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ORIGINAL

Decision 88-05-027 May 11, 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)

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 RATE TREATMENT
 OF NONINVESTMENT COSTS**

Decision Summary

By this decision we order the noninvestment costs for Pacific Gas and Electric Company's (PG&E) Diablo Canyon Nuclear Power Plant moved from the Diablo Canyon Adjustment Account (DCAA) to base rates covering PG&E's electric service operations.

We also authorize PG&E to increase rates by \$147.4 million which, when added to the \$54.2 million^[1] rate increase granted by Decision (D.) 85-12-085, will recover estimated

1 D.85-12-085 authorized \$53.8 million plus a franchise and uncollectibles allowance which brought the total increase to \$54.2 million.

noninvestment costs for the Diablo Canyon plant for test year 1988. Adding the \$147.4 and \$54.2 million together produces in base rates the \$201.6 million for 1988 noninvestment costs stipulated to by PG&E and the Division of Ratepayer Advocates (DRA) on January 13, 1988 and approved by D.88-03-067 dated March 23, 1988.

Finally, we authorize continued booking to the DCAA account of \$472.9 million in fuel savings attributable to the operation of the Diablo Canyon plant.

In accordance with Article 19 of the Commission's Rules of Practice and Procedure, the assigned administrative law judge (ALJ) filed his proposed decision in this matter on April 11, 1988 and five parties responded within the 20-day period for comments. As a result of the comments filed, we have amended the ALJ's proposed decision to (1) clarify that revenues accruing in the DCAA from fuel savings were not earmarked specifically to cover investment costs but can be used to write off noninvestment costs not covered by the rate increase granted by D.85-12-085 and (2) indicate that no one opposed the proposal of PG&E to spread any further rate increases to customers on a system average percent change basis.

Background

The background of these applications and the proceedings which have been held to date is set forth in several Commission decisions.[2]

In D.87-10-041 we authorized PG&E to debit up to \$197.1 million in the DCAA for noninvestment costs actually incurred for the operation of Units 1 and 2 of the Diablo plant. We also ordered further hearings to review the reasonableness of the \$197.1 million. A prehearing conference was held November 18, 1987 at

2 See Decisions 85-03-021, 85-05-040, 85-12-085, 86-01-054, 86-02-015, 86-04-080, 87-03-029, 87-10-041, and 88-03-067.

which a schedule for taking evidence on appropriate noninvestment costs was set including hearings during the week of March 1, 1988.

In the interim, on January 13, 1988, PG&E and the DRA stipulated to (1) the reasonableness of the amounts for noninvestment costs that should be booked to the DCAA since the beginning of commercial operation of the plant in May 1985 through December 1987 and (2) an estimate of the noninvestment costs for test year 1988. The stipulation was submitted to the Commission and all parties and was adopted by D.88-03-067 on March 23, 1988.

PG&E and DRA could not agree on the rate treatment of the stipulated noninvestment expenses so the scheduled hearings were held March 1 and 2, 1988 to consider that issue. This decision (1) decides the issue of rate treatment for noninvestment expenses, (2) sets interim rates pending conclusion of Phase 2, the prudence review, and, (3) terminates Phase 1 of these proceedings.

PG&E's Request

PG&E called Thomas C. Long, manager of its Revenue Requirements Department, and John F. Jenkins-Stark, treasurer of PG&E in support of its request. Long testified that noninvestment expenses should be recovered in base rates. This can be done by removing noninvestment expenses from the DCAA and consolidating them with the other operating expenses in PG&E's base rates for normal future ratemaking.

The noninvestment expenses at issue are attributable to two periods. The first period covers the expenses PG&E has been authorized to accrue in the DCAA by Commission decisions over the last two-and-a-half years. These start with the commercial operation of Unit 1 in May 1985 and run through December 1987. The second period covers test year 1988. The detailed expense figures are contained in Exhibit 114 which is reproduced as Appendix A of this decision; Table 1, following, is a summary of Exhibit 114. As of December 31, 1987, and subject to adjustment of estimates for the last quarter of 1987, noninvestment expenses charged to the

DCAA total \$345.9 million. By the end of April, 1988, based on the previously authorized \$197.1 million, the total will be \$411.6 million.

Partially offsetting the noninvestment expenses charged to the DCAA are revenues credited from the \$54.2 million rate increase authorized by D.85-12-085 in December 1985. Those estimated revenue totals are shown on Table 1 and are \$105.6 million at the end of 1987 and \$124.8 million at the end of April 1988. Also, the DCAA is regularly charged with interest on its balance; the interest attributable to noninvestment costs is shown on Table 1. Thus one can determine the balances in the DCAA attributable to noninvestment costs as contrasted to that attributable to investment. Those balances are estimated to total \$259.5 million at the end of 1987 and \$312.9 million at the end of April 1988.

TABLE 1
NONINVESTMENT EXPENSE BALANCES IN THE DCAA
(Thousands \$)

| | <u>At 12/31/87</u> | <u>At 4/30/88</u> |
|------------------------|--------------------|-------------------|
| Noninvestment Expenses | \$ 345,925 | \$ 411,621 |
| Less Revenues Received | <u>105,645</u> | <u>124,845</u> |
| Subtotal | \$ 240,280 | \$ 286,775 |
| Interest | <u>19,248</u> | <u>26,094</u> |
| Balance in the DCAA | \$ 259,528 | \$ 312,869 |
| Two-year Amortization | | |
| Including Interest | \$ 139,719 | \$ 168,436 |

PG&E requests two things in addition to moving the noninvestment portion of the DCAA into base rates. First, PG&E wants a rate increase equal to \$147.4 million to cover the stipulated amount of \$201.6 million minus the \$54.2 million

currently authorized in rates. Second, it wants to amortize the balance in the DCAA attributable to noninvestment expenses as of the date of this decision over a two-year period. Using the balance at April 30, for example, with interest this would total \$168.4 million per year as shown on Table 1. Therefore, the net total annual rate increase requested is \$315.8 million, \$147.4 plus \$168.4 million. This would require about a six percent increase in rates. PG&E proposes the increase be spread evenly on an equal percentage basis to all customer classes.

Long testified that the two-year amortization is reasonable because the average of the accrual periods for Units 1 and 2 is about two years, there will probably not be an overlap with the conclusion of Phase 2 of these proceedings now scheduled for the fall of 1989, and it provides continuity with the 1990 general rate case.

Witness Jenkins-Stark for PG&E testified that, in his view, PG&E's financial condition has deteriorated in recent months. At the request of counsel for the California Association of Utility Shareholders (CAUS), Jenkins-Stark had prepared some financial data comparisons among several large California utilities which were received as Exhibit 109. Some selected information from Exhibit 109 is shown on Table 2. He also stated that (1) in 1987 PG&E's debt securities were downgraded by two bond rating agencies, Duff and Phelps and Fitch Investors Service, (2) PG&E's stock price has declined about 35 percent over the last 12 months, and, (3) financial analysts are concerned that PG&E's dividend payout is likely to exceed earnings for the next few years until a final decision in the prudency phase is issued.

