

Decision 82 10 023 OCT 6 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own motion into the matter of the adoption of regulations governing the safety and construction of a liquefied natural gas terminal in the State of California.

OII 1  
(Filed October 18, 1977)

**CONFIDENTIAL**

In the Matter of the Application of Western LNG Terminal Associates, a general partnership, and of a Joint Application of Western LNG Terminal Associates, Pacific Gas and Electric Company and Pacific Lighting Service Company, California corporations, for a permit authorizing the construction and operation of an LNG terminal pursuant to Section 5550 et seq. of the Public Utilities Code.

Application 57626  
(Filed October 14, 1977)

In the Matter of the Application of PACIFIC GAS and ELECTRIC COMPANY, AND PACIFIC LIGHTING SERVICE COMPANY, California corporations, for a Certificate that Public Convenience and Necessity require the construction, operation, and maintenance of a 34" Pipeline from the Point Conception area, Santa Barbara County, California to Gosford, Kern County, California, and related facilities.

Application 57792  
(Filed January 9, 1978)

Investigation on the Commission's own motion into the impact of the decline in natural gas available to California from traditional sources and the need for and timing of deliveries from supplemental supply projects.

Case 10342  
(Filed June 1, 1977;  
amended August 23, 1977)

## O P I N I O N

### Summary

In an accompanying decision issued today, the Commission culminates the most detailed scientific investigation in its history, and finds that Little Cojo Bay at Point Conception, California, is seismically and geologically suitable for construction of California's liquefied natural gas (LNG) terminal.

That investigation, in which the Commission assembled a panel of the nation's foremost experts on earthquake hazards, was undertaken in response to a state law passed in 1977 that the Commission find an appropriate site for an LNG terminal in California. (Public Utilities (PU) Code §§ 5550 et seq.)

In this decision, we address the crossroads at which Western LNG Terminal Associates (Western Terminal), the sponsors of the LNG project, have arrived. We undertake this assessment under the Legislature's command that the Commission monitor LNG project costs. (PU Code § 5638.)

We find that, due to decisions made by sponsors regarding potential supplies for this project, favorable changes in the gas supply/demand balance, and an unfavorably sharp escalation in project costs, there is substantial doubt whether sponsors have a viable LNG project at this time. We therefore ask sponsors to inform us whether they intend to assemble an economically viable LNG project (if that is possible) or instead to place the LNG project in formal suspension with an application to "bank" the Little Cojo site and recover expenditures to date.\*

We also inform sponsors that, from this date forward, they bear a heavy burden of justifying additional expenses on the LNG project.

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\* We note that on October 4, 1982 Western Terminal through Southern California Gas Company and Pacific Gas and Electric Company publicly announced that they would not continue to seek certification of this project but would instead seek recovery of investment made to date and deferral of construction to some future date.

This mid-term assessment of where the LNG project stands is consistent with the Commission's continuing responsibility to insure that no imprudent costs are included in rates. None of the investment booked to date is now included in rates. Only after a hearing could recovery of investment be allowed. We find that, while the Legislature's passage of LNG terminal legislation and our own issuance of a conditional certificate in 1978 must be accorded significant weight, circumstances have changed so greatly since 1978 that sponsors must justify a decision to proceed with this \$4 billion project (including Indonesian and Alaskan gas supply, gas liquefaction, LNG tank ships, LNG storage, and a regasification plant) before a final certificate may be issued.

We allow sponsors 60 days in which to make their decision whether to proceed or, for the time being, to bank the Little Cojo Bay site.

#### Background

The Point Conception LNG terminal is proposed as an integral link of projects to transport and sell within California natural gas from Indonesia and South Alaska. Basically, we are being asked to approve the last link of a gas transportation system that includes gas production and gathering facilities, ship transport of that gas, and receiving and regasification of that gas. Each of these components is a severable entity which must be tied together to produce a viable transportation system. Western Terminal's application before us concerns only the permit for the California storage and regasification link of the LNG transportation system.

In a series of decisions, beginning with Decision (D.) 89177 dated July 31, 1978, we have processed Western Terminal's application for a permit to locate, construct, and operate an LNG receiving terminal at Little Cojo Bay. By our LNG decision of July 31, 1978 we granted Western Terminal a conditional permit, and we set forth two major conditions precedent to Western Terminal's

receiving a final permit.<sup>1</sup> The first was the additional seismic and geologic risk investigation and evaluation, Conditions 36 and 37 of D.89177. In an accompanying decision issued today, we set forth our discussion on this issue and our findings that Little Cojo Bay is a suitable location for an LNG terminal. The second condition precedent, Condition 32 of D.89177, required Western Terminal to obtain additional oceanographic data on the wind and wave conditions at the conditionally approved site to further evaluate whether LNG tankers could reliably deliver their cargo to the terminal. In D.92552, based on the data gathered under Condition 32, we found that the wind-wave conditions at Little Cojo Bay would not prohibit the reliable delivery of LNG to the terminal. Also by previous LNG decisions, especially D.90510, we reaffirmed our belief in the need for construction of an LNG terminal in California, and we stated that unless seismic safety analysis proved to the contrary, Little Cojo Bay would be California's LNG terminal site.

In the accompanying decision issued today, we discuss our further evaluation of the seismic risks of the Little Cojo Bay site

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<sup>1</sup> Ordering Paragraph 15 of this decision also required further hearings on the appropriate air mitigation package, alternative electric transmission line routes, alternative access road routes, and further evaluation of seawater vaporization alternatives. The Commission resolved these issues on October 23, 1979, by issuing D.90968. Ordering Paragraph 16 of D.89177 also ordered further hearings on the issues of (1) Western Terminal's proposed changes in seismic design criteria, (2) the staff's proposed general order on LNG safety standards, (3) refinement of the staff's proposed safety and construction monitoring plan, (4) additional seismic evidence required by Conditions 36 and 37, and (5) additional wind and wave evidence required by Condition 32. Issues (1), (2), and (3) were decided by D.90372, June 5, 1979. On December 30, 1980, the Commission issued D.92552 on the wind and wave conditions at the conditionally approved site, finding that the sea-state conditions would not prohibit the reliable delivery of LNG to California.

and find those risks to be acceptable. We are convinced that the seismic criteria and safety recommendations we have required Western Terminal to adopt would result in the construction of a terminal that is consistent with public health, safety, and welfare. Thus we confirm our previous findings that Little Cojo Bay is California's LNG terminal site, and we declare that Little Cojo Bay is in fact California's LNG terminal site.

