ALJ/ACP/fs *

A.C.P. OCT 9 1987 1:20

Item 1

Decision 87 10 041

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

OCT 16 1987

Application Of Pacific Gas and Electric Company, For Authorization To Establish A Rate Adjustment Procedure For Its Diablo Canyon Nuclear Power Plant; To Increase Its Electric Rates to Reflect The Cost Of Owning, Operating, Maintaining and Eventually Decommissioning Unit 1 Of The Plant; And To Reduce Electric Rates Under Its Energy Cost Adjustment Clause And Annual Energy Rate To Reflect Decreased Fuel Expense. (Electric)

Application 84-06-014 (Filed June 6, 1984, amended December 21, 1984)

And Related Matter.

Application 85-08-025 (Filed August 12, 1985)

OPINION ON INTERIM RATES - PHASE 1B

Introduction

By this decision we deny further interim rate relief to Pacific Gas and Electric Company (PG&E) for the operation of its Diablo Canyon Nuclear Power Plant,[1] but authorize booking for later recovery reasonable non-investment expenses for the plant.

Under the Commission's Rules of Practice and Procedure, the proposed decision of the assigned administrative law judge (ALJ) for these proceedings was filed with the Commission and mailed to the parties on September 14, 1987. PG&E, the Attorney General (AG), Toward Utility Rate Normalization (TURN), and Public Staff Division (PSD) filed comments on the proposed decision. After review of the comments, we modify the proposed decision in

1 Diablo Canyon consists of two units of about 1060 MW each, and is located on the coast near San Luis Obispo.

three respects. (1) Additional comments are made on why no downward adjustment of interim rates is made at this time, (2) the term "cash flow" is amended to "rate relief," and, (3) we adopt a target capacity factor for operation of the Diablo plant.

Background

In June 1984, PG&E filed Application (A.) 84-06-014 for an adjustment in rates to cover Unit 1 of its Diablo Canyon Plant. In March 1985, the Commission adopted a stipulation (Decision (D.) 85-03-021) between PG&E and the PSD which established an interim rate mechanism for recording the costs and fuel savings attributable to Unit 1's commercial operation which began in May 1985. Hearings were then held during 1985 to determine a permanent interim rate mechanism for Unit 1. This was known as Phase 1A of the processing of these applications.[2] A decision on Phase 1A was issued in December 1985 (D.85-12-085) which granted PG&E the rate relief from the fuel savings generated by Unit 1 and operating and maintenance expenses for Unit 1. D.85-12-085 was modified ex parte on application for rehearing by D.86-04-080 but it did not change the monetary award.

In August 1985, PG&E filed A.85-08-025 for an adjustment in rates to cover Unit 2 of Diablo. In a manner similar to that

---

2 Processing of these applications was established in phases. The three phases applicable to this decision are:

> Phase 1A: consider the expenses and investment to be recognized for setting interim rates.
>
> Phase 1B: provide for a more detailed investigation of the appropriate expenses and investment to be recognized for interim rate purposes and alternatives to traditional ratemaking.
>
> Phase 2: consider the amount of investment in Diablo Canyon that the Commission should recognize as reasonable for ratemaking purposes.

for Unit 1, PG&E and PSD stipulated to an interim rate mechanism which was adopted by the Commission in January 1986 (D.86-01-054) and became effective with the commercial operation of Unit 2 in March 1986.

During the summer and fall of 1986, we held the Phase 1B hearings on interim rates for Unit 2 plus several matters which we did not dispose of in our decisions on Phase 1A of these proceedings.[3] After briefing and oral argument before the Commission en banc on December 4, 1986, Phase 1B was submitted. The ALJ distributed his proposed decision February 2, 1987 which the Commission adopted with minor modifications on March 6, 1987 (D.87-03-029). That decision addressed only the issue of decommissioning, authorizing PG&E to increase rates by $53.2 million per year to cover the cost of decommissioning Units 1 and 2. The Commission held in abeyance a decision on any further interim rates for the Diablo plant pending issuance of the PSD report on Phase 2, the prudency review, of these proceedings.

Further Interim Rate Relief

In making the recommendation to hold any further interim rate authorization until after the PSD report was issued, the assigned Commissioner and ALJ were considering the possibility of recommending interim rates be based on the uncontested investment that the PSD would recommend be included in rate base for Diablo.[4] Although this would have been a departure from the policy we established in granting rates for Unit 1, that is, rate relief equal to the fuel savings and operating costs, such a

3 D.85-12-085 and D.86-04-080 set for further hearing the issues of non-investment related expenses, calculation of fuel cost savings, cogeneration and geothermal fuel savings, Diablo Canyon Adjustment Account treatment, and decommissioning expenses.

4 This was the recommendation of the PSD during hearings on Phase 1A. The recommendation was not adopted by the Commission in that phase.

departure appeared necessary from the Phase 1B record in order to avoid a possible rate decrease and its concomitant effect on the growing balance in the Diablo Canyon Adjustment Account (DCAA). The Phase 1B record shows, and we will discuss the numbers later, that with the severe reduction in fossil fuel costs since late 1985, the application of our current policy to the combined operations of Units 1 and 2 would produce less fuel savings than we adopted in December 1985 for Unit 1 alone. (See Table 2.)

However, after reviewing the investment recommendation by the PSD in its report filed May 14, it is clear that using the uncontested investment for an interim rate determination would not even produce the amount of interim rate relief already granted PG&E.

As shown on Table 1, PG&E is presently receiving about $543 million in interim rate relief. By D.85-12-085 in Phase 1A, the Commission authorized $388 million in interim rates for Diablo Unit 1 of which $334 million was for the fuel cost savings estimated to result from the operation of Unit 1 and $54 million was for operation and maintenance expenses for the unit. By D.86-01-054, which approved the second stipulation between PG&E and PSD, PG&E was authorized to retain the fuel cost savings resulting from the operation of Unit 2 based on an agreed-to formula set out in the stipulation. That formula produces a fuel cost savings of about $102 million per year for Unit 2. Finally, by D.87-03-029, the rate increase of $53 million for decommissioning was authorized. In summary, the total effective revenue increase to PG&E for the Diablo plant is now $543 million, the increased rate relief is $490 million, and the increase in rates is $107 million.

PG&E is requesting an increase in interim rates equivalent to $800 million including an allowance of $44 million for decommissioning. As noted, we have decided the decommissioning issue. Putting the $44 million requested aside, the effective amount requested by PG&E is $756 million.

