

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 that reads "Paul Clavin".

Director
Energy Division



**Pacific Gas and
Electric Company**

Brian K. Cherry
Director
Regulatory Relations

77 Beale Street, Room 1087
San Francisco, CA 94105

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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)**

	2004	2005
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	<hr/> \$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
Accent Energy
Aglet Consumer Alliance
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Ahmed, Ali
Alcantar & Elsesser
Anderson Donovan & Poole P.C.
Applied Power Technologies
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Avista Corp
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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
Cooperative Community 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
Douglass & Liddell
Downey, Brand, Seymour & Rohwer
Duke Energy
Duke Energy North America
Duncan, Virgil E.
Dutcher, John
Dynergy Inc.
Ellison Schneider
Energy Law Group LLP
Energy Management Services, LLC
Enron Energy Services
Exelon Energy Ohio, Inc
Exeter Associates
Foster Farms
Foster, Wheeler, Martinez
Franciscan Mobilehome
Future Resources Associates, Inc
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Gas Transmission Northwest Corporation
GLJ Energy Publications
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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
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
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Stanford University
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Tabors Caramanis & Associates
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Tecogen, Inc
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URM Groups
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