Our finding that Little Cojo Bay is California's LNG terminal site seemingly welds the LNG transportation links together, thereby completing approval of the LNG transportation system. However, for reasons expressed below, we are compelled to require Western Terminal to elect between pursuing a final permit or suspending the project.

Over four years have elapsed since we granted Western Terminal a conditional permit to locate, construct, and operate an LNG receiving terminal at Little Cojo Bay. These four years have produced changes in some of the basic findings that led us to conditionally approve the permit for the terminal. With respect to the Pacific Alaska LNG project and the Pacific Indonesia LNG project, as will be discussed below, there is inadequate gas to flow into the LNG transportation system. In the case of the Pacific Indonesia project, sponsors' decision to allow contract rights to lapse means there are no longer gas reserves dedicated to the project; and in the case of the Pacific Alaska project, the sponsors' failure to contract for sufficient reserves creates substantial doubt whether the project is viable. Without a gas supply, there does not appear to be a need for the LNG transportation system or for a receiving terminal.

Likewise, the predictions in the record in July 1978 are no longer valid as to the amount of gas that would be supplied to our gas utilities, the demand for that gas, and the cost of that gas. Current factors are substantially changed from our findings in D.89177. Also, the present state of the economy raises substantial questions on the ability of the sponsors to finance these LNG

projects. We are not certain whether these changed circumstances would lead us to different conclusions than those reached in D.89177. However, these changed circumstances, some of which have been litigated in other proceedings before us, must be addressed before construction of this project can be undertaken.

On September 18, 1981, Toward Utility Rate Normalization (TURN) and the Sierra Club filed a joint petition requesting rescission or reconsideration of the conditional permit issued in D.89177. We discuss this petition below. Both petitioners and Western Terminal recognize in their filings the authority of the Commission to reopen matters in this proceeding. As no final permit has been issued, and indeed, because construction has not commenced, we believe it is appropriate at this time to review our grant of a conditional permit to Western Terminal. As will be seen, there has been a momentous change in circumstances since D.89177 was issued. We will next delineate how circumstances have changed.

#### Indonesian LNG Project

In December 1980, Western Terminal informed the Commission by letter that its cosponsor, the Pacific Indonesia LNG Co., had relinquished its rights to purchase the proven reserves of natural gas in "contract Area B as defined in Article II of its contract with Pertamina for Indonesian gas."<sup>2</sup> In fact, a substantial portion of this gas was sold to the Japanese. This sale meant that the Indonesian project no longer had a committed and dedicated supply of gas and that a new price for any substituted gas would have to be negotiated. Although this letter did indicate that Pertamina would substitute, "when economically practicable, and subject to mutual agreement, like volumes of proven natural gas reserves as have been

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<sup>2</sup> Letter, dated January 7, 1981, addressed to Joseph Bodovitz, Executive Director, from R. M. Loch, vice president of Western Terminal.

or may be developed by Pertamina or production sharing contractors in its exploration program," to date no new gas or price has been agreed to between Pertamina and Pacific Indonesia LNG Co.

The withdrawal of the dedication of the Indonesian reserves and the need to negotiate a new price for that gas was one of the issues discussed in OII 79 - Investigation on the Commission's Own Motion Regarding the Natural Gas Exploration and Development Programs of Pacific Gas and Electric Company (PG&E) and Southern California Gas Company (SoCal). In this proceeding the witness for SoCal admitted that a new contract with Indonesia would have to be negotiated to obtain a dedication of new Indonesian gas reserves for the Indonesian LNG project and to determine the purchase price of that gas. These facts were again confirmed in a letter to us from SoCal on December 3, 1981. Additionally, it is apparent from PG&E's own 1980 resource plan and its June 1982 statement of corporate goals that PG&E foresees little need for the Indonesian gas and places a low priority on the Indonesian project's coming to fruition. Together with other facts noted in this decision, sponsors' decisions and the Indonesian supply uncertainties create substantial doubt whether a truly viable LNG supply project exists at this time.

#### South Alaska LNG Project

The withdrawal of the Indonesian reserves also raises substantial questions on the feasibility of the South Alaska LNG project. In hearings before us and the Federal Energy Regulatory Commission (FERC), the South Alaska project's feasibility was based upon the assumption that the Indonesian project would supply the baseload gas and the South Alaska project would provide an incremental supply. In fact, the original FERC decision requires Western Terminal's cosponsor, Pacific Alaska LNG Associates to demonstrate contractual reserves of 1.6 trillion cubic feet (Tcf) in conjunction with the Pacific Indonesia reserves before construction of the Alaska project can begin. It now appears, however, that the

Western Terminal project must stand alone on the South Alaska gas supply source at Cook Inlet. Even assuming that the project could be found to be economically viable based upon the original Pacific Alaska LNG Associates application, which had a 200 million cubic feet per day (MMcf/d) startup throughput and a 400 MMcf/d maximum throughput, the project sponsors have failed to obtain the reserves to support the project. The 200 MMcf/d requires the dedication of 1.6 Tcf of reserves and the 400 MMcf/d requires reserves of 3.2 Tcf. The project sponsors currently have 1.2 Tcf of reserves under contract, or sufficient gas for about a 160 MMcf/d flow for a 20-year period. Thus, total Cook Inlet gas under contract is only a slight increase over that contracted for in 1978. (Exhibit C-10, p. 44, Case 10342).

In D.89177 we indicated that there might be a problem in acquiring sufficient reserves in this area. It is quite clear that the last four years have proven this suspicion to be true. It should be noted that the project sponsors have been unable to obtain new reserves even though Commission-approved Gas Exploration and Development (GEDA) projects have been undertaken in this area. Additionally, PG&E has stated it does not intend to commit funds to the South Alaska liquefaction plant and Western Terminal has yet to secure new partners to replace PG&E. Again, the cumulative effect of sponsors' decisions and the supply uncertainties is to create substantial doubt whether there is a viable LNG supply project at this time.

#### Other Changed Circumstances

##### A. Gas Supply Demand Balances

Gas supply/demand balances have changed since 1978. For example, in our recent GEDA decision of August 4, 1981, D.93368, we adopted a gas supply balance for a cold dry year (worst case scenario) that assumed deliverability of Pan Alberta, Rocky Mountain, and North Slope gas. This supply picture foresees that assuming



the continuation of Canadian imports, no interruption to PG&E's Priority 1-4 customers will occur through 1989, and that, assuming PG&E assistance to SoCal, service to SoCal's Priority 1-4 customers through 1989 will also be protected. We therefore concluded that any new incremental gas supply sources beyond those listed above would directly benefit Priority 5 service. These conclusions present a considerably more optimistic gas supply scenario than that presented in 1978. We recognize the variables and assumptions in this type of prediction, and that gas supply scenario for the period beyond 1990 may differ from that addressed in D.93368, but we must act on the best information before us, and this information suggests that if LNG from Indonesia and Alaska is added to the supply balance, it is doubtful whether a demand for this gas can be established.

