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Decision No. 88758 MAY 2 1978

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's )  
own motion into the rates, )  
practices, financial condition, )  
construction expenditures, and )  
facilities of the San Diego )  
Gas & Electric Company. )

OII No. 4

(Appearances are listed in Appendix A)

INTERIM OPINION

The Commission's OII No. 4 is an investigation into the rates, practices, financial condition, construction expenditures, and facilities of the San Diego Gas & Electric Company (SDG&E). This has been consolidated with Application Nos. 55627, 55628 and 55629, the Commission's rehearing of SDG&E's request for emergency rate relief for 1978. The latter case which was Phase 1 of the consolidated proceeding was submitted on February 17, 1978.

President Robert Batinovich, being the assigned Commissioner in this case, requested that several hearing days in Phase 1 be devoted to the review and cross-examination of an analysis performed by Keith, Feibusch, Associates, Engineers (KFAE) of SDG&E's resource plans and their financial viability. President Batinovich had requested that SDG&E retain an independent consultant to assess the company's resource plans and their ability to finance them. KFAE was retained and their analysis was completed on February 10, 1978. It was suggested that their analysis, including as it did a year-by-year financial planning study for SDG&E through 1986, might impact both the rate rehearing and the resource plan phases of this case. KFAE was, therefore, requested to appear before the Commission in Phase 1 of this proceeding, pursuant to a letter from President Batinovich (Ex. 230), and did so appear on February 15 and 16 and March 6 and 7, 1978. KFAE retained its own counsel and was not sponsored by any of the parties. SDG&E testified on March 6, 1978 in response to certain points raised by KFAE. The Commission staff put on one witness to clarify one point in the KFAE testimony. Witnesses were cross-examined by counsel for SDG&E, the Commission, the City of San Diego, the Federal Executive Agencies, and California Public Interest Research Group (CALPIRG).

KFAE Testimony

The central exhibit sponsored by KFAE was its report performed for SDG&E entitled "Validation of SDG&E Resource Plans" (Ex. 232), dated February 10, 1978. KFAE presented three witnesses, Edward J. Keith, Frank Dougherty, and Jerry de St. Paer, who testified as to the contents of the Executive Summary, Technical Evaluation, and Financial Evaluation chapters respectively. In this report, KFAE assessed the technical and financial viability through 1986 of several resource plans for SDG&E, four prepared by the company and two developed by KFAE. In order to perform this assessment KFAE first developed technical and financial criteria against which to judge the plans. (These criteria are listed on page 8 and pages 38 and 39 of Ex. 232, respectively.) SDG&E's financial models, which were used to assess financial viability, were validated by KFAE as part of this process, subject to certain qualifications to be addressed subsequently.

KFAE analyzed four resource plans identified by SDG&E which are briefly distinguished as follows:

Plan F	Two nuclear units at Sundesert
Plan G	No Sundesert; two combined cycle plants to substitute
Plan M	Same as Plan F but SDG&E's 20% share of San Onofre (SONGS) sold and 10% of SONGS output and capacity purchased from buyer
Plan N	No Sundesert; same treatment of SONGS as in M; three combined cycle plants added

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KFAE's technical feasibility criteria are summarized as follows (see p. 8, Ex. 232):

- 1) peak demand met
- 2) minimum of 10% resource margin
- 3) system energy requirements met
- 4) no physical barriers to meeting schedule dates
- 5) technological barriers capable of being overcome in available time
- 6) institutional and licensing barriers have reasonable likelihood of being overcome within schedule dates

It was asserted both in Ex. 232 (p. 8) and by KFAE witnesses Keith and Dougherty under cross-examination (Tr. p. 5739, 5758) that the 10% reserve margin was not a target but an absolute minimum. KFAE further presented two demand forecasts for SDG&E in their analysis, the ERCDC\* Adopted Forecast for peak demand developed under Common Forecasting Methodology-I (CFM-1) and what is called the Optimistic Conservation Forecast (AB 1852). The derivation of the latter curve was not clear in the KFAE testimony (Tr. 5706-5710, 5738-39, 5749), other than that it was developed for ERCDC's AB 1852 hearings and was discussed in related workshops and was not developed by KFAE. Subsequent clarifying testimony from witness Watkins of SDG&E (Tr. 6250) indicated that this curve was developed by SDG&E for the ERCDC's AB 1852 hearings and was the company's estimate of the maximum additional conservation achievable over the ERCDC Adopted Forecast (CFM-I) under

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\*California Energy Resources Conservation & Development Commission (ERCDC)

optimistic assumptions. This point will be developed further in discussion of SDG&E testimony. KFAE's reserve margins were calculated from the Optimistic Conservation Forecast (AB 1852) curve. (Tr. 5706) KFAE witness Keith further testified (Tr. 5738) that his company did not attempt to validate this demand projection. Keith testified that the curve was chosen because it was available, had been developed on the basis of inputs from several parties, and, while a lower curve, allowed for some flexibility should demand be higher. (Tr. 5709-5710) He also testified that a semi-annual review of SDG&E's resource plans should be performed by this Commission to ensure that changes in the demand curve could be accommodated by the resource plan. (Tr. 5710)

As a result of its analysis of Plans F, G, M, and N, KFAE concluded that Plans M and N encounter serious problems due to low reserve margins in the mid-1980's with little hope of faster implementation and that Plan G has problems due to air quality and National Energy Act restrictions associated with expanded use of oil and reserve margin problems if its optimistic schedule is not met.

KFAE concluded that out of all of SDG&E's proposed resource plans, Plan F (SDG&E's current adopted plan) is most technically viable. Its technical problems are largely due to scheduling and licensing and relate to the following:

- whether Sundesert will be exempted from the 1976 "nuclear bills". (P.R.C. Secs. 25524.1 and 25524.2)
- timing of the ERCDC Application for Certificate (AFC) process and percent ownership of Sundesert that SDG&E will be permitted under the ERCDC's Notice of Intent (NOI) decision
- whether Unit 2 will be licensed

KFAE considers the 1984 commercial date for Sundesert Unit 1 unlikely. A one year delay could lead to reserve margin problems in 1985.

#### Plans R and S

As a result of perceived difficulties with the four resource plans proposed by SDG&E, KFAE developed two additional resource plans:

Plan R      No Sundesert; 800 MW of capacity purchased from Mexico starting with 300 MW late in 1982; 300 MW in early 1985, and 200 MW in 1986. A 15% reserve margin is assumed for Plan R. (Appendix C)

Plan S      One unit at Sundesert, not on-line until December 1985. (Appendix D)

Both Plan R and Plan S include 20% ownership in San Onofre Nuclear Generating Station (SONGS) 2 and 3, Encina 5 on-line in late 1978, repowering of Silver Gate Unit 2 by late 1980, and 600 MW of geothermal in 1988-1990.

In addition, Plan R includes the construction of transmission lines East from San Diego through the Imperial Valley geothermal areas to the Arizona border. Under Plans S and F this line would be built as far as Blythe to tie into Sundesert. Witness Keith testified that these transmission

lines would permit SDG&E to tie into possible future sources of power like those in Arizona Public Service Company's or Southern California Edison Company's territory, expand SDG&E's pooling capability and increase the reliability of SDG&E's system and that of all of Southern California. (Tr. 5732-33)

Mr. Dougherty subsequently testified that the costs of this transmission facility had only been included up to the Heber or Holtville areas. (Tr. 5757). He also stated the possibility of purchasing surplus energy or capacity from the East would be small in the early years of the Mexican plant's operation as opposed to later years. (Tr. 5791)

Witness Keith stated that the repowering of SDG&E's Station B facility could be utilized as a back-up contingency plan. (Tr. 5730-31)

#### The Mexico Project

The purchase of power from Mexico is the central feature of KFAE's Plan R, which includes 300 MW from Mexico in December 1982, an additional 300 MW in January 1985 and an additional 200 MW in October 1986. There was considerable discussion in the hearings, therefore, as to the nature and viability of such a project.

Witness Keith testified as to the following points regarding the proposed purchase of power from Mexico under Plan R:

- 1) SDG&E would neither own or operate the plant (Tr. 5684).

- 2) C.F.E.\*, the national electric utility of Mexico, would own and operate the plant. (Tr. 5684)
- 3) C.F.E. has a great deal of experience running power plants, both fossil and coal, in this size range. (Tr. 5726, 5727)
- 4) SDG&E would have no direct financing involvement in the Mexico plant (Tr. 5685)
- 5) The contract purchase of capacity, not just energy, is the basis of Plan R. (Tr. 5687)
- 6) Should one or more power plants be built in Mexico to supply capacity to SDG&E, it is unlikely that demand for power in Baja California Norte (the proposed location for the facilities) would grow to the point where Mexico would want the capacity for its own uses. (Tr. 5690-91)

"...it appears that they have more capacity than they need; and we think that a majority of the capability would be available to surplus capacity." (Tr. 5691)

"It's my understanding that the power produced by the first unit by agreement with the Mexican government is to be committed to export to the border and through and thereby into San Diego Gas and Electric.

"Q. Is that also your understanding with respect to the second unit?

"A. That is my understanding, yes." ;  
(Tr. 5703)

- 7) The first 300 MW Mexican plant should be built if possible by December 1, 1982 in order to have it inaugurated by President Lopez Portillo in whose administration it will be initiated. (Tr. 5719)
- 8) The Mexican plants will be financed one 300 MW unit at a time.

\*Comisión Federal de Electricidad (CFE)



"The discussions with potential funders of this plan, that is banks and mortgage investment bankers, have indicated that they are only willing to commit themselves to the first 300 megawatt unit; ...

"The intent is that if the first 300 megawatts of financing is successful that it would be the basis for financing another 300 megawatt unit, and so on ad infinitum as required because by then the syndicate will be formed and the relationships with Mexico will be established and people will have a degree of comfort as to whether or not this is a safe investment from the investment community standpoint.

"So, they want to limit it to the first only at this time and then look at the second one as the first one develops.

"Q. As the first one develops, do you mean after it's on-line?

