

ORIGINAL

Decision 84 C7 072

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for authority to adjust its electric rates to reflect the commercial operation of Kerckhoff 2 hydroelectric project.

Application 83-03-84
(Filed March 31, 1983)

O P I N I O N

Background

Pacific Gas and Electric Company's (PG&E) Kerckhoff 2 hydroelectric facility was certificated in 1979 by Decision (D.) 90211. Like the Kerckhoff 1 facility, it uses water from Kerckhoff Lake, but it is more productive than the older facility, as it takes advantage of a higher "head." In addition, since Kerckhoff 2 accommodates a maximum water flow 2.7 times that of Kerckhoff 1, water previously spilled during spring runoff will now flow through Kerckhoff 2, generating approximately 321 million additional kilowatt-hours (kWh) of electricity.

At the time of PG&E's 1982 rate case proceeding (A.60153), Kerckhoff 2 was projected to become commercially operable in November 1983; thus, the rates set in D.93887 for PG&E's test year 1982 excluded any provision for recovering costs of ownership and operation of Kerckhoff 2. Likewise D.93887 included no attrition rate adjustment mechanism for Kerckhoff 2.

By year end 1981, the contractor, operating under the bonus provisions of its contract with PG&E, had sufficiently progressed with underground excavation that PG&E advanced the Kerckhoff 2 operative date from November to July, 1983. In early 1983, PG&E negotiated an additional "incentive payment" with the contractor to accelerate the completion date from July to May 1983, to enable the new hydroelectric facility to take advantage of the abnormally wet

1982-83 winter's runoff. The incentive payment, compared to a longer period of capitalized allowance for funds used during construction (AFUDC) accrual, resulted in a net savings.

On March 31, 1983, PG&E filed A.83-03-84 requesting rate base offset treatment for Kerckhoff 2. Essentially it requested authority to increase electric base rates by \$21.7 million as of May 1, 1983 to reflect commercial operation of Kerckhoff 2 and to achieve recovery of the costs of owning, operating, and maintaining the unit for the period through December 31, 1983. PG&E additionally requested authority to decrease electric rates under ECAC by \$21.7 million to reflect estimated fuel savings resulting from the earlier operation of Kerckhoff 2. The effect of these requests was offsetting, so as to require no effective change in electric rates.

May 1 was the estimated commercial operating date, when AFUDC would stop accruing. However, after A.83-03-84 was filed, PG&E decided, following discussions with our staff, to file Advice Letter 951-E, requesting authority to establish a balancing account to cover ownership costs of the operational Kerckhoff 2 facility until a decision on its then pending general rate proceeding (A.82-12-48) was issued in late 1983. This Kerckhoff Savings Adjustment Account (KSAA) would be credited with "the fair value of the displaced energy" or PG&E's avoided cost per kWh produced by the facility, and debited with ownership and operating costs. A grant of the relief requested in Advice Letter 951-E would effectively moot most of the issues raised in A.83-03-84. Toward Utility Rate Normalization (TURN) protested Advice Letter 951-E.

On May 4, 1983 we issued Resolution F-603, and authorized the KSAA from the date of commercial operation to the end of 1983. However, PG&E would not be allowed to recover through the KSAA any costs or revenue requirement that exceeded the displaced or avoided energy costs, and it was ordered to file a report by March 1, 1984

reconciling the KSAA with the adopted Kerckhoff 2 rate base and expenses adopted in Application 82-12-48 (the general rate proceeding). By Administrative Law Judge (ALJ) Ruling dated May 11, 1983, the scope of the remaining issues of A.83-08-84 was defined to include (1) a determination of the Kerckhoff 2 commercial operating date; (2) a reconciliation of the debits to the KSAA after May 4, 1983 with the amounts of O&M expense and net plant addition found reasonable by D.83-12-068 (in A.82-12-48); and (3) a review of the offsetting KSAA credits for the value of energy produced. The ALJ Ruling indicated that a prehearing conference and/or hearing, if necessary, would be scheduled after PG&E's March 1, 1984 report was filed as a compliance filing in A.83-03-84. The report was timely filed and served on TURN, the only protestant to Advice Letter 951-E.

The prepared testimony of PG&E's Smith, which accompanied its compliance filing, is received as Exhibit 1. Our Revenue Requirements Division investigated PG&E's entries to the KSAA balancing account and PG&E's final reconciliation of entries, and concludes they are reasonable. The Division's report, prepared by Hitti, is received as Exhibit 2. Finally, the additional explanatory information requested from PG&E by our administrative law judge is Exhibit 3.¹

No party has requested a hearing and we conclude one is not necessary.

PG&E's Report

Kerckhoff 2 became operational on May 6, 1983, just two days after the KSAA was authorized. Entries were made to the balancing account from then through the end of 1983, and after adjustment to the unit's monthly 1983 operating and ownership costs

¹ The assigned ALJ informed PG&E staff and TURN, in writing, that the above documents would be received in evidence as Exhibits 1, 2, and 3, absent receipt of written objection. No such objection has been received.

to reconcile these KSAA balancing account entries with the applicable costs adopted in the general rate decision, there is an overcollection of \$544,015, plus interest accruing from January 1, 1984 until the total amount is ultimately rolled into the ECAC balancing account as a credit. This \$544,015, plus accrued interest, will reduce the ECAC revenue requirement, with this savings going to PG&E's ratepayers.

