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Decision July 5, 1984

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own motion to determine whether San Onofre Nuclear Generating Station Unit No. 1 should be ordered removed from the rate base of Southern California Edison Company and San Diego Gas and Electric Company.

OII 83-10-02
(Filed October 5, 1983)

(For appearances see Decision 84-05-013.)

SECOND INTERIM ORDER DISPOSING OF PETITION FOR MODIFICATION FILED MAY 18, 1984

In Decision (D.) 84-05-013 issued May 2, 1984 in this proceeding, we addressed the threshold issue of whether San Onofre Nuclear Generating Station Unit No. 1 (SONGS 1) should be removed from the rate bases of Southern California Edison Company (Edison) and San Diego Gas & Electric Company (SDG&E) and, inter alia, provided respondents Edison and SDG&E a choice of two alternative methods of accounting for capital costs pending the restart of SONGS 1. ✓

Edison and SDG&E have informed the Commission that they have elected to apply the accounting procedures set forth in Ordering Paragraph 3 (SONGS 1 remains in rate base).

By its Petition for Modification filed May 18, 1984, Edison seeks modification of D.84-05-013 in the following respects:

1. Change the decision in the appropriate places to allow demonstration of full power operations by February 1, 1985.
2. Change the language of Ordering Paragraphs 2.d and 3.b to provide a consistent definition of full power operations and to avoid ambiguity.

3. Change the accounting procedures specified in Ordering Paragraph 3 to be consistent with the record, and to more accurately reflect the Commission's intent.
4. Revise Ordering Paragraph 5 to change the requirement for prior Commission approval of the Integrated Living Schedule (ILS) modifications necessary to permit program commencement.

By its Petition for Modification filed June 11, 1984, SDG&E seeks changes similar to those sought by Edison with respect to (1) the criteria for determining when SONGS 1 returns to operations, and (2) prior approval of ILS modifications. SDG&E's petition also seeks a determination that construction work in progress (CWIP) expenditures for work done before initial restart are includable in rate base when restart occurs, and revision of remarks attributed to SDG&E's witness which SDG&E believes misstated that witnesses' testimony.

In support of their petitions, respondents allege as follows:

Full Power Operations by
February 1, 1985

Ordering paragraph 3.c requires that respondents begin accruing a liability should SONGS 1 "...fail to return to service by January 1, 1985, should the Commission decide for good cause to extend the return to service date by up to one month," Edison states that literally interpreted, if an extension to February 1, 1985 is not granted, respondents will be required to synchronize SONGS 1 to their electric systems as early as December 1, 1984 in order to demonstrate the full operation of SONGS by January 1, 1985, and thereby avoid the accrual of a penalty. Edison believes that synchronization of SONGS 1 to the Edison electric system would be required prior to January 1, 1985 to demonstrate meeting either of the following Commission criteria: (1) 200 consecutive hours at 90% of rated capacity, or (2) any 30-day period of operation with an average capacity factor of 65% based on full power operation at 90% of rated capacity.

Edison states that a requirement that Edison synchronize SONGS 1 to its electric system before January 1, 1985 is not consistent with the evidence which Edison presented at the hearings expressing its confidence that SONGS 1 would be returned to service by December 31, 1984, as this projected return to service date was not intended to include the unit's having met either of the criteria for demonstrating full operation, and in fact it could not have been so intended because the criteria, proposed by staff witness Czahar, were not available until after Edison's prepared testimony was filed with the Commission.

Edison, therefore, urges us to modify the language of Ordering Paragraph 3.c to require that SONGS 1 demonstrate full operation by February 1, 1985. Edison states that this 30-day period affords it the opportunity to have SONGS 1 in operation by January 1, 1985, as it has consistently expressed its confidence in doing, and also demonstrate full operation consistent with the Commission's criteria without incurring the accrual of a penalty.

We will not adopt Edison's proposed modifications for three reasons.