B. Cost of LNG

We are mindful that the increasing cost of the Alaska and Indonesia LNG projects must affect our view of the economic viability of the overall LNG project. D.89177 estimated the total capital cost of the LNG terminal at \$596 million. Total cost of the LNG projects (Alaska LNG, Indonesia LNG, and the LNG Terminal) was stated to be \$1.87 billion. The latest cost estimates available (December 1980), now show terminal costs in constant 1980 dollars at \$1.16 billion and total LNG project costs at \$3 billion. If these estimates are escalated to 1988 dollars, assuming start of construction in July 1984 and 3 $\frac{1}{2}$ -year construction period, these costs increase to \$1.65 billion and more than \$4 billion, respectively.

Moreover, although we approved project financing for these projects to lower the ultimate cost of these LNG projects, the cost of debt was estimated at 10%. Today's cost of money and the present state of the economy raise serious doubts whether, assuming the LNG projects were ready to begin construction today, these projects could in fact be financed.

C. Need for Economic Analysis of LNG Projects

Further, we have recently adopted a new economic policy concerning acquisition of long-term gas supplies. In D.93370 we stated:

"In D.89177 dated July 31, 1978 the Commission gave policy support for the acquisition of maximum available quantities of gas to reduce dependence on imported oil to the lowest possible level. The Commission did not, in that decision, provide any specific guidelines regarding prudent prices for new gas supplies. We will not now chastise SoCal for following our enunciated policy. However, with respect to future gas supply projects, some economic test must be established, even in an era of shortages, to assist the utility and the Commission in determining whether development of a new supply source is in the public interest. The Commission cannot simply accept a 'gas at any cost' philosophy as a utility procurement policy.

"Admittedly, these are times which pose very difficult and complex economic planning questions. As new gas supplies become more difficult to find and more expensive to develop, distribution companies are confronted with critical long-term purchasing decisions. Development of expensive new supply projects often requires prices in excess of alternate fuels as well as a shift of the risk from producers and interstate pipeline companies to distribution companies and consumers. The demands of project developers for such requirements as long-term take-or-pay provisions, cost-of-service tariffs, rate designs which include rolled-in pricing, and demand charges which cover all fixed costs have the potential to shield the producers and interstate pipeline companies from the interplay of a free marketplace. Since actual costs are disguised and not communicated to the consumer, the marketplace does not operate freely to reject gas where cost exceeds value."

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"Furthermore, when considering the economics of longer-term supply projects, the simple expedient of determining that the rolled-in price to the consumer can absorb the price of the incremental supply is not satisfactory. As more incremental supplies are acquired, the danger increases that the system average supply price will exceed the price of alternate fuels and the potential for market dislocation becomes very real. Those distributors that have relied upon rolled-in pricing to ensure marketability of supply may, quickly and dramatically, find that they have lost a substantial part of their market since it is the consumer who will make the ultimate price decisions when gas prices are finally deregulated. It is even conceivable that if the price of gas turns out to be a great deal higher than the value of gas as a fuel the distribution companies' full cost of service might not be recoverable.

"In the absence of market-oriented forces controlling the price of incremental supplies, distribution companies must consider the long-term economic consequences to themselves and the consumer of such purchases. Logic and sound business practice dictate that they employ an economic test to assist them in considering the prudence of purchasing expensive long-term incremental gas supplies."

We then went on to note that we recognized that no economic analysis could be set down in a rigid fashion and that factors such as air quality restraints or supply security considerations could conceivably outweigh a negative economic analysis. However, we specifically stated:

"...it should be clearly understood that an economic analysis based on the value of gas vis-a-vis alternate fuels must be made in evaluating new supplies of gas. No longer can the existence of a shortage be a blank check to purchase expensive gas. Economics could very well dictate that a shortage cannot be alleviated at prevailing prices."

Then in April of this year in D.82-04-116, in a SoCal consolidated adjustment mechanism (CAM) proceeding, we adopted an economic test by which the full cost of a new gas supply project would be compared with the cost of imported crude oil displaced over the life of the proposed project. We found that if the net cost of such a new supply at the California border exceeds the cost of the imported crude delivered to California refiners over the life of the gas supply project, acquisition of the gas supply would be imprudent.

We think it is important that, before we grant Western Terminal a final permit, acquisition of Indonesia and Alaska LNG undergo an economic analysis. Although language used in D.82-04-116 was directed to SoCal, it is equally applicable to the LNG project sponsors, and we reiterate it here:

"The economic test is intended as a signal to SoCal and perhaps indirectly to SoCal's suppliers that 'gas at any cost' is not an acceptable gas acquisition policy in California. It is our signal that we expect SoCal to demonstrate that it has made a rigorous economic analysis long before it comes before this Commission requesting certification of a new gas supply project. SoCal will be expected to employ the economic test in planning future supply acquisitions, in negotiating with its domestic and foreign suppliers, and in requesting certification of new supply projects before FERC.

"Of course, we cannot bind the actions of SoCal in planning, negotiating, and applying to FERC for acquisition of new gas supplies. However, this Commission can state that in any future proceedings in which SoCal asks approval of costs associated with new long-term gas supply projects, SoCal will be expected to demonstrate that it considered the adopted economic test in the planning, negotiating, and certificating phases of acquiring the new gas supply. Failure to so demonstrate will create a presumption that the new gas supply purchases are imprudent."

In view of the changed circumstances, including the lapse of Pacific Indonesia's supply rights, and in view of the enormous expense which construction of the LNG terminal would entail, we think it vital that this test be applied to the LNG project before issuance of a final permit. Not to apply the economic test would represent a gas-at-any-cost philosophy. It might also result in a financial debacle for Western Terminal and its cosponsors, not to mention PG&E's and SoCal's ratepayers.

