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Decision 84 05 097

MAY 16 1984

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC POWER & LIGHT COMPANY under Section 454 of the Public Utilities Code of the State of California for Authority to Increase Rates for Electric Service.)	
)	
)	Application No. 82-07-48
)	(Filed July 27, 1982)
)	
)	

ORDER MODIFYING DECISION (D.) 83-11-012
AND DENYING REHEARING

On November 30, 1983, Pacific Power & Light Company (PP&L) filed an application for rehearing of D.83-11-012. On February 17, 1984, PP&L filed a document titled "Supplement to Application for Rehearing of Decision 83-11-012", attaching certain orders of the Oregon Public Utility Commissioner and the Washington Utilities and Transportation Commission. These are matters of which we may, and hereby do, take official notice.

By Application 82-07-48, PP&L sought authorization to increase its California electric rates to recover its investment in two abandoned nuclear generating projects. They are the Pebble Springs Nuclear Project (Pebble Springs), in which PP&L held a 29.4% interest, and the Washington Public Power Supply System Nuclear Plant No. 5 (WNP-5), in which PP&L held a 10% interest. In D.83-11-012 we determined, among other things, to deny amortization of the costs of these abandoned projects. PP&L now seeks a rehearing of D.83-11-012 regarding the amortization issue.

We will modify D.83-11-012 for two reasons. First, our analysis in D.83-11-012 rested entirely on the denial of amortization by all of the other states (Montana, Oregon, Washington, and Wyoming) considering the issue. However, by the

orders which we here officially noticed, Oregon and Washington have now allowed amortization in varying degrees. Second, we have ourselves had occasion in Application 82-12-48 to refine our policies for allocating a utility's costs incurred for projects ultimately abandoned. Having reconsidered this record in light of the policies articulated in the latter proceeding, we determine that our denial of amortization should be affirmed.

Generally speaking, a utility's shareholders are at risk for its projects and must bear the costs incurred for a cancelled project. However, our decisions, notably the WESCO case (D. 92497) and the decisions in the recent Pacific Gas & Electric general rate case, have apportioned such risks between ratepayers and shareholders under certain circumstances. We have apportioned costs for cancelled projects undertaken during periods of dramatic and unanticipated change, provided that the projects and the associated expenditures were reasonable. We will not impose on ratepayers any share of the costs for Pebble Springs and WNP-5 because we find that PP&L has failed to exercise reasonable managerial skill with respect to these projects. Because of PP&L's deficiencies in forecasting, planning, and contracting, these projects were unreasonable from their inception.

During the critical period when PP&L was committing to these projects, its load growth forecasting model merely incorporated historical data, adjusted only for weather. PP&L witnesses testified that management considered the model's predictions in light of variables such as oil price - but that consideration did not at that time ever lead management to deviate from the model's predictions, or even to perform sensitivity analyses. PP&L's management just assumed that the net effect of all variables would always be zero, leaving historical trends to continue indefinitely.

We do not require a utility's forecast to be perfect. We do require the utility to be sensitive to the imperfections of its forecast: what are the uncertainties, and what impact would they have, considering not only that combination of events which the utility deems most likely, but also reasonable variations in fuel costs and other significant factors. In times of uncertainty, reasonable utility management tries to target key variables and hedge its risks accordingly. In contrast, PP&L's management during most of the 1970's persuaded itself that uncertainties either did not exist or were inconsequential.

Poor forecasting resulted in unreasonable planning choices by PP&L. The logical response to uncertain load growth and fuel costs is to defer capital intensive supply options and emphasize demand restraint. PP&L essentially did the opposite. In the space of about a year and a half, it committed to sponsor or participate in seven coal and nuclear powerplants. It considered conservation to be uncertain compared to nuclear plants, despite the fact that, for example, the Pebble Springs project lead time, as defined by PP&L, had gone from eight years in 1972 to 11 years in 1975.

PP&L's contracts with the sponsors of Pebble Springs and WNP-5 show the same off-handedness as its planning and forecasting. No ownership agreement for Pebble Springs was ever executed, although PP&L considered itself committed to the project as early as October 1974 and executed a memorandum agreement of participation in January 1976. Based on this understanding, which limited PP&L's right of withdrawal but contained no cost limitations, PP&L spent some \$83 million. The ownership agreement for WNP-5 similarly did little to protect PP&L's right as a minority participant.

We further note that PP&L never obtained a certificate of public convenience and necessity from us for either of these

projects. (See Pub. Util. Code § 1001 et seq.) We granted PP&L's application for exemption from the certificate requirement on the basis that both the plants and PP&L's primary service area were outside California. (D.88831, D.89326.) But the grant of an exemption from the certificate requirement relieves the applicant only of the procedural burden. The applicant must ensure that the project is needed and is otherwise consistent with the underlying statutory objectives. The exemption does not prejudice the reasonableness of the exempt project, over which the utility management assumes full responsibility. This is in accordance with our practice concerning other exemptions, as for example from our competitive bidding rules for security issues. (See, e.g., D.83-06-085, mimeo. p. 13.)

We have emphasized, with respect to abandoned projects, the necessity of examining each case on an individual basis to arrive at an equitable decision. We must look to the totality of circumstances affecting any given cancellation. For all the reasons stated above, PP&L's expenditures for these projects were unreasonable. We therefore deny amortization.