TABLE 1

PRESENT INTERIM RELIEF
(Millions of dollars)

	Increased Rate Relief To PG&E	Rate Increase	Authorized Revenue Increase
12/18/85 D.85-12-085			
Granted PG&E interim rate relief of $388 for Unit 1 consisting of: Net fuel savings $334 Production expense $ 54	$388	$ 54	$388
1/23/86 D.86-01-054			
Granted PG&E further interim rate relief of $102 for the net fuel savings from Unit 2.	102	0	102
3/ 6/87 D.87-03-029			
Set up decommissioning annual accrual of $53. Increased rates $53; however there is no increase in rate relief because funds are deposited in a special tax exempt account not available to PG&E.	0	53	53
TOTAL	$490	$107	$543

In its initial testimony to support the $756 million, PG&E recommended a departure from the interim rate policy we established in D.85-12-085. The company chose to rely on financial need as the primary basis for its request, including Units 1 and 2 operating expenses and enough imputed investment to make up the $756 million. However, the Attorney General (AG) challenged that approach through a motion to strike testimony on Unit 1 that did not follow the interim rate policy the Commission established in Phase 1A. The AG claimed that, in effect, PG&E was seeking a change in the interim rate mechanism established for Unit 1, a change the Commission did not have in mind when it ordered further hearings on the Unit 1 mechanism. Arguments for and against the motion are discussed in the ALJ's ruling dated June 17, 1986, which granted the AG's motion. On July 31, 1986, PG&E petitioned the Commission to set aside the ALJ's ruling, or, in the alternative, to modify D.85-12-085 and D.86-04-080 to allow capacity values and other savings to be reflected in the interim rate formula for Unit 1. We have reviewed the record and find the ALJ correctly interpreted D.85-12-085 and D.86-04-080; that is, that the Commission intended in the Phase 1B hearings that only the elements of a short-term ECAC type estimate should be considered when calculating fuel savings, that the amount of any interim revenue increase for Unit 1 was to be solely determined by adding fuel cost savings to non-investment expenses, that the interim rate mechanism adopted by D.85-12-085 applies only to Unit 1, and that the interim rate mechanism for Unit 2 was to be determined from the record in Phase 1B. The ALJ's ruling of June 17, 1986 is affirmed.

After the ALJ excluded the evidence discussed above, PG&E filed additional evidence which still requested the same $756 million relying on a different approach to support the request. Anyway one cuts it however, if we approve the $756 million, we must recognize about 50 percent of PG&E's investment in Diablo, thereby requiring a revision of our Phase 1A policy for Diablo. Our Phase

1A policy seeks to avoid interim Diablo adjustments that recognize highly contested investment expenditures.

Disregarding the decommissioning allowance and adhering to the policy established in Phase 1A, PG&E requests, in the alternative, interim relief of $531 million; PSD recommends $361 million; and the AG $413 million, the detail of which is shown in Table 2.

TABLE 2

Interim Rates Based on Present Policy Positions of the Parties
($ Millions)

	Non-investment	Fuel	Total	Rate Change
Present	54	436	490	N/A
PG&E	200	331	531	+ 41
PSD	127	234	361	-129
AG	165	248	413	- 77

Comparing the recommendations to the present authorization, PG&E's would result in an increase in rates of $41 million and PSD's and AG's would result in a decrease of $129 and $77 million respectively.

On June 5, 1987, shortly after the PSD issued its report, PG&E filed a motion for immediate interim rate relief. A discussion of that motion and the responses to it by other parties will serve to focus the issues we face in our determination of any further interim rate authorization.

In its motion PG&E argues that:

- It needs an immediate grant of $756 million. The actual rate increase would be $266 million because $490 has already been granted.

- Its proposed $756 million will allow PG&E to recover all non-investment costs but less than 50% of the investment costs and still protect the ratepayers by providing for refunds if the Commission disallows more than 50% of PG&E's investment in Diablo.

- $556 of the $756 million would be investment related. The $556 results from subtracting $200 in non-investment expenses from the $756.

- There are huge undercollections accruing in the DCAA which will have to be amortized in rates when a final decision is issued after the reasonableness review.

- As of April 30, 1987, the DCAA was undercollected by $1.12 billion. Without further rate relief it will be $2.8 billion at the end of 1988 and $3.9 billion at the end of 1989.

- The increase is needed to maintain PG&E's financial integrity. Duff and Phelps downgraded PG&E's bonds and commercial paper rating.

- A PSD policy witness testified that PG&E's financial integrity will be eroded if current levels of rate relief are continued.

- PG&E has received no rate relief for non-investment costs incurred for Unit 2 and only partial relief for non-investment costs for Unit 1.

- The Commission implied in the decommissioning decision that a decision on final interim rates would be out when the PSD report was issued.

- PG&E does not believe the PSD report precludes the Commission from granting further interim relief pointing out that a PSD policy witness testified that Diablo could not be built for what the PSD is recommending in rate base.

- The current level of interim rates is roughly equivalent to the revenue requirement which would result from adopting the PSD's recommendation which PG&E characterizes as extreme and unfair.

TURN opposes the motion contending that:

- The PSD report demonstrates PG&E has no basis for further relief.

- PG&E is now receiving $360 million in revenues covering investment-related Diablo costs. The PSD-recommended rate base of $1.150 billion would require only $210 million in revenues. Thus, PG&E is collecting $150 million more in investment costs than it should under the PSD recommendation.

- Therefore, PG&E's argument that it should have an additional $145 million to cover non-investment costs is not valid because it does not consider the fact that PG&E is now collecting more than the $145 million in fuel cost savings under the rationale of the Phase 1A decision.

- If the Commission adopts the PSD recommendation, ratepayers would be due a refund even if no further changes are made in interim rates.

- Investment-related revenues are in doubt because of TURN's pending appeal in the Supreme Court on the Phase 1A decision in December 1985.

- PG&E's claim of financial need is unconvincing. PG&E told its shareholders in a March 1987 letter that it will maintain the current dividend which reflects PG&E management's confidence in the basic financial strength of the company.

The Attorney General opposes the motion, arguing that:

- PG&E implies that it has been unable to recover any of the non-investment related expenses for Unit 2. This is not true because D.86-01-054, which adopted the stipulation for the Unit 2 rate mechanism pending litigation, provided for a balancing account treatment of $91 million in non-investment costs.

- PG&E wants a change in the policy adopted in December 1985 for Unit 1 interim rates because that policy will not produce the $756 million PG&E claims it needs on an interim basis.

- PG&E claims there will be an enormous undercollection, but that undercollection will occur only if the Commission allows all of PG&E's Diablo costs into rate base.

- The Duff and Phelps downgrade should be judged in light of the fact they are a client of PG&E and testified favorably for PG&E in the Phase 1A and 1B hearings.

