L/SK:lz

Decision 84 05 100 MAY 16, 1984 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY for authority, among other things, to increase its rates and charges for electric and gas service. (Electric and Gas)	Application 82-12-48 (Filed December 20, 1982)

ORDER MODIFYING DECISION (D.) 83-12-068 AND DENYING REHEARING

Applications for rehearing of D.83-12-068 have been filed by the City and County of San Francisco (City) and by Toward Utility Rate Normalization (TURN). In this order we deal with two of the issues raised by those applications; another order deals with the remaining issues. The issues we address here concern our disposition of gains and losses arising from various abandoned projects of Pacific Gas and Electric Company (PG&E). We have carefully considered the allegations of error and PG&E's response. We have concluded that the discussion and disposition in D.83-12-068 should be modified in several respects.

First, for all but the Mendocino nuclear project, we affirm the apportionment between ratepayers and shareholders of the preconstruction costs for the cancelled projects. However, we clarify the exception to the "used and useful" principles under which we order such apportionment. We emphasize that a utility must demonstrate reasonable managerial skill for all of its projects, including those commenced or pursued during periods of unusual and protracted uncertainty. Ratepayers will not be required to absorb costs attributable to a project unreasonably commenced, or to the pursuit of a project past the point at which it should reasonably have been cancelled. We do not allow PG&E's costs for the Mendocino nuclear project because that project does not come within our exception to "used and useful" principles.

Second, we are convinced that a proper application of the principles articulated in D.83-12-068 requires that the gains derived from sale of the non-ratebased properties in the abandoned Montezuma project go to the ratepayers, after allowance of PG&E's direct costs and carrying costs through December 31, 1981. Therefore, good cause appearing,

IT IS ORDERED that D.83-12-068 is modified as follows:

1. The following sentence is added to the second full paragraph on mimeo. page 48 as shown:

> "... Again we emphasize that allowance of recovery is the exception not the rule. <u>We view the costs of ultimately unrealized projects as generally within the range of risks of normal operation reasonably under the control of utility management</u>."

2. The third full paragraph on mimeo. page 48 is modified as shown:

> "... Our conclusion is based on ~~two important factors which together justify the exceptions.~~ <u>several of our recent decisions, which disclose an exception to the principles we have articulated above.</u>"

3. The discussion beginning with the last paragraph of mimeo. page 48 (which starts "First, we are influenced ...") and continuing up to and including the first two lines of mimeo. page 50 is deleted in full.

4. The text deleted by paragraph 3 is replaced by the following discussion:

> "The exception is the product of the period of dramatic and unanticipated change, initiated most notably for utility planners by the oil embargo of 1973, and extending for almost a decade. The period was characterized by great uncertainty in the energy industry, both as to demand growth and availability of supply. During such a period, a reasonable utility management can still reduce risk, but not necessarily to a level at which the shareholder may fairly be expected to absorb all the costs of cancelled projects. During such a period, the ratepayer should participate in the increased risk confronting the utility.
>
> "But the ratepayer does not become the utility's underwriter in a period of high risk. At all times, the shareholder will bear some of the risks of abandoned projects. The utility should bear a major part of the risk in order to provide proper management incentives. Also, the ratepayer's participation is limited to those abandoned projects, or those portions of projects, for which the utility demonstrates to us that it has exercised reasonable managerial skill. We emphasize that the utility bears the burden of proof of reasonableness, not only with respect to the planning and conduct of a given project, but also regarding the cancellation, which must have occurred promptly when conditions warranted. Finally, a perception merely of generalized and ill-defined risk will not suffice to invoke this exception to the "used and useful" principles. The utility will have to demonstrate that the project which it ultimately abandoned was reasonable throughout the project's duration in light both of the relevant uncertainties that then existed and of the alternatives for meeting the service needs of its customers.

CORRECTION

CORRECTION

THIS DOCUMENT

HAS BEEN REPHOTOGRAPHED

TO ASSURE LEGIBILITY

4. The text deleted by paragraph 3 is replaced by the following discussion:

> "The exception is the product of the period of dramatic and unanticipated change, initiated most notably for utility planners by the oil embargo of 1973, and extending for almost a decade. The period was characterized by great uncertainty in the energy industry, both as to demand growth and availability of supply. During such a period, a reasonable utility management can still reduce risk, but not necessarily to a level at which the shareholder may fairly be expected to absorb all the costs of cancelled projects. During such a period, the ratepayer should participate in the increased risk confronting the utility.