TABLE 2

FINANCIAL COMPARISONS - 1987
(Source: Exhibit 109)

| | <u>PG&E</u> | <u>SoCal Edison</u> | <u>SDG&E</u> | <u>PAC LTG</u> | <u>PAC TEL</u> |
|----------------------------------------------|-----------------|---------------------|------------------|----------------|----------------|
| Total Return to Shareholders versus 1986 (%) | -25.1 | -3.0 | -4.8 | +8.6 | +6.2 |
| Return on Common Equity (%) | 8.1 | 14.9 | 15.0 | 15.3 | 11.9 |
| Dividend Payout Ratio (%) | 125 | 69 | 76 | 84 | 74 |
| Market-to-Book Ratio | 0.87 | 1.32 | 1.34 | 1.84 | 1.44 |
| Dividend Yield (%) | 11.8 | 7.7 | 8.4 | 7.0 | 6.2 |

Under cross-examination, Jenkins-Stark conceded that the financial indicators he uses to show PG&E's condition in this phase are different than those relied on in earlier phases of the proceeding. But he contends that the earlier statistics were primarily related to the company's ability to maintain its debt ratings and the current statistics reflect what has really happened to PG&E's financial condition as a result of the uncertainties surrounding the investment in Diablo Canyon. He also conceded, however, that PG&E's management decision in the spring of 1987 to reflect only cash revenues for Diablo Canyon had a significant effect on the data shown on Table 2.

DRA's Position

DRA called financial examiner Ray Czahar as a witness; Czahar sponsored Exhibit 112. Czahar detailed the revenues PG&E has and is receiving that are related to Diablo Canyon. He testified that DRA believes ratepayers are indifferent to whether noninvestment expenses are reflected in base rates or included in the DCAA, as long as the total rate level remains the same, that

is, no further rate increases are authorized. Therefore, if the Commission were to recognize noninvestment expenses in base rates, the practical effect would be to only remove the subject-to-refund contingency from the associated revenues. Czahar was emphatic that recognition of noninvestment expenses in base rates would not require a rate increase because interim revenues from the December 1985 rate increase of \$53.8 million and the cash flow from fuel savings are more than enough to cover the stipulated noninvestment expenses of \$201.6 million.

Attorney General's Position

The Attorney General of the State of California (AG) called consultant David Marcus as a witness. Through his Exhibit 113, Marcus concludes that PG&E should not be granted any further increases in rates for the operation of the Diablo Canyon plant. In making his recommendation, Marcus assumes the stipulated noninvestment expenses are allowable. He testified that although he believes shifting the noninvestment expenses into base rates is inconsistent with D.87-10-041, the last decision by the Commission addressing interim rates for Diablo, he does not oppose the shift as a matter of policy. Again, that position is based on rejection by the Commission of any further interim rate increase.

Marcus rejects PG&E's claim that there is a shortfall (see Appendix A) or undercollection of noninvestment expenses that should be written off because the noninvestment expenses have been adopted by the Commission in D.88-03-067. He claims the revenues that have been accruing in the DCAA from the rate increase granted by D.85-12-085 and fuel savings PG&E has been allowed to keep and credit to the DCAA are not specifically earmarked for application to investment or noninvestment expenses. Witness Czahar for DRA takes this same position. Marcus testified that there are ample funds in the DCAA to cover all noninvestment expenses not covered by the revenues from the increase granted by D.85-12-085. Those funds should be used to take care of any noninvestment expenses not

covered by the D.85-12-085 increase if the noninvestment expenses are moved from the DCAA to base rates.

CAUS's Position

The California Association of Utility Shareholders supports fully PG&E's proposal.

Discussion

Under PG&E's proposal, electric base rate revenues would be increased by about \$370 million annually, and, concurrently, interim rate revenues associated with the DCAA would be decreased by \$54.2 million, a net increase of about \$316 million. PG&E's proposal is premised on the fact that because the Commission adopted the stipulation on noninvestment expenses by D.88-03-067, those expenses have now been fully and finally determined and should be reflected in base rates.

As correctly set forth in PG&E's brief, this phase of the proceeding presents two questions:

1. Should PG&E be allowed to reflect in base rates, without an equal and offsetting reduction in presently authorized interim rates, the stipulated reasonable noninvestment expenses for test year 1988?
2. Should PG&E be allowed to amortize and recover in base rates the stipulated reasonable noninvestment expenses which have accumulated in the DCAA since the commercial operation of Unit 1?

We answer yes to the first and no to the second question.

In our first decision on interim rates for Diablo, issued in December 1985, we anticipated completing Phase 2, the prudence of investment phase of these proceedings, by January 1, 1988. We were then looking at a two-year period for which interim rates would be in effect before a final determination. It is now May 1988 and not one day of hearing on Phase 2 has been held. Indeed, we had scheduled Phase 2 to start last February. But that date was recently put over to June 1988 with a final decision not expected

before August 1989. With the appeals that are sure to come from any decision on the prudency phase, it could be mid-1990 before this case is resolved.

So again, as in December 1985, we are looking at another two years of interim rates but with one significant exception. The balance in the DCAA has been building up for an additional two years and four months. Depending on our decision in the prudency phase, that balance is a potential time bomb set to go off in late 1989 or early 1990.

We asked the Commission Advisory and Compliance Division (CACD) to calculate, with no further adjustment to interim rates, estimated balances in the DCAA at September 1, 1989 and January 1, 1990 assuming (1) the entire investment in Diablo is allowed in rate base, or (2) the recommendation of the DRA is adopted. Also, we requested estimates of the change in rates that would occur if, under each of those assumptions, the positive or negative balances in the DCAA were amortized over three or five years. Table 3 contains the CACD estimates. As one can see, the worst-case effect would occur if the Commission were to adopt the full investment urged by PG&E and, in the meantime, make no further adjustment in rates. The increase in rates as of January 1990 could be as much as 35.5% if the increase is amortized over a three-year period. On the other hand, adopting the investment level recommended in the DRA report issued last year would result in a rate decrease of 3.7% over three years.

We also asked the CACD to produce the equivalent of Table 3 assuming we authorize an increase in interim rates of \$147.4 million, enough to cover the stipulated noninvestment expenses. Table 4 contains that information and, as can be seen, softens the potential increase if full investment is recognized.

TABLE 3

**DIABLO CANYON REVENUE PROJECTION
ZERO RATE INCREASE EFFECTIVE 6/1/88**

| Final Rate Change Target Date | Disallowance Assumption (\$ million) | Amort. Period (Years) | Revenue Projection | | |
|-------------------------------------|--------------------------------------------|-----------------------------|---------------------------------|-----------------------------------------|----------------|
| | | | DCAA Balance (\$ million) | Rate Increase Amount (\$ million) | Change (\$) |
| 9/1/89 | 0 | 3 | \$2,862.7 | \$1,686.3 | 33.5% |
| " | \$4,368 | 3 | (491.8) | (198.1) | (3.9) |
| " | 0 | 5 | 2,862.7 | 1,305.6 | 25.9 |
| " | 4,368 | 5 | (491.8) | (132.7) | (2.6) |
| 1/1/90 | 0 | 3 | 3,138.7 | 1,788.7 | 35.5 |
| " | 4,368 | 3 | (508.4) | (184.0) | (3.7) |
| " | 0 | 5 | 3,138.7 | 1,371.3 | 27.2 |
| " | 4,368 | 5 | (508.4) | (116.4) | (2.3) |

- NOTES: 1. \$4,368 million disallowance is Division of Ratepayer Advocates (DRA) recommendation.
2. Projections assume stipulated noninvestment expenses, inclusion of all post-COD capital additions, and 6.5% DCAA interest rate.