- Any further interim relief would prejudge the prudency phase of the case.

- Further interim relief could be accelerated if the Commission updated the fuel cost savings estimate on an annual basis or certain reasonableness issues could be decided before the end of Phase 2 as recommended by the AG.

PSD opposes the motion stating that:

- PG&E offers nothing new in its motion. Further interim relief should be denied because the Phase 1B record supports leaving interim rates at their current level pending conclusion of Phase 2.

- In any case, the Commission should await the determination of the Supreme Court on TURN's appeal of the legality of making rates based on investment prior to prudency review.

- If the Commission were to adjust interim rates, they should be decreased if the Commission adopts the theory of basing rates on the undisputed investment, a recommendation made by the PSD in Phase 1A but rejected by the Commission in D.85-12-085.

- PG&E's pre-tax interest coverages for 1987, '88, and '89 will be within Standard and Poor's 2.5-4.0 range for single-A rated utilities if there is no further change in interim rates.

PG&E answers AG, TURN, and PSD that:

- PG&E has received no rate relief for Unit 2 and only some of the Unit 1 non-investment expenses. Also, non-investment related costs are not subject to full balancing account treatment. The A&G and refueling costs are not covered.

- If the Commission does not adopt the PSD investment recommendation, huge undercollections will have to be amortized and paid for by future ratepayers and those ratepayers enjoying the output of Diablo today will receive a windfall.

It should be noted and, indeed, emphasized that PG&E, with an exception we will discuss later, is booking the entire cost of supporting Diablo, including investment costs reflecting a return on full investment, in the Diablo Canyon Adjustment Account (DCAA). That booking was authorized when we adopted the stipulations between PG&E and PSD for interim rate mechanisms for Units 1 and 2 prior to commercial operation. See D.85-03-021 and D.86-01-054. A decision on what to do with the balance in the DCAA will be made after our determination of the prudent investment in Diablo at the end of Phase 2 because the amount of investment we recognize will determine the balance in the DCAA which must be borne by PG&E's ratepayers.

Based on all the pleadings and evidence before us, and given the magnitude of the expenditures being challenged in the reasonableness phase of this proceeding, we find that PG&E has not shown a pressing need to make any further upward adjustment in interim rates. On the other hand, we do not find that it would be fair to make a downward adjustment, either. The continuation of interim rates at the present level treats all parties to the reasonableness review in an equitable manner. An increase or decrease in interim rates, with the attendant consequences to the DCAA balance, might be interpreted as a judgment on the merits of

SOURCE:
EXHIBIT 94

TABLE 3

PACIFIC GAS AND ELECTRIC COMPANY

DIABLO CANYON
RESULTS OF OPERATIONS
(Test Year Beginning March 1, 1986)
(000's Omitted)

Description	CPUC Jurisdiction
Operating Revenues	$1,342,873
Operating Expenses	
Production*	147,529
Refueling*	13,283
Administrative & General*	28,893
Other	0
Uncollectibles	3,452
Franchise Requirements	9,057
Escalation	1,293
Subtotal	203,507
Taxes	
Property	54,133
Payroll & Business*	6,078
State Income	43,040
Federal Income	277,067
Subtotal	380,317
Depreciation	146,232
Decommissioning Expense**	43,759
Total Operating Expenses	773,815
Net for Return	569,058
Rate Base	4,734,774
Return on	
Rate Base	12.02%
Common Equity	14.71%

* = 1986 Dollars
** = Amount represents annual decommissioning costs requested commencing 1/1/87.

the parties' positions in the reasonableness phase. We wish to avoid giving such a signal. What is most urgent at this time is that we make an adjustment in the bookings being made currently to the DCAA in order to insure that when a final decision is made in Phase 2, PG&E and the ratepayers will be treated fairly concerning non-investment charges for the operation of Diablo.

Non-Investment Expenses

The latest estimated results of operations for Diablo contained in this record are in Exhibit 94, PG&E witness Long, for a rate year ending February 28, 1987. See Table 3. The non-investment estimates in Table 3 represent PG&E's request in Phase 1B. They exceed the $162 million PG&E has been booking in the DCAA account as a result of the stipulations approved by the Commission which set up the interim accounting mechanism for Diablo. The amounts authorized for booking and the requested amounts are compared on Table 4. If the $197.076 million shown on Table 4 is a valid estimate, PG&E is foregoing $35.214 million per year (197.076 - 161.862) in non-investment expenses, including refueling costs, by not having our approval to book the $197.076 million.

Even though PG&E stipulated to $162 million in non-investment costs, it did so with the understanding the Commission would adjust that expense after litigating the costs in Phase 1B. However, we have reviewed the record on non-investment expenses that was made in Phase 1B and are not satisfied that we can make a determination of the reasonable expenses to allow based on that record. We were well into the test year when the matter was litigated, much of the data appeared stale, and the staff did not have an up-to-date study. Therefore we will not rule on the reasonableness of these costs at this time. But, since the $162 million is subject to a downward adjustment only, we believe PG&E

TABLE 4

Diablo Canyon Non-Investment Related Expenses
(CPUC Jurisdiction)

Expenses	$ Thousands: Now Booked to DCAA Unit 1	Unit 2	Tariff Total	Requested, excl. Decommissioning
Production, incl. refueling	$53,837	$73,980	$127,817	$160,812
A&G	12,834	14,320	27,154	28,893
RD&D	569	0	569	0
Decommissioning	636	664	1,300	0
Payroll & Business Tax	2,077	2,945	5,022	6,078
Escalation	-	-		1,293
Total, excl. F&U	$69,953	$91,909	$161,862	$197,076
F&U at 0.0094031				1,853
Total, incl. F&U	-	-		$198,929

Notes: 1. Requested amounts are for test year beginning March 1, 1986 and are calculated based on Exhibit 94.

2. F&U = Franchise and Uncollectibles.

should be given the chance now to recover, on a balancing account basis and subject to review and possible refund, its reasonable non-investment expenses for Diablo.

We will accomplish this by continuing the terms of the stipulations except for the amount of non-investment costs that may be booked as deferred debits. We will authorize PG&E to book its actual non-investment costs but limit the amount to $197.076 million annually with no attrition adjustment, the $197.076 million being the amount requested in Exhibit 94 for the test year beginning March 1, 1986. Non-investment expenses include production expenses, refueling on the assumption of one refueling per year, administrative and general, and payroll and business taxes. It excludes RD&D and decommissioning expenses because the RD&D request has been withdrawn and the decommissioning issue has been decided. By allowing PG&E to book actual expenses with the upper limit indicated and then reviewing those expenses for reasonableness in further hearings in this proceeding, ratepayers and PG&E will be treated fairly.

