

Decision 88 03 067 MAR 23 1988

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)

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

And Related Matter.

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

INTERIM OPINION ADOPTING STIPULATION REGARDING
 NONINVESTMENT EXPENSES (PHASE 1B)

This decision adopts the stipulation regarding noninvestment expenses for the Diablo Canyon Nuclear Power Plant submitted by Pacific Gas and Electric Company (PG&E) and the Division of Ratepayer Advocates (DRA) and authorizes PG&E to book for later recovery reasonable noninvestment expenses for the plant.

PG&E was the only party to file comments on the proposed decision of the administrative law judge (ALJ) on this matter. We have considered PG&E's comments and will adopt the ALJ's proposed decision as filed.

Background of the Stipulation

The Commission has addressed noninvestment expenses on a number of occasions in conjunction with the Diablo Canyon rate proceeding. The Commission first addressed noninvestment expenses in Decision (D.) 85-03-021, dated March 6, 1985, as subsequently modified by D.85-05-040. In those decisions, PG&E was authorized to reflect noninvestment expenses in the Diablo Canyon Adjustment Account (DCAA) up to a stipulated level of Unit 1 Operating and Maintenance (O&M) and Administrative and General (A&G) expenses.

Thereafter, by D.85-12-085, dated December 18, 1985, the Commission authorized PG&E an interim rate increase of \$53.8 million to cover the O&M expenses of Unit 1. At the same time, it authorized PG&E to book \$69.953 million in the DCAA for noninvestment expenses.

The Commission addressed noninvestment expenses again in D.86-01-054, authorizing PG&E to accrue in the DCAA a stipulated level of Unit 2 noninvestment expenses.

In D.87-10-041, dated October 16, 1987, the Commission recognized that PG&E's noninvestment expenses may exceed the amount that it was allowed to collect in rates or book in the DCAA. Therefore, the Commission authorized DCAA accruals not to exceed \$197.076 million annually for noninvestment expenses, including refueling costs. ✓

Following the issuance of D.87-10-041, a prehearing conference was held and a procedural schedule determined for hearing evidence on noninvestment expenses. On January 4, 1988, PG&E filed its testimony on noninvestment expenses.

Thereafter, on January 13, 1988, PG&E and the DRA jointly filed a proposed stipulation regarding noninvestment expenses for the Diablo Canyon plant. The proposed stipulation addresses not only the level of noninvestment expenses for test year 1988 and subsequent years until PG&E's next general rate case, but also the reasonableness of expenses previously authorized and/or recorded in

the DCAA. While PG&E and the DRA stipulated to the level of noninvestment expenses, the parties did not agree on the rate treatment for those expenses.

On January 28, 1988 a prehearing conference was held to receive comments or protests on the proposed stipulation. No party protested the proposed stipulation or asked for hearings on the matter. Hearings on the rate treatment for noninvestment expenses are scheduled to commence March 1, 1988.

Pending the determination of the proper rate treatment for the agreed upon noninvestment expenses, PG&E requested that the Commission allow it to accrue up to the stipulated amount (\$201.6 million) for 1988 test year noninvestment expenses in the DCAA.

Provisions of the Stipulation

The stipulation is attached as Appendix A. It provides that for test year 1988, reasonable Diablo Canyon noninvestment expenses are \$201.6 million on a CPUC jurisdictional basis. This includes O&M expenses of \$66 million per unit, refueling expenses of \$19 million per unit and A&G, payroll taxes, franchise fees and uncollectibles of \$31.6 million. These last items have been calculated in accordance with the factors authorized in PG&E's last general rate case.

The stipulation also provides a mechanism for adjusting the level of expenses for 1989 and subsequent years until PG&E's next general rate case. The agreed upon 1988 level of noninvestment expense will be adjusted for attrition by the escalation factors applied to base rate attrition adjustments. Adjustments also will be made for the estimated and actual number of refueling outages that are expected to occur.

In addition, the stipulation provides that if the Nuclear Regulatory Commission (NRC) licensing fees increase over the 1987 level of such expenses, PG&E will be allowed to recover the increase in its 1988 attrition adjustment.

Finally, the stipulation provides that the noninvestment expenses recorded by PG&E in the DCAA are reasonable subject to the limitations discussed in the decisions cited above and to further confirmation by DRA audit.

Discussion

We are satisfied that the stipulation presented by PG&E and the DRA is reasonable.

The Attorney General of the State of California (AG) and the U.S. Department of Defense stated at the January 28, 1988 hearing that they did not object to the stipulation. No other party protested the stipulation or asked for hearings. A&G expenses, payroll taxes, and franchise fees and uncollectibles are based on factors authorized in PG&E's last general rate case.

Noninvestment expenses previously recorded in the DCAA, subject to the limitations set forth in our previous decisions, are reasonable.