TABLE 4

DIABLO CANYON REVENUE PROJECTION
\$147.4 MILLION RATE INCREASE EFFECTIVE 6/1/88

| Final Rate Change Target Date | Disallowance Assumption (\$ million) | Amort. Period (Years) | DCAA Balance (\$ million) | Revenue Projection | |
|-------------------------------------|--------------------------------------------|-----------------------------|---------------------------------|-----------------------------------------|---------------|
| | | | | Rate Increase Amount (\$ million) | Change (%) |
| 9/1/89 | 0 | 3 | \$2,670.8 | \$1,468.3 | 28.3% |
| " | \$4,368 | 3 | (683.7) | (416.1) | (8.0) |
| " | 0 | 5 | 2,670.8 | 1,113.1 | 21.5 |
| " | 4,368 | 5 | (683.7) | (325.1) | (6.3) |
| 1/1/90 | 0 | 3 | 2,892.9 | 1,550.9 | 29.9 |
| " | 4,368 | 3 | (754.1) | (421.8) | (8.1) |
| " | 0 | 5 | 2,892.9 | 1,166.2 | 22.5 |
| " | 4,368 | 5 | (754.1) | (321.5) | (6.2) |

- NOTES: 1. \$4,368 million disallowance is Division of Ratepayer Advocates (DRA) recommendation.
2. Projections assume stipulated noninvestment expenses, inclusion of all post-COD capital additions, and 6.5% DCAA interest rate.

We are well aware that in D.87-10-041 in October last year we said PG&E had shown no pressing need for any further upward adjustment in interim rates. However, we are six months from that decision and facing up to two more years of litigation on the prudence of PG&E's Diablo investment. Even though we see no financial emergency, the record shows that PG&E's financial condition has deteriorated and continues to do so. As we noted in D.85-12-085 and D.86-04-080 it is important to maintain reasonable cash flow for PG&E while we are in the process of making a final determination in this matter. That is the very purpose of a major additions adjustment account - to provide for reasonable interim adjustments so that when the prudence review is completed, the

parties may be made whole. In addition, the factors supporting an additional rate increase to maintain the DCAA balance at a reasonable level are still present as they were when we issued D.85-12-085 as modified by D.86-04-080 in April 1986, two years ago. Those factors are (1) Diablo represents a substantial part of PG&E's total capital investment, (2) Diablo's operation has resulted in significant fuel cost savings, and (3) a considerable period of time is expected to elapse before a final determination of the prudence of the investment in Diablo. We are still mindful that we must balance the interests of PG&E and its ratepayers, attempting to be fair to each, when making our decisions. In addition, we should attempt to balance the interests of current and future ratepayers. By trying to make the likelihood of future increases and decreases in rates more even, we achieve a fairer resolution of the intertemporal equity problem. Based on the above discussion we find that an increase in interim revenues is justified.

Additional Rate Increase

We turn then to the additional rate increase we should authorize. First, we will adopt the request of PG&E to remove noninvestment expenses and their corresponding rate recovery from the DCAA and put them in base rates. No party opposed the request and we find it will be advantageous to the processing of the prudence phase if noninvestment expenses are not a factor. Disregarding for the moment the amount of the additional rate increase to be authorized and focusing only on the balance in the DCAA attributable to noninvestment expenses, it is clear from the record that enough revenues have accrued in the DCAA from the revenue increase authorized by D.85-12-085 and from fuel savings to close out all noninvestment expense balances in the DCAA. We will order that to be done.

Addressing whether any or all of the so-called "shortfall" (See Appendix A) should be amortized as proposed by

PG&E, we conclude it should not. PG&E maintains that the Commission, in D.85-12-085 (Appendix B, p. 2), set up two distinct revenue streams, one, fuel savings, earmarked for investment costs, and the other, the \$54.2 million rate increase, intended to cover noninvestment costs. Therefore, PG&E maintains that the only revenues booked to the DCAA which may now be used to offset noninvestment expenses are those that have accrued from the rate increase. On the contrary, our intention was only to have costs and revenues recorded in separate accounts "because they may be adjusted or amortized separately" (emphasis added) which is exactly what we do by this decision.

We will order PG&E to remove from the DCAA all debits (with interest) associated with past noninvestment expenses, which should total about \$411.6 million according to Exhibit 114, along with exactly offsetting revenue credits. Those credits will include all revenues (with interest) from the \$54.2 million rate increase authorized by D.85-12-085, which should total about \$124.8 million, plus enough revenues from accumulated fuel savings to match the noninvestment debits. In this way, all past noninvestment expenses and offsetting revenues will be removed from the DCAA, but the net balance in the DCAA will not change.

We do not believe an increase in rates of 6%, which would result if we authorized a two-year amortization of the noninvestment balance in the DCAA not covered by revenues collected since May 1985 as well as the \$147.4 million needed to cover noninvestment expenses on an ongoing basis, is justified. PG&E is currently accruing revenues in the DCAA of about \$523 million, \$388 million through D.85-12-085 and \$135 million in Energy Cost Adjustment Clause fuel savings for Diablo Unit 2 through D.87-11-019. If we authorize a rate increase equal to the \$147.4 million needed to cover the stipulated noninvestment expenses, that will bring revenues from ratepayers for Diablo to about \$670 million (\$523 + \$147). That figure is 56% of the 1988 revenue

requirement for Diablo, assuming full investment recovery, of \$1,191.4 million. (See Exhibit 115 revised.) We find it is reasonable to authorize a further increase in interim rates of \$147.4 million. This accomplishes three things, (1) it gives PG&E 89% of its Phase 1B revenue request of \$756 million (see D.87-10-041, Mimeo. p. 4), (2) it gives PG&E 100% of the stipulated noninvestment expenses, and (3) allows the matter of noninvestment expenses to be fully and finally determined until their consideration in PG&E's next general rate case. The increase, which is about 3% in revenue, should be spread on an equal percentage basis to all customer classes as proposed by PG&E, a proposal no party objected to at the hearing or in briefs.

Also, we will make no adjustment to the revenues from fuel savings flowing to the DCAA. We do this because we conclude we have the discretion to use as a guideline a fixed standard of estimated fuel savings rather than a fluctuating standard of actual savings, thus not only avoiding periodic rate changes but also imparting to PG&E's cash flow a certainty that will assist in stabilizing its financial condition. (TURN v PUC (1988) C3d _____, Slip Dec. p. 17, March 21, 1988.) To further this revenue stabilization, we will order the transfer of the Unit 2 fuel savings revenues from Energy Cost Adjustment Clause (ECAC) rates, where they are now collected, to direct DCAA rate recovery.

Finally, we again make clear that our determinations in this decision are not based on any prejudgment of the reasonableness of PG&E's investment in the Diablo Canyon plant.

Findings of Fact

1. By D.87-10-041 the Commission ordered further hearings on the reasonableness of noninvestment expenses for PG&E's Diablo Canyon nuclear power plant.

2. By D.88-03-067 the Commission found that \$201.6 million is a reasonable estimate for the noninvestment expenses for the Diablo Canyon plant for Test Year 1988 and found the totals shown

in Appendix A to this decision to be reasonable expenses for the period May 1985 through December 1987.

3. Properly noticed public hearings were held March 1 and 2, 1988 on the rate treatment of noninvestment expenses for Diablo at which time all parties were given the opportunity to appear and be heard.

4. PG&E requests:

- a. Noninvestment expenses be removed from the DCAA and included in base rates.
- b. A rate increase of \$147.4 million annually to cover noninvestment expenses not already covered by revenues received from the increase granted by D.85-12-085.
- c. A rate increase of \$168.4 million annually, to be effective for two years, to amortize the balance in the DCAA at April 30, 1988 which is attributable to noninvestment expenses found reasonable in D.88-03-067 for the period May 1985 through April 1988 and detailed in Appendix A to this decision.

5. DRA and AG oppose any further rate increase for PG&E but do not oppose the base rate treatment of noninvestment costs proposed by PG&E.

6. CAUS supports fully PG&E's proposals.

7. PG&E's financial condition has deteriorated over the past year.

8. It is important to maintain a reasonable cash flow for PG&E while the Commission is in the process of making a final determination of the prudence of PG&E's investment in Diablo.