> "But the ratepayer does not become the utility's underwriter in a period of high risk. At all times, the shareholder will bear some of the risks of abandoned projects. The utility should bear a major part of the risk in order to provide proper management incentives. Also, the ratepayer's participation is limited to those abandoned projects, or those portions of projects, for which the utility demonstrates to us that it has exercised reasonable managerial skill. We emphasize that the utility bears the burden of proof of reasonableness, not only with respect to the planning and conduct of a given project, but also regarding the cancellation, which must have occurred promptly when conditions warranted. Finally, a perception merely of generalized and ill-defined risk will not suffice to invoke this exception to the "used and useful" principles. The utility will have to demonstrate that the project which it ultimately abandoned was reasonable throughout the project's duration in light both of the relevant uncertainties that then existed and of the alternatives for meeting the service needs of its customers.

**

"Thus, although we will occasionally relax the "used and useful" principles with respect to cancelled projects, we will continue to rigorously apply the criterion of reasonable managerial skill to costs deriving from such projects, as indeed we apply this criterion to all utility expenditures. How, then, should reasonable utility management perform its project planning function under conditions of great uncertainty and unusually high risk? We set forth below a list of considerations, not intended to be exhaustive, which should guide utilities facing such conditions. In proceedings involving requests for recovery of costs for cancelled projects, our staff, the utility applicant, and other interested persons should specifically address these considerations.

" 1. Identifying Relevant Risks. The utility must identify, assess, and to the extent possible, quantify the risks relevant to its ability and obligation to maintain adequate and reasonable service. The risks most obviously relevant to energy service include demand growth elasticity, uncertain fuel supply, changes in applicable governmental policy, and capital constraints. The utility must also test its own forecasting against other forecasting efforts. In particular, the electric utilities shall demonstrate careful consideration of the California Energy Commission's Biennial and Electricity Reports, and shall at a minimum include that Commission's adopted supply and demand forecasts, relevant to the utility's service area, as one of the scenarios considered in the utility's planning decision.

" 2. Analyzing Particular Projects. The utility's choice of projects should reflect an overall strategy to minimize costs, consistent with quality and dependability of service. For example, in times of high capital costs and uncertain demand growth, we would expect that reasonable utility management would avoid capital intensive supply options with long lead times, particularly for that portion of demand which is most uncertain.

"Consideration of the relevant factors may sometimes lead a reasonable utility to commit to a project or contract with relatively high risks. In such a case, we expect the utility to dilute such risks by express provisions, negotiated with the other participant(s), appropriately dealing with relevant contingencies.

"We do not expect utilities to eliminate risks, but rather to recognize and circumscribe their effects on the utility, and therefore on ratepayers. Thus, reasonable choice among potential projects entails assessing their respective risks, and preserving the utility's flexibility. The utility should examine alternatives in the light of different combinations of future conditions, avoiding where possible the risks associated with major capital expenditures and other fixed commitments. In assessing costs and benefits, the utility should consider not only the most likely combination of future events, but also reasonable variations in terms of fuel costs and other critical factors. This standard of reasonableness applies not only to construction projects but also to other commitments and contracts undertaken by the utility. Such transactions should not result in the utility's bearing risks associated with major changes in business conditions beyond those customarily borne in those markets.

" 3. Reevaluations. The utility should frequently review its project commitments and overall supply strategy. At the least, the utility must demonstrate annual monitoring and reevaluation of the costs and benefits of any project in its planning or construction stages, or any project subject to renegotiation, expansion, or modification. An ongoing project can be considered reasonable only if its estimated completion costs (that is, total costs minus sunk costs) show reasonable promise of being smaller than expected benefits, considering the expected state of the utility as of the completion date, the costs of

> alternatives, and the status of other projects in the utility's resource plan.
>
> "We believe that the 26 projects considered here, other than the Mendocino nuclear project, all fall within the exception. All were affected in critical ways by the recent period of great uncertainty for utility planners. Furthermore, the record before us indicates that the costs directly incurred by PG&E for these projects were reasonable. Thus, we will allow recovery of such costs.
>
> "The exception, however, does not apply to the Mendocino nuclear project. This project began and ended before the period of uncertainty ushered in by the oil embargo of 1973. Also, the project was cancelled, not because of uncertainties of supply availability and demand growth, but because the proposed site was geologically unsuitable. We therefore do not allow recovery of PG&E's costs for this project."

5. The first sentence of the second full paragraph of mimeo. page 50 is modified as shown:

> "We will adopt staff's recommendation to amortize over four years the direct preconstruction costs of the ~~26~~ cancelled projects (other than the Mendocino project)."