First, Edison has not suggested in its petition that the testimony of Edison's witness in the hearing was inaccurate with regard to Edison's confidence in an early restart date for SONGS 1. During the hearings, its Executive Vice President, who supervises relations between Edison and the Nuclear Regulatory Commission, stated, "We expect the (SONGS I) unit to be back in service before December of 1984" (Tr. 54), and "the unit would be returned to service well before the end of the year" (Tr. 54). The restart schedule included a 25% management contingency for unexpected delays and unknown factors. With these uncertainties thus taken into account, the witness stated, "I feel very confident that we can and will return the unit to services in December of 1984" (Tr. 58). Furthermore, our staff's economic analysis of benefits to ratepayers assumed Edison's asserted resumption of full operations for a 15-month period beginning January 1 (Exhibit 11). Our staff's calculations assuming January 1 resumption date were the basis of our treatment of SONGS I in this case. ✓

Second, the mechanism adopted in D.84-05-013 does not assume December operation as the utilities have alleged. For example, if on January 1 SONGS 1 begins the 30 days of operation at a 65% average capacity factor and it is successful in meeting this criterion, the utilities would accrue a zero liability under the provisions of Ordering Paragraph 3.c. Thus, even if initial operation (and the criterion run) of SONGS 1 does not begin until January 1, the utilities will incur no liabilities if the plant operates as expected. To make certain that an inadvertent liability is not incurred, we will make a slight change in the comparison calculation from a "monthly capacity factor" to a "30-day capacity factor."

Third, in D.84-05-013 the Commission retained the flexibility to extend the return to service date from January 1 to February 1 for good cause. The utilities' petitions have not shown good cause for extending the January 1 target.

Criteria for Determining when SONGS 1 Returns to Full Operation

Ordering Paragraphs 2.d and 3.6 adopted criteria for determining when SONGS 1 shall be considered to have returned to full operation, as follows:

"200 consecutive hours at 90% of capacity or 30 days continuing operation at 65% of capacity."

Edison claims that the language "30 days continuing operation at 65% of capacity" can be interpreted in a manner inconsistent with the record and inconsistent with the Commission's intent.

Edison states that a literal application of the language "30 days continuing operation at 65% of capacity" would require that SONGS 1 operate at 65%, or more, of capacity each day for 30 consecutive days. Edison believes that the Commission intends that SONGS 1 demonstrate return to full operation in this regard by meeting the operational performance standard defined by staff witness Czahar as "...the unit through any 30-day period achieving an average capacity factor of 65%." In other words, for any 30-day period during which SONGS 1 operates at an average capacity factor of 65% or greater the unit will be considered to have returned to full operation. The opinion (as opposed to the order) correctly summarizes the recommendation of witness Czahar that SONGS 1 be considered operating at full power when the unit achieves an average capacity factor of 65% over a 30-day period.

Edison states that the decision should also reflect that during the first cycle of operation after SONGS 1 returns to service Edison intends to operate the unit at power levels not exceeding 90% of the unit's rated capacity as noted by witness Czahar in formulating his criteria.

Edison and SDG&E urge us to modify the language presently contained in Ordering Paragraphs 2.d and 3.b to achieve the Commission's desired result with respect to when SONGS 1 has returned to full operation. Our staff agrees with this proposed amendment.

Modification of Accounting Treatment
Specified in Ordering Paragraph 3

Ordering Paragraph 3 sets forth in detail the prescribed accounting treatment for SONGS 1 capital costs.

Ordering Paragraphs 3.a and 3.b require that Edison establish a SONGS 1 Balancing Account. The purpose of the SONGS 1 Balancing Account would be to credit the SONGS 1 rate of return and associated income taxes collected from January 1, 1984 until SONGS 1

(1) returns to full operation as specified in this order, or (2) is removed from rate base by order of the Commission.