Sierra Club and TURN Petition for  
Rehearing or Reconsideration

Still pending before us and awaiting our disposition is the joint petition filed by TURN and the Sierra Club requesting rescission or reconsideration of our conditional permit decision in D.89177. Hollister Ranch Owners Association, the Bixby Ranch, and the Santa Barbara Indian Center joined in the petition. Responses to this petition were filed by Western Terminal and staff. The petition attempts to set forth what it considered "material and substantial changes" in the circumstances surrounding the project that dictate either rescission of D.89177 or granting rehearing of that decision. Petitioners allege that in such changed circumstances there is no need for the project since additional gas supplies are available and demand for gas is lower than anticipated; that the costs of the gas and the costs of the LNG projects are substantially higher, so that rolling in the cost of LNG would force rate increases; that the Indonesians have withdrawn their dedicated gas supply and little progress has been made in securing a sufficient South Alaska source of gas; that the added reliability provided by the LNG projects is not worth the costs of the projects; that the Commission has abandoned the gas supply acquisition policy of "gas at any cost" and substituted economic tests to determine the reasonableness of acquisition of new long-term supplies; and that the continued expenditure of utility funds to qualify the site, given the changed

circumstances surrounding the projects, constitutes an imprudent investment of utility resources.

Given our decision here, we need not respond to all of petitioners' allegations. As circumstances now stand, much of what petitioners allege is obviously correct, but we cannot say (as petitioners apparently would have us do) that we can foresee future circumstances and can therefore conclude for all time that no LNG project will ever be needed. We agree that if we were to authorize applicants to go forward with the LNG terminal project, since no final permit has issued and construction has not begun, we would need to review the basis for our original decision. We are aware that much water has passed over the dam in the last four years as highlighted above, and we would need to make certain that in light of the substantial costs of these LNG projects and their present incipient status, these projects are still in the best interests of California ratepayers.

#### LNG Expenditures

One issue raised by petitioners TURN and Sierra Club, however, does merit our consideration and must be addressed. Petitioners state that Western Terminal, and its cosponsors, Pacific Indonesia LNG Co., Pacific Alaska LNG Associates, and Pacific Marine Associates have booked more than \$300 million in actual expenses and accrued AFUDC in processing applications and in attempts to meet permit conditions. Petitioners then allege, "The expenditure of such funds by Western [Terminal] constitutes an 'imprudent investment' which threatens to unnecessarily and unreasonably penalize the ratepayers or taxpayers of this state and prevents more appropriate utilization of expensive and scarce capital resources."

In its response to petitioners' allegation, staff substantiates that significant sums have been expended by Western Terminal in its endeavor to obtain the necessary regulatory approvals for the LNG projects. Staff expressed concern that these expended sums will continue to accumulate as Western Terminal continues its efforts to obtain regulatory approvals. Staff then recommended that the Commission undertake several steps that would control future LNG expenditures. The most significant of these recommendations proposed a "deadline provision" which would provide that if applicants have not succeeded in executing a new contract for Indonesian gas and/or acquired sufficient South Alaska gas to support the terminal project within 120 days after the date the decision on seismic issues is issued, any additional costs incurred by the applicants will be at the risk of the shareholders in the event that the project is abandoned. In rebuttal to staff's proposals, Western Terminal argued that there would be no purpose in adopting an arbitrary deadline since we have the authority to monitor the project and that we could take appropriate action in light of future events as they occur.

We are aware of the sums that have been expended by project sponsors during the LNG permit process. Under PU Code § 5632, we have monitored the project sponsors' expenditures. To date, project sponsors have booked over \$400 million of expense; of that total, the carrying costs, or AFUDC, exceed \$200 million. Since there is substantial doubt whether a viable LNG project exists at this time, project sponsors will bear an unusually heavy burden to justify further expenditures made after the date of this decision (except to fill the seismic trenches and restore the land at the Point Conception site, as ordered in the accompanying decision). We simply cannot watch expenditures continue to mount on a project facing such diminished chances of completion.

### The AFUDC Problem

At this point it is important to consider exactly what AFUDC is. AFUDC is a form of return on capital invested in a utility construction project before the project is complete. For ratemaking purposes, it is capitalized, that is, recognized only when the construction is complete and the property is used and useful in the utility's operations. Thus, when a project on which \$10 million was actually spent out-of-pocket, and on which, for example, \$1 million of AFUDC was accrued, goes into rate base, the actual amount ultimately rate-based would be \$11 million. In other words, neither ratepayers nor the utility sees the AFUDC return in the form of actual cash until a project is complete. This treatment is intended to allocate the cost of construction projects to future ratepayers, i.e. those who will benefit from the construction. It has the effect of giving the utility an incentive to complete its construction projects as quickly as possible.

There are two additional facts to consider regarding AFUDC. First, to expand the example given above, assume in the first year a utility's investment is \$10 million and it accrues AFUDC at 10%, or \$1 million. Assume that in the second year it again spends \$10 million. It now accrues AFUDC on \$21 million, not \$20 million, because AFUDC is earned on AFUDC, i.e. it compounds. This means that, over time, AFUDC can build up to substantial levels, in excess of actual out-of-pocket investment. The overall ING project is a case in point - AFUDC now has overtaken actual expenditures and is accruing at over \$5 million per month or almost \$65 million per year.

A second fact is more abstract, but equally important. For utility accounting purposes, AFUDC is treated as a "below-the-line" item: it is not taken into account in setting utility rates. (A utility also makes an accounting entry which increases its asset balance by capitalization of the AFUDC.) Each year, the utility records additional AFUDC accruals as such income. However, these



accruals represent only accounting accruals, with no associated real cash receipts. For this reason, AFUDC is usually regarded as "earnings" of lower quality.

When, or if, the associated construction project is ever transferred to rate base, the capitalized AFUDC accumulated on the project since inception will then be recovered from future customers through depreciation charges. If, however, for one reason or another, the project is never completed, the AFUDC may be permanently "disallowed" by regulatory authorities.

A good example of disallowance of AFUDC in connection with an incomplete project is contained in D.92497, dated December 5, 1980, SoCal's last general rate case decision, where we considered SoCal's abandoned WESCO coal venture. We shall not repeat the long discussion which appears there of the proper apportionment of failed project risk between ratepayers and shareholders. We simply note that although we allowed all prudently incurred out-of-pocket expenses, we disallowed all AFUDC accrued on the project. A similar disallowance of AFUDC occurred in D.90405, where we treated expenses booked by San Diego Gas & Electric Company in connection with its uncertificated and indefinitely deferred Sundesert nuclear project.

The accumulation of AFUDC on the LNG project is troubling given our doubts that it is viable. If the project is not completed, at least in the near term, then the Commission must ultimately decide whether the AFUDC costs will be borne by ratepayers or shareholders. Whoever bears the cost, the continued accumulation of AFUDC only makes the ultimate burden greater.

