

Mailed

Decision 90-12-077 December 19, 1990

DEC 20 1990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for a Commission order finding that certain expenditures on two environmental compliance projects were reasonable and for authority to recover costs in its electric rates.

ORIGINAL

Application 89-05-001 (Filed May 1, 1989)

(U 39 E)

OPINION

- Barbara S. Benson, Attorney at Law, for Pacific Gas and Electric Company, applicant.
Frank McNulty, Attorney at Law, and John P. Hughes, for Southern California Edison Company; Roy M. Rawlings, Gay M. Phillips, and Jeffrey E. Jackson, Attorneys at Law, for Southern California Gas Company, interested parties.
Jason J. Zeller, Attorney at Law, and Richard Myers, for Division of Ratepayer Advocates.

Summary of Decision

This decision adopts the stipulated ratemaking treatment for two of Pacific Gas and Electric Company's (PG&E) hazardous waste management projects.

Background

The Commission first addressed the ratemaking for a utility's hazardous waste management program in PG&E's test year 1987 general rate case (GRC) decision. In that Decision, (D.) 86-12-095, the Commission adopted explicit criteria and procedures to implement PG&E's hazardous waste management program including a procedure for rate recovery outside of the GRC process.

According to the procedure adopted in the GRC decision, PG&E was required to file formal application<sup>1</sup> seeking authorization to book into a memorandum account, for future recovery in rates following a reasonableness review, costs associated with hazardous waste management project(s).

In accordance with the adopted procedure, PG&E, on October 12, 1987, filed Application (A.) 87-10-019 requesting authorization to accrue in a memorandum account the cost of 22 separate hazardous waste management projects for future recovery in rates. On March 3, 1988, the Commission issued an interim decision (D.88-03-017) in A.87-10-019. The interim decision authorized PG&E to establish a memorandum account to record, under certain terms and conditions, up to \$8,312,120 in hazardous waste management expenses. The Commission, on September 14, 1990, issued its final decision (D.88-09-020) in A.87-10-019. Ordering Paragraph 5 of the final decision requires that:

"PG&E shall file an application for a reasonableness review of expenditures on projects that have been completed, and which it wishes included in rates. PG&E shall file this application no later than 60 days after filing its annual report due on March 1 of each year. The application shall be filed annually commencing in 1989." (Ordering Paragraph 5, D.88-09-020.)

Accordingly, PG&E, on May 1, 1989, filed this application (A.89-05-001) seeking rate recovery for the following two completed projects:

---

<sup>1</sup> The procedure has since been revised by D.88-09-020. According to the new procedure, PG&E may seek authorization to book such expenses in a memorandum account by filing an advice letter with certain prescribed documentation.

1. Circulating Water System Improvement Project

This project was identified as Project 6 in A.88-10-017. It involves the modifications and improvements to the circulating water systems at the Contra Costa and Pittsburg Power Plants in order to reduce the number of striped bass killed as a result of power plant operation.

2. Fallout Type Particulate Control Project

This project was identified as Project 7 in A.87-10-017. It involves the modifications and improvements to Units 6 and 7 at the Contra Costa Power Plant in order to reduce fallout-type particulate (FTP) emissions. FTP emissions are a type of air pollution associated with the burning of fuel oil in power plants.

We will refer to them as Projects 6 and 7 in this decision.

In its final decision in A.87-10-019, the Commission concluded that "PG&E should not book into the memorandum account any expenses incurred prior to March 9, 1988, the effective date of the interim decision in this proceeding." (Conclusion of Law 2.) Subsequently, that conclusion was modified by D.88-12-049, dated December 9, 1988, to provide:

"PG&E should not book into the memorandum account any expenses incurred prior to March 9, 1988, the effective date of the interim decision in this proceeding. This does not, however, absolutely preclude eventual recovery of capital costs, to the extent they are determined to be reasonable in PG&E's next general rate case."

In accordance with the Commission's directives, PG&E, in this application, is seeking a reasonableness review and requesting rate recovery of only those costs for Projects 6 and 7 which were incurred after March 9, 1988. Specifically, PG&E seeks to:

(1) include in its electric rates \$492,552 in expenses for the two

completed environmental compliance project and (2) include \$1,969,010 plant additions in rate base.

The Division of Ratepayer Advocates (DRA) issued its report on the reasonableness review of the projects in September 1990.

A prehearing conference was held on October 5, 1990, before Administrative Law Judge (ALJ) Garde.

During the prehearing conference, PG&E made a motion requesting that the reasonableness of the pre-March 9, 1989 costs incurred for the two projects also be reviewed in this proceeding. DRA concurred with PG&E's motion. The ALJ granted PG&E's motion and allowed DRA additional time to prepare its report on reasonableness review of pre-March 9, 1989 costs for Projects 6 and 7.