"A. No, ...during the negotiations and the procedure by which funds are transferred from the lending institutions to CFE and the confidence that the lending institutions have that the money is being properly expended, that will take place during the construction of the first unit." (Tr. 5724-5725)

- 9) A 15% reserve margin was chosen to evaluate the technical feasibility of Plan R out of concern that the California Power Pool might prefer it since the power would come from outside the U.S.; there was no discussion of this by KFAE with the California Power Pool (Tr. 5739-5740).
- 10) The syndicate of banks financing the Mexico project would include Bank of America as lead bank and possibly Merrill, Lynch, Pierce, Fenner and Smith (Merrill, Lynch). (Tr. 5740-41)
- 11) An American intermediary would contract with the seller of the power, SDG&E as buyer, and would negotiate with banks, CFE, and the Mexican government (Tr. 5817)
- 12) It is desirable for SDG&E to receive a return on power purchased from Mexico; the probability that SDG&E would pursue the Mexico project is less if no return is provided (Tr. 5743).

- 13) There are advantages in Plan R, including more capacity to meet higher margins, more flexibility with capacity coming on line earlier and in smaller increments. (Tr. 5695-96)

Witness Frank Dougherty testified to the following points regarding the Mexico project:

- 1) As a basis for evaluation, the plant(s) built in Mexico would be functionally equivalent to Encina 5. (Ex. 232, p. 23)
- 2) It is possible to build the first 300 MW facility in Mexico by December, 1982 if the Mexican government is supportive. (Ex. 232, p. 23)
- 3) The source of oil for the Mexican plant was assumed to be oil from Mexico's state-owned oil company. (Tr. 5777)
- 4) The capital cost of the first Mexican unit was estimated at \$800/KW, the second unit at \$703/KW and the third unit at \$803/KW, the dollars being valued in the year of first operation. (Ex. 275) Unit 2 would be cheaper as it would not include costs associated with Unit 1 for land, some engineering, etc. (Tr. 6345); inflation and the effect of interest during construction would result in higher costs for Unit 3. (Tr. 6345)
- 5) The \$800/KW cost of the first Mexican unit was based on very conservative assumptions.

"We selected conservative values for capital cost and for the operating cost, the fuel, and O&M; and any changes that, such as you're alluding to, that the high sulfur oil ought to be priced lower would tend to make Plan R more attractive.

"But we purposely tried to make use, very conservative or at least conservative assumptions in Plan R.

"So that the direction of change would be toward lowering the price of electricity.

"Q. The conservative approach that you just described for Plan R, did you also apply that approach developing the capital cost for the unit?

"A. Yes, yes, we did." (Tr. 5779-5780)

- 6) Time is available under Plan R to get regulatory approvals for transmission lines to tie in with SDG&E's system. (Tr. 5809)
- 7) Combined cycle plants were not considered for Mexico because Mexico is not familiar with this type of plant (Tr. 5769-70), and because combined cycle plants tend to be package deals and Mexican equipment (e.g. pipe) could not be used. (Tr. 5774)
- 8) It was assumed that the Mexican oil price would be escalated at 10% per year from a base price of \$19.92 per barrel in 1980, which represents a 10% premium for the Mexican oil (Tr. 5776-77); this was done despite the high (2-3%) sulfur content of Mexican oil (Tr. 5778-79)
- 9) Contacts were made with U.S. boiler and turbine vendors to verify the feasibility of having the first Mexican power plant on line by December 1982. (Ex. 232, p. 23, Tr. 5785)
- 10) Although the first Mexican plant is assumed to come on line in December 1982, the approximate latest allowable date where reserve margin criteria would still be met is late 1985. (Tr. 5801)
- 11) An expression of interest from Mexico was sought in February but could slip in order to allow time for site selection and choice of an architect-engineer to meet the December 1982 date; this "expression of interest" was defined as

"a letter from an appropriate government official in Mexico stating that they were interested in pursuing the project and wanted, would want to start negotiations on all the necessary terms and conditions to make the project go forward." (Tr. 5802-03)

Witness Jerry de St. Paer testified as to certain financial aspects of the Mexican project as follows:

- 1) A 17 year amortization period to pay off the loan for the first Mexican plant (Tr. 5831, Ex. 267, Table III-1, Tr. 6320-21); the amortization schedule is based on several potential types of financing including suppliers credits and was developed in discussions with Bank of America; payments in the schedule shown in Ex. 267, Table III-1 are skewed toward the early years, but may be more evenly distributed in the final plan (Tr 6305); this would make the present value of revenues required lower.
- 2) No difference in risk exists between SDG&E's buying power from Mexico or building a plant themselves (Tr. 5858)
- 3) 100% debt financing is assumed
- 4) IEA is working to arrange funding for the project and to establish a financial syndicate which will raise the money (Tr. 5859)
- 5) The Mexican government will put up no funds (Tr. 5861)
- 6) The term of the loan will be directly tied to the term of the purchase power contract since ultimately the suppliers of the financing will look to SDG&E's credit. (Tr. 6306)

A table of milestones for the Mexican project was provided in Exhibit 275, Table II-14. (See Appendix B) The time of the letter of interest from Mexico was shifted to March under cross-examination but Mr. Dougherty stated that this should not have an effect on the rest of the table (Tr. 6350). Mr. Colston from SDG&E also verified these milestones (Tr. 6284)

KFAE Financial Analysis

After its technical analysis of the various resource plans, KFAE performed its financial analysis. This financial analysis was preceded by a validation of SDG&E's Financial Planning Model as described on page 44 of Exhibit 232. The conclusions are also stated there. KFAE concluded that the model was valid for long-term financial planning, subject to the concern that the long-term model does not consider working capital or use of short-term debt lines or deferred taxes as a source of funds. (Ex. 232, p. 45) The treatment of working capital in the short-term model was not yet completely validated when Ex. 232 was prepared, but witness de St. Paer in his additional testimony dated February 27, 1978 (Ex. 267) indicated that the short-term model had been reconstructed and reconciled.

Witness de St. Paer stated under cross-examination that the figures in the financial tables prepared in Ex. 232 and subsequent exhibits should not be taken out of context and used in a particular rate-setting hearing and that they were not prepared for such a purpose. (Tr. 5851) He further stated that the working capital assumptions were prepared by Mr. Nesbitt and Mr. Meyer of SDG&E and were not critiqued by KFAE. (Tr. 6308)

A detailed financial analysis was then prepared of the three most viable resource plans - R, F, and S. Criteria were established against which financial feasibility was

evaluated and these are listed on pages 38 and 39 of Exhibit 232. As opposed to the technical criteria, some flexibility was permitted here.

On the basis of its analysis, KFAE concluded that Plans R, S, and F were all reasonably financiable resource plans. (Ex. 232, p. 46) This analysis assumed that SDG&E would receive its requested rate increases in its current emergency rate relief application by May 1, 1978 and in its new rate case (now in the NOI stage) on January 1, 1979 and annual rate increases thereafter.

Tables are presented on pages 46 and 47 of Exhibit 232 suggesting that annual compound electric rate increases and annual compound increases in operating expenses per kilowatt hour are lower for Plan F and Plan S than for Plan R. However, Mr. de St. Paer, both in testimony (Tr. 5822-23) and subsequently in Exhibit 269 performed a present value analysis at a 10% discount rate for revenues required under all three plans. He concluded that while there were differences in certain financial parameters among the cases in dollar numbers, these differences were small in percentage terms. He further stated that the planning assumptions used themselves had uncertainties which were at least as great. (Tr. 5838)

Mr. de St. Paer then concluded that, in looking at the present value of revenues required from ratepayers, the cost to the ratepayer is likely to be very close with all these plans. (Tr. 5840)

Mr. de St. Paer also stated that debt coverage ratios are higher under Plan R than Plan S but that both represent significant improvements over the present situation.

Page 47 of Exhibit 232 shows substantially lower requirements for external financing exclusive of short-term debt under Plan R as opposed to Plan S or F. Under cross-examination Mr. de St. Paer stated that this did make Plan R easier to finance.

The financial tables in Exhibit 232 show that 14.4 million shares of common stock must be issued between 1978 and 1986 under Plan R while 24.4 million shares would be required under Plan S. Mr. de St. Paer stated on the record that it would thus be easier to sell stock from Plan R especially under tight market conditions.

Mr. de St. Paer sponsored several other exhibits during his testimony as follows:

- Ex. 262 SDG&E Proposed Plan (R.W. Watkins)
- Ex. 267 Prepared Testimony of Jerry M. de St. Paer
- Ex. 269 Electric Revenue Comparison Analysis Between Cases R, S, and F (1977-86)
- Ex. 270 Sensitivity Analysis - Mexico Project
- Ex. 271 Effects of Rate-making Return on Equity of 3, 5, and 10% Return on Mexican Cost of Power

Ex. 272 Impact on Ratepayers of Inclusion of Mexican Plant in Rate Base

Ex. 273 Financial Cushion Analysis Case F

Ex. 274 Financial Cushion Analysis Case S

Exhibit 269 contains the present value analysis discussed supra.

Exhibit 270 tests the sensitivity of the present value of revenues required from Plan R to the following assumptions: 25 year rather than 17 year financing at 10% interest, lower oil prices, and a lower capital cost for the Mexican plant (\$680/KW v. \$800/KW). These changed assumptions were suggested by the Commission staff to provide a more optimistic counterpart to the admittedly conservative assumptions used by KFAE. The results do indeed lower the present value of revenues required under Plan R, in one case to below that of Plan S.

#### Necessary Conditions for Plans R and S

As part of their analysis of Plans R and S, KFAE presented on pages 3, 4 and 5 of Exhibit 232 a list of conditions necessary for these plans to be implemented. These are summarized here:

#### Plans R and S - Necessary Conditions

- 1) Silver Gate 2 repowering project requires Small Power Plant Exemption from ERCDC, rapid



resolution of any environmental concerns, and timely PUC certification

- 2) SDG&E's retention of 20% ownership of San Onofre Units 2 and 3.
- 3) SDG&E's active conduct of preliminary work on repowering Station B as a contingency
- 4) Joint review by SDG&E and this Commission of SDG&E's financial and resource plans every six months to allow for responsiveness to changing conditions.