In view of the foregoing discussion, and especially in view of our treatment of AFUDC in D.92497 (WESCO) and D.90405 (Sundesert), we believe that the future of this project must be resolved quickly. We cannot at this time determine whether we will allow either partial or complete recovery of the AFUDC for the project. That decision

will be made when the utilities apply for recovery of costs associated with it. However, given the growing concerns about the project's viability, there is increasingly less justification for ultimately allowing recovery of incremental additions of AFUDC. To avoid the shock for the utilities of massive disallowance of AFUDC in the future, Western Terminal and its partners should quickly resolve how to proceed. By requiring sponsors to elect within 60 days between pursuing a final permit or formally suspending the project, this order should arrest unnecessary AFUDC build up.

#### Future LNG Action

Our decision today brings the LNG supply project to a critical crossroads. The choice of which path to follow lies with the sponsors. We address this issue so that sponsors can understand the manner in which we would respond, depending upon their choice. We make no decision whether LNG can be a useful supply source in California's future. Changed gas supply deliveries to California could make LNG a desirable supply alternative. Although this does not seem to be the situation today, we do not pretend that we can foretell what role LNG will play in meeting California's long-term future gas supply needs.

Sponsors, then, would seem to have two alternatives. First, they may desire to continue the present regulatory processes. If sponsors opt to continue the permit process before us, we will require new hearings on these LNG projects. Such issues as the adequacy of supply and overall cost of the LNG project must be addressed in these hearings. We take this action recognizing that only by reviewing all of the issues raised by petitioners can we assure ourselves that acquisition of LNG from Indonesia and North Alaska will be in the public interest. A stringent economic test will have to be satisfied before a final permit to construct the terminal can be issued.

As an alternative, sponsors may follow the path of formally suspending these projects with an application to "bank" the Little Gojo site and to obtain appropriate rate treatment for expenditures and AFUDC charges they have so far booked on these projects.\*\* We note that we have no economic rate jurisdiction over Pacific Alaska LNG Associates, Pacific Indonesia LNG Co., Pacific Marine Associates, and Western Terminal. Therefore, the question whether we properly could pass the costs of these projects on to ratepayers would require careful analysis of jurisdictional as well as equitable issues. In any case, only prudently incurred costs could be allowed and, assuming we allow recovery of AFUDC accrued to date, only AFUDC on prudently incurred expenditures would be recognized. We would anticipate, if sponsors adopt the second choice, holding hearings and issuing a decision as expeditiously as possible. In any such hearings, in considering the prudence of expenditures to date, and the proper allocation of project risk, we would of course consider the gas supply picture as it appeared in 1977, the Legislature's response to that picture with the passage of the Liquefied Natural Gas Terminal Act of 1978, the Commission's issuance of a conditional certificate in 1978, the Commission's affirmation of that decision in D.90510 in 1979, and the Commission's decision on wind and wave conditions in D.92552 in 1980.

If Western Terminal and its cosponsors elect the second choice, they are not foreclosed from coming to the Commission in the future if the economic feasibility of an LNG project can be established. The second choice, then, basically presumes that we

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\*\* We once again note that on October 4, 1982 sponsors publicly announced they had decided to forgo seeking a construction certificate at this time, would seek recovery of investments made to date, and would defer seeking authorization to construct the facility to some future date.

will bank the Little Cojo site and consider it reserved for any future LNG project. We leave to a future proceeding whether the recoverable costs will be placed in a plant held for future use account or accorded some other rate-making treatment.

#### Conclusion

We reiterate that, as of the date of this decision, project sponsors bear an unusually heavy burden of justification for further expenditures (excepting those related to filling the trenches as ordered by the companion decision). The choice of where to proceed from here, under the options presented above, is for Western Terminal and its cosponsors. We think 60 days is a reasonable time for this election to be made.

In view of the foregoing discussion, the motion of TURN and Sierra Club for rescission of the conditional permit should be deemed denied, except to the limited extent that, as discussed above, Western Terminal will have to demonstrate the economic viability of any LNG project before a final permit to construct will be issued.

#### Findings of Fact

1. On July 31, 1978 this Commission by D.89177 granted Western Terminal a conditional permit to locate, construct, and operate an LNG receiving and vaporization terminal at Little Cojo Bay, Point Conception, California.

2. The permit granted to Western Terminal was conditioned upon requiring Western Terminal to conduct additional seismic and geologic investigations and evaluations and upon obtaining additional data on the wind and wave conditions at the site.

3. By D.92552 issued on December 30, 1980, we found that, as a result of the additional data required by Condition 32 of D.89177, wind and wave conditions at the proposed docking site would not prevent the reliable delivery of LNG to California.

4. Issues related to seismic and geologic risk evaluation and appropriate mitigation of these risks are resolved, as required by D.89177, in an accompanying decision issued today.
5. As found in the accompanying decision, Western Terminal has satisfactorily completed the geologic and seismic investigations required by Conditions 36 and 37 of D.89177.
6. In the accompanying decision we find the site at Little Cojo Bay suitable and appropriate for the location of an LNG receiving terminal on the California coast.
7. Pacific Indonesia LNG Co. has relinquished its contractual entitlements for the gas reserves described in Article 3.2 of the Indonesian gas purchase agreement.
8. Pacific Indonesia LNG Co. must secure a new source of proven gas reserves from Pertamina in order to support an Indonesia LNG gas supply project.
9. Pacific Indonesia LNG Co. must negotiate new pricing terms for any new gas reserves dedicated to the Indonesia LNG project.
10. As a result of sponsors' decisions regarding the Indonesian gas, and without a dedication of proven supply and definite pricing terms for that gas, there is substantial doubt whether a viable LNG supply project exists at this time.
11. Since the Indonesian gas supply does not exist at this time, the Little Cojo Bay LNG terminal project must stand on the Cook Inlet, South Alaska gas supply source.
12. The Pacific Alaska LNG project assumes a startup throughput of 200 MMcf/d, which requires reserves of 1.6 Tcf, and a maximum throughput of 400 MMcf/d, which requires reserves of 3.2 Tcf.
13. Project sponsors currently have 1.2 Tcf of gas reserves under contract, or sufficient gas for about a 160 MMcf/d flow for a 20-year period.

14. The Pacific Alaska LNG project must be joined with a flow-through of Indonesia gas at 500 MMcf/d in order to make the overall LNG project feasible.

15. Due to project sponsors' failure to obtain sufficient reserves, there is substantial doubt concerning the viability of the Alaska LNG project at this time.