Energy Savings From
Kerckhoff 2 in 1983

PG&E states that operating Kerckhoff 2 during 1983 provided an additional 503,400,000 kWh of hydroelectric generation, displacing \$20,503,000 worth of jurisdictional purchased energy and/or generation from other sources.

The value of the additional Kerckhoff energy in 1983 was derived by using, for each day, PG&E's "daily average system incremental generation cost" per kWh, multiplied by Kerckhoff 2's daily net energy produced. This results in an average value over 1983 of 4.173¢/kWh. It does not include any capacity value component, and compared to the average price (energy only) paid to qualifying facilities over the same period (5.848¢), it is less by 1.675¢/kWh. The preliminary statement in PG&E's tariff, approved by Resolution F-603, states that the value of energy for the KSAA shall be "determined in a manner consistent with the value of precommercial test energy," (presumably as prescribed by the Uniform System of Accounts) "plus an allowance for the value of firm capacity if applicable."

The same value for the energy was used for crediting the KSAA balancing account during 1983 as was used to correspondingly debit the ECAC balancing account over the same period. The debit to the ECAC balancing account enabled PG&E to recover its Kerckhoff 2 ownership and other costs through rates, whereas the credit to the

KSAA was made to enable this ultimate reconciliation of PG&E's reasonable costs to the value of the produced energy. Had a higher value for the energy produced been derived or imputed the net result to ratepayers would have been the same, because while more would have been credited to the KSAA correspondingly more would have also been debited to the ECAC balancing account. We accept PG&E's approach to valuing the energy produced by Kerckhoff 2 during 1983 for purposes of this proceeding only because it is consistent with the treatment in ECAC of energy from Kerckhoff. Our acceptance of PG&E's approach does not mean we believe it is necessarily the proper way to determine the value of energy produced from units before they are recognized in base rates.

Reconciliation of KSAA Entries
After the Balancing Account Closed
on January 1, 1984 and D.83-12-068
was Issued

PG&E revised its recorded 1983 KSAA costs of ownership and operation downward on the basis of applicable revenue requirement factors adopted in D.83-12-068, and further adjusted the entries to reflect the return earned by PG&E's utility operations in 1983 versus that authorized. The result of these changes brought the ending KSAA balance from an undercollection of \$719,530 to an adjusted balance showing an overcollection of \$544,015.

We will order PG&E to credit its ECAC balancing account with \$544,015, plus accrued interest from January 1, 1984 until the credit is made, and to concurrently debit its KSAA by \$544,015. The KSAA can then be terminated.

Findings of Fact

1. PG&E's KSAA was authorized on May 4, 1983 by Resolution F-603.
2. Kerckhoff 2 started commercial operation on May 6, 1983.

3. The value of the incremental energy produced by Kerckhoff 2 from May 6, 1983 through the end of 1983 was debited to ECAC and credited to the KSAA.

4. PG&E's KSAA revenue requirement in 1983 was reconciled with D.83-12-068, resulting in an overcollection of \$544,015 at the end of 1983.

Conclusions of Law

1. PG&E's reconciled entries to its KSAA are reasonable, and once the ending 1983 balance of \$544,015, plus accrued interest, is transferred to its ECAC balancing account as a credit, its KSAA may be terminated.

2. To enable an expeditious transfer of the KSAA balances to ECAC, which will benefit ratepayers, the following order should be effective today.

O R D E R

IT IS ORDERED that:

1. Within 10 days Pacific Gas and Electric Company (PG&E) shall transfer the \$544,015 overcollection in its Kerckhoff 2 Savings Adjustment Account (KSAA), plus accrued interest from January 1, 1984, to its energy cost adjustment clause balancing account. Upon making this transfer, PG&E may debit its KSAA by \$544,015 plus interest and terminate it. The accrued interest shall be calculated by the same method used for energy cost adjustment clause.

2. Upon compliance with the above order PG&E shall, by an advice letter filing, withdraw Part H of its Electric Department's tariff, the portion of the preliminary statement originally establishing the KSAA.

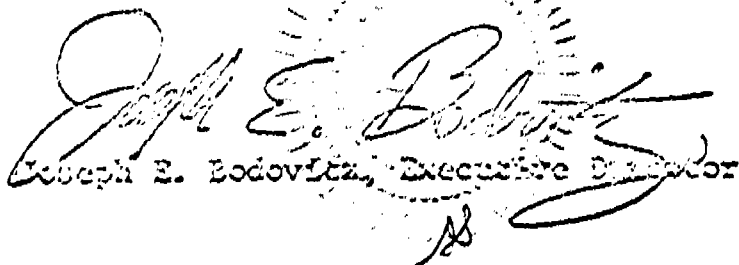
3. The relief requested in A.83-03-84, to the extent not already mooted by Resolution F-603, is granted to the extent and in accordance with the terms of this order.

This order is effective today.

Dated JUL 5 1984, at San Francisco, California.

LEONARD M. CRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

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


Joseph E. Bodovitz, Executive Director