9. PG&E's financial condition could be improved by additional cash flow.

10. The Diablo Canyon plant represents a substantial portion of PG&E's total investment.

11. Diablo's operation has resulted in significant non-nuclear fuel cost savings.

12. A considerable period of time is expected to elapse before the Commission makes a final determination on the prudence of PG&E's investment in Diablo.

13. An increase in rates to provide an annual revenue increase of \$147.4 million to cover the noninvestment expenses associated with the Diablo plant is just and reasonable and is justified.

14. It is fair to spread the increase in rates to all ratepayer classes on a system average percent change (SAPC) basis.

15. There are enough revenues in the DCAA account from the rate increase granted by D.85-12-085 and fuel savings to offset all noninvestment expenses in the DCAA found reasonable by D.88-03-067.

16. By D.88-03-067 and this decision we are making a final determination of the amount and treatment of noninvestment expenses as they pertain to these proceedings; therefore, it is no longer necessary to have revenues associated with Diablo noninvestment expenses subject to refund.

17. It is reasonable to continue booking to the DCAA fuel savings found to be reasonable in previous decisions in these proceedings.

18. The determinations in this decision are not based on any prejudgment of the reasonableness of PG&E's investment in the Diablo Canyon plant.

Conclusions of Law

1. PG&E should be authorized to recover through base rates Diablo Canyon noninvestment expenses of \$201.600 million, coincident with terminating their recovery through the DCAA.

2. PG&E should be ordered to remove from the DCAA all noninvestment debits (with interest) found reasonable by D.88-03-067, together with revenue credits attributable to the \$54.2 million rate increase authorized by D.85-12-085 (with interest) and fuel savings revenues required to match the debits.

3. PG&E should be authorized to increase rates to produce an annual revenue increase of \$147.384 million and spread the increase to all customer classes on an SAPC basis.

4. Revenues covering Diablo Canyon noninvestment expenses should no longer be subject to refund.

5. No adjustments to the fuel cost savings being booked to the DCAA as provided for in previous decisions on these proceedings should be made.

6. PG&E should be ordered to transfer Diablo Canyon Unit 2 fuel savings revenues from ECAC rates to direct DCAA recovery.

7. Phase 1, including Phases 1A and 1B, of these proceedings should be concluded.

8. Because the test year covered by the rate increase authorized began January 1, 1988, this decision should be effective today.

ORDER

IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E) is authorized to file revised tariff sheets which increase rates and charges to produce a net revenue increase of \$147.384 million, including allowance for franchise fees and uncollectibles.

2. The tariff filing shall revise rates and terms to:

- a. Increase annual base rate revenues by \$201.600 million, to reflect noninvestment expenses for Units 1 and 2 of Diablo Canyon Power Plant, as authorized in D.88-03-067. Henceforth, Diablo Canyon noninvestment expenses shall be treated on a forecast basis, similar to other authorized base rate expenses.
- b. Correspondingly increase the Electric Revenue Adjustment Mechanism (ERAM) base revenue amount by \$201.600 million.

- c. Cease the booking of all Diablo Canyon Adjustment Account (DCAA) debits for noninvestment expenses.
- d. Increase Diablo Canyon Adjustment Clause (DCAC) rate annual revenues by \$81.853 million, to reflect a reduction of \$54.216 million previously included in DCAC revenues for noninvestment expenses and an increase of \$136.069 million in Unit 2 fuel savings revenues previously included in Energy Cost Adjustment Clause (ECAC) rates. Because DCAC rate revenues were previously \$391.003 million, revised DCAC rate revenues shall be \$472.856 million.
- e. Decrease ECAC rate annual revenues by \$136.069 million, to terminate recovery of fuel savings revenues through ECAC rates.
- f. Delete tariff provisions relating to the formula transfer of Unit 2 fuel savings revenues from the ECAC account to the Diablo Canyon Interim Account (DCIA), transfer the DCIA balance to the DCAA, and terminate the DCIA.

3. The base rates and charges in Ordering Paragraph 2.a. shall not be subject to refund, except as authorized by present ERAM tariff provisions. All DCAC revenues shall continue to be subject to refund.

4. The rates and charges in the tariff filings ordered above shall be calculated on a system average percent change basis. PG&E shall supply with the tariff filings work papers showing compliance with residential baseline laws.

5. The tariff filings authorized by this decision shall conform to General Order 96-A, shall be marked to show that they were authorized by this decision, and shall become effective five (5) days after the date filed.

6. Coincident with the effective date of the tariff filings ordered above, PG&E shall remove from the DCAA all noninvestment debits (with interest) found reasonable by D.88-03-067, together

with revenue credits attributable to the \$54.2 million rate increase authorized by D.85-12-085 (with interest) and enough fuel savings revenues required to match the debits.

7. Within fifteen (15) days after the accounting changes ordered above, PG&E shall file with the Commission Advisory and Compliance Division and all parties work papers showing the amounts removed from the DCAA.

8. Phase 1 of these proceedings is concluded.

This order is effective today.

Dated May 11, 1988, at San Francisco, California.

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. O'HANIAN
Commissioners

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

[Handwritten Signature]
Executive Director

(CPUC, \$000's)

| Month | Recoverable Expenses (A) | Non- Investment Revenues (B) | Difference (C) = (A) - (B) | Interest on DCAA (D) | TOTAL CUMULATIVE SHORTFALL (E) |
|----------|--------------------------------|---------------------------------------|-------------------------------|----------------------------|-----------------------------------------|
| 1985 MAY | 4,706 | 0 | 4,706 | 16 | 4,722 |
| JUN | 5,729 | 0 | 5,729 | 50 | 10,501 |
| JUL | 5,729 | 0 | 5,729 | 82 | 16,313 |
| AUG | 5,729 | 0 | 5,729 | 121 | 22,163 |
| SEP | 5,729 | 0 | 5,729 | 161 | 28,053 |
| OCT | 5,729 | 0 | 5,729 | 202 | 33,984 |
| NOV | 5,729 | 0 | 5,729 | 240 | 39,953 |
| DEC | 5,729 | 0 | 5,729 | 277 | 45,960 |
| SUBTOTAL | 44,812 | 0 | 44,812 | 1,148 | |
| 1986 JAN | 5,729 | 2,348 | 3,381 | 308 | 49,649 |
| FEB | 5,729 | 3,951 | 1,778 | 325 | 51,752 |
| MAR | 8,360 | 4,058 | 4,302 | 343 | 56,397 |
| APR | 10,119 | 4,162 | 5,957 | 356 | 62,711 |
| MAY | 10,530 | 4,236 | 6,294 | 362 | 69,368 |
| JUN | 11,187 | 4,470 | 6,717 | 401 | 76,486 |
| JUL | 12,720 | 5,110 | 7,610 | 449 | 84,546 |
| AUG | 11,375 | 4,915 | 6,460 | 463 | 91,469 |
| SEP | 12,296 | 4,906 | 7,390 | 469 | 99,329 |
| OCT | 12,801 | 3,569 | 9,232 | 492 | 109,053 |
| NOV | 12,268 | 4,418 | 7,850 | 533 | 117,438 |
| DEC | 20,276 | 4,333 | 15,923 | 602 | 133,964 |
| SUBTOTAL | 133,395 | 50,496 | 82,899 | 5,105 | |
| 1987 JAN | 13,332 | 3,428 | 9,904 | 706 | 144,574 |
| FEB | 13,332 | 4,164 | 9,168 | 726 | 154,469 |
| MAR | 13,332 | 4,230 | 9,102 | 802 | 164,373 |
| APR | 13,332 | 4,319 | 9,013 | 867 | 174,253 |
| MAY | 13,332 | 4,347 | 8,985 | 961 | 184,199 |
| JUN | 13,332 | 4,583 | 8,749 | 1,089 | 194,038 |
| JUL | 13,332 | 5,259 | 8,073 | 1,142 | 203,253 |
| AUG | 13,332 | 5,112 | 8,220 | 1,149 | 212,623 |
| SEP | 13,332 | 5,217 | 8,115 | 1,212 | 221,950 |
| Est. OCT | 14,878 | 4,890 | 9,988 | 1,394 | 233,332 |
| Est. NOV | 16,424 | 4,800 | 11,624 | 1,433 | 246,390 |
| Est. DEC | 16,424 | 4,800 | 11,624 | 1,513 | 259,528 |
| SUBTOTAL | 167,718 | 53,149 | 112,569 | 12,995 | |
| 1988 JAN | 16,424 | 4,800 | 11,624 | 1,592 | 272,744 |
| Est. FEB | 16,424 | 4,800 | 11,624 | 1,671 | 286,039 |
| Est. MAR | 16,424 | 4,800 | 11,624 | 1,751 | 299,414 |
| Est. APR | 16,424 | 4,800 | 11,624 | 1,831 | 312,869 |
| TOTAL | 411,620 | 124,843 | 286,775 | 26,094 | 312,869 |