DRA issued its report on reasonableness review of pre-March 9, 1989 costs in December 1989.

On July 6, 1990, PG&E filed a proposed settlement of all issues with DRA and a motion requesting that the settlement be adopted in the decision in this proceeding. PG&E in its motion also requests that the noticed settlement conference and comment period required by the Commission's Rules of Practice and Procedure be waived to permit expeditious adoption of the settlement. Other parties in the proceeding concur with PG&E's request and the terms of settlement.

#### Terms of Settlement

PG&E and DRA agreed to the following terms regarding the reasonableness of costs and procedure for rate recovery for Projects 6 and 7:

- "1. Total costs for Project 6 in the amount of \$8,152,231 were reasonably incurred and should be included in rate base.
- "2. Total costs for Project 7 in the amount of \$4,123,767 were reasonably incurred and should be included in rate base.

- "3. The 1990 revenue requirement for Projects 6 and 7 is \$2,009,209. This amount, plus interest of \$84,162 calculated from January 1, 1990 to July 1, 1990, for a total of \$2,093,371, shall be added to PG&E's Electric Revenue Adjustment Account effective July 1, 1990.
- "4. The 1991 and 1992 attrition rate adjustment shall reflect the fact that Projects 6 and 7 are now included in rate base. These items will be specifically identified and added in PG&E's Attrition Advice Letters filed on October 1 of 1990 and 1991. The 1991 rate base and revenue requirement are \$10,691,149 and \$1,940,481, respectively. The 1992 rate base and revenue requirement are \$10,231,167 and \$1,874,468, respectively. The 1991 and 1992 revenue requirements are based on a 12.9% return on equity and will be recalculated based on the authorized cost of capital in 1991 and 1992.
- "5. PG&E will receive no rate recovery associated with Projects 6 and 7 for 1988 and 1989. This does not constitute a precedent for implementing the Environmental Compliance Reasonableness ratemaking mechanism, however."

A copy of the proposed settlement is included in Appendix A.

Discussion

We believe that a consolidated review of Projects 6 and 7 costs incurred both before and after March 9, 1989 would eliminate duplication of effort for all parties. We will affirm the ALJ's ruling to consider the reasonableness of both the pre- and post-March 9, 1989 costs for Projects 6 and 7 in this proceeding.

Turning to the terms of the settlement, we believe that the proposed ratemaking treatment is consistent with the Commission's policies. In addition, all parties concur with the terms of the settlement. We will adopt the settlement.

Finally, since no party has opposed PG&E's motion to waive requirement of the noticed settlement conference and comment

period and that no purpose would be served by holding such conference, we will grant PG&E's motion.

Findings of Fact

1. PG&E's 1987 GRC decision adopted a procedure for recovering hazardous waste management program expenses, outside of the GRC process.

2. According to the procedure adopted in the GRC decision, PG&E was required to file a formal application seeking authorization to book into a memorandum account, for future recovery in rates, costs associated with hazardous waste management projects.

3. In accordance with the adopted procedure, PG&E filed A.87-10-019 on October 12, 1987 requesting authorization to accrue in a memorandum account the cost of 22 separate hazardous waste management projects for future recovery in rates.

4. On March 9, 1989, the Commission issued interim decision in A.87-10-019 which authorized PG&E to accrue up to \$8,312,190 in expense associated with hazardous waste management projects.

5. The Commission issued its final decision, D.88-09-020, in A.87-10-019.

6. D.88-12-049 modified D.88-09-020.

7. The final decision in A.87-10-019, as modified by D.88-12-049, authorized PG&E to book into a memorandum account, for future rate recovery, certain hazardous waste management project expenses incurred after March 9, 1989, the date of interim decision in A.87-10-019. The decision did not absolutely preclude rate recovery of costs associated with hazardous waste management projects which were incurred before March 9, 1989.

8. PG&E filed A.89-05-001 requesting that the Commission: (a) find that PG&E's expenditures on two completed hazardous waste management projects (Projects 6 and 7) incurred after March 9, 1989, were reasonable and (b) authorize PG&E to recover the expenses for the projects in electric rates.

9. At the prehearing conference held on October 5, 1989, PG&E made a motion requesting that the reasonableness of expenses associated with Projects 6 and 7 which were incurred before March 9, 1989 should also be considered in this proceeding.

10. The ALJ granted PG&E's motion.

11. On July 6, 1990, PG&E filed a proposed settlement of all issues with DRA and a motion requesting that the settlement be adopted in this decision.

12. PG&E's motion also requests that the noticed settlement conference and comment period required by the Commission's Rule of Practice and Procedure be waived to permit expeditious adoption of the settlement.

