

Decision 89 11 029 NOV 3 1989**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND
ELECTRIC COMPANY for Authority,
Among Other Things, To Increase Its
Rates and Charges for Electric and
Gas Service.

Application 88-12-005
(Filed December 5, 1988)

(Electric and Gas) (U 39 M)

And Related Matter.

I.89-03-033
(Filed March 22, 1989)

INTERIM OPINION

Shortly after 5:00 p.m. on October 17, 1989, a major earthquake struck Northern California. The earthquake resulted in major service disruptions and significant damage to utility facilities within Pacific Gas and Electric Company's (PG&E's) service territory.

On October 25, 1989, PG&E filed an emergency motion stating that it is incurring and will continue to incur significant costs to reestablish utility service to its customers and to repair and replace utility facilities damaged in the earthquake and related events. PG&E states that the total expenditures are presently uncertain, but are reasonably required to provide adequate service and to promote the safety, health, and convenience of the public under § 451 of the Public Utilities Code.

PG&E requests that the Commission establish a balancing account mechanism, to be called the Earthquake Recovery Account, and that PG&E be authorized to begin recording in this account, for later recovery, the costs associated with the earthquake. Under PG&E's proposal, the costs to be accumulated in this account will be the revenue requirements for expenses and capital expenditures incurred by PG&E in reestablishing service, restoring, and

repairing utility facilities damaged by the earthquake, and in implementing governmental agency orders resulting from this event.

We will authorize PG&E to establish a memorandum account. We will authorize PG&E to record in this account, for possible future recovery, all costs incurred for the purposes of:

- a. Reestablishing utility service to its customers;
- b. Repairing, replacing, or restoring utility facilities damaged by the earthquake; and
- c. Implementing governmental agency orders resulting from this event.

PG&E's proposed tariff sheets would authorize PG&E to book into the account all amounts incurred as a result of the October 17, 1989 earthquake. In past proceedings where we have authorized a memorandum account for the purpose of resulting changes in expenses or revenues resulting from extraordinary and unanticipated events, we have authorized the utility to book into the account only those expenses which are incurred on or after the date the account is authorized. To do otherwise would constitute retroactive ratemaking. (Decision (D.) 89-04-075, D.89-04-041, D.88-03-017, and D.84-12-060.) Therefore, we will authorize PG&E to book into the memorandum account only those expenses which are incurred on or after the date of this order, including carrying costs at the three-month commercial paper rate.

We recognize that we are authorizing PG&E to establish this memorandum account before other parties have had an opportunity to respond to the motion. We wish to stress that our immediate action to authorize the account should not be construed as prejudgment of the appropriateness of recovery of any expenses recorded in the account. Our purpose in authorizing this balancing account at this time is solely to ensure that PG&E is not precluded from recovering certain extraordinary additional costs incurred as a result of the disaster.

The balance in the memorandum account may be recovered in rates, after Commission review and audit of the recorded balance. In a future phase of this proceeding we expect to examine closely the costs which are recorded in this account, and we may limit the recovery of recorded expenses to the extent such expenses are offset by other factors. For example, before authorizing recovery of any expenses recorded in this account, we intend to determine if there are any offsetting insurance proceeds. We also note that PG&E's currently authorized revenue requirement includes an estimate in various accounts of expenses for repair and replacement of facilities damaged through natural causes. While the costs PG&E will incur for earthquake repairs are likely to be significant, they are not necessarily all unfunded. Before authorizing recovery of expenses for earthquake related damage, we will examine how these expenses relate to the overall costs currently authorized for these types of repairs.

Because rates are not affected by creation of the account and because we will afford all parties a full opportunity to review such costs at a later date, it is appropriate to authorize the account on an ex parte basis.

Findings of Fact

1. A major earthquake struck Northern California on October 17, 1989.
2. PG&E states that it is incurring and will continue to incur significant costs to reestablish utility service to its customers and to repair and replace utility facilities damaged in the earthquake and related events.
3. PG&E requests that the Commission establish a balancing account mechanism, to be called the Earthquake Recovery Account, and that PG&E be authorized to begin recording in this account, for later recovery, the costs associated with the earthquake.
4. A public hearing on the establishment of the memorandum account is not necessary.

Conclusions of Law

1. PG&E's request to establish a memorandum account to record expenses incurred as a result of the earthquake of October 17, 1989 should be granted as set forth in Ordering Paragraph 1.

2. Since PG&E cannot begin recording incurred costs until the memorandum account is established, the order authorizing establishment of the account should take effect immediately.

INTERIM ORDER

IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E) is authorized to establish a memorandum account to record expenses, including carrying costs at the three-month commercial paper rate, incurred as a result of the October 17, 1989 earthquake for the following purposes:

- a. Reestablishing utility service to its customers;
- b. Repairing, replacing, or restoring utility facilities damaged by the earthquake; and
- c. Implementing governmental agency orders resulting from this event.

2. No expenses incurred prior to the date of this order shall be recorded in the memorandum account.

3. The expenses recorded in this account may be subject to future recovery in rates following review by the Commission, including, but not limited, to review of the following:

- a. The reasonableness of incurred costs;
- b. Verification and approval of the methods used by PG&E in recording such expenses;
- c. Identification of changes in revenue or operations which offset recorded expenses; and

- d. Review of the extent to which PG&E accounts are currently funded for the purpose of system repair and maintenance.

4. On or before May 1, 1990, PG&E will file with the Commission a report of the costs recorded in the memorandum account for Commission review and audit. This report shall include PG&E's proposal for the recovery of the amounts recorded in the account, and shall, at a minimum, address the four issues identified in Ordering Paragraph 3.

5. The Commission's Executive Director shall serve a copy of this decision on all parties in Application 88-12-005.

This order is effective today.

Dated NOV 3 1989, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. O'HANIAN
PATRICIA M. ECKERT
Commissioners

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

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Wesley Franklin
WESLEY FRANKLIN Acting Executive Director