We note here that the ERCDC did grant SDG&E a Small Power Plant Exemption for Silver Gate Unit 2 on March 1, 1978 subject to the conditions that all appropriate environmental standards be met and that a study be performed to assure that the repowering of Unit 2 would not impair the possible future repowering of Units 3 and 4. It should be noted that KFAE indicated under cross-examination that the repowering of Units 3 and 4 was not a subject of their study and the issue was not addressed in these proceedings. SDG&E's certificate application for Silver Gate Unit 2 is now before this Commission.

Regarding the six-month review process, Mr. Keith testified that this was desirable because of continuing uncertainties regarding both the financing and resource plans (Tr. 5734) and the choice of a demand forecast (Tr. 5709-10).

There were no reasons offered as to why SDG&E would not retain 20% ownership of SONGS 2 and 3.

Plan R - Necessary Conditions

- 1) Power purchased from Mexico must be considered "firm" power for California power pooling arrangements.
- 2) U.S. Federal Government support must be obtained due to national energy policy.
- 3) The first Mexican unit must be on-line by December 1, 1982. SDG&E must expedite negotiations with the Government of Mexico and SDG&E should not be required to obtain a Certificate of Public Convenience and Necessity for this project.
- 4) SDG&E should be permitted to make a "reasonable profit" on the sale of Mexican power.
- 5) SDG&E must assume a foreign exchange risk and the Commission must accept this.
- 6) SDG&E should obtain permits necessary, if any, to build a transmission line system to the East to increase pooling capability, reliability, and flexibility in future planning.
- 7) SDG&E's total sunk costs for Sundesert should be placed in plant held for future use to the extent allowable and the rest amortized over a period of five to ten years.

Regarding the "firm" power issue, witness Keith testified that he believed that there was a requirement in the California Power Pool Agreement that certain power be available to the Pool and be considered "firm", and that consultation with the Federal Government would be necessary to determine this. He also indicated that KFAE had not discussed the matter with members of the pool or with the Federal Government (Tr. 5717) SDG&E witness Colston subsequently testified that no presentation of the Mexican project had been

made to the California Power Pool but that he believed that if this Commission ordered SDG&E to proceed with the Mexico project then this would become part of the Pool Agreement. (Tr. 6284-85)

Regarding U.S. Federal Government support, Mr. Colston of SDG&E indicated that he had discussed the Mexico project with various members of the Federal Government and had received a favorable response. (Tr. 6285)

The December 1, 1982 operational date was discussed on the record. KFAE witness Keith indicated that it is important for projects begun in the Administration of a Mexican President to be completed in that Administration because there can be continuity problems (Tr. 5719)

Witness Dougherty stated that he believed this was feasible with Mexican government support (Ex. 232, p. 23, Tr. 5685, 5802-03) but that SDG&E could sustain a delay of until 1985 if necessary. (Tr. 5801). Mr. Keith testified that he was not sure that a PUC certificate would be required for a Mexican plant but that this should be looked into as it might cause delay if required. (Tr. 5720-21)

We now come to KFAE's recommendation that SDG&E earn a "reasonable profit" on the sale of Mexican power. KFAE did not include any such profit in performing its financial analysis. (Tr. 5722). Mr. Keith testified that under Plan R a substantial amount of SDG&E's capacity would be associated with purchase

power which does not provide earnings and that SDG&E's return is calculated on the basis of owned assets, not purchase power. (Tr. 5621-22, 5743). He argued that a return on purchase power would provide an incentive to undertake the purchase power arrangement and that while he had no reason to believe SDG&E needed an incentive, he felt its investors did. (Tr. 5742). He said he felt it was less likely that SDG&E would go forward with the Mexico project without such a profit incentive. (Tr. 5743). Mr. Colston from SDG&E subsequently testified that he would hope that SDG&E would earn some profit on the sale of electric energy through the Mexico project but he did not know how this would be proposed for rate-making purposes and that SDG&E had not pursued the matter that far at present. (Tr. 7286)

The transmission system to the East was discussed on the record by Mr. Keith of KFAE (Tr. 5731-5732) and by Mr. Watkins of SDG&E (Tr. 6239). Mr. Keith argued that this would provide SDG&E with flexibility for future resource planning, greater pooling capability, and greater reliability. Mr. Watkins indicated that SDG&E would view such an extension favorably. (Tr. 6239)

Regarding sunk costs for Sundesert, witness Keith testified that these were included in KFAE's study. (Tr. 5733) Witness de St. Paer subsequently developed how these costs had been treated. (Tr. 5829-31)

Plan S - Necessary Conditions

- 1) Sundesert must be exempted from the 1976 "nuclear bills." (Pub. Res. Code Secs. 25524.1 and 25524.2)
- 2) SDG&E must file and proceed with an Application for Certificate (AFC) in a timely manner before the ERCDC.
- 3) The ERCDC must accept the AFC for review and complete the certification process in 18 months.
- 4) SDG&E must apply for a Certificate of Public Convenience and Necessity from this Commission such that this is obtained at the same time the ERCDC AFC process is completed.
- 5) The PUC must issue such a certificate at the same time that the ERCDC approves the AFC.

There was little discussion of these conditions in this proceeding. It should be noted that the ERCDC recommended against exemption of the Sundesert nuclear facility from the nuclear bills in its March 1, 1978 decision under Public Resources Code Section 25524.25 (AB 1852). Subsequently, the California State Senate passed SB 1015 exempting the plant from that earlier legislation. The State Assembly began hearings on the matter on March 15, 1978.

Although KFAE did not develop a detailed list of conditions for the implementation of Plan F, there is a discussion of this matter in Exhibit 232. Here KFAE notes that the schedule for Sundesert under Plan F includes Unit 1 coming on-line in October, 1984 and Unit 2 in January, 1986, with ERCDC Site Certification by April, 1979 and a 66 month construction and start-up schedule. (Ex. 232,p. 11) KFAE states

that this Site Certification date is "extremely optimistic" because

- likely being the first AFC submitted to the ERCDC, a schedule expedited by 6 months as proposed here is highly unlikely.
- the ERCDC decided not to recommend exemption of Sundesert from the 1976 nuclear bills in its AB 1852 decision
- since ERCDC regulations and the Warren-Alquist Act do not provide for early site work it is unlikely that any site work would occur before Site Certification, leading to another 6 month slippage in the Sundesert schedule.

KFAE concluded that more reasonable commercial operation dates for Sundesert Units 1 and 2 are October, 1985 and January, 1987 respectively. They further concluded that reserve margin problems in 1985 could result. (Ex. 232, p. 12).

Finally, as noted by KFAE on pages 16 and 17 of Exhibit 232 and in testimony, without exemption from the 1976 nuclear bills it is highly improbable that the ERCDC will permit Sundesert a Site Certificate. Furthermore, KFAE notes that there are at present no AFC guidelines from the ERCDC for SDG&E to follow in its filing. Lastly, as noted by KFAE on page 20 of Exhibit 232, the ERCDC in its Sundesert NOI decision only approved the building of one unit at Sundesert and Plan F contains two units.

#### SDG&E Testimony

SDG&E sponsored Ronald W. Watkins and Bill W. Colston as witnesses in these proceedings. Mr. Watkins testified as to

SDG&E's resource planning criteria and preferences. Mr. Colston subsequently addressed himself particularly to the Mexican project.

Mr. Watkins presented Exhibit 261. He testified that he believed that most utilities have reserve margins of 15 to 20% and that these are reasonable. He further testified that SDG&E has temporarily abandoned its criteria for establishing reserve margins and is using a 10% requirement as a minimum which is required of members of the California Power Pool. He stated that this did not imply that this was an adequate reserve margin. (Tr. 6237-38) He added that he would quantify uncertainty as to implementation of energy conservation in the range of 5 to 10% and that this should be considered in determining reserve margins (Ex. 261, Tr. 6240)

Witness Watkins indicated that SDG&E supplied the Optimistic Conservation Forecast (AB 1852) used by KFAE in its analysis. He further indicated that the ERCDC had developed two additional demand forecasts for SDG&E, both of which are lower than the Optimistic Conservation Forecast (AB 1852). These were present in Exhibit 262 which was subsequently sponsored by KFAE. Mr. Watkins sponsored Exhibit 263 which presents a resource plan for SDG&E including one unit of Sundesert, 300 MW of power from Mexico, and some additional power from the Pacific Northwest in 1988. This results in a 20% reserve margin over

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the Optimistic Conservation Forecast (AB 1852). Mr. Watkins stated that traditionally 15% is considered a low reserve margin and that uncertainty associated with conservation made him add another 5%, resulting in a reserve margin of 20%. (Tr. 6254-55). He later stated that he had a preference for no forecast but that if reserve margins were to be established based on one of the presented forecasts, that he suggested basing one on the Optimistic Conservation Forecast with a 20% reserve margin including 5% to reflect uncertainty regarding conservation. (Tr. 6263)

Witness Watkins expressed a preference for Plan F (SDG&E's current resource plan) because he felt it was most advantageous for the ratepayer. His next choice was the plan presented in Ex. 263, (Tr. 7248), discussed supra. He added that no full financial analysis had been made of the plan proposed in Ex. 263.

Mr. Watkins also favored the building by SDG&E of a transmission line to the East as recommended by KFAE- (Tr. 6239)

Bill W. Colston, Vice President of SDG&E's Project Management Division, then testified regarding SDG&E's interest and involvement in the Mexican project presented first by KFAE. Colston dated SDG&E interest in buying power from Mexico from April, 1976 and indicated that SDG&E has conducted several independent studies of the possibility (Tr. 6276. Advantages to Mexico are expected to be a steady market for their oil, support of a desalinization plant with 100 MW of the third 300 MW plant, and ultimate ownership of the facilities. Colston said that



SDG&E has a contract with Bank of American and Merrill, Lynch pending contingent on receipt of a favorable expression of interest from Mexico (Tr. 6276, 6283) and approval by SDG&E's Board of Directors.

SDG&E first formally suggested joint studies with Mexico in a letter from Robert Morris, SDG&E's president, of April 15, 1977 to Mexico's President Lopez Portillo. This was followed on March 4, 1978 by a telegram from Morris to Jose Andres Orteyza, Minister of Patrimonio Y Fomento Industrial requesting a response to the first letter suggesting joint studies of the export of energy and capacity from new power plants in Baja California (Ex. 265). A response was received on March 9, 1978 and was marked Exhibit 266.