6. The first sentence of the second paragraph of mimeo. page 51 is modified as shown:

> "~~The power plant project was effectively abandoned in~~ In September 1981 ~~when~~ PG&E sought bids for the sale of the coal properties."

7. The discussion beginning with the first paragraph of mimeo. page 61 and extending through and including the first two paragraphs of mimeo. page 62 is deleted in full.

8. The text deleted by paragraph 6 is replaced by the following:

"Under the regulatory treatment we have adopted for project cancellations, a utility could recover its direct costs where (1) the projects were prudently undertaken and terminated, and (2) the projects ran their course during a period of unusual and protracted uncertainty. Montezuma was such a project. The record contains no suggestion that PG&E was imprudent regarding Montezuma, and the project occurred during a period of great uncertainty for utility planners. As with PG&E's other abandoned projects in this proceeding, the utility's direct costs would have been recoverable had the utility incurred a loss on the project. From this it follows that the ratepayers did in fact bear risks even for the properties never entered in rate base. The ratepayers are thus entitled to part of the $37.9 million gain attributable to sale of the non-ratebased properties.

"We will allow PG&E its direct costs of approximately $14.3 million. Also, we will allow PG&E carrying costs of $4.3 million. That sum is equal to the AFUDC accumulated for the Montezuma project through December 31, 1981, by which date PG&E had received bids conforming to its instructions and had accepted Sunedco's bid. (D.82-12-121, Findings of Fact 17-19.) We allow the carrying costs because ratepayers derived substantial benefits from the project, in the form of profits from the sale, even though the project never produced electricity. Thus, PG&E is entitled to its carrying costs through the date indicated. We emphasize that, in allowing PG&E's carrying costs for the Montezuma project, we are not reversing our usual policy, under which we have not allowed AFUDC for cancelled projects even where allowing the utility to recover its direct costs. That continues to be our policy, and the allowance of carrying costs in this instance results entirely from the peculiar circumstances of this project.

"After allowance of PG&E's direct and carrying costs, a balance of approximately $19.3 million remains from the gain on the sale. This balance should be allocated to ratepayers.

"In making this allocation of the gain from the sale of PG&E's Utah coal properties, we are aware that in D.93887 we allocated the entire gain from the sale of the Nipomo Dunes property ($171,456) to PG&E's shareholders on the basis that, since Nipomo Dunes was never in rate base, the shareholders had borne the entire risk. That rationale simply cannot be applied in the present proceeding in which we have allocated to ratepayers over $40 million in non-ratebase related costs for cancelled projects. The Nipomo Dunes holding is therefore limited strictly to the facts in that proceeding."

9. The tables at pages 86 and 197a are revised to be consistent with the modifications made herein. These two tables appear in today's order as Attachment A.

10. Add new Finding of Fact 21a as follows:

"During periods of great uncertainty for utility planners, it is appropriate for ratepayers to bear some of the costs incurred for a project which is ultimately cancelled. The ratepayers' participation should be limited to the direct costs of those cancelled projects, or those portions of such projects, for which the utility demonstrates that it has exercised reasonable managerial skill."

11. Modify the first sentence of Finding of Fact 23 and add a new sentence as shown:

"It is reasonable to allow PG&E to recover the direct costs of feasibility studies for 26 the abandoned projects considered herein, other than the Mendocino nuclear project, as exceptions to used and useful principles, because of the extraordinary and unpredictable changes in circumstances which occurred during the period the projects were begun and later abandoned. The Mendocino project does not come within the exception because it was abandoned before the period of uncertainty, for reasons largely unrelated to uncertainties of demand growth or supply availability."

12. Modify Finding of Fact 25 as shown:

"The remaining gain from the sale of the Montezuma coal reserves not in rate base should be given to PG&E's ratepayers after allowance to PG&E of its ~~shareholders and they should absorb the~~ direct feasibility study costs and ~~AFUDC~~ carrying costs through December 31, 1981."

13. Add new Ordering Paragraph 1a as shown:

"1a. PG&E's ERAM account for Test Year 1984 shall be adjusted appropriately to reflect the amount allocated herein to ratepayers from the Utah coal sale and the recovery authorized herein for abandoned projects. In the event that PG&E is found liable for California capital gains tax resulting from the Utah coal sale, PG&E shall recover such costs from its ratepayers, as previously ordered in Decision 82-12-121."