2 Year
Amortization
139,719

1 Year Amortization Per Year = 325,205
 2 Year Amortization Per Year = 168,436
 3 Year Amortization Per Year = 116,270
 4.67 Year Amortization Per Year = 79,133

(END OF APPENDIX A)

Exhibit 114
 CPUC Proceeding A 84-06-014
 Spencer/Winans 4006
 Date Ident. 3/2/88 Recd. 3/3/88
 Albert C. Porter
 Administrative Law Judge

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 RATE TREATMENT
OF NONINVESTMENT COSTS

Decision Summary

By this decision we order the noninvestment costs for Pacific Gas and Electric Company's (PG&E) Diablo Canyon Nuclear Power Plant moved from the Diablo Canyon Adjustment Account (DCAA) to base rates covering PG&E's electric service operations.

We also authorize PG&E to increase rates by \$147.4 million which, when added to the \$54.2 million[1] rate increase granted by Decision (D.) 85-12-085, will recover estimated

1 / D.85-12-085 authorized \$53.8 million plus a franchise and uncollectibles allowance which brought the total increase to \$54.2 million.

noninvestment costs for the Diablo Canyon plant for test year 1988. Adding the \$147.4 and \$54.2 million together produces in base rates the \$201.6 million for 1988 noninvestment costs stipulated to by PG&E and the Division of Ratepayer Advocates (DRA) on January 13, 1988 and approved by D.88-03-067 dated March 23, 1988.

Finally, we authorize continued booking to the DCAA account of \$472.9 million in fuel savings attributable to the operation of the Diablo Canyon plant.

In accordance with Article 19 of the Commissions Rules of Practice and Procedure, the assigned administrative law judge (ALJ) filed his proposed decision in this matter on April 11, 1988 and five parties responded within the 20-day period for comments. As a result of the comments filed, we have amended the ALJ's proposed decision to (1) clarify that revenues accruing in the DCAA from fuel savings were not earmarked specifically to cover investment costs but can be used to write off noninvestment costs not covered by the rate increase granted by D.85-12-085 and (2) indicate that no one opposed the proposal of PG&E to spread any further rate increases to customers on a system average percent change basis.

Background

The background of these applications and the proceedings which have been held to date is set forth in several Commission decisions.[2]

In D.87-10-041 we authorized PG&E to debit up to \$197.1 million in the DCAA for noninvestment costs actually incurred for the operation of Units 1 and 2 of the Diablo plant. We also ordered further hearings to review the reasonableness of the \$197.1 million. A prehearing conference was held November 18, 1987 at

2 See Decisions 85-03-021, 85-05-040, 85-12-085, 86-01-054, 86-02-015, 86-04-080, 87-03-029, 87-10-041, and 88-03-067.

noninvestment costs for the Diablo Canyon plant for test year 1988. Adding the \$147.4 and \$54.2 million together produces in base rates the \$201.6 million for 1988 noninvestment costs stipulated to by PG&E and the Division of Ratepayer Advocates (DRA) on January 13, 1988 and approved by D.88-03-067 dated March 23, 1988.

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Background

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In D.87-10-041 we authorized PG&E to debit up to \$197.1 million in the DCAA for noninvestment costs actually incurred for the operation of Units 1 and 2 of the Diablo plant. We also ordered further hearings to review the reasonableness of the \$197.1 million. A prehearing conference was held November 18, 1987 at which a schedule for taking evidence on appropriate noninvestment costs was set including hearings during the week of March 1, 1988.

In the interim, on January 13, 1988, PG&E and the DRA stipulated to (1) the reasonableness of the amounts for noninvestment costs that should be booked to the DCAA since the beginning of commercial operation of the plant in May 1985 through December 1987 and (2) an estimate of the noninvestment costs for test year 1988. The stipulation was submitted to the Commission and all parties and was adopted by D.88-03-067 on March 23, 1988.

PG&E and DRA could not agree on the rate treatment of the stipulated noninvestment expenses so the scheduled hearings were held March 1 and 2, 1988 to consider that issue. This decision (1)

2 See Decisions 85-03-021, 85-05-040, 85-12-085, 86-01-054, 86-02-015, 87-03-029, 87-10-041, and 88-03-067.

decides the issue of rate treatment for noninvestment expenses, (2) sets interim rates pending conclusion of Phase 2, the prudency review, and, (3) terminates Phase 1B of these proceedings.

PG&E's Request

PG&E called Thomas C. Long, manager of its Revenue Requirements Department, and John F. Jenkins-Stark, treasurer of PG&E in support of its request. Long testified that noninvestment expenses should be recovered in base rates. This can be done by removing noninvestment expenses from the DCAA and consolidating them with the other operating expenses in PG&E's base rates for normal future ratemaking.

The noninvestment expenses at issue are attributable to two periods. The first period covers the expenses PG&E has been authorized to accrue in the DCAA by Commission decisions over the last two-and-a-half years. These start with the commercial operation of Unit 1 in May 1985 and run through December 1987. The second period covers test year 1988. The detailed expense figures are contained in Exhibit 114 which is reproduced as Appendix A of this decision; Table 1, following, is a summary of Exhibit 114. As of December 31, 1987, and subject to adjustment of estimates for the last quarter of 1987, noninvestment expenses charged to the DCAA total \$345.9 million. By the end of April, 1988, based on the stipulated \$201.6 million, the total will be \$411.6 million.

Partially offsetting the noninvestment expenses charged to the DCAA are revenues credited from the \$54.2 million rate increase authorized by D.85-12-085 in December 1985. Those estimated revenue totals are shown on Table 1 and are \$105.6 million at the end of 1987 and \$124.8 million at the end of April 1988. Also, the DCAA is regularly charged with interest on its balance; the interest attributable to noninvestment costs is shown on Table 1. Thus one can determine the balances in the DCAA attributable to noninvestment costs as contrasted to that attributable to investment. Those balances are estimated to total

\$259.5 million at the end of 1987 and \$312.9 million at the end of April 1988.