The parties did not agree on the rate treatment for the stipulated expenses. The DRA and AG requested hearings on this issue which were held March 1 and 2, 1988. In the interim, it is reasonable to authorize PG&E to accrue up to the stipulated amount of noninvestment expenses (\$201.6 million) in the DCAA for test year 1988. ✓

Findings of Fact

1. PG&E and the DRA have entered into a stipulation regarding noninvestment expenses for the Diablo Canyon Nuclear Power Plant.
2. The proposed stipulation was mailed to all parties on January 13, 1988.
3. A properly noticed prehearing conference was held on January 28, 1988 to consider the stipulation; no party to the proceeding raised any substantive objection to provisions of the stipulation or requested further hearings on the terms of the stipulation.

4. Key provisions of the stipulation are:
- a. Reasonable O&M expense for Diablo Canyon is \$66 million per unit in 1988 on a California Public Utilities Commission (CPUC) jurisdictional basis.
 - b. Reasonable refueling outage expense for Diablo Canyon is \$19 million per unit in 1988 on a CPUC jurisdictional basis.
 - c. Two refueling outages are scheduled for 1988.
 - d. Reasonable levels of other noninvestment expenses for 1988 expressed on a CPUC jurisdictional basis include \$7.4 million for insurance, \$16.3 million for pensions and benefits, \$6.3 million for payroll taxes, and \$1.6 million for uncollectibles and franchise requirements.
 - e. The estimates set forth in 4d. have been determined based on factors authorized in PG&E's last general rate case.
 - f. For 1989 and future years, until PG&E's next general rate case, the 1988 level of noninvestment-related expenses will be adjusted for attrition by the escalation factors applied to base rate attrition adjustments.
 - g. Refueling outage expenses for future years will be based upon the number of refueling outages estimated for the future.
 - h. If NRC licensing fees increase over the 1987 level, PG&E will be allowed to recover the increase in its attrition mechanism, beginning in 1989.
 - i. Noninvestment amounts previously recorded in the DCAA are reasonable up to the limits previously authorized for accrual by the Commission.
 - j. PG&E has incurred reasonable expenses of at least the levels authorized and/or recorded in the DCAA.

5. The parties have not agreed on the proper ratemaking treatment for the stipulated expenses.

6. The provisions of the stipulation are reasonable.

Conclusions of Law

1. The provisions of the stipulation between PG&E and the DRA concerning past and future noninvestment expenses are reasonable and should be approved.

2. Pending a decision on the proper rate treatment for the stipulated noninvestment expenses, PG&E should be allowed to accrue noninvestment expenses in the DCAA up to the level set forth in the stipulation.

3. This decision should be made effective on the date signed because PG&E is currently incurring the expenses adopted.

INTERIM ORDER

IT IS ORDERED that:

1. The stipulation submitted by Pacific Gas and Electric Company (PG&E) and the Division of Ratepayer Advocates (DRA) and attached as Appendix A is approved.

2. Pending resolution of the proper rate treatment for the stipulated expenses, PG&E is authorized to accrue in the Diablo Canyon Adjustment Account (DCAA) noninvestment expenses up to the level set forth in the stipulation.

3. PG&E is authorized to file tariffs necessary to implement the provisions of Ordering Paragraph 2. ✓


4. Tariff filings authorized by this decision shall be in accordance with General Order Series 96, shall be effective 10 days after filing and shall apply to service rendered on or after their effective date. The tariff sheets shall be marked to show that they were approved for filing by this decision.

This order is effective today.

Dated MAR 23 1988, at San Francisco, California.

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
C. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

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


Victor Winters, Executive Director

APPENDIX A

STIPULATION BETWEEN
CPUC DIVISION OF RATEPAYER ADVOCATES,
AND PACIFIC GAS AND ELECTRIC COMPANY
REGARDING NONINVESTMENT-RELATED EXPENSES
FOR DIABLO CANYON NUCLEAR POWER PLANT

Pursuant to the direction of the Administrative Law Judge to review and confer about the level of noninvestment-related expenses, Pacific Gas and Electric Company (PG&E) and the Division of Ratepayer Advocates (DRA) have agreed on the following matters regarding Diablo Canyon noninvestment-related expenses, based on PG&E and DRA review of these expenses. All stipulated amounts for future test year expenses are expressed in 1988 dollars on a CPUC jurisdictional basis.