In making this finding of unreasonableness, we are aware of our staff accountant's analysis (Exhibit 23), which concluded that PP&L had acted reasonably with regard to such aspects of these projects as monitoring, accounting methods, and choice of sponsors. We find no inconsistency between our decision and that analysis, which was limited in scope. In particular, the staff accountant's conclusion that PP&L's forecasts were reasonable is based largely on evaluation by other agencies, such as the Nuclear Regulatory Commission. Our finding of unreasonableness is based not only on the results of PP&L's forecast, which PP&L feels were within the range of comparable utility predictions, but also on PP&L's failure to assess and respond prudently to the uncertainties associated with its forecast. Our denial of

amortization rests on many matters beyond the scope of the staff accountant's investigation and is a reaction to the pervasive lack of reasonable care and skill exhibited by PP&L in these projects.

PP&L also argues that our decision regarding its High Mountain Sheep Project and various other cancelled projects in Application 56395 compels allowance of amortization here. We disagree. In that case there was no question that the cancelled projects were prudent undertakings by PP&L. (D.87071, mimeo. p. 5.) Because we find that PP&L was not reasonable in committing to Pebble Springs and WNP-5, we deny amortization of PP&L's costs for those projects.

Therefore, good cause appearing,

IT IS ORDERED that D.83-11-012 is modified as follows:

1. The discussion beginning "Our primary reasons ..." on the next to last line of mimeo. page 2 and extending through the end of the first full paragraph on mimeo. page 3 is deleted in full.

2. The text under the heading "X. Discussion" is deleted in full (lower half of mimeo. page 16, all of mimeo. pages 17 and 18, upper half of mimeo. page 19).

3. The text deleted by paragraph 2 is replaced by the text of this decision on the application for rehearing, beginning with the 1st full paragraph of mimeo. page 2, and extending through the 6th line of mimeo. page 5.

4. Findings of Fact 5 through 20 are deleted in full and replaced with the following:

"5. The Commission generally allocates all costs incurred for a cancelled project to the utility's shareholders.

"6. During periods of great uncertainty, the Commission will allocate to ratepayers some of

the risk of project cancellation, to the extent that expenditures for the project were prudently incurred and are otherwise reasonable.

"7. The purpose of utility forecasting is to help the utility meet future load adequately and efficiently.

"8. Reasonable utility forecasting involves prediction of supply and demand for the utility's service area, and identification of the nature and degree of uncertainties for each variable affecting the prediction.

"9. At the time PP&L committed to the Pebble Springs and WNP-5 projects, its forecasting model was unreasonably simplistic and its management unreasonably assumed that the net effect of all variables on historical trends would be zero.

"10. PP&L unreasonably pursued Pebble Springs, WNP-5, and other capital intensive supply projects at a time when, because of uncertainties regarding the rate of demand growth, it should have avoided or deferred such projects, and actively pursued demand restraint strategies.

"11. PP&L knew or should have known that, due to rising costs of fuel and PP&L's conversion in the early and middle 1970's from a

predominantly hydroelectric to a predominantly thermal electric utility, the real cost of electricity in PP&L's service area would rise.

"12. In the face of rising fuel and electricity prices, PP&L did not adequately consider the effect of demand elasticity on load growth or conservation as a supply option.

"13. PP&L did not exercise reasonable care when it committed itself to the Pebble Springs and WNP-5 projects without appropriate contract provisions as to cost limitations for, withdrawal from, and termination of the projects.

"14. Under the totality of circumstances regarding Pebble Springs and WNP-5, PP&L acted unreasonably in committing to these projects, thereby incurring risks which could and should have been avoided, even during periods of great uncertainty.

"15. The costs for Pebble Springs and WNP-5, like all projects which are entered into unreasonably, should be borne by the utility's shareholders exclusively."

5. The "Conclusion of Law" (mimeo. page 22) is retitled "Conclusions of Law" and is modified and renumbered as follows:

"1. A utility applicant which receives an exemption from a given regulatory requirement,

such as obtaining a certificate of public convenience and necessity, must nevertheless demonstrate that its actions are reasonable and are otherwise in conformity with the statutory objectives underlying the requirement.

"2. PP&L's request to amortize the costs of the abandoned Pebble Springs and WNP-5 projects should be denied."

IT IS FURTHER ORDERED that rehearing of D.83-11-012 as modified herein is denied.

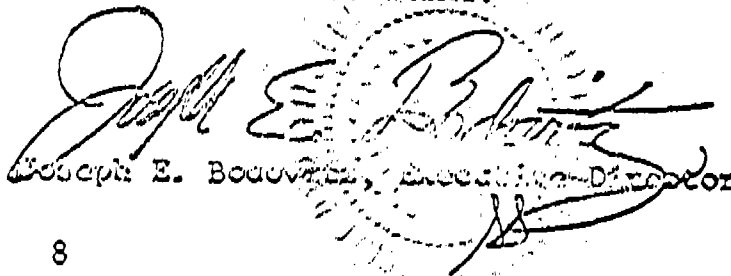
This order is effective today.

Dated MAY 16 1984 , at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
Commissioners

Commissioner William T. Bagley being necessarily absent, did not participate.

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.


Joseph E. Bodovick, Executive Director

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are otherwise reasonable. *ll*
(Clubs)

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