TABLE 1
NONINVESTMENT EXPENSE BALANCES IN THE DCAA
(Thousands \$)

| | <u>At 12/31/87</u> | <u>At 4/30/88</u> |
|------------------------|--------------------|-------------------|
| Noninvestment Expenses | \$ 345,925 | \$ 411,621 |
| Less Revenues Received | <u>105,645</u> | <u>124,845</u> |
| Subtotal | \$ 240,280 | \$ 286,775 |
| Interest | <u>19,248</u> | <u>26,094</u> |
| Balance in the DCAA | \$ 259,528 | \$ 312,869 |
| Two-year Amortization | | |
| Including Interest | \$ 139,719 | \$ 168,436 |

PG&E requests two things in addition to moving the noninvestment portion of the DCAA into base rates. First, PG&E wants a rate increase equal to \$147.4 million to cover the stipulated amount of \$201.6 million minus the \$54.2 million currently authorized in rates. Second, it wants to amortize the balance in the DCAA attributable to noninvestment expenses as of the date of this decision over a two-year period. Using the balance at April 30, for example, with interest this would total \$168.4 million per year. Therefore, the net total annual rate increase requested is \$315.8 million, \$147.4 plus \$168.4 million. This would require about a six percent increase in rates. PG&E proposes the increase be spread evenly on an equal percentage basis to all customer classes.

Long testified that the two-year amortization is reasonable because the average of the accrual periods for Units 1 and 2 is about two years, there will probably not be an overlap with the conclusion of Phase 2 of these proceedings now scheduled

currently authorized in rates. Second, it wants to amortize the balance in the DCAA attributable to noninvestment expenses as of the date of this decision over a two-year period. Using the balance at April 30, for example, with interest this would total \$168.4 million per year. Therefore, the net total annual rate increase requested is \$315.8 million, \$147.4 plus \$168.4 million. This would require about a six percent increase in rates. PG&E proposes the increase be spread evenly on an equal percentage basis to all customer classes.

Long testified that the two-year amortization is reasonable because the average of the accrual periods for Units 1 and 2 is about two years, there will probably not be an overlap with the conclusion of Phase 2 of these proceedings now scheduled for the fall of 1989, and it provides continuity with the 1990 general rate case.

Witness Jenkins-Stark for PG&E testified that, in his view, PG&E's financial condition has deteriorated in recent months. At the request of counsel for the California Association of Utility Shareholders (CAUS), Jenkins-Stark had prepared some financial data comparisons among several large California utilities which were received as Exhibit 109. Some selected information from Exhibit 109 is shown on Table 2. He also stated that (1) in 1987 PG&E's debt securities were downgraded by two bond rating agencies, Duff and Phelps and Fitch Investors Service, (2) PG&E's stock price has declined about 35 percent over the last 12 months, and, (3) financial analysts are concerned that PG&E's dividend payout is likely to exceed earnings for the next few years until a final decision in the prudency phase is issued.

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TABLE 2

FINANCIAL COMPARISONS - 1987
(Source: Exhibit 109)

| | <u>PG&E</u> | <u>SoCal Edison</u> | <u>SDG&E</u> | <u>PAC LTC</u> | <u>PAC TEL</u> |
|----------------------------------------------|-----------------|---------------------|------------------|----------------|----------------|
| Total Return to Shareholders versus 1986 (%) | -25.1 | -3.0 | -4.8 | +8.6 | +6.2 |
| Return on Common Equity (%) | 8.1 | 14.9 | 15.0 | 15.3 | 11.9 |
| Dividend Payout Ratio (%) | 125 | 69 | 76 | 84 | 74 |
| Market-to-Book Ratio | 0.87 | 1.32 | 1.34 | 1.84 | 1.44 |
| Dividend Yield (%) | 11.8 | 7.7 | 8.4 | 7.0 | 6.2 |

Under cross-examination, Jenkins-Stark conceded that the financial indicators he uses to show PG&E's condition in this phase

are different that those relied on in earlier phases of the proceeding. But he contends that the earlier statistics were primarily related to the company's ability to maintain its debt ratings and the current statistics reflect what has really happened to PG&E's financial condition as a result of the uncertainties surrounding the investment in Diablo Canyon. He also conceded, however, that PG&E's management decision in the spring of 1987 to reflect only cash revenues for Diablo Canyon had a significant effect on the data shown on Table 2.

DRA's Position

DRA called financial examiner Ray Czahar as a witness; Czahar sponsored Exhibit 112. Czahar detailed the revenues PG&E has and is receiving that are related to Diablo Canyon. He testified that DRA believes ratepayers are indifferent to whether noninvestment expenses are reflected in base rates or included in the DCAA, as long as the total rate level remains the same, that is, no further rate increases are authorized. Therefore, if the Commission were to recognize noninvestment expenses in base rates, the practical effect would be to only remove the subject-to-refund contingency from the associated revenues. Czahar was emphatic that recognition of noninvestment expenses in base rates would not require a rate increase because interim revenues from the December 1985 rate increase of \$53.8 million and the cash flow from fuel savings are more than enough to cover the stipulated noninvestment expenses of \$201.6 million.

Attorney General's Position

The Attorney General of the State of California (AG) called consultant David Marcus as a witness. Through his Exhibit 113, Marcus concludes that PG&E should not be granted any further increases in rates for the operation of the Diablo Canyon plant. In making his recommendation, Marcus assumes the stipulated noninvestment expenses are allowable. He testified that although he believes shifting the noninvestment expenses into base rates is

inconsistent with D.87-10-041, the last decision by the Commission addressing interim rates for Diablo, he does not oppose the shift as a matter of policy. Again, that position is based on rejection by the Commission of any further interim rate increase.

Marcus rejects PG&E's claim that there is a shortfall (see Appendix A) or undercollection of noninvestment expenses that should be written off because the noninvestment expenses have been adopted by the Commission in D.88-03-067. He claims the revenues that have been accruing in the DCAA from the rate increase granted by D.85-12-085 and fuel savings PG&E has been allowed to keep and credit to the DCAA are not specifically earmarked for application to investment or noninvestment expenses. Witness Czahar for DRA takes this same position. Marcus testified that there are ample funds in the DCAA to cover all noninvestment expenses not covered by the revenues from the increase granted by D.85-12-085. Those funds should be used to take care of any noninvestment expenses not covered by the D.85-12-085 increase if the noninvestment expenses are moved from the DCAA to base rates.

CAUS's Position

The California Association of Utility Shareholders supports fully PG&E's proposal.

Discussion

Under PG&E's proposal, electric base rate revenues would be increased by about \$370 million annually, and, concurrently, interim rate revenues associated with the DCAA would be decreased by \$54.2 million, a net increase of about \$316 million. PG&E's proposal is premised on the fact that because the Commission adopted the stipulation on noninvestment expenses by D.88-03-067, those expenses have now been fully and finally determined and should be reflected in base rates.

As correctly set forth in PG&E's brief, this phase of the proceeding presents two questions:

1. Should PG&E be allowed to reflect in base rates, without an equal and offsetting

reduction in presently authorized interim rates, the stipulated reasonable noninvestment expenses for test year 1988?

2. Should PG&E be allowed to amortize and recover in base rates the stipulated reasonable noninvestment expenses which have accumulated in the DCAA since the commercial operation of Unit 1?

We answer yes to the first and no to the second question.

In our first decision on interim rates for Diablo, issued in December 1985, we anticipated completing Phase 2, the prudence of investment phase of these proceedings, by January 1, 1988. We were then looking at a two-year period for which interim rates would be in effect before a final determination. It is now May 1988 and not one day of hearing on Phase 2 has been held. Indeed, we had scheduled Phase 2 to start last February. But that date was recently put over to June 1988 with a final decision not expected before August 1989. With the appeals that are sure to come from any decision on the prudence phase, it could be mid-1990 before this case is resolved.

So again, as in December 1985, we are looking at another two years of interim rates but with one significant exception. The balance in the DCAA has been building up for an additional two years and four months. Depending on our decision in the prudence phase, that balance is a potential time bomb set to go off in late 1989 or early 1990.

