is less than the floor of 2.25 percent, the calculation of the 2005 attrition adjustment uses 2.25 percent.

TABLE 3

**ELECTRIC AND GAS DISTRIBUTION REVENUE REQUIREMENT
ATTRITION CALCULATION AT FLOOR
(\$ THOUSANDS)**

	<u>2004 RRQ</u>	<u>CPI Floor</u>	<u>2005 Attrition</u>
2004 Electric Distribution RRQ	\$2,553,468	2.25%	\$57,453
2004 Gas Distribution RRQ	\$947,603	2.25%	\$21,321

Effective January 1, 2005, the revised electric distribution revenue requirement is \$2,610,921,000 (\$2,553,468,000 + \$57,453,000). The 2005 gas distribution revenue requirement is \$968,924,000 (\$947,603,000 + \$21,321,000).

Total Distribution and Generation Attrition Increase

In summary, the calculated ARA revenue requirement increase effective January 1, 2005 is as follows:

TABLE 4**TOTAL DISTRIBUTION AND GENERATION 2005 ARA INCREASE
(\$ THOUSANDS)**

Electric Distribution	\$57,453
Gas Distribution	21,321
Generation	16,667
Total	\$95,441

Protests

Anyone wishing to protest this filing may do so by sending a letter by **November 3, 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 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

In accordance with D. 04-05-055, PG&E requests this advice filing be effective **January 1, 2005**.

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 Rose de la Torre at (415) 973-4716. Advice letter filings can also be accessed electronically at:

<http://www.pge.com/tariffs/>

Brian K. Cherry/ss

Director, Regulatory Relations

cc: Service List – A. 02-11-017

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

ABAG Power Pool	Department of Water & Power City	Northern California Power Agency
Accent Energy	Dept of the Air Force	Office of Energy Assessments
Aglet Consumer Alliance	DGS Natural Gas Services	Palo Alto Muni Utilities
Agnews Developmental Center	DMM Customer Services	PG&E National Energy Group
Ahmed, Ali	Douglass & Liddell	Pinnacle CNG Company
Alcantar & Elsesser	Downey, Brand, Seymour & Rohwer	PITCO
Anderson Donovan & Poole P.C.	Duke Energy	Plurimi, Inc.
Applied Power Technologies	Duke Energy North America	PPL EnergyPlus, LLC
APS Energy Services Co Inc	Duncan, Virgil E.	Price, Roy
Arter & Hadden LLP	Dutcher, John	Product Development Dept
Avista Corp	Dynegy Inc.	R. M. Hairston & Company
Barkovich & Yap, Inc.	Ellison Schneider	R. W. Beck & Associates
BART	Energy Law Group LLP	Recon Research
Bartle Wells Associates	Energy Management Services, LLC	Regional Cogeneration Service
Blue Ridge Gas	Enron Energy Services	RMC Lonestar
Bohannon Development Co	Exelon Energy Ohio, Inc	Sacramento Municipal Utility District
BP Energy Company	Exeter Associates	SCD Energy Solutions
Braun & Associates	Foster Farms	Seattle City Light
C & H Sugar Co.	Foster, Wheeler, Martinez	Sempra
CA Bldg Industry Association	Franciscan Mobilehome	Sempra Energy
CA Cotton Ginners & Growers Assoc.	Future Resources Associates, Inc	Sequoia Union HS Dist
CA League of Food Processors	G. A. Krause & Assoc	SESCO
CA Water Service Group	Gas Transmission Northwest Corporation	Sierra Pacific Power Company
California Energy Commission	GLJ Energy Publications	Silicon Valley Power
California Farm Bureau Federation	Goodin, MacBride, Squeri, Schlotz &	Simpson Paper Company
California Gas Acquisition Svcs	Hanna & Morton	Smurfit Stone Container Corp
California ISO	Heeg, Peggy A.	Southern California Edison
Calpine	Hogan Manufacturing, Inc	SPURR
Calpine Corp	House, Lon	St. Paul Assoc
Calpine Gilroy Cogen	Imperial Irrigation District	Stanford University
Cambridge Energy Research Assoc	Integrated Utility Consulting Group	Sutherland, Asbill & Brennan
Cameron McKenna	International Power Technology	Tabors Caramanis & Associates
Cardinal Cogen	Interstate Gas Services, Inc.	Tansev and Associates
Cellnet Data Systems	J. R. Wood, Inc	Tecogen, Inc
Chevron Texaco	JTM, Inc	TFS Energy
Chevron USA Production Co.	Kaiser Cement Corp	TJ Cross Engineers
Childress, David A.	Korea Elec Power Corp	Transwestern Pipeline Co
City of Glendale	Luce, Forward, Hamilton & Scripps	Turlock Irrigation District
City of Healdsburg	Marcus, David	U S Borax, Inc
City of Palo Alto	Masonite Corporation	United Cogen Inc.
City of Redding	Matthew V. Brady & Associates	URM Groups
CLECA Law Office	Maynor, Donald H.	Utility Cost Management LLC
Constellation New Energy	McKenzie & Assoc	Utility Resource Network
Cooperative Community Energy	McKenzie & Associates	Wellhead Electric Company
CPUC	Meek, Daniel W.	Western Hub Properties, LLC
Creative Technology	Mirant California, LLC	White & Case
Cross Border Inc	Modesto Irrigation Dist	WMA
Crossborder Inc	Morrison & Foerster	
CSC Energy Services	Morse Richard Weisenmiller & Assoc.	
Davis, Wright Tremaine LLP	Navigant Consulting	
Davis, Wright, Tremaine, LLP	New United Motor Mfg, Inc	
Defense Fuel Support Center	Norris & Wong Associates	
Department of the Army	North Coast Solar Resources	