IT IS FURTHER ORDERED that, with respect to the issues addressed herein, rehearing of D.83-12-068 as modified herein is denied.

This order is effective today.

Dated MAY 16, 1984, at San Francisco, California.

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

I abstain.

VICTOR CALVO, Commissioner

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

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

J. E. Bodovitz, Executive Director

Pacific Gas and Electric Company
Electric Department

ATTRITION YEAR 1985

(000's omitted)

Description	PGandE	Staff	Adopted
Indexed Attrition (Base for Indexing)			
Labor	$622,507	$551,778	$570,276
Non-Labor	424,911	327,828	327,272
Fixed Attrition			
Activity Growth			
Labor	12,974	0	0
Non-Labor	30,819	0	0
Conservation	11,348	2,421	0
Load Management Adjustment	6,316	(9,486)	0
Postage	0	0	1/
PCB Transformer Replacement Program	1,933	1,766	1,743
Depreciation Expense	58,022	45,777	46,238
Ad Valorem Taxes	4,004	1,747	1,765
Income Tax Expense	(18,489)	(12,417)	(12,520)
Research and Development (Cheng Cycle)	--	--	2,250
Rate Base, Including Working Capital	65,763	43,099	43,965 2/ 3/
Jurisdictional Allocation	10,110	2,215	2,215
Financial Attrition	10,047	5,026	5,658
Total (Fixed Items)	$192,847	$ 80,148	$ 91,314
Coal Sale, Conserv./Load Mgmt. Adj.	-	-	4/ 5/

1/ Postage increase to be included only if known.
2/ Working Capital to be determined consistent with factors in Exhibit 212, Attachment A
3/ Includes estimated 1985 load management capital addition of $6,945,000
4/ Increase attrition allowance by $22,996,000 less the correction amount as discussed in the Conservation, Load Management Past Underexpenditure section.
5/ Increase attrition allowance by $19,375,000 to reflect recovery in TY 1984 of gain from Utah coal sale.

Electric Department

1984 AMORTIZATION OF FEASIBILITY STUDIES AND RDandD[a]

(000's Omitted)

Category	PGandE	Staff	Adotped
RDandD			
Ongoing Projects[b]	$ 8,888	$ 6,665	$ 6,665
Completed Projects[b]	596	375	375
Feasibility Studies			
Projects in the Long-Term Plan	$ 6,536	0	0
Suspended Projects	30,854	18,747[b]	11,776[c]
Utah Coal Sale Gain	0	(7,302)[d]	(19,375)[e]
TOTAL ELECTRIC DEPARTMENT	$46,874	$18,485	$ (559)

(Red Figure)

a/ Amortization over four-year period, except as indicated in e/.

b/ No AFUDC allowed.

c/ No AFUDC allowed. Excludes direct cost of Montezuma. Direct cost amortized over four years.

d/ Pulsifer recommendation.

e/ Test Year 1984 recovery of allocation to ratepayers of gain from Utah coal sale. As to Attrition Year 1985, see page 86, 5/.

Decision 84 05 100 MAY 16 1984 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY for authority, among other things, to increase its rates and charges for electric and gas service. (Electric and Gas)	)	Application 82-12-48 (Filed December 20, 1982)

ORDER MODIFYING DECISION (D.) 83-12-068 AND DENYING REHEARING

Applications for rehearing of D.83-12-068 have been filed by the City and County of San Francisco (City) and by Toward Utility Rate Normalization (TURN). In this order we deal with two of the issues raised by those applications; another order deals with the remaining issues. The issues we address here concern our disposition of gains and losses arising from various abandoned projects of Pacific Gas and Electric Company (PG&E). We have carefully considered the allegations of error and PG&E's response. We have concluded that the discussion and disposition in D.83-12-068 should be modified in several respects.

First, we affirm the apportionment between ratepayers and shareholders of the preconstruction costs for the cancelled projects. However, we clarify the exception to the "used and useful" principles under which we order such apportionment. We emphasize that a utility must demonstrate reasonable managerial skill for all of its projects, including those commenced or pursued during periods of unusual and protracted uncertainty. Ratepayers will not be required to absorb costs attributable to a project unreasonably commenced, or to the pursuit of a project past the point at which it should reasonably have been cancelled.

Second, we are convinced that a proper application of the principles articulated in D.83-12-068 requires that the gains derived from sale of the non-ratebased properties in the abandoned Montezuma project go to the ratepayers, after allowance of PG&E's direct costs and carrying costs through December 31, 1981.