1. A reasonable level, for purposes of stipulation, of operating and maintenance expenses for Diablo Canyon is \$66 million per unit for each of Units 1 and 2 in 1988.
2. A reasonable level, for purposes of stipulation, of refueling outage expenses for Diablo Canyon is \$19 million per unit for each of Units 1 and 2 in 1988.
3. The total operation and maintenance expense, including the two refueling outages scheduled for 1988, is \$170 million, and this is a reasonable level for purposes of stipulation for the year 1988.
4. In addition to the operating and maintenance and refueling outage expenses set forth above for test year 1988, other noninvestment-related expenses for 1988 include \$7.4 million for insurance, \$16.3 million for pensions and benefits, \$6.3 million for payroll taxes and \$1.6 million for uncollectibles and franchise requirements. These amounts are consistent with the factors authorized in the last general rate case decision.
5. For 1989 and future years, or until Diablo Canyon O&M expenses are litigated in the next general rate case currently anticipated for test year 1990, PG&E and DRA agree that the 1988 level of noninvestment-related expenses agreed upon herein will be adjusted for attrition by the escalation factors applied to base rate attrition adjustments. Refueling outage expenses will be based upon the number of refueling outages estimated for the future year. If a scheduled refueling, for which rate recovery has been included in estimating attrition revenue, does not begin in the calendar year for which it is scheduled, the refueling outage expense increment will not be included in the following attrition or test year revenue requirement.

APPENDIX A


-2-

6. PG&E and DRA also agree that this agreement shall permit PG&E to recover any increased licensing fees of the Nuclear Regulatory Commission above the base year 1987 through the company's attrition mechanism for 1989 and beyond.
7. DRA and PG&E also agree that the noninvestment amounts recorded in the Diablo Canyon Adjustment Account, subject to the limitations contained in D.85-03-021, D.85-05-040, D.85-12-085, D.86-01-054 and D.87-10-041, and further subject to confirmation by DRA audit, shall be deemed reasonable in view of the fact that the test years for which these amounts were estimated have expired, and each unit has undergone a refueling for which no provision was made in these estimates, as a result of which PG&E has incurred reasonable expenses of at least the levels authorized and/or recorded in the DCAA.

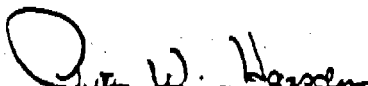
It is the understanding of the parties that this agreement shall be submitted as soon as possible to the presiding ALJ and the Commission at an additional prehearing conference to be scheduled at the request of DRA and PG&E.

This agreement is based upon review of the operation and maintenance expenses of PG&E and recent Commission decisions regarding nuclear operation and maintenance expenses. If litigated, PG&E would seek a higher amount but agrees to stipulate to avoid the delay and cost of such litigation. If such a stipulation is not accepted, PG&E and DRA reserve the right to submit a different estimate for hearing.

This agreement as to amounts of noninvestment-related expenses, for purposes of stipulation, does not commit either party to a position on ratemaking treatment of these expenses or DCAA accruals. Either party may submit evidence, testimony and/or briefs adopting a position on the ratemaking treatment of noninvestment-related expenses.



Thomas P. Corr
Attorney
California Public Utilities
Commission
Division of Ratepayer
Advocates



Peter W. Hanschen
Attorney
Pacific Gas and Electric Company

Dated: January 13, 1988

STIPULATION RECOVERY OF NONINVESTMENT AMOUNTS
WHICH ARE LIMITED TO DCAA RATE OR RECORDED
(\$000's)

| Year | Unit 1 | | | Unit 2 | | | Total |
|------|-----------------|--|---------------------------------------|-----------------|--|---------------------------------------|---------|
| | <u>Recorded</u> | <u>DCAA Authorized Noninvestment</u> | <u>Recovery Lesser Amount</u> | <u>Recorded</u> | <u>DCAA Authorized Noninvestment</u> | <u>Recovery Lesser Amount</u> | |
| 1985 | 48,566 | 44,812 | 44,812 | - | - | - | 44,812 |
| 1986 | 97,187 | 68,753 | 68,753 | 64,642 | 73,177 | 64,642 | 133,395 |
| 1987 | 78,331 | 76,482 | 76,482 | 96,915 | 91,236 | 91,236 | 167,718 |

5. The parties have not agreed on the proper ratemaking treatment for the stipulated expenses.

6. The provisions of the stipulation are reasonable.

Conclusions of Law

1. The provisions of the stipulation between PG&E and the DRA concerning past and future noninvestment expenses are reasonable and should be approved.

2. Pending a decision on the proper rate treatment for the stipulated noninvestment expenses, PG&E should be allowed to accrue noninvestment expenses in the DCAA up to the level set forth in the stipulation.

3. This decision should be made effective on the date signed because PG&E is currently incurring the expenses adopted.

INTERIM ORDER

IT IS ORDERED that:

1. The stipulation submitted by Pacific Gas and Electric Company (PG&E) and the Division of Ratepayer Advocates (DRA) and attached as Appendix A is approved.

2. Pending resolution of the proper rate treatment for the stipulated expenses, PG&E is authorized to accrue in the Diablo Canyon Adjustment Account (DCAA) noninvestment expenses up to the level set forth in the stipulation.

3. PG&E is authorized to file tariffs necessary to implement the provisions of ordering paragraph 2.