One further matter concerning non-investment expenses is PG&E's motion filed August 1, 1986 to include in the DCAA those Unit 1 operating and maintenance expenses no longer in dispute as a result of the PSD exhibits filed in Phase 1B. We did not rule on that motion because of opposition by other parties who contended that if the reasonableness of non-investment expenses were reconsidered, then other issues such as fuel cost savings should be reviewed and adjusted. Because of the action we are taking in this decision, the motion is moot and is denied.

Target Capacity Factor

The stipulations we adopted to establish initial rate mechanisms for Diablo Units 1 and 2 provided for target capacity factors (TCF). A TCF mechanism is designed to more equitably allocate the risk involved in the operation of a large plant between the utility and ratepayers and provide an incentive to the

utility for superior performance. The rationale for a TCF was outlined in D.83-09-007 dated September 7, 1983 in the so-called SONGS 2 proceeding for Southern California Edison Company and San Diego Gas and Electric Company operation of the San Onofre Nuclear Generating Station.

The mechanism works in the following way. Capacity factor is the ratio of average electrical output of a generating unit during a specified period of time to the output capacity of the unit. For example, if a one-year period is chosen and a plant operates at full capacity for nine months during that year, it would have a capacity factor of 9/12ths or 75%. In the application of the TCF principle, a capacity factor band is chosen which is called the target capacity factor. If the plant is operated within that band, the TCF mechanism is not triggered. If operation is outside the band, the utility receives either a penalty or a reward. In the SONGS decision, the TCF band was set at 55-80%. If the plant operated below 55% capacity, the utilities were penalized part of the cost of replacement fuel to generate the extra power required as a result of operating below 55% of capacity. If the plant operated above 80%, the utilities were rewarded with part of the fuel savings resulting from the extra power generated by the plant by operating above 80% of capacity.

In the stipulations adopted for Diablo, the TCF band was set at 55-80%, the same as for SONGS; and the TCF ran for the first year of operation for Unit 1, and the shorter of the initial fuel cycle or two years for Unit 2. No party to the proceeding objects to the adoption of a TCF mechanism, but there is a controversy between PG&E and PSD on its terms. PG&E wants the TCF set at 55-75% measured over a period of three fuel cycles. PSD supports 55-80% over one fuel cycle.

Evidence presented by PG&E is convincing that if the high end of the TCF is set at 80%, it will not encourage superior performance because it is almost impossible for a large nuclear

plant to achieve that level, particularly when measured over a period that includes a refueling. Refuelings, which occur about every year and a half, require a plant to be out of service entirely for a period of several weeks. In the case of Diablo Unit 1, it set a world record capacity factor of 88% during its first year of operation. However, even if plant operation had continued at that high level and a refueling of 12 weeks duration had taken place, the first-cycle capacity factor would have been 75%. PG&E argues, and we agree, that setting the top of the band too high results in the TCF becoming a penalty avoidance mechanism rather than an incentive mechanism. We note that the 80% limit in the case of SONGS was chosen based on representations made by the utilities in their certificate proceedings and not on what can realistically be expected from nuclear plant operation today. Exhibits 73 and 74 contain data on gross capacity factors for from one to as many as seven fuel cycles for six Diablo Canyon sister units; of the 34 cycles studied, only 3 are over 75% and none reach 80%. On the other hand, 16 of the 34 cycles are below 55%. Again, in Exhibit 74, Page CF-28, where the results of 117 power units are examined, 15 cycles are above 80%, 28 are above 75%, and 30 are below 55%. For purposes of this proceeding we will adopt a TCF deadband of 55-75% which will provide a more equitable allocation of risk between PG&E and the ratepayers.

We also agree with PG&E that the three-fuel-cycle period is a better measurement of performance and a better incentive factor than one cycle. Some simple examples, borrowed from the PG&E brief but slightly amended, illustrate the superiority of a longer period. Using our adopted TCF of 55-75%, assume Plant 1 operates at the following capacity factors: Cycle 1, 55%, Cycle 2, 55%, Cycle 3, 76%. Also assume Plant 2 operates as follows: Cycle 1, 75%, Cycle 2, 75%, Cycle 3, 54%. All else being equal, Plant 1 operates over the 3 cycles at an average of 62% and Plant 2 at an average of 68%. Clearly, Plant 2 is the superior plant over

the three-cycle period but neither plant is subject to a penalty or a reward. However, if the one-cycle period is used, Plant 1, the overall inferior plant, receives a reward, and Plant 2 suffers a penalty.

PG&E proposes that certain "modifiers" be incorporated in the calculation of the capacity factors for the TCF mechanism. These are of two types. First, there are certain Nuclear Regulatory Commission mandated outages. An example would be the regular ten year in-service inspection. Outages qualifying for exclusion would be only those which do not result from PG&E's actions. Second, PG&E will occasionally take actions that reduce the overall cost of service to ratepayers such as changing the energy supply mix to produce energy at the least cost. Both of these modifiers were included in the SONGS TCF mechanism but they were invoked only to avoid a penalty, not to generate a reward. PG&E's position is that it should work either way, that is, the modifiers, when invoked, should work to produce a reward as well as eliminate a penalty. We agree with PG&E. It seems clearly fair that if the utility is not responsible for the downtime or invokes downtime to benefit ratepayers, it should not be penalized if an award were otherwise due.

Findings of Fact

1. PG&E is currently receiving $490 million in rate relief for the operation of Diablo Canyon Units 1 and 2.

2. The interim rate policy adopted for Unit 1 of Diablo in D.85-12-085 and D.86-04-080 effectively increased revenue to PG&E equal to the fuel savings generated by operation of the plant and some operating and maintenance expenses.

3. Due to the severe drop in fuel prices since December 1985, application of the policy adopted for Unit 1 in December 1985 to the combined operations of Units 1 and 2 at the present time would produce less rate relief than is currently authorized.

4. PG&E requests interim rates for the Diablo Canyon Plant of $756 million which would require a rate increase of $266 million.

5. In the alternative, under the policy adopted in Phase 1A, PG&E requests $531 million which would require a rate increase of $41 million, PSD recommends $361 million and a rate decrease of $129 million, and the AG recommends $413 million and a rate decrease of $77 million.

6. PG&E may be foregoing the recovery of as much as $35 million per year under the presently authorized bookings to the DCAA for non-investment costs of Diablo.

7. With the exception of the $35 million in non-investment costs noted in Finding 6, PG&E is booking in the Diablo Canyon Adjustment Account all investment and non-investment costs for the operation of Diablo.

