

ORIGINAL

Decision 89-11-066 November 22, 1989

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)

REVISED INTERIM OPINION ON EARTHQUAKE RECOVERY ACCOUNT

Overview

This decision is a clarifying modification of our November 3, 1989, Decision (D.) 89-11-029, which authorized the creation of the Earthquake Recovery Account for Pacific Gas and Electric Company (PG&E). As PG&E points out in its November 9, 1989, "Petition for Clarification of Decision 89-11-029" (redesignated a "Petition for Modification" by our Docket Office), D.89-11-029 was ambiguous in its use of the terms "balancing account" and "memorandum account" and in its description of the expenditures authorized to be recorded in the Earthquake Recovery Account. These ambiguities require that we more clearly set forth our original intention to authorize the establishment of a balancing account in which PG&E may record its earthquake related costs, both capital-related and operating. Some further discussion of the ratemaking implications and implementation of the Earthquake Recovery Account is also needed.

For ease of reference, the discussion section of D.89-11-029, with appropriate revisions, will be restated here with the intent that this clarified discussion supercede the discussion set forth in that decision.

Discussion

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 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 balancing account. We will authorize PG&E to record in this account, for possible future recovery, all costs, in excess of normal operating and capital-related 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.

The costs that may be recorded include capital-related expenses (such as depreciation, return on investment and taxes) and operating expenses. PG&E may also record carrying costs on the monthly balance in the account, at the three-month commercial paper rate. PG&E shall also record any earthquake-related costs recovered, such as insurance proceeds, into this account.

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 an account for the purpose of recording changes in expenses or revenues resulting from extraordinary and unanticipated events, we have authorized the utility to book into the account only those expenditures which are incurred on or after the date the account is authorized. To do otherwise would constitute retroactive ratemaking. (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 account only those costs which are incurred on or after November 3, 1989.¹

We recognize that we are authorizing PG&E to establish this 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 costs 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 costs recorded in the account shall not be recoverable in rates without further Commission action. The

¹ November 3, 1989 is the date D.89-11-029 was adopted and took effect.

balance in the account may be recoverable in rates, if authorized 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 expenditures to the extent such expenditures are offset by other factors or are not extraordinary expenditures attributable to the earthquake. For example, before authorizing recovery of any expenditures 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.

Although the establishment of the Earthquake Recovery Account has no effect on rates, PG&E is likely to seek later recovery in rates of the balance in the account. Therefore, in keeping with our usual practice in the establishment of balancing accounts PG&E must file proposed tariff sheets, consistent with this decision, reflecting the establishment of this account. Due to the emergency nature of this account and the lack of a rate impact, good cause exists for permitting the tariff sheets to be filed after the establishment of the Earthquake Recovery Account.

Findings of Fact

1. As adopted, D.89-11-029 was ambiguous in its use of the terms "balancing account" and "memorandum account" and failed to

clearly state our intent to authorize establishment of a balancing account.

2. As adopted, D.89-11-029 was ambiguous in its description of the expenditures authorized to be recorded in the Earthquake Recovery Account and failed to clearly state our intent that both capital-related and operating costs may be recorded.

3. PG&E may recover some earthquake-related costs, for example insurance proceeds, and such cost recovery should be included in the Earthquake Recovery Account.

Conclusion of Law

D.89-11-029 should be modified to clearly reflect the Commission's intent, as identified in Findings of Fact 1 through 3.

REVISED INTERIM ORDER

IT IS ORDERED that:

1. The following Findings of Fact, Conclusions of Law, and Ordering Paragraphs replace those in D.89-11-029 in their entirety, except that the effective date of D.89-11-029 remains November 3, 1989.

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 account is not necessary.

Conclusions of Law

1. PG&E's request to establish a balancing 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 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 the Earthquake Recovery Account, a balancing account to record capital-related and operating costs, 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. PG&E shall also record any earthquake related costs recovered, such as insurance proceeds, into this account.

3. No costs incurred prior to November 3, 1989, shall be recorded in the account.

4. The costs 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 costs;
- c. Identification of changes in revenue or operations which offset recorded costs; and
- d. Review of the extent to which PG&E accounts are currently funded for the purpose of system repair and maintenance.

5. PG&E shall file an advice letter tariff consistent with this decision no later than December 11, 1989.

6. On or before May 1, 1990, PG&E will file with the Commission a report of the costs recorded in the 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.

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

II. The Commission's Executive Director shall cause a copy of this revised interim opinion decision to be served on all parties in Application 88-12-005.

This order is effective today.

Dated November 22, 1989, at San Francisco, California.

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

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

- 7 -

Wesley Franklin
WESLEY FRANKLIN, Acting Executive Director
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Decision 89 11 066 NOV 22 1989

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President
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Commissioners