Mr. Colston then testified regarding Inter-American Energy Alliance which, once incorporated, he said would probably be the organization with which SDG&E contracts for Mexican power on a take or pay basis and with which the Mexican Government would contract to sell the power. He also indicated that IEA might be totally or partially responsible for the engineering construction of the plant or its supervision. (Tr. 6281)

Witness Colston then stated that SDG&E would prefer to buy only energy from Mexico but would buy energy and capacity if denied the ability to build its own generation plant (Tr. 6282, 6293, 6294). Mr. Colston also stated, however, that even if Plan F or Plan S (e.g. Sundesert) came into being:

"We'll pursue the Mexico project with vigor regardless of which plan is adopted."  
(Tr. 6283)

He indicated that SDG&E's timetable for pursuing the Mexican project was the same as in Table II-14 of KFAE's Ex. 275 (Tr. 6284), which may be found in Appendix B.

Mr. Colston was then asked if the Mexican project had been presented to the California Power Pool. He replied that it had not.

Mr. Colston was then asked whether the Federal Energy Regulatory Commission had been asked for its reaction to the Mexican project. He responded that discussions had been held with Mr. O'Leary, some of Mr. Schlesinger's staff, and with the Department of Energy and that they indicated they would look favorably upon the project if it did not exceed 1200 MW (Tr. 6285, 6288).

When asked if SDG&E would have any control over the availability of capacity or energy and maintenance schedules, Mr. Colston said these were points of contractual negotiations but that SDG&E's intention was to include incentives for keeping fuel costs low, availability high and maintenance properly performed. (Tr. 6287)

The witness said that the amortization period for the project was likely to be 12 years (Tr. 6287) although a

longer period would be preferable, which Mr. de St. Paer of KFAE later said was the same as his 17 years, the difference simply reflecting weighted averaging (Tr. 6302). Mr. Colston also said, however, that if Mexico withdrew the first plant after it was amortized, another could be built. He also stated that he expected capacity from the first plant to be available under an initial contract for approximately 15 years. (Tr. 6294)

When asked whether purchase power from another source like Southern California Edison Company might be cheaper than from Mexico, Mr. Colston replied that Mexican power would be cheaper because: 1) the facility can be built faster in Mexico with less inflation impact, 2) Mexico has flexibility in the price at which oil is delivered to the plant and 3) SDG&E will only buy power from Mexico if the energy is cheaper than that which SDG&E could produce at a new generation plant. (Tr. 6291) He added that he saw Sundesert as SDG&E's only viable alternative to the Mexican plant in the same time frame. (Tr. 6292)

Mr. Colston was finally asked by counsel for the Commission how realistic he felt it was to proceed with the Mexican project. He replied:

"The project schedule that we have identified, is a very real project and it will, definitely will happen if the President of Mexico wants it to happen." (Tr. 6289)

Commission Staff

The Commission staff sponsored only one witness, William R. Stalder. Mr. Stalder presented one exhibit (Ex. 260). This exhibit presents criteria for the development of the costs of Mexican power which are optimistic in contrast to the admittedly pessimistic assumptions used by KFAE. It includes lower capital costs for the Mexican power plant(s) (\$680/KW), a longer amortization period (25 years), and a lower cost of residual fuel oil (\$16.40/bbl in 1982, escalating at 10% per year thereafter). Mr. Stalder subsequently reviewed his exhibit and made certain changes which are developed in the hearing transcript (Tr. 6354-56). These changes result in a cost of \$700/KW for the first Mexican plant under Mr. Stalder's exhibit. Mr. Stalder then testified that he also performed a calculation of the capital costs of the Mexican power plant using the low end of the range of data presented by Mr. Dougherty of KFAE in his Exhibit 275, Table II-13. This latter calculation resulted in a capital cost of \$657/KW. Both of these are below Mr. Dougherty's own estimate of \$800/KW which he stated on the record was conservative (Tr. 5779-80).

### DISCUSSION

As noted supra, there have been 4 days of hearings in OII 4. These days have focused largely on 1) the presentation of findings made by Keith, Feibusch, Associates, Engineers (KFAE) in their analysis and validation of resource plans for SDG&E, and 2) SDG&E's response to KFAE's Plans R and S and a discussion of SDG&E's involvement in negotiations with Mexico to purchase power. There have been certain central themes upon which attention has been directed:

- the possibility and feasibility of SDG&E purchasing significant amounts of power from Mexico beginning in late 1982
- the viability of SDG&E resource plans which include one or two units of Sundesert
- the relative and absolute financial viability of resource plans for SDG&E based upon power from Mexico or Sundesert
- the flexibility and security in terms of reserve margins and planning options provided under resource plans including Mexican power and Sundesert

We will address these issues here on the basis of the record to date. Action by the full California Legislature not to exempt the Sundesert facility from the 1976 "nuclear bills" (P.R.C. Sections 25524.1 and 25524.2), or lack of positive action by the Government of Mexico could have a substantial impact on the viability of the various options.

Plan R

The proposed purchase of capacity from Mexico by SDG&E as in KFAE's Plan R appears to have the following desirable attributes:

- 1) Even with some slippage in the schedule it will provide SDG&E with power earlier and in smaller increments than the most-discussed alternative source - Sundesert. It appears that a two-year delay for the first unit could be accommodated if necessary. This flexibility seems important given all the uncertainties associated with present utility planning.
- 2) According to the KFAE financial analysis the Mexico option requires substantially less external financing and sale of common stock in the 1978-86 time frame than Plan S or F.
- 3) When coupled with the recommended transmission linkage to the East, this plan offers diversity and greater reliability of supply for SDG&E.
- 4) The proposed Plan R will meet a 15% reserve margin requirement through 1990 if implemented as proposed, which all parties seem to consider preferable to a 10% margin if the added cost burden is not too great. KFAE did not perform an analysis of the cost of the additional 5% reserve margin in Plan R, but a brief review of their present value analysis suggests that it is not prohibitive.
- 5) SDG&E's Vice President Colston has indicated on the record a strong commitment on the part of SDG&E to pursue a contract to purchase Mexican power.

- 6) The nature of the financing plan for the Mexican project plus evidence regarding demand growth projections for Baja California (the proposed site) provide an indication that, at least for the period over which the debt is amortized, the power could be committed to SDG&E. Furthermore, we trust that SDG&E would not enter into such a venture without confidence and substantive assurances that the power will be provided to SDG&E who will pay off the debt by purchasing it.

At the same time; we still have a variety of concerns regarding the viability of the purchase of capacity from Mexico.

- 1) The purchase must be of capacity, not just energy, to make Mexican power a viable element of a resource plan.
- 2) SDG&E must have assurances or preferably a substantial measure of control spelled out in the purchase contract it negotiates that the Mexican plant(s) will be operated reliably and with an adequate capacity factor, and that maintenance will be scheduled at times which do not coincide with times of peak demand by SDG&E customers.
- 3) Power from Mexico must not cost more than the price at which SDG&E could produce it itself, taking into account the problems of SDG&E bringing its own plant on line during the same time frame.
- 4) The letter from the Mexican Government (Ex. 266), while expressing interest at the level of the President of Mexico, is not a statement of intent to proceed with the project. It rather initiates "a series of

studies and analyses" and says that upon their completion SDG&E's proposed project will be considered.

- 5) The milestones proposed by KFAE and seconded by SDG&E's witness Colston include an agreement in principle by April 1, 1978 and the actual signing of a contract by August 1, 1978 with financing commitments beginning on September 1, 1978. It is our understanding that this schedule must be followed fairly closely in order to increase assurance that it will be completed and brought on-line with all due speed. It appears that considerable and immediate progress must be made in further negotiations among the parties in order to have construction begin by January 1, 1979.

We are further concerned about receiving assurances that additional Mexican units will be built as they would be agreed to after the first plant is underway.

- 6) SDG&E must begin planning early for new power to be available in the time frame following termination of the Mexican contracts that SDG&E can finance without requiring extraordinary rate relief from this Commission.



Plans S and F

We now turn to Plans S and F, both of which include the Sundesert facility. Plan F, while preferred by SDG&E, includes 2 units at Sundesert while the ERCDC's December 21, 1977 NOI decision only approved the first unit. This NOI decision also only approved a one-third share in the project for SDG&E unless the company could demonstrate that it could finance its one-half share without extraordinary rate relief from this Commission. We will discuss this financial viability issue below.

Plans S and F also require an exemption by the California State Legislature from the 1976 "nuclear bills". The ERCDC recommended against such an exemption in its AB 1852 decision. The State Senate subsequently approved an exemption for Sundesert under SB 1015, but the full State Assembly has not yet acted. Failure to receive such an exemption would appear to severely hamper SDG&E's plans to proceed with the Sundesert project. Of course, receipt of such an exemption would not assure the viability of these plans as they face major financial and other obstacles.

Timing is an issue with Plan F if, as KFAE deems likely, Sundesert Unit 1 is delayed by a year or more. It

becomes a problem in Plan S if Sundesert Unit 1 is delayed by more than a year and, indeed, Plan S meets its 10% reserve margin minimum with little ease thereafter. Furthermore, the financial viability of both Plans S and F depends on SONGS 2 and 3 coming on-line on time to expand SDG&E's rate base by one-half billion dollars. Slippage in the SONGS schedule will result in demands upon ratepayers for additional revenue requirements.

Lastly, both Plans S and F only provide for a 10% reserve margin and thus are somewhat inflexible as regards scheduling slippages, changes in demand, etc.

Mr. Watkins of SDG&E proposed a hybrid plan consisting of one unit at Sundesert and 300 MW in Mexico that would provide for a higher (20%) reserve margin (Exhibit 263). However, no financial analysis was available to determine whether this plan was financially viable for SDG&E.

#### Financing and Costs to Ratepayers

There was considerable discussion of the relative and absolute financial viability of Plans R, F, and S. KFAE asserted that all three plans were financially viable within their evaluation criteria. While these criteria generally appeared to be reasonable, KFAE's financial analysis did assume SDG&E would receive by May 1, 1978 all its requested rate relief in the emergency rate request (Application Nos. 55627-9) with which this OII has been consolidated, and the full request in SDG&E's new general rate case (NOI 3) by January 1, 1979. It

is uncertain whether the Commission will issue a decision by January 1, 1979 in NOI 3. The Commission has granted SDG&E less than its request in the rehearing of Application Nos. 55627, 55628, and 55629. It should be noted that SDG&E earned its authorized rate of return in 1976 and exceeded its authorized return in 1977.