Therefore, good cause appearing,

IT IS ORDERED that D.83-12-068 is modified as follows:

1. The following sentence is added to the second full paragraph on mimeo. page 48 as shown:

> "... Again we emphasize that allowance of recovery is the exception not the rule. <u>We view the costs of ultimately unrealized projects as generally within the range of risks of normal operation reasonably under the control of utility management</u>."

2. The third full paragraph on mimeo. page 48 is modified as shown:

> "... Our conclusion is based on ~~two important factors which together justify the exceptions.~~ <u>several of our recent decisions, which disclose an exception to the principles we have articulated above.</u>"

3. The discussion beginning with the last paragraph of mimeo. page 48 (which starts "First, we are influenced ...") and continuing up to and including the first two lines of mimeo. page 50 is deleted in full.

4. The text deleted by paragraph 3 is replaced by the following discussion:

> "The exception is the product of the period of dramatic and unanticipated change, initiated most notably for utility planners by the oil embargo of 1973, and extending for almost a

decade. The period was characterized by great uncertainty in the energy industry, both as to demand growth and availability of supply. During such a period, a reasonable utility management can still reduce risk, but not necessarily to a level at which the shareholder may fairly be expected to absorb all the costs of cancelled projects. During such a period, the ratepayer should participate in the increased risk confronting the utility.

"But the ratepayer does not become the utility's underwriter in a period of high risk. At all times, the shareholder will bear some of the risks of abandoned projects. The utility should bear a major part of the risk in order to provide proper management incentives. Also, the ratepayer's participation is limited to those abandoned projects, or those portions of projects, for which the utility demonstrates to us that it has exercised reasonable managerial skill. We emphasize that the utility bears the burden of proof of reasonableness, not only with respect to the planning and conduct of a given project, but also regarding the cancellation, which must have occurred promptly when conditions warranted. Finally, a perception merely of generalized and ill-defined risk will not suffice to invoke this exception to the "used and useful" principles. The utility will have to demonstrate that the project which it ultimately abandoned was reasonable throughout the project's duration in light both of the relevant uncertainties that then existed and of the alternatives for meeting the service needs of its customers.

"Thus, although we will occasionally relax the "used and useful" principles with respect to cancelled projects, we will continue to rigorously apply the criterion of reasonable managerial skill to costs deriving from such projects, as indeed we apply this criterion to all utility expenditures. How, then, should reasonable utility management perform its project planning function under conditions of great uncertainty and unusually high risk?

We set forth below a list of considerations, not intended to be exhaustive, which should guide utilities facing such conditions. In proceedings involving requests for recovery of costs for cancelled projects, our staff, the utility applicant, and other interested persons should specifically address these considerations.

" 1. Identifying Relevant Risks. The utility must identify, assess, and to the extent possible, quantify the risks relevant to its ability and obligation to maintain adequate and reasonable service. The risks most obviously relevant to energy service include demand growth elasticity, uncertain fuel supply, changes in applicable governmental policy, and capital constraints. The utility must also test its own forecasting against other forecasting efforts. In particular, the electric utilities shall demonstrate careful consideration of the California Energy Commission's Biennial and Electricity Reports, and shall at a minimum include that Commission's adopted supply and demand forecasts, relevant to the utility's service area, as one of the scenarios considered in the utility's planning decision.

" 2. Analyzing Particular Projects. The utility's choice of projects should reflect an overall strategy to minimize costs, consistent with quality and dependability of service. For example, in times of high capital costs and uncertain demand growth, we would expect that reasonable utility management would avoid capital intensive supply options with long lead times, particularly for that portion of demand which is most uncertain.

"Consideration of the relevant factors may sometimes lead a reasonable utility to commit to a project or contract with relatively high risks. In such a case, we expect the utility to dilute such risks by express provisions, negotiated with the other participant(s), appropriately dealing with relevant contingencies.

"We do not expect utilities to eliminate risks, but rather to recognize and circumscribe their effects on the utility, and therefore on ratepayers. Thus, reasonable choice among potential projects entails assessing their respective risks, and preserving the utility's flexibility. The utility should examine alternatives in the light of different combinations of future conditions, avoiding where possible the risks associated with major capital expenditures and other fixed commitments. In assessing costs and benefits, the utility should consider not only the most likely combination of future events, but also reasonable variations in terms of fuel costs and other critical factors. This standard of reasonableness applies not only to construction projects but also to other commitments and contracts undertaken by the utility. Such transactions should not result in the utility's bearing risks associated with major changes in business conditions beyond those customarily borne in those markets.