Edison states that if it established the SONGS 1 Balancing Account, the Commission's intent regarding the operation of the accounting treatment would not be achieved; specifically, the SONGS 1 Balancing Account would require that Edison suspend the recognition of SONGS 1 related earnings for accounting purposes and reflect all revenues collected as an overcollection until SONGS 1 returns to full operation. Edison asserts that this accounting treatment would be identical to that accorded Energy Cost Adjustment Clause overcollections. As a result, if SONGS 1 returns to full operation on or after January 1, 1985, an adverse impact on Edison's 1984 earnings would result since SONGS 1 related earnings for 1984 would not be reflected until 1985.

Edison states that the Commission apparently did not intend that it suffer a reduction in 1984 earnings by electing Ordering Paragraph 3. Assertedly, this position is supported both by the language in the decision and the proposal set forth by witness Czahar which was adopted by the Commission, inasmuch as the decision indicates that the accounting treatment of Ordering Paragraph 3 would "permit respondents to earn a return on SONGS 1 subject to refund until January 1, 1985" (emphasis added). Further, the testimony of witness Czahar also recommended that respondents be allowed to earn a return on SONGS 1 investment during 1984 if they elect the accounting procedure which retains SONGS 1 in rate base.

Edison argues that, in addition to the fluctuation in 1984 earnings which would occur as a result of creating the SONGS 1 Balancing Account, this accounting treatment would also, consistent with generally accepted accounting principles, require that the revenues entered in the SONGS 1 Balancing Account be recorded as a liability. Edison considers it inappropriate to record these

revenues as a liability because it has confidence in its projection that SONGS 1 will return to full operation prior to the accrual of penalties as set forth in Ordering Paragraph 3.c. Edison views the potential refund to ratepayers of revenues accruing in the SONGS 1 Balancing Account a remote contingency; absent the Commission's ordered balancing account treatment, such a contingency would only require disclosure in the notes to its financial statements.

Edison asserts that we did not order the creation of the SONGS 1 Balancing Account with the intent of (1) adversely impacting SONGS 1 related earnings in 1984, or (2) overstating respondent's current liabilities. Therefore, Edison requests that Ordering Paragraph 3 be modified to permit tracking of the SONGS 1 rate of return and associated income taxes collected during 1984, and possibly beyond, and which (1) assures that SONGS 1 related earnings for 1984 be reported in 1984, and (2) permits the accurate reporting of liabilities.

Our staff has no objection to modifications to the decision which delete the balancing account treatment for revenues and expenses accrued in the period prior to restart, but our staff believes that Edison should be required to set up a memorandum account to record its contingent liability should SONGS 1 not return to full power operations by February 1, 1985. This can be done by debiting and crediting a deferred account, which would appear in Edison's balance sheet. The staff proposal, therefore, would accomplish two purposes of Edison's proposal, that is: to assure that SONGS 1 related earnings are reported in 1984, and to permit accurate reporting of liabilities. The staff's proposed accounting treating would, however, require disclosure in Edison's financial statements. We agree with the staff's proposed amendments to Edison's proposals, which will be adopted.

Our staff objects to the specific language of proposed Ordering Paragraph 3.d which would aggregate the sum of the revenues collected through December 31, 1984 and accrued interest in determining refunds for failure to begin timely operations. The staff believes that accrued interest should be excluded from that computation. We concur. We will adopt Edison's proposal modified as indicated above.

The Requirement for Prior Commission Approval of ILS Modification

Ordering Paragraph 5 required that respondents seek Commission approval before commencing plant modifications required by the Nuclear Regulatory Commission (NRC) to be implemented as a part of the ILS. Edison states that strict application of the language of this requirement would hamper the orderly commencement of the backfit program in that timely activities associated with the preliminary engineering for these modifications would be suspended pending approval of an application by respondents.

Edison asserts that such a result appears inconsistent with the Commission's intent, as the decision explicitly excepts that work "necessary for restart or underway on the effective date of this decision" from the requirement.

Edison asserts that by recognizing that ILS work may be underway on the effective date of the decision, the Commission has identified a basic characteristic of the engineering work associated with projects of the size and complexity of those in the ILS, that is, the need to perform preliminary engineering work which must begin well before actual "hardware" modifications are made in order to accurately define and plan the work to be performed and to produce accurate cost estimates. SDG&E concurs in Edison's arguments.