8. PG&E has not shown there is a pressing need to authorize an increase in rates for Diablo at this time.

9. It is fair to ratepayers and PG&E not to make a downward adjustment in interim rates at this time which might be interpreted as a judgment on the merits of the parties' positions in the reasonableness phase.

10. A TCF mechanism is an important safeguard for ratepayers and an incentive for PG&E to operate Diablo in an efficient manner.

11. A TCF deadband of 55-75% will encourage superior performance by PG&E and provide for equitable allocation of risk between PG&E and its ratepayers.

12. A three-fuel-cycle period for measuring the capacity factor for application to the TCF mechanism is a better measurement of performance and better incentive factor than a one-cycle period.

13. Modifiers to the TCF mechanism proposed by PG&E but limited to downtime for which PG&E is clearly not responsible are fair adjustments to the TCF calculation.

Conclusions of Law

1. No further interim rate relief should be granted at this time.

2. PG&E should be given the opportunity to recover, on a balancing account basis and subject to review and possible refund, its reasonable non-investment expenses for Diablo.

3. PG&E should be authorized to book its actual non-investment expenses for Diablo into the DCAA account with an upper limit of $197.076 million annually with no attrition adjustment.

4. PG&E's bookings of non-investment expenses for Diablo to the DCAA should be reviewed for reasonableness in further hearings in these proceedings.

5. PG&E should be ordered to file a tariff which provides for a TCF mechanism.

6. Because the test year for the estimated non-investment expenses has passed, this order should be effective today.

ORDER

IT IS ORDERED that:

1. Further interim rate relief is denied.

2. Pacific Gas and Electric Company (PG&E) is authorized to file, by advice letter and subject to downward adjustment and refund, tariffs which will accomplish the debiting of up to $197.076 million in the Diablo Canyon Adjustment Account for non-investment costs that are actually incurred for the operation of the Diablo Canyon Nuclear Power Plant, Units 1 and 2.

3. Within 30 days from the effective date of this decision, PG&E shall file a tariff establishing a target capacity factor mechanism which reflects PG&E's proposal for such a mechanism and becomes effective at the beginning of the next full fuel cycle for each unit.

4. Review of the reasonableness of the debits authorized in Ordering Paragraph 2 shall be by further hearings in these proceedings.

This order is effective today.

Dated OCT 1 6 1987, at San Francisco, California.

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
Commissioners

Commissioner John B. Ohanian, being necessarily absent, did not participate.

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

Victor Weisser, Executive Director

ALJ/ACP/fs

Decision ____________

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application Of Pacific Gas and Electric Company, For Authorization To Establish A Rate Adjustment Procedure For Its Diablo Canyon Nuclear Power Plant; To Increase Its Electric Rates to Reflect The Cost Of Owning, Operating, Maintaining and Eventually Decommissioning Unit 1 Of The Plant; And To Reduce Electric Rates Under Its Energy Cost Adjustment Clause And Annual Energy Rate To Reflect Decreased Fuel Expense. (Electric)	Application 84-06-014 (Filed June 6, 1984, amended December 21, 1984)
And Related Matter.	Application 85-08-025 (Filed August 12, 1985)

OPINION ON INTERIM RATES - PHASE 1B

By this decision we deny further interim rate relief to Pacific Gas and Electric Company (PG&E) for the operation of its Diablo Canyon Nuclear Power Plant,[1] but authorize booking for later recovery reasonable non-investment expenses for the plant.

In June 1984, PG&E filed Application (A.) 84-06-014 for an adjustment in rates to cover Unit 1 of its Diablo Canyon Plant. In March 1985, the Commission adopted a stipulation (Decision (D.) 85-03-021) between PG&E and the Commission's Public Staff Division (PSD) which established an interim rate mechanism for recording the costs and fuel savings attributable to Unit 1's commercial operation which began in May 1985. Hearings were then held during 1985 to determine a permanent interim rate mechanism for Unit 1.

1 Diablo Canyon consists of two units of about 1060 MW each, and is located on the coast near San Luis Obispo.

This was known as Phase 1A of the processing of these applications.[2] A decision on Phase 1A was issued in December 1985 (D.85-12-085) which granted PG&E the cash flow from the fuel savings generated by Unit 1 and operating and maintenance expenses for Unit 1. D.85-12-085 was modified ex parte on application for rehearing by D.86-04-080 but it did not change the monetary award.

In August 1985, PG&E filed A.85-08-025 for an adjustment in rates to cover Unit 2 of Diablo. In a manner similar to that for Unit 1, PG&E and PSD stipulated to an interim rate mechanism which was adopted by the Commission in January 1986 (D.86-01-054) and became effective with the commercial operation of Unit 2 in March 1986.

During the summer and fall of 1986, we held the Phase 1B hearings on interim rates for Unit 2 plus several matters which we did not dispose of in our decisions on Phase 1A of these proceedings.[3] After briefing and oral argument before the Commission en banc on December 4, 1986, Phase 1B was submitted. The assigned administrative law judge (ALJ) distributed his

---

2 Processing of these applications was established in phases. The three phases applicable to this decision are:

> Phase 1A: consider the expenses and investment to be recognized for setting interim rates.
>
> Phase 1B: provide for a more detailed investigation of the appropriate expenses and investment to be recognized for interim rate purposes and alternatives to traditional ratemaking.
>
> Phase 2: consider the amount of investment in Diablo Canyon that the Commission should recognize as reasonable for ratemaking purposes.

3 D.85-12-085 and D.86-04-080 set for further hearing the issues of non-investment related expenses, calculation of fuel cost savings, cogeneration and geothermal fuel savings, Diablo Canyon Adjustment Account treatment, and decommissioning expenses.

proposed decision February 2, 1987 which the Commission adopted with minor modifications on March 6, 1987 (D.87-03-029). That decision addressed only the issue of decommissioning, authorizing PG&E to increase rates by $53.2 million per year to cover the cost of decommissioning Units 1 and 2. The Commission held in abeyance a decision on any further interim rates for the Diablo plant pending issuance of the PSD report on Phase 2, the prudency review, of these proceedings.

In making the recommendation to hold any further interim rate authorization until after the PSD report was issued, the assigned Commissioner and ALJ were considering the possibility of recommending interim rates be based on the uncontested investment that the PSD would recommend be included in rate base for Diablo.[4] Although this would have been a departure from the policy we established in granting rates for Unit 1, that is, cash flow to PG&E of the fuel savings and operating costs, such a departure appeared necessary from the Phase 1B record in order to avoid a possible rate decrease and its concomitant effect on the growing balance in the Diablo Canyon Adjustment Account (DCAA). The Phase 1B record shows, and we will discuss the numbers later, that with the severe reduction in fossil fuel costs since late 1985, the application of our current policy to the combined operations of Units 1 and 2 would produce less fuel savings than we adopted in December 1985 for Unit 1 alone. (See Table 2.)

