

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**RESOLUTION G-3236
MARCH 26, 1998**

RESOLUTION

**RESOLUTION G-3236. KIRKWOOD GAS & ELECTRIC COMPANY
REQUESTS APPROVAL TO ESTABLISH AN ENVIRONMENTAL
COMPLIANCE MEMORANDUM ACCOUNT.
APPROVED.**

BY ADVICE LETTER 4, FILED ON FEBRUARY 9, 1998

SUMMARY

1. By Advice Letter (A.L.) 4, Kirkwood Gas & Electric Company (KG&E) requests approval to establish an Environmental Compliance Memorandum Account (ECMA). KG&E wants to record and track the various carrying and other ownership costs and ongoing maintenance and operation expenses associated with recently installed pollution control equipment, as well as any future costs required for environmental compliance for its generating facilities.
2. Present rates for KG&E do not include recovery for the pollution control equipment. KG&E is seeking the ECMA in order to eventually recover those costs that are currently being incurred, but for which KG&E is not being compensated.
3. No protests to A.L. 4 were received by the Energy Division.
4. This Resolution approves Advice Letter 4. The effective date of the ECMA is the effective date of this Resolution.

BACKGROUND

1. KG&E must comply with various federal, state and local environmental laws, regulations, and orders applicable to its power generation operations. A Stipulated Conditional Order for Abatement was recently entered by the Great Basin Unified Air Pollution Control District.
2. KG&E proposes to establish the ECMA to record and track the various costs (both ownership and O&M costs) being incurred as a result of some recently installed pollution control equipment. Specifically, KG&E has been obligated to install a monitoring station, a meteorological tower, and a Selective Catalytic Reduction Unit to monitor and control air pollutant emissions from its power generation equipment.

3. KG&B has never appeared before this Commission for a rate increase. The rates that it currently charges are not designed to recover costs associated with the recently mandated pollution control equipment. As a result, KG&B is not currently being compensated for either its investment in this equipment or its ongoing maintenance of this equipment.

4. KG&B proposes to use the ECMA to accurately record and track the costs and expenses associated with the pollution control equipment, as well as any future costs required for environmental compliance for its generating facilities. During a future proceeding, KG&B would request recovery of the costs and expenses contained in the memo account. In this manner, KG&B would be "made whole" for the revenue shortfall that it is currently experiencing.

5. KG&B requests that the ECMA be made effective on January 1, 1998.

NOTICE

1. Advice Letter 4 was served on other utilities, government agencies, and to all interested parties who requested such notification, in accordance with the requirements of General Order 96-A. Public notice of this filing has been made by publication in the Commission's calendar.

PROTESTS

1. No protests to A.L. 4 were received by the Energy Division.

DISCUSSION

1. The Energy Division has reviewed Advice Letter 4 and has been in contact with representatives of KG&B.

2. KG&B has never come before the Commission for any type of rate increase. Its existing rates were created before the current environmental mitigation measures were imposed. Therefore, current rates do not cover the ownership costs or the ongoing operation and maintenance costs of the recently installed environmental equipment. KG&B may lose money until such time as a future proceeding raises its rates to include these costs.

3. To remedy its revenue shortfall, KG&B seeks approval to modify its existing tariffs to include the creation of an Environmental Compliance Memorandum Account (ECMA). KG&B would create and govern this ECMA by adding Section 10 to its Preliminary Statement. The proposed Section 10 would establish the ECMA, and would have KG&B record monthly debit

entries for interest on the loans used to purchase the required environmental equipment; the ammonia necessary to operate the equipment; and for any other amounts associated with the ownership (or maintenance and operation) of the required environmental installations, as well as related activities required for compliance with environmental laws and regulations applicable to power generation operations. Annual debit entries would be made for permits and for amounts paid for testing.

4. During a future proceeding, KG&E would seek Commission approval to recover the costs that have been booked to the ECMA. In this manner, KG&E would be "made whole" for the unreimbursed costs that it will have incurred between the effective date of the ECMA and the time of the future rate increase.

5. Memorandum accounts (including KG&E's proposed ECMA) are not guarantees to utilities that all (or any) of the booked costs will be allowed by the Commission. Utilities have an obligation to show that all booked costs are appropriate, have been prudently incurred, and are reasonable. Only after the Commission has carefully reviewed the booked amounts are utilities allowed to recover these costs.

6. It is reasonable for KG&E to create its ECMA, as outlined in its A.L. 4. However, it may not be reasonable to continue the ECMA beyond such time as KG&E's rates are adjusted to incorporate the costs of the new environmental requirements. At that time, the need for a memorandum account to track the costs of the new equipment would end. The ECMA should be continued only if KG&E expects to experience new additional environmental costs (costs that were not already included in its new rates).

FINDINGS

1. In order to mitigate air pollution from its power generation equipment, Kirkwood Gas & Electric Company (KG&E) has recently been required to install and maintain a monitoring station, a meteorological tower, and a Selective Catalytic Reduction Unit.

2. KG&E's current rates were not designed to cover either the capital costs or the O&M costs associated with this equipment. Likewise, KG&E's current rates were not designed to cover any future environmental compliance.

3. Until such time as its rates can be adjusted, KG&E's revenue requirement may be insufficient to cover its current (as well as any future) environmental mitigation investments.

4. As described in its A.L. 4, KG&E is authorized to establish Section 10 to its Preliminary Statement, creating an Environmental Compliance Memorandum Account (ECMA).

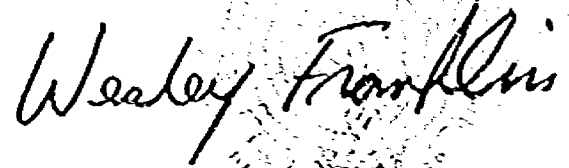
5. The effective date of the ECMA shall be the effective date of this resolution. No costs

incurred before this date shall be booked to the ECMA.

THEREFORE, IT IS ORDERED that:

1. Kirkwood Gas & Electric Company's Advice Letter 4 is approved.
2. The effective date of the Environmental Cost Memorandum Account shall be the effective date of this Resolution.
3. Advice Letter 4 shall be marked to show that it was approved by Commission Resolution G-3236.
4. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on March 26, 1998. The following Commissioners approved it:



WESLEY M. FRANKLIN
Executive Director

Richard A. Bilas, President
P. Gregory Conlon
Jessie J. Knight, Jr.
Henry M. Duque
Josiah L. Nepper
Commissioners