16. Circumstances have changed since the issuance of D.89177. The cumulative effect of a lack of dedicated proven reserves and a negotiated price for the Indonesian project, insufficient contractual reserves to support a minimum Pacific Alaska project, favorable changes in the gas supply/demand balance, and unfavorably sharp escalation in project costs, is to create substantial doubt whether a viable LNG project exists at this time.

17. Due to the lack of gas supply, it is inconsistent with public health, safety, and welfare to issue a final permit to locate, construct, and operate an LNG terminal at Little Gojo Bay.

18. Western Terminal and its cosponsors have booked substantial actual expense and accrued AFUDC on the Western Terminal project, the Pacific Indonesia project, the Pacific Alaska project, and the Pacific Marine project.

19. Since there is substantial doubt whether a viable LNG project exists at this time, project sponsors must bear an unusually heavy burden to justify further actual expenditures on the LNG projects (except for filling in the seismic trenches as ordered in the accompanying decision).

20. Further accruals of AFUDC beyond the effective date of this order are imprudent.

21. It is reasonable to offer Western Terminal and its cosponsors 60 days to elect between the options of either pursuing a final permit to construct by assembling an economically viable LNG project or formally suspending the LNG project and applying for

authority to bank the site and to obtain appropriate rate treatment of expenditures and AFUDC prudently incurred to date.

Conclusions of Law

1. Due to changed circumstances since the issuance of D.19177 and substantial doubt concerning the existence at this time of a viable project, no final permit to construct an LNG terminal should be issued to Western Terminal at this time.
2. Further actual expenditures on the LNG projects (except for filling in the seismic trenches) should face an unusually heavy burden of justification.
3. Except to the limited extent that Western Terminal will be required to demonstrate the economic viability of an LNG project before a final permit to construct will be issued, the motion of TURN and Sierra Club for rescission and/or rehearing should be denied.
4. The following order should issue.

O R D E R

IT IS ORDERED that:

1. Within 60 days Western LNG Terminal Associates (Western Terminal) shall elect between its options to pursue a final permit to construct the LNG terminal or to formally suspend the LNG project and apply for authority to bank the site and obtain appropriate rate treatment of expenditures and AFUDC prudently incurred to date.

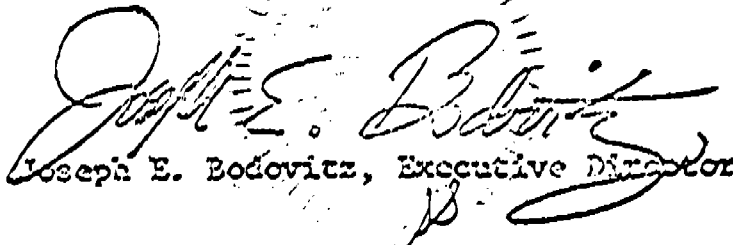
2. The motion of Toward Utility Rate Normalization and the Sierra Club for rescission and/or rehearing is denied, except to the limited extent set forth in Conclusion of Law 3.

This order is effective today.

Dated October 6, 1992, at San Francisco, California.

JOHN E. PEYSON  
President  
RICHARD D. GRAVLEE  
LEONARD M. GRIMES, JR.  
VICTOR CALVO  
PRISCILLA C. GREE  
Commissioners

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

  
Joseph E. Bodovitz, Executive Director



## O P I N I O N

### Summary

In an accompanying decision issued today, the Commission culminates the most detailed scientific investigation in its history, and finds that Little Cojo Bay at Point Conception, California, is seismically and geologically suitable for construction of California's liquefied natural gas (LNG) terminal.

That investigation, in which the Commission assembled a panel of the nation's foremost experts on earthquake hazards, was undertaken in response to a state law passed in 1977 that the Commission find an appropriate site for an LNG terminal in California. (Public Utilities (PU) Code §§ 5550 et seq.)

In this decision, we address the crossroads at which Western LNG Terminal Associates (Western Terminal), the sponsors of the LNG project, have arrived. We undertake this assessment under the Legislature's command that the Commission monitor LNG project costs. (PU Code § 5638.)

We find that, due to decisions made by sponsors regarding potential supplies for this project, favorable changes in the gas supply/demand balance, and an unfavorably sharp escalation in project costs, there is substantial doubt whether sponsors have a viable LNG project at this time. We therefore ask sponsors to inform us whether they intend to assemble an economically viable LNG project (if that is possible) or instead to place the LNG project in formal suspension with an application to "bank" the Little Cojo site and recover expenditures to date.\*

We also inform sponsors that, from this date forward, they bear a heavy burden of justifying additional expenses on the LNG project. We further inform sponsors that they should cease further accruals of AFUDC (allowance for funds used during construction) on the expenditures they have made to date.

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\* We note that on October 4, 1982 Western Terminal through Southern California Gas Company and Pacific Gas and Electric Company publicly announced that they would not continue to seek certification of this project but would instead seek recovery of investment made to date and deferral of construction to some future date.

In its response to petitioners' allegation, staff substantiates that significant sums have been expended by Western Terminal in its endeavor to obtain the necessary regulatory approvals for the LNG projects. Staff expressed concern that these expended sums will continue to accumulate as Western Terminal continues its efforts to obtain regulatory approvals. Staff then recommended that the Commission undertake several steps that would control future LNG expenditures. The most significant of these recommendations proposed a "deadline provision" which would provide that if applicants have not succeeded in executing a new contract for Indonesian gas and/or acquired sufficient South Alaska gas to support the terminal project within 120 days after the date the decision on seismic issues is issued, any additional costs incurred by the applicants will be at the risk of the shareholders in the event that the project is abandoned. In rebuttal to staff's proposals, Western Terminal argued that there would be no purpose in adopting an arbitrary deadline since we have the authority to monitor the project and that we could take appropriate action in light of future events as they occur.

We are aware of the sums that have been expended by project sponsors during the LNG permit process. Under ~~Public Utilities (PU)~~ Code § 5638, we have monitored the project sponsors' expenditures. To date, project sponsors have booked over \$400 million of expense; of that total, the carrying costs, or AFUDC, exceed \$200 million. Since there is substantial doubt whether a viable LNG project exists at this time, project sponsors will bear an unusually heavy burden to justify further expenditures made after the date of this decision (except to fill the seismic trenches and restore the land at the Point Conception site, as ordered in the accompanying decision). We simply cannot watch expenditures continue to mount on a project facing such diminished chances of completion.

SS

For the reasons which follow, we also find it imprudent for Western Terminal and the other project sponsors to accrue any further AFUDC.