However, after reviewing the investment recommendation by the PSD in its report filed May 14, it is clear that using the uncontested investment for an interim rate determination would not even produce the amount of interim rate relief already granted PG&E.

4 This was the recommendation of the PSD during hearings on Phase 1A. The recommendation was not adopted by the Commission in that phase.

As shown on Table 1, PG&E is presently receiving about $543 million in interim rate relief. By D.85-12-085 in Phase 1A, the Commission authorized $388 million in interim rates for Diablo Unit 1 of which $334 million was for the fuel cost savings estimated to result from the operation of Unit 1 and $54 million was for operation and maintenance expenses for the unit. By D.86-01-054, which approved the second stipulation between PG&E and PSD, PG&E was authorized to retain the fuel cost savings resulting from the operation of Unit 2 based on an agreed-to formula set out in the stipulation. That formula produces a fuel cost savings of about $102 million per year for Unit 2. Finally, by D.87-03-029, the rate increase of $53 million for decommissioning was authorized. In summary, the total effective revenue increase to PG&E for the Diablo plant is now $543 million, the increased cash flow to PG&E is $490 million, and the increase in rates is $107 million.

PG&E is requesting interim rates equivalent to $800 million in cash flow including an allowance of $44 million for decommissioning. As noted, we have decided the decommissioning issue. Putting the $44 million requested aside, the effective amount requested by PG&E is $756 million.

In its initial testimony to support the $756 million, PG&E recommended a departure from the interim rate policy we established in D.85-12-085. The company chose to rely on financial need as the primary basis for its request, including Units 1 and 2 operating expenses and enough imputed investment to make up the $756 million. However, the Attorney General (AG) challenged that approach through a motion to strike testimony on Unit 1 that did not follow the interim rate policy the Commission established in Phase 1A. The AG claimed that, in effect, PG&E was seeking a

TABLE 1

PRESENT INTERIM RELIEF
(Millions of dollars)

	Increased Cash Flow TO PG&E	Rate Increase	Authorized Revenue Increase
12/18/85 D.85-12-085			
Granted PG&E interim cash flow of $388 for Unit 1 consisting of: Net fuel savings $334; Production expense $ 54	$388	$ 54	$388
1/23/86 D.86-01-054			
Granted PG&E further interim cash flow of $102 for the net fuel savings from Unit 2.	102	0	102
3/ 6/87 D.87-03-029			
Set up decommissioning annual accrual of $53. Increased rates $53; however there is no increase in cash flow to PG&E because funds are deposited in a special tax exempt account not available to PG&E.	0	53	53
TOTAL	$490	$107	$543

change in the interim rate mechanism established for Unit 1, a change the Commission did not have in mind when it ordered further hearings on the Unit 1 mechanism. Arguments for and against the motion are discussed in the ALJ's ruling dated June 17, 1986, which granted the AG's motion. On July 31, 1986, PG&E petitioned the Commission to set aside the ALJ's ruling, or, in the alternative, to modify D.85-12-085 and D.86-04-080 to allow capacity values and other savings to be reflected in the interim rate formula for Unit 1. We have reviewed the record and find the ALJ correctly interpreted D.85-12-085 and D.86-04-080; that is, that the Commission intended in the Phase 1B hearings that only the elements of a short-term ECAC type estimate should be considered when calculating fuel savings, that the amount of any interim revenue increase for Unit 1 was to be solely determined by adding fuel cost savings to non-investment expenses, that the interim rate mechanism adopted by D.85-12-085 applies only to Unit 1, and that the interim rate mechanism for Unit 2 was to be determined from the record in Phase 1B. The ALJ's ruling of June 17, 1986 is affirmed.

After the ALJ excluded the evidence discussed above, PG&E filed additional evidence which still requested the same $756 million relying on a different approach to support the request. Anyway one cuts it however, if we approve the $756 million, we must recognize about 50 percent of PG&E's investment in Diablo, thereby requiring a revision of our Phase IA policy for Diablo. Our Phase 1A policy seeks to avoid interim Diablo adjustments that recognize highly contested investment expenditures.

Disregarding the decommissioning allowance and adhering to the policy established in Phase 1A, PG&E requests, in the alternative, interim cash flow of $531 million; PSD recommends $361 million; and the AG $413 million, the detail of which is shown in Table 2.

In its initial testimony to support the $756 million, PG&E recommended a departure from the interim rate policy we established in D.85-12-085. The company chose to rely on financial need as the primary basis for its request, including Units 1 and 2 operating expenses and enough imputed investment to make up the $756 million. However, the Attorney General (AG) challenged that approach through a motion to strike testimony on Unit 1 that did not follow the interim rate policy the Commission established in Phase 1A. The AG claimed that, in effect, PG&E was seeking a change in the interim rate mechanism established for Unit 1, a change the Commission did not have in mind when it ordered further hearings on the Unit 1 mechanism. Arguments for and against the motion are discussed in the ALJ's ruling dated June 17, 1986, which granted the AG's motion. On July 31, 1986, PG&E petitioned the Commission to set aside the ALJ's ruling, or, in the alternative, to modify D.85-12-085 and D.86-04-080 to allow capacity values and other savings to be reflected in the interim rate formula for Unit 1. We have reviewed the record and find the ALJ correctly interpreted D.85-12-085 and D.86-04-080; that is, that the Commission intended <u>in the Phase 1B hearings</u> that only the elements of a short-term ECAC type estimate should be considered when calculating fuel savings, that the amount of any interim revenue increase for Unit 1 was to be solely determined by adding fuel cost savings to non-investment expenses, that the interim rate mechanism adopted by D.85-12-085 applies only to Unit 1, and that the interim rate mechanism for Unit 2 was to be determined from the record in Phase 1B. The ALJ's ruling of June 17, 1986 is affirmed.

After the ALJ excluded the evidence discussed above, PG&E filed additional evidence which still requested the same $756 million relying on a different approach to support the request. Anyway one cuts it however, if we approve the $756 million, we must recognize about 50 percent of PG&E's investment in Diablo, thereby requiring a revision of our Phase IA policy for Diablo. Our Phase

TABLE 2

Interim Rates Based on Present Policy
Positions of the Parties
($ Millions)

	Non-investment	Fuel	Total	Rate Change
Present	54	436	490	N/A
PG&E	200	331	531	+ 41
PSD	127	234	361	-129
AG	165	248	413	- 77

Comparing the recommendations to the present authorization, PG&E's would result in an increase in rates of $41 million and PSD's and AG's would result in a decrease of $129 and $77 million respectively.