Edison states that it will initiate the preliminary engineering required to perform certain ILS modifications within the

next few weeks, and intends to prepare and file with the Commission, as soon as possible, an application seeking Commission approval of those ILS modifications and demonstrating the cost effectiveness of those modifications. Edison and SDG&E believe that a literal application of the language of Ordering Paragraph 5 would force them to place at risk the costs of preliminary engineering and associated Allowance for Funds Used During Construction (AFUDC) which will of necessity be underway before the Commission can be expected to take action on Edison's application. Edison and SDG&E believe the Commission did not intend this result and, therefore, request the Commission to modify the language of Ordering Paragraph 5.

The staff has no objection to the requested modification.

Construction Work In Progress

The decision does not address the ratemaking treatment to be accorded respondents' present balance for SONGS 1 Construction Work in Progress (CWIP) and the \$36 million of plant modifications necessary to return SONGS 1 to full operation. Therefore, Edison assumes that this issue will be examined during the course of its 1985 Test Year General Rate Case, Application (A.) 83-12-53.

Accordingly, Edison will continue to seek rate base treatment for these expenditures in the 1985 Test Year General Rate Case. SDG&E asks that we modify the decision to make it clear that when SONGS 1 is restarted respondents may, in this proceeding, include the CWIP expenditures in rate base. SDG&E suggests an advice letter procedure subject to review in the next general rate case.

Discussion

After review by our staff, we conclude that the modifications of D.84-05-013 proposed by Edison and SDG&E, as adopted in the following order, are reasonable and appropriate, are consistent with the intent of the Commission, and such modifications should be adopted.

The treatment for CWIP for plant improvements made prior to restart will be considered further either in this proceeding (by advice letter filing) or in respondents' General Rate Case proceedings.

SECOND INTERIM ORDER

IT IS ORDERED that:

1. Decision (D.) 84-05-013 issued May 2, 1984 in this proceeding is modified in the following respects:

A. The language of Ordering Paragraphs 2.d and 3.b which currently reads:

"200 consecutive hours at 90% of capacity or 30 days of continuing operation at 65% of capacity."

is modified to read as follows:

"200 consecutive hours at 90% of rated capacity, or any 30-day period of operation with an average capacity factor of 65% based on full power operation at 90% of rated capacity."

B. Ordering Paragraph 3 is modified to read as follows:

3. If Edison or SDG&E does not elect to comply with Ordering Paragraph 2, it shall comply with the following:

a. Revenues collected by respondent pursuant to its last general rate proceeding (under which rates were made subject to refund) related to return on investment on SONGS 1 (excluding common plant) and the associated income taxes from January 1, 1984 through the date SONGS 1 returns to full service (200 consecutive hours at 90% of rated capacity or any 30-day period of operation with an average capacity factor of 65% based on full power operation at 90% of rated capacity), or the effective date at which SONGS 1 is removed from rate base by further order of the Commission,

shall continue to be credited to the appropriate operating revenue account.

- b. Memorandum accounts shall be maintained to monitor the liability of SONGS 1 revenues collected subject to refund from January 1, 1984 to the effective date at which SONGS 1 is removed from rate base. Operation and maintenance expenses for SONGS 1 shall not be included. The revenues collected subject to refund shall accrue interest monthly based on the three-month average prime commercial paper rate on the average balance.
- c. Should SONGS 1 fail to return to full power operation by January 1, 1985, in accordance with the text on page 3a, or by February 1, 1985 should the Commission decide for good cause to extend the return to service date by up to one month, respondent shall begin to accrue a liability equal to the difference between actual kilowatt-hours (kWh) generated and the kWh that would have been generated by SONGS 1 if it had reached a 30-day capacity factor of 65%, multiplied by respondent's average short-run avoided cost (energy plus capacity). That amount shall be credited to Account 253 (Other Deferred Credits). The offsetting charge shall be charged to Account 456 (Other Electric Revenues).
- d. Should the aggregate charges to Account 456 (Other Electric Revenues) equal the sum of the revenues collected from January 1, 1984 through December 31, 1984 excluding interest as determined in Ordering Paragraph 3.b, respondent shall:
 - (1) Cease the accrual of the liability as set forth in Ordering Paragraph 3.c.
 - (2) Inform the Commission's Executive Director in writing.