13. Other parties concur with the requests made in PG&E's motion and approve the terms of the proposed settlement.

14. The terms of the proposed settlement are consistent with the Commission's policies.

15. The terms of the proposed settlement include Projects 6 and 7 in PG&E's rate base for its 1991 attrition rate adjustment.

16. No useful purpose would be served by requiring parties to hold a settlement conference.

#### Conclusions of Law

1. The settlement between PG&E and DRA should be adopted.

2. PG&E's motion to waive the requirement of a noticed settlement conference should be granted.

3. Since the terms of the proposed settlement include Projects 6 and 7 in PG&E's rate base for its 1991 attrition rate adjustment, this order has to be effective on December 31, 1990.

#### O R D E R

IT IS ORDERED that:

1. The settlement between Pacific Gas and Electric Company (PG&E) and the Division of Ratepayer Advocates, which is included

in Appendix A, regarding the reasonableness of expenses of and ratemaking treatment for PG&E's hazardous waste management Projects 6 and 7, shall be adopted.

2. The ratemaking treatment for PG&E's hazardous waste management Projects 6 and 7 shall be in accordance with the settlement included in Appendix A.

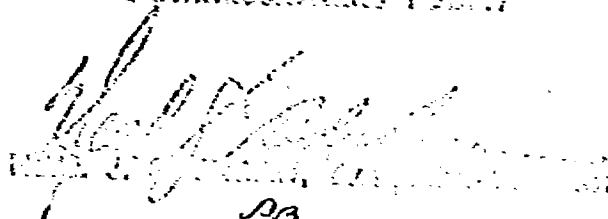
3. This proceeding is closed.

This order is effective December 31, 1990.

Dated December 19, 1990, 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



Handwritten signature of G. Mitchell Wilk, President, with the initials "PB" written below it.




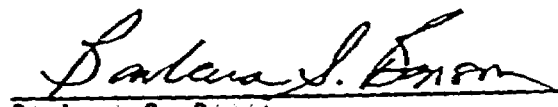
SETTLEMENT BETWEEN  
CPUC DIVISION OF RATEPAYER ADVOCATES  
PACIFIC GAS AND ELECTRIC COMPANY AND OTHER PARTICIPANTS  
REGARDING PG&E'S 1989 ENVIRONMENTAL COMPLIANCE REASONABLENESS  
APPLICATION 89-05-001

Pacific Gas and Electric Company (PG&E) and the Division of Ratepayer Advocates (DRA) have agreed on the following matters regarding the costs of Environmental Compliance projects #6 and #7.

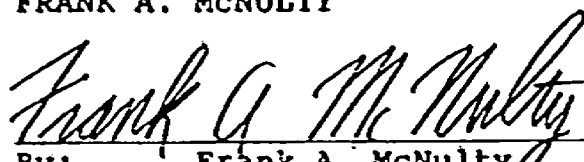
1. Total costs for project #6 in the amount of \$8,152,231 were reasonably incurred and should be included in rate base.
2. Total costs for project #7 in the amount of \$4,123,767 were reasonably incurred and should be included in rate base.
3. The 1990 revenue requirement for project #6 and project #7 is \$2,009,209. This amount, plus interest of \$84,162 calculated from January 1, 1990 to July 1, 1990, for a total of \$2,093,371, shall be added to PG&E's Electric Revenue Adjustment Account effective July 1, 1990.
4. The 1991 and 1992 attrition rate adjustment shall reflect the fact that projects #6 and #7 are now included in rate base. These items will be specifically identified and added in PG&E's Attrition Advice Letters filed on October 1 of 1990 and 1991. The 1991 rate base and revenue requirement are \$10,691,149 and \$1,940,481, respectively. The 1992 rate base and revenue requirement are \$10,231,167 and \$1,874,468, respectively. The 1991 and 1992 revenue requirements are based on a 12.9% return on equity and will be recalculated based on the authorized cost of capital in 1991 and 1992.
5. PG&E will receive no rate recovery associated with projects 6 and 7 for 1988 and 1989. This does not constitute a precedent for implementing the Environmental Compliance Reasonableness ratemaking mechanism, however.

It is the understanding of the parties that this agreement shall be submitted as soon as possible to the presiding ALJ and the Commission for a Decision.

  
Jason J. Zelzer  
Attorney  
California Public Utilities  
Commission  
Division of Ratepayer Advocates

  
Barbara S. Benson  
Attorney  
Pacific Gas & Electric Company

RICHARD K. DURANT  
CAROL B. HENNINGSON  
FRANK A. McNULTY

  
By: Frank A. McNulty

Attorneys for  
SOUTHERN CALIFORNIA EDISON COMPANY

Dated: June 27, 1990

(END OF APPENDIX A)