On June 5, 1987, shortly after the PSD issued its report, PG&E filed a motion for immediate interim rate relief. A discussion of that motion and the responses to it by other parties will serve to focus the issues we face in our determination of any further interim rate authorization.

In its motion PG&E argues that:

- It needs an immediate grant of $756 million. The actual rate increase would be $266 million because $490 has already been granted.

- Its proposed $756 million will allow PG&E to recover all non-investment costs but less than 50% of the investment costs and still protect the ratepayers by providing for refunds if the Commission disallows more than 50% of PG&E's investment in Diablo.

- $556 of the $756 million would be investment related. The $556 results from subtracting $200 in non-investment expenses from the $756.

- There are huge undercollections accruing in the DCAA which will have to be amortized in rates when a final decision is issued after the reasonableness review.

- As of April 30, 1987, the DCAA was undercollected by $1.12 billion. Without further rate relief it will be $2.8 billion at the end of 1988 and $3.9 billion at the end of 1989.

- The increase is needed to maintain PG&E's financial integrity. Duff and Phelps downgraded PG&E's bonds and commercial paper rating.

- A PSD policy witness testified that PG&E's financial integrity will be eroded if current levels of rate relief are continued.

- PG&E has received no rate relief for non-investment costs incurred for Unit 2 and only partial relief for non-investment costs for Unit 1.

- The Commission implied in the decommissioning decision that a decision on final interim rates would be out when the PSD report was issued.

- PG&E does not believe the PSD report precludes the Commission from granting further interim relief pointing out that a PSD policy witness testified that Diablo could not be built for what the PSD is recommending in rate base.

- The current level of interim rates is roughly equivalent to the revenue requirement which would result from adopting the PSD's recommendation which PG&E characterizes as extreme and unfair.

Toward Utility Rate Normalization (TURN) opposes the motion contending that:

- The PSD report demonstrates PG&E has no basis for further relief.

- PG&E is now receiving $360 million in revenues covering investment-related Diablo costs. The PSD-recommended rate base of $1.150 billion would require only $210 million in

revenues. Thus, PG&E is collecting $150 million more in investment costs than it should under the PSD recommendation.

- Therefore, PG&E's argument that it should have an additional $145 million to cover non-investment costs is not valid because it does not consider the fact that PG&E is now collecting more than the $145 million in fuel cost savings under the rationale of the Phase 1A decision.

- If the Commission adopts the PSD recommendation, ratepayers would be due a refund even if no further changes are made in interim rates.

- Investment-related revenues are in doubt because of TURN's pending appeal in the Supreme Court on the Phase 1A decision in December 1985.

- PG&E's claim of financial need is unconvincing. PG&E told its shareholders in a March 1987 letter that it will maintain the current dividend which reflects PG&E management's confidence in the basic financial strength of the company.

The Attorney General opposes the motion, arguing that:

- PG&E implies that it has been unable to recover any of the non-investment related expenses for Unit 2. This is not true because D.86-01-054, which adopted the stipulation for the Unit 2 rate mechanism pending litigation, provided for a balancing account treatment of $91 million in non-investment costs.

- PG&E wants a change in the policy adopted in December 1985 for Unit 1 interim rates because that policy will not produce the $756 million PG&E claims it needs on an interim basis.

- PG&E claims there will be an enormous undercollection, but that undercollection will occur only if the Commission allows all of PG&E's Diablo costs into rate base.

- The Duff and Phelps downgrade should be judged in light of the fact they are a client of PG&E and testified favorably for PG&E in the Phase 1A and 1B hearings.

- Any further interim relief would prejudge the prudency phase of the case.

- Further interim relief could be accelerated if the Commission updated the fuel cost savings estimate on an annual basis or certain reasonableness issues could be decided before the end of Phase 2 as recommended by the AG.

PSD opposes the motion stating that:

- PG&E offers nothing new in its motion. Further interim relief should be denied because the Phase 1B record supports leaving interim rates at their current level pending conclusion of Phase 2.

- In any case, the Commission should await the determination of the Supreme Court on TURN's appeal of the legality of making rates based on investment prior to prudency review.

- If the Commission were to adjust interim rates, they should be decreased if the Commission adopts the theory of basing rates on the undisputed investment, a recommendation made by the PSD in Phase 1A but rejected by the Commission in D.85-12-085.

- PG&E's pre-tax interest coverages for 1987, '88, and '89 will be within Standard and Poor's 2.5-4.0 range for single-A rated utilities if there is no further change in interim rates.

PG&E answers AG, TURN, and PSD that:

- PG&E has received no <u>rate relief</u> for Unit 2 and only some of the Unit 1 non-investment expenses. Also, non-investment related costs are not subject to full balancing account treatment. The A&G and refueling costs are not covered.

- If the Commission does not adopt the PSD investment recommendation, huge undercollections will have to be amortized and paid for by future ratepayers and those ratepayers enjoying the output of Diablo today will receive a windfall.

It should be noted and, indeed, emphasized that PG&E, with an exception we will discuss later, is booking the entire cost of supporting Diablo, including investment costs reflecting a return on full investment, in the Diablo Canyon Adjustment Account (DCAA). That booking was authorized when we adopted the stipulations between PG&E and PSD for interim rate mechanisms for Units 1 and 2 prior to commercial operation. See D.85-03-021 and D.86-01-054. A decision on what to do with the balance in the DCAA will be made after our determination of the prudent investment in Diablo at the end of Phase 2 because the amount of investment we recognize will determine the balance in the DCAA which must be borne by PG&E's ratepayers.

Based on all the pleadings and evidence before us, and given the magnitude of the expenditures being challenged in the reasonableness phase of this proceeding, we find that PG&E has not shown a pressing need to make any further upward adjustment in interim rates. On the other hand, we do not find that it would be fair to make a downward adjustment, either. What is most urgent at this time is that we make an adjustment in the bookings being made currently to the DCAA in order to insure that when a final decision is made in Phase 2, PG&E and the ratepayers will be treated fairly concerning non-investment charges for the operation of Diablo.