" 3. <u>Reevaluations</u>. The utility should frequently review its project commitments and overall supply strategy. At the least, the utility must demonstrate annual monitoring and reevaluation of the costs and benefits of any project in its planning or construction stages, or any project subject to renegotiation, expansion, or modification. An ongoing project can be considered reasonable only if its estimated <u>completion</u> costs (that is, total costs minus sunk costs) show reasonable promise of being smaller than expected benefits, considering the expected state of the utility as of the completion date, the costs of alternatives, and the status of other projects in the utility's resource plan.

"We believe that the 26 projects considered here all fall within the exception. All were affected in critical ways by the recent period of great uncertainty for utility planners. Furthermore, the record before us indicates that the costs directly incurred by PG&E for these projects were reasonable. Thus, we will allow recovery of such costs."

5. The first sentence of the second paragraph of mimeo. page 51 is modified as shown:

> "~~The power plant project was effectively abandoned in~~ In September 1981 ~~when~~ PG&E sought bids for the sale of the coal properties."

6. The discussion beginning with the first paragraph of mimeo. page 61 and extending through and including the first two paragraphs of mimeo. page 62 is deleted in full.

7. The text deleted by paragraph 6 is replaced by the following:

> "Under the regulatory treatment we have adopted for project cancellations, a utility could recover its direct costs where (1) the projects were prudently undertaken and terminated, and (2) the projects ran their course during a period of unusual and protracted uncertainty. Montezuma was such a project. The record contains no suggestion that PG&E was imprudent regarding Montezuma, and the project occurred during a period of great uncertainty for utility planners. As with PG&E's other abandoned projects in this proceeding, the utility's direct costs would have been recoverable had the utility incurred a loss on the project. From this it follows that the ratepayers did in fact bear risks even for the properties never entered in rate base. The ratepayers are thus entitled to part of the $37.9 million gain attributable to sale of the non-ratebased properties.

> "We will allow PG&E its direct costs of approximately $14.3 million. Also, we will allow PG&E carrying costs of $4.3 million. That sum is equal to the AFUDC accumulated for the Montezuma project through December 31, 1981, by which date PG&E had received bids conforming to its instructions and had accepted Sunedco's bid. (D.82-12-121, Findings of Fact 17-19.) We allow the carrying costs because ratepayers derived substantial benefits from

the project, in the form of profits from the sale, even though the project never produced electricity. Thus, PG&E is entitled to its carrying costs through the date indicated.

"After allowance of PG&E's direct and carrying costs, a balance of approximately $19.3 million remains from the gain on the sale. This balance should be allocated to ratepayers.

"In making this allocation of the gain from the sale of PG&E's Utah coal properties, we are aware that in D.93887 we allocated the entire gain from the sale of the Nipomo Dunes property ($171,456) to PG&E's shareholders on the basis that, since Nipomo Dunes was never in rate base, the shareholders had borne the entire risk. That rationale simply cannot be applied in the present proceeding in which we have allocated to ratepayers some $60 million in non-ratebase related costs for cancelled projects. The Nipomo Dunes holding is therefore limited strictly to the facts in that proceeding."

8. Add new Finding of Fact 21a as follows:

"During periods of great uncertainty for utility planners, it is appropriate for ratepayers to bear some of the costs incurred for a project which is ultimately cancelled. The ratepayers' participation should be limited to the direct costs of those cancelled projects, or those portions of such projects, for which the utility demonstrates that it has exercised reasonable managerial skill."

9. Modify Finding of Fact 25 as shown:

"The remaining gain from the sale of the Montezuma coal reserves not in rate base should be given to PG&E's ratepayers after allowance to PG&E of its ~~shareholders and they should absorb the~~ direct feasibility study costs and ~~AFUDC~~ carrying costs through December 31, 1981."

10. Add new Conclusion of Law 1a as shown:

"1a. Within 60 days from the effective date of this decision, PG&E shall file with the Commission an advice letter proposing its plan for refunding the gain from the sale of its Utah coal properties calculated in accordance with this decision. In the event that PG&E is found liable for California capital gains tax resulting from this transaction, it shall recover such costs from its ratepayers, as previously ordered in Decision 82-12-121."

IT IS FURTHER ORDERED that, with respect to the issues addressed herein, rehearing of D.83-12-068 as modified herein is denied.

This order is effective today.

Dated MAY 16 1984, at San Francisco, California.

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

I abstain.

VICTOR CALVO, Commissioner

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