Furthermore, KFAE has made two important assumptions regarding future regulation and future capital markets for each plan:

1. that there will be no delay between the time SDG&E incurs increased rate base and operating costs and rate relief, i.e. instantaneous ratemaking.
2. that SDG&E's common stock will sell at or above book value and the effective interest cost of bonds will be 9% during the period 1979-1986.

Implied in the Commission's recently adopted regulatory lag program is that each utility is expected to file applications for general rate relief with no greater frequency than every two years. Due to their capital intensive natures, however, Plans S and F would require the Commission to grant substantial general rate relief to San Diego in each and every forecasted year. Based on this fact alone, Plans F and S are infeasible from a ratemaking standpoint.

In Interim Decision No. 85018 dated October 15, 1975 in Application No. 55627, et al. (SDG&E's last general rate proceeding), we granted an emergency increase in rates to meet the then current financing problems of SDG&E. Further increases were granted in Decision No. 87639 dated July 19, 1977 in that proceeding. On April 11 of this year we granted a further emergency rate increase to permit SDG&E to issue additional equity capital under favorable terms during the balance of 1978. We indicated in prior decisions our concern about the ability of SDG&E to finance any new electrical generating capacity consisting of a single large unit and cautioned SDG&E that it may not be provided with rate increases solely for that purpose.<sup>1/</sup>

Plan R is the least capital intensive plan because the capital costs of construction are not borne by

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1/ Decision No. 85018 stated as follows:

"In view of both the economic advantage of maintaining reasonable rate levels and financial constraints on raising capital for construction, it is essential that SDG&E restricts new facilities to the minimum necessary to provide adequate service. Reduction in reserve margins can prudently be made if SDG&E and the other California electric utilities will expand on assistance arrangements and further utilize interties to maximize the efficiency of the combined systems."

SDG&E. When the Mexican power plant becomes operational the costs will be the subject of ECAC proceedings. ECAC procedures provide for recovery of purchased power costs on a semi-annual basis and utilize a balancing account which allows SDG&E to recover dollar for dollar its costs. Therefore, the risks of time delays in recognizing increased costs would be minimized under Plan R.

The ability of SDG&E to sell its stock at or above book value is influenced by many factors beyond the control of both SDG&E and the Commission. Under Resource Plans F and S, SDG&E would be required to more than double its currently outstanding common stock. Plan R calls for a 64% increase in common stock vs. approximately 110% increases for Plans S and F.

SDG&E's common stock currently sells for approximately 90% of its book value. This is the highest market to book ratio for SDG&E's common stock since 1972. If in the future the market substantially discounts SDG&E's stock as it has over the past five years, SDG&E would be forced to sell an even greater number of shares than that forecasted. This would result in dilution of stockholders' investment and earnings per share as

well as increasing SDG&E's dividend requirements. This would impact on the company's already tenuous forecasted cash flow position. Plan R offers less risk of dilution and reduction in cash flow simply because the number of shares to be issued is substantially less.

KFAE also assumes that the effective cost of bonds to SDG&E will remain at 9% throughout the entire forecast period (1979-86). If the cost of debt rises significantly above this level, SDG&E would have greater difficulty in both placing the bonds and meeting forecasted interest coverage requirements. Plan R would provide greater margin of coverage than either Plan S or F, and would be able to better weather any increases in debt costs.

This Commission has traditionally authorized prospective rates which allow, but do not guarantee, the utility an opportunity to earn its authorized rate of return. A real possibility exists under the capital intensive Plans S and F that the Commission's regulatory latitude will cease to exist. Plan R provides the greatest degree of flexibility for both the Commission and SDG&E. Plan R, based strictly on financial and ratemaking considerations, offers the best assurance that SDG&E will be able to meet its financial obligations and that the Commission will not have to deviate from its long established regulatory practices.

The initial KFAE study (Exhibit 232) suggested that certain financial variables like annual compound electric rate increases and annual compound increases in operating expenses per kilowatt hour are lower for Plan F and Plan S than for Plan R. However, as described supra, Mr. de St. Paer presented a present value analysis at a 10 percent discount rate for revenues required under all 3 plans. He concluded that while there were differences in certain financial parameters among the 3 cases in dollar amounts, these differences were small in percentage terms, smaller than the uncertainty in the planning assumptions. He concluded that the costs to the ratepayer were likely to be very close with all 3 plans.

The financial analysis of Plan F did not take into account a one year delay in the operating dates for Sundesert Units 1 and 2. In pages 11 and 12 of Exhibit 232, KFAE provides the following comments on SDG&E's estimated commercial operating dates for Sundesert:

"On the other hand our evaluation of Sundesert Units 1 and 2 concludes that the indicated commercial operation dates are highly unlikely.

"This results in a total slippage of one year for Sundesert Unit 1 and similarly for Unit 2."

KFAE did not perform a financial analysis of Plan F with a one year delay in Sundesert Units 1 and 2.

Furthermore, as discussed supra, slippage in the operation date of SONGS 2 and 3 would have a major impact on SDG&E's rate base and on its ability to finance Plan F or S. This is also not analyzed by KFAE.

Since KFAE witness Dougherty stated that the capital and fuel cost assumptions for the Mexico project were conservative, staff recommended more optimistic assumptions as discussed supra, some of which were incorporated by Mr. de St. Paer in his present value sensitivity analysis in Exhibit 270. The results lower the present value of revenues required under Plan R, in one case to below that of Plan S. Higher nuclear capital cost assumptions, discussed infra, would make Plan R even more financially attractive than Plan S.

KFAE's recommendation that SDG&E earn a return on its sale of Mexican power was not incorporated into their



original financial analysis. There is some analysis presented in Exhibits 270, 271, and 272. However, the granting of such a return by this Commission would be an extraordinary measure with no precedent and must be analyzed in great detail for its legal and financial ramifications as well as its impact. SDG&E was not prepared to suggest an actual implementation plan for this recommendation and the Commission is not prepared in this interim decision to address the matter.

Another subject having a substantial potential impact on financial viability of Plans F and S is the capital cost assumption used for nuclear power plants. We note here that the past twenty years have seen rapid growth both in the real and estimated costs of nuclear plants, and in the magnitude of uncertainty associated with these estimates. Many factors have contributed to this growth, including rapidly rising costs of labor, materials and equipment, as well as unanticipated additions and schedule slippages. It is not possible on the basis of this hearing record to determine in the case of the planned Sundesert facility the extent to which contributing factors have been adequately accounted for in SDG&E's cost estimate.

KFAE has accepted all capital cost figures for power plants prepared by SDG&E. Whereas it has not been practical to develop a comprehensive record here regarding nuclear plant capital costs, we note that the SDG&E/KFAE costs are considerably below alternative data prepared by the ERCDC in its AB 1852 Report to the Legislature. It is not possible here to determine what a reasonable higher range might be, but it could substantially impact the financial viability of Plans S and F.

Lastly, should the Sundesert Project or SDG&E's role therein be terminated for political or financial reasons or both, the issue of sunk costs related to SDG&E's investment in the Sundesert project will have to be addressed. Some of these costs relate to the proposed nuclear facility where others directly relate to the Blythe site, which received approval by the ERCDC in its decision on the Sundesert NOI. This site may well be usable as a site for some other future thermal power plant. A detailed review of SDG&E's Sundesert expenditures and appropriate rate treatment is best handled in NOI 3.

#### Additional Plan Elements

The repowering of Silver Gate Unit 2 is common to Plans R, F, and S. The limited record developed here supports the argument that this is an important element of SDG&E's ultimate resource plan and argues for timely Commission action.

The possibility of repowering Station B has been presented as a contingency option and, given the uncertainties inherent in SDG&E's resource planning, should be explored in greater

detail, either in this OII or in a separate proceeding. Repowering options for Silver Gate 3 and 4 and South Bay also appear to merit consideration.

The argument for the development by SDG&E of a transmission line system to the East for the purpose of flexibility, increased pooling capability, and greater reliability was put forward by KFAE and supported by SDG&E. The record suggests that such planning should be pursued subject to performance and review of future cost studies.

Lastly, all three resource Plans R, F, and S, are based upon a minimum reserve margin calculated on the basis of the so-called Optimistic Conservation Forecast (AB 1852). KFAE says it did not validate this forecast. There is not a sufficient record here to make a definitive statement regarding the choice of this demand forecast as a basis for resource planning, and we will not do so. We will simply note that the Optimistic Demand Forecast is lower than the ERCDC Adopted Forecast (CFM-I) and higher than the forecasts used by the ERCDC in its AB 1852 Report to the Legislature.\* It therefore appears to be within the range of the planning assumptions.

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\* Commission staff has found an error in the "ERCDC AB 1852 Forecast Final Report 3/78" in Exhibit 262 and notes that the curve in the exhibit is considerably lower than it should be.

FINDINGS

Based on the record in OII-4 to date, we find the following:

1. The viability of SDG&E's current resource plan, incorporating two units at Sundesert and referred to in this proceeding as Plan F, is uncertain because

- a. the ERCDC has only approved a Notice of Intent for one unit at Sundesert
- b. the ERCDC has recommended against exempting Sundesert from the 1976 "nuclear bills" (P.R.C. Sections 25524.1 and 25524.2) and the State Assembly's decision on an exemption (in SB 1015) is pending; denial of an exemption appears to preclude the building of a nuclear facility in the time frame proposed
- c. It is likely that Sundesert's operation dates will be delayed a minimum of one year, causing potential reserve margin problems in 1985 and possibly later
- d. large amounts of external financing will be required to finance this plan, resulting in demands for substantial and continuous rate relief.
- e. slippage in the original operation date of SONGS 2 and 3 would have an impact on SDG&E's rate base and thus on its ability to finance Sundesert without additional revenue requirements from ratepayers

2. The KFAE proposed Resource Plan S, containing one unit at Sundesert, suffers from all the uncertainties of Plan F except for the ERCDC NOI approval. Furthermore, this approval was only provided for 50% SDG&E ownership of one unit if SDG&E can demonstrate no need for extraordinary rate relief. Extraordinary rate relief would be required, based on our findings in Decision Nos. 85018 and 87639, *supra*, and our decision issued in Application No. 55627, *et al.* Plan S also only provides for a 10% reserve margin against SDG&E's Optimistic Conservation Forecast.