The latest estimated results of operations for Diablo contained in this record are in Exhibit 94, PG&E witness Long, for a rate year ending February 28, 1987. See Table 3. The non-investment estimates in Table 3 represent PG&E's request in Phase 1B. They exceed the $162 million PG&E has been booking in the DCAA account as a result of the stipulations approved by the

SOURCE:
EXHIBIT 94

TABLE 3

PACIFIC GAS AND ELECTRIC COMPANY

DIABLO CANYON
RESULTS OF OPERATIONS
(Test Year Beginning March 1, 1986)
(000's Omitted)

Description	CPUC Jurisdiction
Operating Revenues	$1,342,873
Operating Expenses	
Production*	147,529
Refueling*	13,283
Administrative & General*	28,893
Other	0
Uncollectibles	3,452
Franchise Requirements	9,057
Escalation	1,293
Subtotal	203,507
Taxes	
Property	54,133
Payroll & Business*	6,078
State Income	43,040
Federal Income	277,067
Subtotal	380,317
Depreciation	146,232
Decommissioning Expense**	43,759
Total Operating Expenses	773,815
Net for Return	569,058
Rate Base	4,734,774
Return on	
Rate Base	12.02%
Common Equity	14.71%

* = 1986 Dollars
** = Amount represents annual decommissioning costs requested commencing 1/1/87.

Commission which set up the interim accounting mechanism for Diablo. The amounts authorized for booking and the requested amounts are compared on Table 4. If the $197.076 million shown on Table 4 is a valid estimate, PG&E is foregoing $35.214 million per year (197.076 - 161.862) in non-investment expenses, including refueling costs, by not having our approval to book the $197.076 million.

Even though PG&E stipulated to $162 million in non-investment costs, it did so with the understanding the Commission would adjust that expense after litigating the costs in Phase 1B. However, we have reviewed the record on non-investment expenses that was made in Phase 1B and are not satisfied that we can make a determination of the reasonable expenses to allow based on that record. We were well into the test year when the matter was litigated, and much of the data appeared stale, and the staff did not have an up-to-date study. Therefore we will not rule on the reasonableness of these costs at this time. But, since the $162 million is subject to a downward adjustment only, we believe PG&E should be given the chance now to recover, on a balancing account basis and subject to review and possible refund, its reasonable non-investment expenses for Diablo.

We will accomplish this by continuing the terms of the stipulations except for the amount of non-investment costs that may be booked as deferred debits. We will authorize PG&E to book its actual non-investment costs but limit the amount to $197.076 million annually with no attrition adjustment, the $197.076 million being the amount requested in Exhibit 94 for the test year beginning March 1, 1986. Non-investment expenses include production expenses, refueling on the assumption of one refueling per year, administrative and general, and payroll and business taxes. It excludes RD&D and decommissioning expenses because the RD&D request has been withdrawn and the decommissioning issue has

TABLE 4

Diablo Canyon Non-Investment Related Expenses
(CPUC Jurisdiction)

Expenses	$ Thousands: Now Booked to DCAA Unit 1	Unit 2	Tariff Total	Requested, excl. Decommissioning
Production, incl. refueling	$53,837	$73,980	$127,817	$160,812
A&G	12,834	14,320	27,154	28,893
RD&D	569	0	569	0
Decommissioning	636	664	1,300	0
Payroll & Business Tax	2,077	2,945	5,022	6,078
Escalation	-	-		1,293
Total, excl. F&U	$69,953	$91,909	$161,862	$197,076
F&U at 0.0094031				1,853
Total, incl. F&U	-	-		$198,929

Notes: 1. Requested amounts are for test year beginning March 1, 1986 and are calculated based on Exhibit 94.

2. F&U = Franchise and Uncollectibles.

been decided. By allowing PG&E to book actual expenses with the upper limit indicated and then reviewing those expenses for reasonableness in further hearings in this proceeding, ratepayers and PG&E will be treated fairly.

One further matter concerning non-investment expenses is PG&E's motion filed August 1, 1986 to include in the DCAA those Unit 1 operating and maintenance expenses no longer in dispute as a result of the PSD exhibits filed in Phase 1B. We did not rule on that motion because of opposition by other parties who contended that if the reasonableness of non-investment expenses were reconsidered, then other issues such as fuel cost savings should be reviewed and adjusted. Because of the action we are taking in this decision, the motion is moot and is denied.

Findings of Fact

1. PG&E is currently receiving $490 million in additional cash flow for the operation of Diablo Canyon Units 1 and 2.

2. The interim rate policy adopted for Unit 1 of Diablo in D.85-12-085 and D.86-04-080 effectively increased revenue to PG&E equal to the fuel savings generated by operation of the plant and some operating and maintenance expenses.

3. Due to the severe drop in fuel prices since December 1985, application of the policy adopted for Unit 1 in December 1985 to the combined operations of Units 1 and 2 at the present time would produce less cash flow than is currently authorized.

4. PG&E requests interim rates for the Diablo Canyon Plant of $756 million which would require a rate increase of $266 million.

5. In the alternative, under the policy adopted in Phase 1A, PG&E requests $531 million which would require a rate increase of $41 million, PSD recommends $361 million and a rate decrease of $129 million, and the AG recommends $413 million and a rate decrease of $77 million.

6. PG&E may be foregoing the recovery of as much as $35 million per year under the presently authorized bookings to the DCAA for non-investment costs of Diablo.

7. With the exception of the $35 million in non-investment costs noted in Finding 6, PG&E is booking in the Diablo Canyon Adjustment Account all investment and non-investment costs for the operation of Diablo.

8. PG&E has not shown there is a pressing need to authorize an increase in rates for Diablo at this time.

9. It is fair to ratepayers and PG&E not to make a downward adjustment in interim rates at this time.

Conclusions of Law

1. No further interim rate relief should be granted at this time.

2. PG&E should be given the opportunity to recover, on a balancing account basis and subject to review and possible refund, its reasonable non-investment expenses for Diablo.

3. PG&E should be authorized to book its actual non-investment expenses for Diablo into the DCAA account with an upper limit of $197.076 million annually with no attrition adjustment.

4. PG&E's bookings of non-investment expenses for Diablo to the DCAA should be reviewed for reasonableness in further hearings in these proceedings.

5. Because the test year for the estimated non-investment expenses has passed, this order should be effective today.

O R D E R

IT IS ORDERED that:

1. Further interim rate relief is denied.

2. Pacific Gas and Electric Company (PG&E) is authorized to file, by advice letter and subject to downward adjustment and refund, tariffs which will accomplish the debiting of up to

$197.076 million in the Diablo Canyon Adjustment Account for non-investment costs that are actually incurred for the operation of the Diablo Canyon Nuclear Power Plant, Units 1 and 2.

3. Review of the reasonableness of the debits authorized in Ordering Paragraph 2 shall be by further hearings in these proceedings.

This order is effective today.

Dated ____________________, at San Francisco, California.