We asked the Commission Advisory and Compliance Division (CACD) to calculate with no further adjustment to interim rates, estimated balances in the DCAA at September 1, 1989 and January 1, 1990 assuming (1) the entire investment in Diablo is allowed in rate base, or (2) the recommendation of the DRA is adopted. Also, we requested estimates of the change in rates that would occur if, under each of those assumptions, the positive or negative balances in the DCAA were amortized over three or five years. Table 3

contains the CACD estimates. As one can see, the worst-case effect would occur if the Commission were to adopt the full investment urged by PG&E and, in the meantime, make no further adjustment in rates. The increase in rates as of January 1990 could be as much as 35.5% if the increase is amortized over a three-year period. On the other hand, adopting the investment level recommended in the DRA report issued last year would result in a rate decrease of 3.7% over three years.

We also asked the CACD to produce the equivalent of Table 3 assuming we authorize an increase in interim rates of \$147.4 million, enough to cover the stipulated noninvestment expenses. Table 4 contains that information and, as can be seen, softens the potential increase if full investment is recognized.

TABLE 3

**DIABLO CANYON REVENUE PROJECTION
ZERO RATE INCREASE EFFECTIVE 6/1/88**

| Final Rate Change Target Date | Disallowance Assumption (\$ million) | Amort. Period (Years) | DCAA Balance (\$ million) | Revenue Projection | |
|-------------------------------------|--------------------------------------------|-----------------------------|---------------------------------|-----------------------------------------|---------------|
| | | | | Rate Increase Amount (\$ million) | Change (%) |
| 9/1/89 | 0 | 3 | \$2,862.7 | \$1,686.3 | 33.5% |
| " | \$4,368 | 3 | (491.8) | (198.1) | (3.9) |
| " | 0 | 5 | 2,862.7 | 1,305.6 | 25.9 |
| " | 4,368 | 5 | (491.8) | (132.7) | (2.6) |
| 1/1/90 | 0 | 3 | 3,138.7 | 1,788.7 | 35.5 |
| " | 4,368 | 3 | (508.4) | (184.0) | (3.7) |
| " | 0 | 5 | 3,138.7 | 1,371.3 | 27.2 |
| " | 4,368 | 5 | (508.4) | (116.4) | (2.3) |

- NOTES: 1. \$4,368 million disallowance is Division of Ratepayer Advocates (DRA) recommendation.
2. Projections assume stipulated noninvestment expenses, inclusion of all post-COD capital additions, and 6.5% DCAA interest rate.

TABLE 4

DIABLO CANYON REVENUE PROJECTION
\$147.4 MILLION RATE INCREASE EFFECTIVE 6/1/88

| Final Rate Change Target Date | Disallowance Assumption (\$ million) | Amort. Period (Years) | DCAA Balance (\$ million) | Revenue Projection | |
|-------------------------------------|--------------------------------------------|-----------------------------|---------------------------------|-----------------------------------------|---------------|
| | | | | Rate Increase Amount (\$ million) | Change (%) |
| 9/1/89 | 0 | 3 | \$2,670.8 | \$1,468.3 | 28.3% |
| " | \$4,368 | 3 | (683.7) | (416.1) | (8.0) |
| " | 0 | 5 | 2,670.8 | 1,113.1 | 21.5 |
| " | 4,368 | 5 | (683.7) | (325.1) | (6.3) |
| 1/1/90 | 0 | 3 | 2,892.9 | 1,550.9 | 29.9 |
| " | 4,368 | 3 | (754.1) | (421.8) | (8.1) |
| " | 0 | 5 | 2,892.9 | 1,166.2 | 22.5 |
| " | 4,368 | 5 | (754.1) | (321.5) | (6.2) |

- NOTES: 1. \$4,368 million disallowance is Division of Ratepayer Advocates (DRA) recommendation.
2. Projections assume stipulated noninvestment expenses, inclusion of all post-COD capital additions, and 6.5% DCAA interest rate.

We are well aware that in D.87-10-041 in October last year we said PG&E had shown no pressing need for any further upward adjustment in interim rates. However, we are six months from that decision and facing up to two more years of litigation on the prudence of PG&E's Diablo investment. Even though we see no financial emergency, the record shows that PG&E's financial condition has deteriorated and continues to do so. As we noted in D.85-12-085 it is important to maintain reasonable cash flow for PG&E while we are in the process of making a final determination in this matter. That is the very purpose of a major additions adjustment account - to provide for reasonable interim adjustments so that when the prudence review is completed, the parties may be

made whole. In addition, the factors supporting an additional rate increase to maintain the DCAA balance at a reasonable level are still present as they were when we issued D.85-12-085 as modified by D.86-04-080 in April 1986, two years ago. Those factors are (1) Diablo represents a substantial part of PG&E's total capital investment, (2) Diablo's operation has resulted in significant fuel cost savings, and (3) a considerable period of time is expected to elapse before a final determination of the prudence of the investment in Diablo. We are still mindful that we must balance the interests of PG&E and its ratepayers, attempting to be fair to each, when making our decisions. In addition, we should attempt to balance the interests of current and future ratepayers. By trying to make the likelihood of future increases and decreases in rates more even, we achieve a fairer resolution of the intertemporal equity problem. Based on the above discussion we find that an increase in interim revenues is justified.

Additional Rate Increase

We turn then to the additional rate increase we should authorize. First, we will adopt the request of PG&E to remove noninvestment expenses and their corresponding rate recovery from the DCAA and put them in base rates. No party opposed the request and we find it will be advantageous to the processing of the prudence phase if noninvestment expenses are not a factor. Disregarding for the moment the amount of the additional rate increase to be authorized and focusing only on the balance in the DCAA attributable to noninvestment expenses, it is clear from the record that enough revenues have accrued in the DCAA from the revenue increase authorized by D.85-12-085 and from fuel savings to close out all noninvestment expense balances in the DCAA. We will order that to be done.

Addressing whether any or all of the so-called "shortfall" (See Appendix A) should be amortized as proposed by PG&E, we conclude it should not. We do not believe an increase in

rates of 6%, which would result if we authorized a two-year amortization of the noninvestment balance in the DCAA not covered by revenues collected since May 1985 as well as the \$147.4 million needed to cover noninvestment expenses on an ongoing basis, is justified. PG&E is currently accruing revenues in the DCAA of about \$523 million, \$388 million through D.85-12-085 and \$135 million in Energy Cost Adjustment Clause fuel savings for Diablo Unit 2 through D.87-11-019. If we authorize a rate increase equal to the \$147.4 million needed to cover the stipulated noninvestment expenses, that will bring revenues from ratepayers for Diablo to about \$670 million ($\$523 + \147). That figure is 56% of the revenue requirement for Diablo, assuming full investment recovery, of \$1,191.4 million. (See Exhibit 115 revised.) We find it is reasonable to authorize a further increase in interim rates of \$147.4 million. This accomplishes three things, (1) it gives PG&E 89% of its Phase 1B revenue request of \$756 million (see D.87-10-041, Mimeo. p. 4), (2) it gives PG&E 100% of the stipulated noninvestment expenses, and (3) allows the matter of noninvestment expenses to be fully and finally determined until their consideration in PG&E's next general rate case. The increase, which is about 3% in revenue, should be spread on an equal percentage basis to all customer classes.

Also, we will make no adjustment to the revenues from fuel savings flowing to the DCAA. We do this because we conclude we have the discretion to use as a guideline a fixed standard of estimated fuel savings rather than a fluctuating standard of actual savings, thus not only avoiding periodic rate changes but also imparting to PG&E's cash flow a certainty that will assist in stabilizing its financial condition. (TURN v. FUC 1988 ____ C3d ____, ____ Slip Dec. p. 17, March 21, 1988.) To further this revenue stabilization, we will order the transfer of the Unit 2 fuel savings revenues from Energy Cost Adjustment Clause (ECAC) rates, where they are now collected, to direct DCAA rate recovery.