- (3) Continue to credit revenues collected subsequent to December 31, 1984, related to return on investment on SONGS 1 and associated income taxes to Account 253 (Other Deferred Credits) until SONGS 1 is out of rate base.
 - (4) Continue to accrue interest on the average balance in Account 253 at the three-month average prime commercial paper rate.
 - (5) File an advice letter to remove SONGS 1 from rate base, reduce rates, and start accruing allowance for funds used during construction.
 - (6) Refund all revenues and accrued interest credited to Account 253 within 30 days after the effective date of the advice letter.
- e. Should SONGS 1 return to full service as defined in Ordering Paragraph 3.a, when the credits to Account 253 are less than the sum of revenues collected from January 1, 1984 through December 31, 1984, as determined in Ordering Paragraph 3.b, respondent shall:
- (1) Cease the accrual of the liability as set forth in Ordering Paragraph 3.c.
 - (2) File a letter with the Commission indicating the aggregate amount of revenue which is no longer subject to refund.
- C. The language of Ordering Paragraph 5 is modified to read as follows:
- "With the exception of work associated with the preliminary engineering of subsequent modifications, respondents shall seek further approval of this Commission for plant modifications required under the Nuclear Regulatory Commission's Integrated Living Schedule before commencing such modifications. Respondents shall include all costs of preliminary engineering in cost analyses submitted to the Commission."

2. In all other respects D.84-05-013 remains in full force and effect.

3. The Petitions for Modification of D.84-05-013 filed May 18, 1984 and June 11, 1984 are granted as provided above.

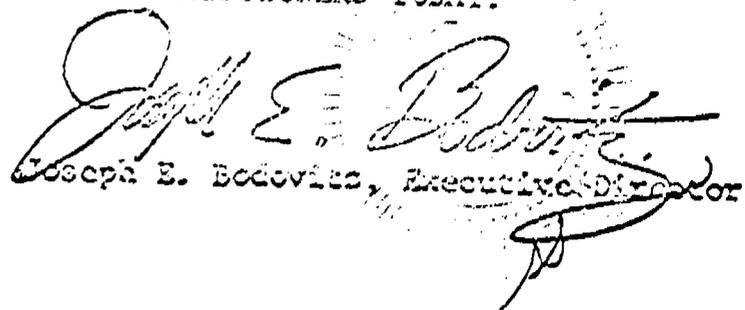
This order is effective today.

Dated July 5, 1984, at San Francisco, California.

LEONARD M. GRIMES, 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. Bodovics, Executive Director

ALJ/md

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JUL 5 1984

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By its Petition for Modification filed May 18, 1984, Edison seeks modification of D.84-05-013 in the following respects:

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2. Change the language of Ordering Paragraphs 2.d and 3.b to provide a consistent definition of full power operations and to avoid ambiguity.

Edison states that a requirement that Edison synchronize SONGS 1 to its electric system before January 1, 1985 is not consistent with the evidence which Edison presented at the hearings expressing its confidence that SONGS 1 would be returned to service by December 31, 1984, as this projected return to service date was not intended to include the unit's having met either of the criteria for demonstrating full operation, and in fact it could not have been so intended because the criteria, proposed by staff witness Czahar, were not available until after Edison's prepared testimony was filed with the Commission.

Edison, therefore, urges us to modify the language of Ordering Paragraph 3.c to require that SONGS 1 demonstrate full operation by February 1, 1985. Edison states that this 30-day period affords it the opportunity to have SONGS 1 in operation by January 1, 1985, as it has consistently expressed its confidence in doing, and also demonstrate full operation consistent with the Commission's criteria without incurring the accrual of a penalty.