3. Alternate Resource Plans G, M and N appear to have considerable and likely prohibitive technical problems on the basis of KFAE's analysis.

4. Resource Plan R, which includes the purchase of substantial amounts (800 MW in three stages) of electrical capacity from Mexico, compares favorably in several ways with Plans F and S. These include:

- a. added flexibility through earlier availability and smaller incremental units
- b. greater probability of meeting demand in the mid-1980's even with schedule slippage
- c. A higher (15%) reserve margin against SDG&E's Optimistic Conservation Forecast
- d. one-third less external financing and roughly one-half less issuance of common stock required.

- e. roughly comparable revenue requirements from ratepayers in the 1978-86 time period based on SDG&E's nuclear capital costs; higher but plausible nuclear capital costs would make Plan R look more attractive

5. KFAE has concluded that Plans R, F, and S are still financeable. However, the KFAE analysis assumes that SDG&E will receive all the emergency rate relief it has requested in Applications Nos. 55627, 55628 and 55629, and its entire rate request under NOI 3. Furthermore, substantial annual rate relief thereafter is assumed for Plans S and F to meet SDG&E's allowed returns. No party to date in this proceeding has performed a detailed financial analysis of the financial viability of the three plans under different assumptions regarding rate relief. However, our analysis of the record in this proceeding shows that:

- a. Plan R requires one-third less external financing and only about 60% of the increase in common stock required by Plans S and F. These factors would always make Plan R favorable under normal capital market uncertainty.
- b. Plans S and F, being very capital intensive, will require substantial annual rate relief to maintain desirable financial ratios, making them infeasible under the Commission's adopted ratemaking practices.
- c. Plan R provides far less risk to investors than Plan F or S. In Plans F and S investors put up large amounts of capital over the construction period for Sundesert which are not recoverable until the uncertain date when the plant is operational. With Plan R, SDG&E puts no capital at risk in advance of receipt of power from Mexico. Furthermore, once the Mexican facilities are operational, all costs would be recovered semi-annually through ECAC,

with its balancing account, minimizing the risk of time delays and assuring dollar for dollar recovery.

6. If Sundesert is not built, or is not completed in the time frame contemplated, Plan R is the only resource plan presented in this OII to date that provides a technically viable alternative.

7. Even if one or both units of Sundesert could be built, timing problems suggest that SDG&E might need capacity prior to Sundesert's availability. Thus, immediate pursuit of Mexican capacity would still be desirable.

8. Comparison of the various estimates for the comparable costs for the construction of KFAE's Plan R when contrasted with comparable cost estimates for Plans F and S lead to the conclusion that if the proposed Mexican plant were constructed within the range of costs in the record to date, such costs would be reasonable. Clearly more detailed estimates must await the outcome of joint studies between SDG&E and the Government of Mexico as noted in the letter of March 9, 1978 (Exhibit 266).

9. SDG&E is committed to pursuit of Mexican purchase power options for capacity and energy.

10. The Government of Mexico has expressed interest in pursuing the Mexico project but has made no formal commitment.

11. The possibility of SDG&E's purchase of Mexican capacity would be greatly increased if the first unit at least

could be completed and operational by the end of 1982.

12. Negotiations with the Government of Mexico should be immediately accelerated and solidified if the first proposed Mexican unit is to be on-line by the end of 1982.

13. The actual price per kilowatt hour purchased from Mexico is still undetermined and this Commission would have to approve a final contract, after deliberate consideration of price and conditions.

14. The recommendation by KFAE, endorsed by SDG&E, that the latter be allowed by this Commission to earn a return on the sale of power purchased from Mexico, is an extraordinary and unprecedented request and must be given all due analysis and deliberation. No findings can be made upon it at this time.

15. There are advantages to SDG&E's pursuit of the option of building a transmission line system to the Arizona border including improved reliability, access to new generation sources, and increased pooling capability.

16. Rapid action is desirable on the part of this Commission in SDG&E's Application for a Certificate of Public Convenience and Necessity for the repowering of Silver Gate Unit 2 and by parties providing the appropriate environmental permits for this project.



17. All three proposed resource plans require considerable geothermal power from the Imperial Valley in the late 1980's. SDG&E must therefore aggressively pursue this option.

18. The following resources may provide contingency options to augment or substitute for elements of Plans R, S and F:

1. repowering Silver Gate Units 3 and 4
2. repowering Station B
3. pooling or purchase options made available by the proposed transmission line to Arizona

There is a need for timely evaluation of the viability of these options in this or separate proceedings. Furthermore, we expect the record to be expanded in Phase II of this OII to consider possibilities like repowering South Bay, small coal plants, participation in the Intermountain Power Project (IPP) and Palo Verde, among others.

19. The semi-annual review of SDG&E's resource and financial plans seems reasonable given the uncertainty surrounding these plans and should be considered by this Commission for SDG&E.

20. In view of the above findings, the Commission would be acting imprudently on behalf of the ratepayers if it did not advise the company that continued expenditures on the Sundesert nuclear facility other than those consistent with termination clauses in contracts and those required by law from the date of this order forward can only be recaptured by the company if the Sundesert nuclear facility is ultimately operational. Disposition of sunk costs associated with the Sundesert project resulting from this order and further expenditures on the Blythe site, which has been approved for future use by the ERCDC, will be considered in SDG&E's next general rate case (NOI 3).

O R D E R

IT IS ORDERED that:

1. San Diego Gas and Electric Company shall continue to use its best efforts to negotiate a contract for the purchase of Mexican power subject to the following conditions:

- a) in order to achieve an acceptable capacity factor, the contract should contain:
  - i) provisions for an acceptable maintenance schedule and for auditing the maintenance to establish conformance with the schedule;
  - ii) provisions for design and operation of the facility in order to achieve acceptable reliability.
- b) that the cost of Mexican power should be just and reasonable. In this respect SDG&E would have to receive ultimate approval from this Commission for the contract.
- c) that every reasonable effort be made to have at least one Mexican unit on-line by the end of 1982.

2. SDG&E shall keep the Commission staff regularly informed of the progress of its negotiations.

3. SDG&E shall commence discussions with the members of the California Power Pool to determine the acceptability of capacity purchased from Mexico as "firm" power.

4. SDG&E shall continue to investigate the need for additional permits required for implementation of the Mexican project.

5. SDG&E shall continue to analyze and pursue the concept of building a transmission line system to the Arizona border and apply to the appropriate agencies for permits.

6. SDG&E shall continue to aggressively pursue its geothermal development plans. In accordance with this, SDG&E shall file semi-annual reports with this Commission commencing June 30, 1978 as to its geothermal development efforts.

7. SDG&E shall submit to the Commission staff a proposed procedure for the review of its resource and financial plan semi-annually or on some other periodic basis within 45 days of the date of this order.

8. SDG&E shall present to the Commission an updated analysis of the advantages, disadvantages, costs, and status of progress regarding the repowering of Silver Gate Units 3 and 4, South Bay, and Station B within 90 days of the date of this decision. The Commission will look into these alternatives in this or separate proceedings without impeding the progress of Application No. 57000.

9. SDG&E shall file any necessary supplemental data for the consideration and inclusion of sunk costs related to the Sundesert nuclear facility resulting from this order

and sunk costs and future expenditures related to the Blythe site in its new general rate case (NOI 3).

10. OII 4 is continued.

The Executive Director shall provide copies of this order to the Energy Resources Conservation and Development Commission, to the Resources Agency, to the Air Resources Board, and to all appearances in the proceeding.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 2nd day of MAY, 1978.

I concur:

*See separate opinion*  
*Richard D. Howell*

I will file a dissent.  
*William Symons Jr.*

I will file a written concurrence

*Vernon L. Sturgeon*

I dissent in part & concur in part. I will file a written opinion.  
*Clair T. Doherty*

*Robert B. Berman*  
President

*Vernon L. Sturgeon*  
*Richard D. Howell*

Commissioners

APPENDIX A

Chickering & Gregory, by C. Hayden Ames and  
Allan J. Thompson, Attorneys at Law, and  
John H. Woy, for San Diego Gas & Electric  
 Company.

John W. Witt, City Attorney, by William S.  
Shaffran, Deputy City Attorney, for the  
City of San Diego; Etta Gail Herbach and  
Charles J. Mackres, Attorneys at Law, for  
 the Department of Defense, on behalf of the  
 consumer interests of all Federal Executive  
 Agencies; Allen B. Wagner, Attorney at Law,  
 for University of California; Glen J.  
Sullivan, Attorney at Law, for California  
 Farm Bureau Federation; David X. Durkin  
 and Eric Stern, for California Public  
 Interest Research Group of San Diego  
 County; George Gilmour and Johnathon  
Blees, by Cynthia Melendy, for the  
 California Energy Resources Conservation  
 and Development Commission; and Morrison &  
Foerster, by T. Bruce Dodge, Attorney  
 at Law, for Keith Feibusch Associates  
 Engineers, interested parties.

Rufus J. Thayer and Walter H. Kessenick,  
 Attorneys at Law, for the Commission staff.