The AFUDC Problem

At this point it is important to consider exactly what AFUDC is. AFUDC is a form of return on capital invested in a utility construction project before the project is complete. For ratemaking purposes, it is capitalized, that is, recognized only when the construction is complete and the property is used and useful in the utility's operations. Thus, when a project on which \$10 million was actually spent out-of-pocket, and on which, for example, \$1 million of AFUDC was accrued, goes into rate base, the actual amount ultimately rate-based would be \$11 million. In other words, neither ratepayers nor the utility sees the AFUDC return in the form of actual cash until a project is complete. This treatment is intended to allocate the cost of construction projects to future ratepayers, i.e. those who will benefit from the construction. It has the effect of giving the utility an incentive to complete its construction projects as quickly as possible.

SS There are two additional facts to consider regarding AFUDC. First, to expand the example given above, assume in the first year a utility's investment is \$10 million and it accrues AFUDC at 10%, or \$1 million. Assume that in the second year it again spends \$10 million. It now accrues AFUDC on \$21 million, not \$20 million, because AFUDC is earned on AFUDC, i.e. it compounds. This means that, over time, AFUDC can build up to substantial levels, in excess of actual out-of-pocket investment. The overall LNG project is a case~~in~~point - AFUDC now has overtaken actual expenditures and is accruing at over \$5 million per month or almost \$65 million per year.

A second fact is more abstract, but equally important. For utility accounting purposes, AFUDC is treated as a "below-the-line" item; it is not taken into account in setting utility rates. (A utility also makes an accounting entry which increases its asset balance by capitalization of the AFUDC.) Each year, the utility records additional AFUDC accruals as such income. However, these accruals represent only accounting accruals, with no associated real cash receipts. For this reason, AFUDC is usually regarded as "earnings" of lower quality.

When, or if, the associated construction project is ever transferred to rate base, the capitalized AFUDC accumulated on the project since inception will then be recovered from future customers through depreciation charges. If, however, for one reason or another, the project is never completed, the AFUDC may be permanently "disallowed" by regulatory authorities.

It is the possibility of disallowance which creates the problem. A disallowance of previously accrued AFUDC must be treated as a loss, which is accounted for as a loss in the year it is incurred. If the amount of AFUDC previously treated as current income is comparatively minimal, no problem arises. However, where several hundred million dollars or more of AFUDC have accrued, taking a loss can be a painful exercise, causing a sudden disruption in the utility's level of earnings. This is potentially disruptive of its financial soundness and its future ability to raise capital at reasonable rates. Thus, it becomes imprudent for regulators to allow a utility to continue to accrue AFUDC once significant doubt develops as to whether a project will actually be completed. By placing a cap on accruals of AFUDC, regulators limit the extent to which a utility may have to incur a major loss in the future.

A good example of disallowance of AFUDC in connection with an incomplete project is contained in D.92497, dated December 5, 1980, SoCal's last general rate case decision, where we considered SoCal's abandoned WESCO coal venture. We shall not repeat the long discussion which appears there of the proper apportionment of failed project risk between ratepayers and shareholders. We simply note that although we allowed all prudently incurred out-of-pocket expenses, we disallowed all AFUDC accrued on the project. A similar disallowance of AFUDC occurred in D.90405, where we treated expenses booked by San Diego Gas & Electric Company in connection with its uncertificated and indefinitely deferred Sundesert nuclear project.

In view of the foregoing discussion, and especially in view of our treatment of AFUDC in D.92497 (WESCO) and D.90405 (Sundesert), we do not believe it is prudent for Western Terminal or its partners to accrue AFUDC any longer. We cannot say, at this time, whether we will allow recovery of the AFUDC accrued to date. But we think the consequences for Western Terminal and its cosponsors, not to mention SoCal and PG&E, of allowing AFUDC to continue to build when there is some reason to believe no AFUDC will be allowed at all, are simply too drastic to entertain. We do not see how we possibly could allow recovery of AFUDC accrued after we determined that there is substantial doubt concerning the existence of a viable project. To avoid the shock of a massive disallowance of AFUDC in the future, Western Terminal and its partners should cease accruing it. By indicating that course to Western Terminal and the other project sponsors, we ultimately are protecting PG&E's and SoCal's shareholders as well as their ratepayers. Our order today will so provide.

### Future LNG Action

Our decision today brings the LNG supply project to a critical crossroads. The choice of which path to follow lies with the sponsors. We address this issue so that sponsors can understand the manner in which we would respond, depending upon their choice. We make no decision whether LNG can be a useful supply source in California's future. Changed gas supply deliveries to California could make LNG a desirable supply alternative. Although this does not seem to be the situation today, we do not pretend that we can foretell what role LNG will play in meeting California's long-term future gas supply needs.

Sponsors, then, would seem to have two alternatives. First, they may desire to continue the present regulatory processes. If sponsors opt to continue the permit process before us, we will require new hearings on these LNG projects. Such issues as the adequacy of supply and overall cost of the LNG project must be addressed in these hearings. We take this action recognizing that only by reviewing all of the issues raised by petitioners can we assure ourselves that acquisition of LNG from Indonesia and South Alaska will be in the public interest. A stringent economic test will have to be satisfied before a final permit to construct the terminal can be issued.

As an alternative, sponsors may follow the path of formally suspending these projects with an application to "bank" the Little Cojo site and to obtain appropriate rate treatment for expenditures and AFUDC charges they have so far booked on these projects.\*\* We note that we have no economic rate jurisdiction over Pacific Alaska LNG Associates, Pacific Indonesia LNG Co., Pacific Marine Associates, and Western Terminal. Therefore, the question whether we properly could pass the costs of these projects on to ratepayers would require

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\*\* We once again note that on October 4, 1982 sponsors publicly announced they had decided to forgo seeking a construction certificate at this time, would seek recovery of investments made to date, and would defer seeking authorization to construct the facility to some future date.

careful analysis of jurisdictional as well as equitable issues. In any case, only prudently incurred costs could be allowed and, assuming we allow recovery of AFUDC accrued to date, only AFUDC on prudently incurred expenditures would be recognized. We would anticipate, if sponsors adopt the second choice, holding hearings and issuing a decision as expeditiously as possible. In any such hearings, in considering the prudence of expenditures to date and the proper allocation of project risk, we would of course consider the gas supply picture as it appeared in 1977, the Legislature's response to that picture with the passage of the Liquefied Natural Gas Terminal Act of 1978, the Commission's issuance of a conditional certificate in 1978, the Commission's affirmation of that decision in D.90510 in 1979, and the Commission's decision on wind and wave conditions in D.92552 in 1980.