We will not adopt Edison's proposed modifications for three reasons.

First, Edison has not suggested in its petition that the testimony of Edison's witness in the hearing was inaccurate with regard to Edison's confidence in an early restart date for SONGS 1. During the hearings, its Executive Vice President, who supervises relations between Edison and the Nuclear Regulatory Commission, stated, "We expect the (SONGS I) unit to be back in service before December of 1984" (Tr. 54), and "the unit would be returned to service well before the end of the year" (Tr. 54). The restart schedule included a 25% management contingency for unexpected delays and unknown factors. With these uncertainties thus taken into account, the witness stated, "I feel very confident that we can and will return the unit to services in December of 1984" (Tr. 58). Furthermore, our staff's economic analysis of benefits to ratepayers assumed Edison's asserted resumption of full operations for a 15-month period beginning January 1 (Exhibit 11). Our staff's calculations assuming January 1 resumption date were the basis of our treatment of SONGS I in this case.

Second, the mechanism adopted in D.84-05-013 adopted in D.84-05-013 does not assume December operation as the utilities have alleged.

For example, if on January 1 SONGS I begins the 30 days of operation at a 65% average capacity factor and it is successful in meeting this criterion, the utilities would accrue a zero liability under the provisions of Ordering Paragraph 3c. Thus, even if initial operation (and the criterion run) of SONGS I does not begin until January 1, the utilities will incur no liabilities if the plant operates as expected. To make certain that an inadvertent liability is not incurred, we will make a slight change in the comparison calculation, from a "monthly capacity factor" to a "30-day capacity factor."

Third, in D.84-05-013 the Commission retained the flexibility to extend the return to service date from January 1 to February 1 for good cause. The utilities' petitions have not shown good cause for extending the January 1 target.

Criteria for Determining when SONGS I
Returns to Full Operation

Ordering Paragraphs 2.d and 3.6 adopted criteria for determining when SONGS I shall be considered to have returned to full operation, as follows:

"200 consecutive hours at 90% of capacity or 30 days continuing operation at 65% of capacity."

Edison claims that the language "30 days continuing operation at 65% of capacity" can be interpreted in a manner inconsistent with the record and inconsistent with the Commission's intent.

shall continue to be credited to the appropriate operating revenue account.

- b. Memorandum accounts shall be maintained to monitor the liability of SONGS 1 revenues collected subject to refund from January 1, 1984 to the effective date at which SONGS 1 is removed from rate base. Operation and maintenance expenses for SONGS 1 shall not be included. The revenues collected subject to refund shall accrue interest monthly based on the three-month average prime commercial paper rate on the average balance.
- c. Should SONGS 1 fail to return to full power operation by January 1, 1985, or by February 1, 1985 should the Commission decide for good cause to extend the return to service date by up to one month, respondent shall begin to accrue a liability equal to the difference between actual kilowatt-hours (kWh) generated and the kWh that would have been generated by SONGS 1 if it had reached a 30-day capacity factor of 65%, multiplied by respondent's average short-run avoided cost (energy plus capacity). That amount shall be credited to Account 253 (Other Deferred Credits). The offsetting charge shall be charged to Account 456 (Other Electric Revenues). *in accordance with the left and page 3a*
- d. Should the aggregate charges to Account 456 (Other Electric Revenues) equal the sum of the revenues collected from January 1, 1984 through December 31, 1984 excluding interest as determined in Ordering Paragraph 3.b, respondent shall:
- (1) Cease the accrual of the liability as set forth in Ordering Paragraph 3.c.
 - (2) Inform the Commission's Executive Director in writing.

2. In all other respects D.84-05-013 remains in full force and effect.

3. The Petition for Modification of D.84-05-013 filed May 17, 1984 is granted as provided above.

This order is effective today.

Dated JUL 5 1984, at San Francisco, California.

LEONARD M. GRIMES, JR.
President

VICTOR CALVO

PRISCILLA C. GREW

DONALD VIAL

WILLIAM T. BAGLEY

Commissioners