## TABLE II-14

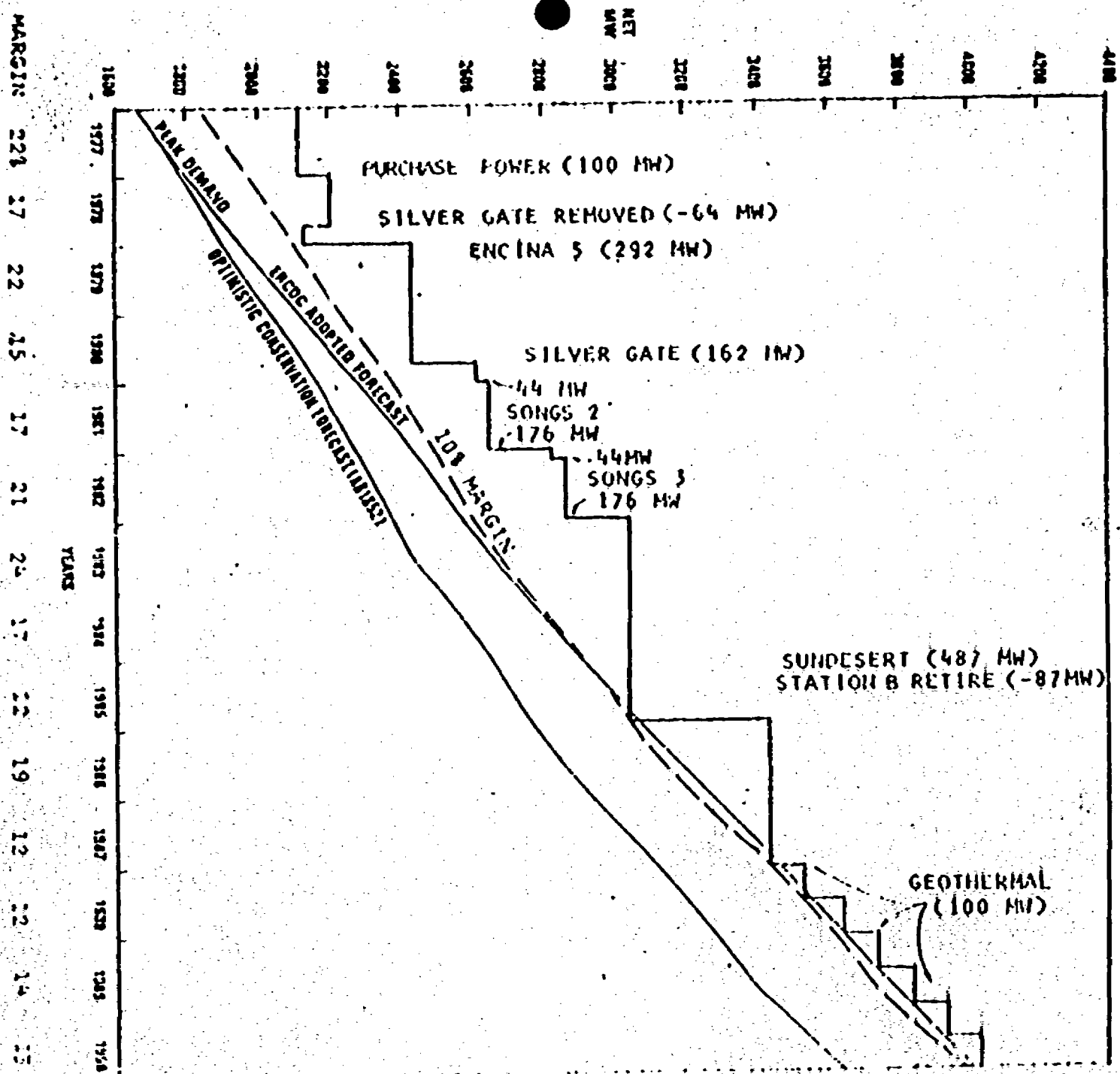
## PLAN R

## MEXICO PROJECT MILESTONES

Letter of Interest	February, 1978
Agreement in Principle	April 1, 1978
Contract Proposal Submitted	May 1, 1978
Site Selection	June 1, 1978
Contract Signing	August 1, 1978
Financing Commitments	September 1, 1978
Initiate Design	September 1, 1978
Major Equipment Procurement	December 1, 1978
Commence Construction	January 1, 1979
Boiler Delivery	February 1, 1981
Turbine Generator Delivery	March 1, 1981
Initial Steam to Turbine	August 1, 1982
Commercial Operation, First Unit	December 1, 1982
Unit 2	January, 1985
Unit 3	October, 1986



## PROPOSED PLAN 5





OII #4 - D.

Orders SDG&E (1) to stop development of Sundesert Power Project in Blythe, California; (2) to try to develop electric generation plants in Mexico.

COMMISSIONER WILLIAM SYMONS, JR., Dissenting

Today's order nails down the coffin lid on the Sundesert Power Project for Southern California.

There is an irrational rush to kill Sundesert, yet there is no reliable alternative to replace the electricity that the people of Southern California will need. Their future is now one of high risk -- high risk of prolonged shortfall of electricity supplies, with its attendant ills: (1) stagnation for the economy, and (2) deprivation and regimentation for the people.

What is going on here? An impartial observer who looked only at the record in the Commission's Investigation into future electricity resource plans would clearly choose Plan F. It calls for the construction of two 950 MW nuclear reactors at Sundesert. The record shows San Diego Gas & Electric can finance Sundesert. The record shows power produced at Sundesert will be cheaper than power produced by any other source. The record shows that Sundesert can be done in time (if California's regulatory agencies will allow it to be done on time). Further, the record shows that Sundesert will permit Southern California to take the all-important step of diversifying out of oil?

Why, then, has the Commission voted to kill Sundesert? The order is not forthright enough to acknowledge that the anti-nuclear politics of the current state administration motivates this decision; instead, the order pretends to be based on finances and the interests of the San Diego ratepayer. No matter that the record does not back up

this financial assertion, the new issue is sufficiently technical that only those few with training and access to the record will be able to refute it.

The political assault on Sundesert suffered a setback with the April 27, 1978 opinion of the California Attorney General that the legislation obstructing Sundesert was invalid under the United States Constitution. However, this PUC order with its financial assertions overwhelmingly aids the political assault on Sundesert, and makes a full assembly vote or statewide referendum permitting exemption extremely unlikely.

The result is that today the Commission, without any facts to sustain such a vote, has decided to kill nuclear power in California. This policy coincides with the Governor's anti-nuclear mentality. It abandons the path to a safe and reliable supply of energy for Southern Californians, and instead stumbles off in pursuit of a Mexican project.

This "alternative" has as much present substance as a mirage -- not even one term in the contract this would require has been negotiated or agreed upon. There are no power plants. No site has been selected or researched. In fact, the Mexicans have let it be known that they won't start dealing until after Sundesert is dead.

In charting this new path for Southern California power supplies, it behooves the Commission to explain why, and also to explain how we are going to keep California's economy functioning, and its people safe and comfortable, without nuclear energy. None of these crucial questions are addressed in the order released today. Instead, we are offered an opinion of over fifty pages which seeks to hide the real issues behind smokescreen issues of "financeability" and "timeliness".

These concepts have nothing to do with the suitability or lack of suitability of Sundesert. I would like to explain why.

Sundesert is Financeable. The Mexican Project will cost San Diego Ratepayers more. The Public Utilities Commission and the Energy Commission have four studies concerning the ability of San Diego Gas and Electric to finance one-third to one-half of a two reactor facility at Sundesert. The verdict was unanimous: without extraordinary rate relief, SDG&E can handle a project of this size.

Today's decision seeks to bury that fact under a waterfall of misleading statements. The most serious of these is the contention that Sundesert cannot be financed. The Commission majority magically comes to this conclusion after a short, enigmatic analysis of PUC's policy on the frequency with which rate increases are to be issued, and the financial condition of SDG&E.

The fact of the matter, however, is that SDG&E can afford Sundesert if the PUC wants to allow the facility built. (1) SDG&E's financial condition has been and will be under PUC control, (2) contrary to the erroneous assertion on page 35 of today's order, the regulatory lag plan doesn't prevent, either expressly or impliedly, annual rate increases. Ironically, I note that the ECAC rate increases which underpin the Mexican alternative come every six months. The control to raise this specious obstacle of untimely rate relief is, as it always is, in the hands of the PUC. And we should want Sundesert built, because it will be cheaper than any alternative.

The majority decision relies considerably on one study. The Keith, Feibusch Associates, Engineers (KFAE). The PUC approved and SDG&E hired this firm to provide an independent financial analysis of SDG&E's resource plans.

The Keith, Feibusch analysis notes the following as to cost: building two units at Sundesert, and permitting SDG&E to own half of them, or 950 megawatts, will mean annual compound rate increases of 7.7% for the utility's ratepayers. Ensenada -- which I will refer to as the "Mexican connection" -- at best gives the utility only 800 megawatts, and will require annual compound rate increases of 8.8%.

Thus, the Mexican Connection means a greater increase in rates to the ratepayer, for less power. Why? A major reason is that under the sketchy plans revealed so far, the Mexican oil used in Ensenada will cost \$20 a barrel in 1980, and increase at 10% annually. By these terms, the oil will cost \$32 a barrel in 1985, \$52 in 1990, and, by 1999, an incredible \$122 a barrel. At those prices it is not hard to understand why Sundesert is a bargain.

The cost comparison goes even more in Sundesert's favor if we take three additional facts into consideration:

1. Under Energy Commission limitations, SDG&E will finance one-third, not one-half, of two units;
2. The analysis as to the cost of the "Mexican connection" does not include a rate of return on resale of electricity requested by SDG&E;
3. Nor does it include the fact that after the oil-fired plants at Ensenada are paid for, ownership reverts to the Mexicans. Sundesert remains ours as long as it is useful.

Timeliness? The Mexican Project is uncertain. Sundesert can be on time. The decision dwells at length on another supposed advantage of the Mexican Connection: that it can be built in time, while Sundesert cannot. This is nonsense.

- A. Intentions of Mexico. As of today, we don't even have a commitment from Mexico to start to build one plant. This point is well proven by quoting the full text of the letter in which Mexico supposedly agrees to build the facility:

"Mr. R. E. Morris  
President  
San Diego Gas & Electric Co.  
P. O. Box 1831  
San Diego, California 92112  
U.S.A.

I refer to your cablegram dated March 4, in order to tell you that the President of the Republic has issued instructions to the effect that the Federal Electric Commission, in coordination with this office which I head, initiate a series of studies and analyses concerning the possibilities of exporting electrical energy to companies such as San Diego Gas and Electric Co. With this in mind, the project proposed by you will be considered once these studies previously mentioned have moved forward sufficiently to determine the project's feasibility.

Attentively  
The Undersecretary

/s/ Fernando Hiriart"

Clearly, the letter says no such thing.

The Mexican Connection is, in fact, already behind schedule. According to the "Mexico Project Milestones" (Appendix B, today's order), there was supposed to be an agreement in principle between Mexico and SDG&E by April 1, 1978. Has any such thing happened? No.

