

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Tel. No. (415) 703-1691



November 4, 2005

Advice Letter 2667-G/2722-E

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

Subject: 2006 gas and electric attrition adjustments

Dear Ms de la Torre:

Advice Letter 2667-G/2722-E is effective January 1, 2006. A copy of the advice letter is returned herewith for your records.

Sincerely,

A handwritten signature in black ink, appearing to read "Sean H. Gallagher".

Sean H. Gallagher, Director
Energy Division



Brian K. Cherry
Director
Regulatory Relations

77 Beale Street, Room 1087
San Francisco, CA 94105

Mailing Address
Mail Code B10C
Pacific Gas and Electric Company
P.O. Box 770000
San Francisco, CA 94177

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

October 14, 2005

Advice 2667-G/2722-E
(Pacific Gas and Electric Company ID U39M)

**Subject: 2006 Gas and Electric Attrition Adjustments
(2003 General Rate Case Decision 04-05-055)**

Public Utilities Commission of the State of California

Pacific Gas and Electric Company (PG&E) hereby submits the Attrition Adjustment for electric and gas rates for the year 2006, consistent with the provisions of Decision (D.) 04-05-055 in Application (A.) 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 attrition adjustments presented here effective January 1, 2006.

Background

In D. 04-05-055, the Commission adopted two settlements in PG&E's 2003 GRC; one concerning generation revenue requirement issues and the other concerning Gas and Electric Distribution. The provisions of the adopted settlement agreements related to the attrition adjustment 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.

Paragraph 10 of the Generation Settlement Agreement provides for a 2006 attrition adjustment as follows:

PG&E shall be authorized a generation attrition adjustment equal to the previous year authorized revenue requirement times the forecast change in CPI-All Urban Consumers, subject to the same minimum of 1.5% and maximum of 3% as is applicable to the generation attrition adjustments for 2004 and 2005, plus an additional 1%. For example, under this methodology, if the forecast change in CPI is 1% for 2006, the generation attrition adjustment would be calculated by multiplying the previous year authorized revenue requirement by 2.5% (the 1.5% minimum plus 1%). If the forecast change in CPI is 5% for 2006, the generation attrition adjustment would be calculated by multiplying the previous year authorized revenue requirement by 4% (the 3% maximum plus 1%). The CPI change equals the latest Global Insight forecast prior to filing (for example October 2005, for year 2005) divided by the concurrent forecast for the current year (for example October 2005 for the year 2005), minus one.

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.

Attrition Adjustment Calculations

Forecast Change in CPI

The latest available Global Insight forecast (October 2005) of the CPI index for 2006 is 2.006213, and the concurrent Global Insight forecast for 2005 is 1.954161. Therefore, the latest available Global Insight forecast for 2006 divided by the concurrent Global Insight forecast for 2005, minus one, is 2.006213 divided by 1.954161, minus one, or 0.027, which represents the forecast change in CPI-All Urban Consumers.

TABLE 1

GLOBAL INSIGHT OCTOBER 2005 US MACRO FORECAST (USSIM/CONTROL1005)

	<u>2005</u>	<u>2006</u>
CPI	1.954161	2.006213
% Change	$(2.006213/1.954161) - 1 = .027;$ $.027 * 100 = 2.7\%$	

2005 Authorized Revenue Requirement

By letter dated February 14, 2005, the Commission's Energy Division approved Advice 2601-G/2601-G-A, establishing PG&E's 2005 authorized gas distribution revenue requirement. Similarly, by letter dated April 1, 2005, the Commission's Energy Division approved Advice 2570-E-A, establishing PG&E's 2005 authorized electric distribution and generation revenue requirements. These authorized revenue requirements, including the 2005 attrition adjustments and the effect of the authorized 2005 cost of capital and net of other operating revenues, are as follows:

Generation	\$ 938,287,000
Electric Distribution	2,590,715,000
Gas Distribution	963,423,000

Generation

Since the forecast change in CPI-All Urban Consumers (as calculated above) of 2.7 percent is between the minimum of 1.5 percent and the maximum of 3.0 percent, the calculation of the 2006 attrition adjustment uses 2.7 percent plus 1.0 percent, or 3.7 percent.