If Western Terminal and its cosponsors elect the second choice, they are not foreclosed from coming to the Commission in the future if the economic feasibility of an LNG project can be established. The second choice, then, basically presumes that we will bank the Little Cojo site and consider it reserved for any future LNG project. We leave to a future proceeding whether the recoverable costs will be placed in a plant held for future use account or accorded some other ratemaking treatment.

#### Conclusion

We reiterate that, as of the date of this decision, project sponsors bear an unusually heavy burden of justification for further expenditures (excepting those related to filling the trenches as ordered by the companion decision). Further AFUDC should not be booked or accrued on investment to date. The choice of where to proceed from here, under the options presented above, is for Western Terminal and its cosponsors. We think 60 days is a reasonable time for this election to be made.

In view of the foregoing discussion, the motion of TURN and Sierra Club for rescission of the conditional permit should be deemed denied, except to the limited extent that, as discussed above, Western Terminal will have to demonstrate the economic viability of any LNG project before a final permit to construct will be issued.

Findings of Fact

1. On July 31, 1978 this Commission by D.89177 granted Western Terminal a conditional permit to locate, construct, and operate an LNG receiving and vaporization terminal at Little Cojo Bay, Point Conception, California.

2. The permit granted to Western Terminal was conditioned upon requiring Western Terminal to conduct additional seismic and geologic investigations and evaluations and upon obtaining additional data on the wind and wave conditions at the site.

3. By D.92552 issued on December 30, 1980, we found that, as a result of the additional data required by Condition 32 of D.89177, wind and wave conditions at the proposed docking site would not prevent the reliable delivery of LNG to California.

4. Issues related to seismic and geologic risk evaluation and appropriate mitigation of these risks are resolved, as required by D.89177, in an accompanying decision issued today.

5. As found in the accompanying decision, Western Terminal has satisfactorily completed the geologic and seismic investigations required by Conditions 36 and 37 of D.89177.

6. In the accompanying decision we find the site at Little Cojo Bay suitable and appropriate for the location of an LNG receiving terminal on the California coast.

7. Pacific Indonesia LNG Co. has relinquished its contractual entitlements for the gas reserves described in Article 3.2 of the Indonesian gas purchase agreement.



8. Pacific Indonesia LNG Co. must secure a new source of proven gas reserves from Pertamina in order to support an Indonesia LNG gas supply project.

9. Pacific Indonesia LNG Co. must negotiate new pricing terms for any new gas reserves dedicated to the Indonesia LNG project.

10. As a result of sponsors' decisions regarding the Indonesian gas, and without a dedication of proven supply and definite pricing terms for that gas, there is substantial doubt whether a viable LNG supply project exists at this time.

11. Since the Indonesian gas supply does not exist at this time, the Little Cojo Bay LNG terminal project must stand on the Cook Inlet, South Alaska gas supply source.

12. The Pacific Alaska LNG project assumes a startup throughput of 200 MMcf/d, which requires reserves of 1.6 Tcf, and a maximum throughput of 400 MMcf/d, which requires reserves of 3.2 Tcf.

13. Project sponsors currently have 1.2 Tcf of gas reserves under contract, or sufficient gas for about a 160 MMcf/d flow for a 20-year period.

14. The Pacific Alaska LNG project must be joined with a flow-through of Indonesia gas at 500 MMcf/d in order to make the overall LNG project feasible.

15. Due to project sponsors' failure to obtain sufficient reserves, there is substantial doubt concerning the viability of the Alaska LNG project at this time.

16. Circumstances have changed since the issuance of D.89177. The cumulative effect of a lack of dedicated proven reserves and a negotiated price for the Indonesian project, insufficient contractual reserves to support a minimum Pacific Alaska project, favorable changes in the gas supply/demand balance, and unfavorably sharp escalation in project costs, is to create substantial doubt whether a viable LNG project exists at this time.

17. Due to the lack of gas supply, it is inconsistent with public health, safety, and welfare to issue a final permit to locate, construct, and operate an LNG terminal at Little Cojo Bay.

18. Western Terminal and its cosponsors have booked substantial actual expense and accrued AFUDC on the Western Terminal project, the Pacific Indonesia project, the Pacific Alaska project, and the Pacific Marine project.

19. Since there is substantial doubt whether a viable LNG project exists at this time, project sponsors must bear an unusually heavy burden to justify further actual expenditures on the LNG projects (except for filling in the seismic trenches as ordered in the accompanying decision).

20. Further accruals of AFUDC beyond the effective date of this order are imprudent.

21. It is reasonable to offer Western Terminal and its cosponsors 60 days to elect between the options of either pursuing a final permit to construct by assembling an economically viable LNG project or formally suspending the LNG project and applying for authority to bank the site and to obtain appropriate rate treatment of expenditures and AFUDC prudently incurred to date.

#### Conclusions of Law

1. Due to changed circumstances since the issuance of D.89177 and substantial doubt concerning the existence at this time of a viable project, no final permit to construct an LNG terminal should be issued to Western Terminal at this time.

2. Further actual expenditures on the LNG projects (except for filling in the seismic trenches) should face an unusually heavy burden of justification.

3. Further accruals of AFUDC beyond the date of this order by Western Terminal and its cosponsors are imprudent.

4. Except to the limited extent that Western Terminal will be required to demonstrate the economic viability of an LNG project before a final permit to construct will be issued, the motion of TURN and Sierra Club for rescission and/or rehearing should be denied.

5. The following order should issue.

O R D E R

IT IS ORDERED that:

1. Within 60 days Western LNG Terminal Associates (Western Terminal) shall elect between its options to pursue a final permit to construct the LNG terminal or to formally suspend the LNG project and apply for authority to bank the site and obtain appropriate rate treatment of expenditures and AFUDC prudently incurred to date.

2. Pending its demonstration, if it so elects, and a Commission finding, that an economically viable project exists, Western Terminal and its LNG project cosponsors shall cease accruing AFUDC beyond the date of this order.

3. The motion of Toward Utility Rate Normalization and the Sierra Club for rescission and/or rehearing is denied, except to the limited extent set forth in Conclusion of Law 3. SS

This order is effective today.

Dated OCT 6 1982, at San Francisco, California.

JOHN E. BRYSON

President

RICHARD D. CRAVELLE

LEONARD M. CRIMES, JR.

VICTOR CALVO

PRISCILLA C. GREW

Commissioners