Nor is there any reason to believe or hope that the Mexicans will approach the connection with any sense of urgency. At best, only 300 megawatts -- of a projected total of 800 -- will be done in the term of the incumbent president. As the record indicates, whether his successor will wish to push ahead on the remaining 500 is anyone's guess. Should the next Mexican president decide otherwise, the consequences for the economy and people of Southern California will be grave.

B. Intentions of the United States Government.

Will the approval to import major supplies of electricity from Mexico require formal federal proceedings?

Remarkably, scant reference is made to this consideration in the transcripts, Vol. 71, p. 6285:

"We have had discussions with Mr. O'Leary and with some of Mr. Schlesinger's staff, and with the Department of Energy concerning the Mexico project and have received a very positive indication that they will look favorably upon the project."

The question of federal proceedings is unanswered. We note that importation of natural gas from Mexico on the Gulf Coast has been blocked for several months by action of the federal administration in Washington. The higher price to be paid for the imported energy and its effect on the U. S. balance-of-payments deficit was the cause. It is not illogical to expect the same

critical review of the price to be paid for imported Mexican electricity will be conducted by our federal administration.

- C. Requirements of California Statute. Also, the analysis of the feasibility of the Mexican Connection assumes as a "necessary condition" that no Certificate of Public Convenience and Necessity from the PUC will be required for this project. (Necessary Condition 3, page 18, today's order) This assumption is unfounded. State law requires PUC certification proceedings. As we told SDG&E on October 18, 1977, in our decision on Kaiparowitz:

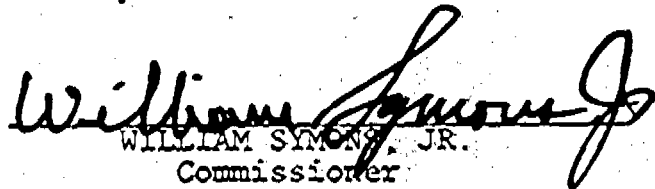
"... San Diego Gas & Electric Company shall not begin construction of any line, plant or system, whether in California or otherwise, without first obtaining from this Commission a certificate that the present or future public convenience and necessity require or will require such construction." (Ordering Paragraph 1, p. 27 of Decision No. 88005.)

Sundesert's progress, on the other hand, is well along and its fate lies within the hands of California State agencies. If agency officials applied only a part of the vigor they use to slow down these projects to helping deadlines be met, we can have this project on line before serious reserve problems develop.

OII #4 - D.

Despite today's decision, one fact remains clear: Sundesert is the only alternative to severe power shortages in Southern California in the mid-1980's. My hope is that when those shortages hit, the millions of people suffering under the effects of today's decision, will remember the bureaucrats and the politicians responsible for their 'planned' scarcity.

San Francisco, California  
May 2, 1978

  
WILLIAM SIMON, JR.  
Commissioner



COMMISSIONER CLAIRE T. DEDRICK, CONCURRING & DISSENTING:


I concur with those portions of this interim opinion which find that the Sundesert nuclear project could not be financed by San Diego Gas and Electric Company without massive and frequent rate relief. We would completely disregard our duty to the ratepayer if we were to allow continuation of this project given its inevitable affect on rates and the financial integrity of SDG&E.

I further concur in those portions of this opinion which cite repowering of Silvergate Units 2, 3 and 4, South Bay and Station B; development of geothermal resources, and exploration of the feasibility of small coal plants as viable resource plans for SDG&E's short-term needs. Development of such existing or easily acquired resources are, as the opinion correctly notes, essential features of SDG&E's requirements to the year 2000.

I dissent, however, from ordering SDG&E "to continue to use its best efforts to negotiate a contract for the purchase of Mexican power ..." when such an option is presented as the only viable course for SDG&E to follow. Such a proposal suffers serious policy and practical deficiencies. As a matter of policy, this order would allow users of energy in this country to export to another country air pollution consequent to burning high sulfur oil for generation. Given that California has the toughest and most comprehensive air quality laws in the nation, enacted presumably for the good of the people, do we now want to state as a matter of policy that it is permissible to pollute as long as the pollution affects only those outside our borders? Since California would have no control over the air quality aspects of the construction of this plant, such a position is the inevitable result of this opinion.

Secondly, as a practical matter, the option here handed SDG&E by the Commission offers not only uncertainty for San Diego's future supplies of power, it does not offer even reasonable expectation. Consider: SDG&E is ordered to use its best efforts to seek formation of a contract, the terms of which to be proposed by the offeror remaining unknown; with a foreign government; to purchase power at an unknown and unpredictable price; to go into effect by the end of 1982 when not a stone has been turned for construction nor a contractual term voiced in formal negotiations. To recommend a path such as this as the only viable option to a company which has experienced such past misadventures and is in such a financially tenuous position is simply not acceptable.

San Francisco, California  
May 2, 1978

  
Claire T. Dedrick  
Commissioner

COMMISSIONER VERNON L. STURGEON, Concurring

Today's order adds a sad but necessary postscript to last month's shortsighted action by the Assembly Committee on Resources, Land Use and Energy. That committee's failure to pass SB 1015, and thus keep the Sundesert project alive, requires us to today tell SDG&E, who pursued the Sundesert project in the best of faith with its ratepayers and shareholders, to give up the project.

Fortunately, this does not mean giving up the Blythe site which has actually received the approval of the Energy Commission. (How this breach of ERCDC policy occurred one can only speculate.) Today's order wisely permits SDG&E to include site expenditures for consideration in NOI 3. The Blythe site may thus still play a role in California's energy future.

I still remain convinced that the Sundesert alternative for utilities in Southern California would have been superior to the option we today urge SDG&E to pursue. Today's order may eventually result in 25% of the San Diego area's electricity requirement being produced in Mexico. Why can't that power be produced in California? The answer is simple; and it is one which this Commission, by signing today's order, implicitly accepts: under California's statutory and regulatory framework of environmental restrictions, as presently administered, a power plant cannot be constructed in this state in time (if it can be built at all) to meet the electric needs of

the San Diego area. We have, to be sure, legislated and regulated ourselves into a net from which we only seem to be able to escape periodically through the vehicle of "crisis legislation."

The late SB 1015 was an example of such legislation. That bill, which would have exempted the Sundesert facility from the provisions of Public Resources Code Sections 25524.1 and 25524.2, passed the Senate but, as stated earlier, died in the Assembly Resources, Land Use and Energy Committee. That SB 1015 had to be introduced to try to save Sundesert is evidence of the fact that, as recognized by the California Senate, California's statutory and regulatory framework unreasonably restricts us from making the critical energy decisions required to see us through the rest of this century much less plan for the twenty-first.

The Liquefied Natural Gas Terminal Act of 1977, SB 1081, is another example. Faced with the very real probability of curtailment of natural gas service to Southern California P1 and P2A customers by the early 1980's,<sup>1/</sup> the Legislature and the Governor realized that "the importation of liquefied natural gas . . . may be a significant means of assuring that adequate and reliable supplies of natural gas are obtained . . . to meet the state's needs and to prevent natural gas shortages . . ." <sup>2/</sup> The Legislature and the Governor further determined that in order for a LNG terminal to be

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<sup>1/</sup> Public Utilities Code Section 5551(c).

<sup>2/</sup> Public Utilities Code Section 5551(b)

constructed in time to prevent shortages:

"it is necessary to vest exclusively in one state agency the authority to issue a single permit authorizing the location, construction, and operation of such terminal, and to establish specific time limits for a decision on applications for such permit."3/

The obvious implication from that determination, reaffirmed by today's order, is that absent extraordinary measures, such as SB 1081 or SB 1015, California cannot act effectively to insure adequate utility service to its citizens. We are compelled, as a prerequisite to action, to make innumerable forecasts, studies, predictions and analyses which, almost invariably, are subject, individually or collectively, to some form of attack in the courts. Only when the acuteness of our dilemma becomes so obvious that it can no longer be ignored does the California bureaucracy decide to act. At that point little can be done in time if the trench warfare that we call the California permit process must be adhered to. Suddenly we have a crisis requiring a crisis solution. Either extraordinary measures such as SB 1015 or SB 1081 are required to extricate us from our self-imposed net, or, as today, we opt for a clearly inferior choice simply because it is the only one available within the statutory and regulatory framework in which we find ourselves.

The citizens in the San Diego area as well as all Californians deserve more from government than crisis decision-making as a substitute for planning. It is time for the Legislature to rethink

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3/ Public Utilities Code Section 5551(d).

the wisdom of imposing restraints which, in the name of environmentalism, so severely inhibit our ability to plan for, and meet, our future energy needs. While preserving the environment, we should still be able to provide man with the energy essential to his existence.

*Vernon L. Sturgeon*  
VERNON L. STURGEON  
Commissioner

San Francisco, California  
May 2, 1978

RICHARD D. GRAVELLE, Commissioner, Concurring:

The decision issued today involving San Diego Gas & Electric Company will be hailed by those who are pro- or anti-nuclear as either a catastrophe or landmark victory. Either characterization is totally inaccurate and misleading. It will be employed only by those who possess a motivation for confusion to serve their own purpose, or some self-perceived and self-imposed requirement to comment on the "public interest".

Before any statements are made about the decision, it should be read, from start to finish, carefully, and objectively. If that is done, the reader will realize that the decision simply addresses the financial ability of San Diego Gas and Electric Company, on a relative basis, to meet its future energy requirements - nothing more, nothing less. It does not prohibit the company from proceeding with Sundesert; moreover, it in no way precludes the development of Sundesert by a consortium of entities that might be better able to afford that project. It does point out that this Commission, meeting its statutory obligations to both the consumer and shareholder of San Diego Gas and Electric Company, can readily predict, based upon the record made to date, that neither can afford the participation planned in Sundesert by the company management. Such a determination at this time is beneficial to all those concerned with the financial health of the utility and the future energy needs of the residents, both business and domestic, of the San Diego area. It is up to others than this Commission to deal with safety, siting, licensing and the like. Our responsibility as it exists today is basically economic. We have met our responsibility, it is now up to those others to meet theirs.

San Francisco, California  
May 2, 1978

  
RICHARD D. GRAVELLE, Commissioner