Finally, we again make clear that our determinations in this decision are not based on any prejudgment of the reasonableness of PG&E's investment in the Diablo Canyon plant.

Findings of Fact

1. By D.87-10-041 the Commission ordered further hearings on the reasonableness of noninvestment expenses for PG&E's Diablo Canyon nuclear power plant.

2. By D.88-03-067 the Commission found that \$201.6 million is a reasonable estimate for the noninvestment expenses for the Diablo Canyon plant for Test Year 1988 and found the totals shown in Appendix A to this decision to be reasonable expenses for the period May 1985 through December 1987.

3. Properly noticed public hearings were held March 1 and 2, 1988 on the rate treatment of noninvestment expenses for Diablo at which time all parties were given the opportunity to appear and be heard.

4. PG&E requests:

- a. Noninvestment expenses be removed from the DCAA and included in base rates.
- b. A rate increase of \$147.4 million annually to cover noninvestment expenses not already covered by revenues received from the increase granted by D.85-12-085.
- c. A rate increase of \$168.4 million annually, to be effective for two years, to amortize the balance in the DCAA at April 30, 1988 which is attributable to noninvestment expenses found reasonable in D.88-03-067 for the period May 1985 through April 1988 and detailed in Appendix A to this decision.

5. DRA and AG oppose any further rate increase for PG&E but do not oppose the base rate treatment of noninvestment costs proposed by PG&E.

6. CAUS supports fully PG&E's proposals.

PG&E, we conclude it should not. PG&E maintains that the Commission, in D.85-12-085 (Appendix B, p. 2), set up two distinct revenue streams, one, fuel savings, earmarked for investment costs, and the other, the \$54.2 million rate increase, intended to cover noninvestment costs. Therefore, PG&E maintains that the only revenues booked to the DCAA which may now be used to offset noninvestment expenses are those that have accrued from the rate increase. On the contrary, our intention was only to have costs and revenues recorded in separate accounts "because they may be adjusted or amortized separately" (emphasis added) which is exactly what we do by this decision.

We will order PG&E to remove from the DCAA all debits (with interest) associated with past noninvestment expenses, which should total about \$411.6 million according to Exhibit 114, along with exactly offsetting revenue credits. Those credits will include all revenues (with interest) from the \$54.2 million rate increase authorized by D.85-12-085, which should total about \$124.8 million, plus enough revenues from accumulated fuel savings to match the noninvestment debits. In this way, all past noninvestment expenses and offsetting revenues will be removed from the DCAA, but the net balance in the DCAA will not change.

We do not believe an increase in rates of 6%, which would result if we authorized a two-year amortization of the noninvestment balance in the DCAA not covered by revenues collected since May 1985 as well as the \$147.4 million needed to cover noninvestment expenses on an ongoing basis, is justified. PG&E is currently accruing revenues in the DCAA of about \$523 million, \$388 million through D.85-12-085 and \$135 million in Energy Cost Adjustment Clause fuel savings for Diablo Unit 2 through D.87-11-019. If we authorize a rate increase equal to the \$147.4 million needed to cover the stipulated noninvestment expenses, that will bring revenues from ratepayers for Diablo to about \$670 million (\$523 + \$147). That figure is 56% of the revenue

7. PG&E's financial condition has deteriorated over the past year.

8. It is important to maintain a reasonable cash flow for PG&E while the Commission is in the process of making a final determination of the prudence of PG&E's investment in Diablo.

9. PG&E's financial condition could be improved by additional cash flow.

10. The Diablo Canyon plant represents a substantial portion of PG&E's total investment.

11. Diablo's operation has resulted in significant non-nuclear fuel cost savings.

12. A considerable period of time is expected to elapse before the Commission makes a final determination on the prudence of PG&E's investment in Diablo.

13. An increase in rates to provide an annual revenue increase of \$147.2 million to cover the noninvestment expenses associated with the Diablo plant is just and reasonable and is justified.

14. It is fair to spread the increase in rates to all ratepayer classes on a system average percent change (SAPC) basis.

15. By D.88-03-067 and this decision we are making a final determination of the amount and treatment of noninvestment expenses as they pertain to these proceedings; therefore, it is no longer necessary to have revenues associated with Diablo noninvestment expenses subject to refund.

16. It is reasonable to continue booking to the DCAA fuel savings found to be reasonable in previous decisions in these proceedings.

17. The determinations in this decision are not based on any prejudgment of the reasonableness of PG&E's investment in the Diablo Canyon plant.

Conclusions of Law

1. PG&E should be authorized to recover through base rates Diablo Canyon noninvestment expenses of \$201.600 million, coincident with terminating their recovery through the DCAA.
2. PG&E should be authorized to increase rates to produce an annual revenue increase of \$147.4 million and spread the increase to all customer classes on an SAPC basis.
3. Revenues covering Diablo Canyon noninvestment expenses should no longer be subject to refund.
4. No adjustments to the fuel cost savings being booked to the DCAA as provided for in previous decisions on these proceedings should be made.
5. PG&E should be ordered to transfer Diablo Canyon Unit 2 fuel savings revenues from ECAC rates to direct DCAA recovery.
6. Phase 1, including Phases 1A and 1B, of these proceedings should be concluded.
7. Because the test year covered by the rate increase authorized began January 1, 1988, this decision should be effective today.

ORDER

IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E) is authorized to file revised tariff sheets which increase rates and charges to produce a net revenue increase of \$147.384 million, including allowance for franchise fees and uncollectibles.
2. The tariff filing shall revise rates and terms to:
 - a. Increase annual base rate revenues by \$201.600 million, to reflect noninvestment expenses for Units 1 and 2 of Diablo Canyon Power Plant, as authorized in D.88-03-067. Henceforth, Diablo Canyon noninvestment expenses shall be treated on a forecast basis, similar to other authorized base rate expenses.

- b. Correspondingly increase the Electric Revenue Adjustment Mechanism (ERAM) base revenue amount by \$201.600 million.
- c. Cease the booking of all Diablo Canyon Adjustment Account (DCAA) debits for noninvestment expenses.
- d. Increase Diablo Canyon Adjustment Clause (DCAC) rate annual revenues by \$81.853 million, to reflect a reduction of \$54.216 million previously included in DCAC revenues for noninvestment expenses and an increase of \$136.069 million in Unit 2 fuel savings revenues previously included in Energy Cost Adjustment Clause (ECAC) rates. Because DCAC rate revenues were previously \$391.003 million, revised DCAC rate revenues shall be \$472.856 million.
- e. Decrease ECAC rate annual revenues by \$136.069 million, to terminate recovery of fuel savings revenues through ECAC rates.
- f. Delete tariff provisions relating to the formula transfer of Unit 2 fuel savings revenues from the ECAC account to the Diablo Canyon Interim Account (DCIA), transfer the DCIA balance to the DCAA, and terminate the DCIA.

3. The base rates and charges in Ordering Paragraph 2.a. shall not be subject to refund, except as authorized by present ERAM tariff provisions. All DCAC revenues shall continue to be subject to refund.

4. The rates and charges in the tariff filings ordered above shall be calculated on a system average percent change basis. PG&E shall supply with the tariff filings work papers showing compliance with residential baseline laws.

5. The tariff filings authorized by this decision shall conform to General Order 96-A, shall be marked to show that they were authorized by this decision, and shall become effective five (5) days after the date filed.

6. Phase 1 of these proceedings is concluded.

This order is effective today.

Dated _____, at San Francisco, California.