TABLE 2

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

	<u>2005</u> <u>RRQ</u>	<u>CPI</u> <u>Factor</u>	<u>2006 Attrition</u>
Generation RRQ (excluding refueling adjustment)	\$938,287 *	3.7%	= \$34,717

The 2006 generation revenue requirement is \$973,004,000 (\$938,287,000 + \$34,717,000).

Distribution

Since the forecast change in CPI-All Urban Consumers (as calculated above) of 2.7 percent plus 1.0 percent, or 3.7 percent is between the minimum of 3.0 percent and the maximum of 4.0 percent, the calculation of the 2006 attrition adjustment uses 3.7 percent.

TABLE 3

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

	<u>2005 RRQ</u>	<u>CPI</u> <u>Factor</u>	<u>2006</u> <u>Attrition</u>
Electric Distribution RRQ	\$2,590,715 *	3.7%	= \$95,856
Gas Distribution RRQ	\$963,423 *	3.7%	= \$35,647

The 2006 electric distribution revenue requirement is \$2,686,571,000 (\$2,590,715,000 + \$95,856,000). The 2006 gas distribution revenue requirement is \$999,070,000 (\$963,423,000 + \$35,647,000).

Total Distribution and Generation Attrition Increase

In summary, the calculated attrition increase for 2006 is as follows:

TABLE 4

**TOTAL DISTRIBUTION AND GENERATION 2006 ATTRITION INCREASE
(\$ THOUSANDS)**

Electric Distribution	\$95,856
Gas Distribution	35,647
Generation	34,717
Total	<u>\$166,220</u>

Protests

Anyone wishing to protest this filing may do so by letter sent via U.S. mail, by facsimile or electronically, any of which must be received no later than 20 days after the date of this filing, which is **November 3, 2005**. Protests should be mailed to:

CPUC Energy Division
Attention: Tariff Unit, 4th Floor
505 Van Ness Avenue
San Francisco, California 94102

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

Copies of protests also should be mailed to the attention of the Director, Energy Division, Room 4004, at the address shown above.

The protest also should be sent via U.S. mail (and by facsimile and electronically, if possible) to PG&E at the address shown below on the same date it is mailed or delivered to the Commission:

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: PGETariffs@pge.com

Effective Date

In accordance with D. 04-05-055, PG&E requests this advice filing be effective **January 1, 2006**.

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 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>

Handwritten signature of Brian K. Cherry in cursive script.

Director, Regulatory Relations

cc: Service List – A. 02-11-017

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. Pacific Gas and Electric Company (IDU39M)

Utility type:

ELC GAS
 PLC HEAT WATER

Contact Person: Sue Shaw

Phone #: (415) 973-7375

E-mail: sxs9@jpge.com

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas
PLC = Pipeline HEAT = Heat WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: **2667-G/2722-E**

Subject of AL: 2006 Attrition Adjustment (2003 General Rate Case)

Keywords (choose from CPUC listing): ATTRITION, GENERAL RATE CASE

AL filing type: Monthly Quarterly Annual One-Time Other

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:

D. 04-05-055

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: N/A

Summarize differences between the AL and the prior withdrawn or rejected AL¹: _____

Resolution Required? Yes No

Requested effective date: 1/1/06

No. of tariff sheets: None

Estimated system annual revenue effect (%): Electric - 1.33% revenue increase; Gas - 1.05% revenue increase

Estimated system average rate effect (%): Attrition revenues will be incorporated in upcoming Electric and Gas Annual True-up filings prior to the end of 2005 for 2006 rate changes

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: _____

Service affected and changes proposed¹: _____

Pending advice letters that revise the same tariff sheets: _____

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division

Attention: Tariff Unit

505 Van Ness Ave.,

San Francisco, CA 94102

jjr@cpuc.ca.gov and jnj@cpuc.ca.gov

Utility Info (including e-mail)

¹ Discuss in AL if more space is needed.

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

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