RETURN TO ENERGY BRANCH
ROOM 3102

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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION AND COMPLIANCE DIVISION
Advisory, Evaluation and Research Branch

RESOLUTION E-3041
June 15, 1987

R E S O L U T I O N

PACIFIC GAS AND ELECTRIC COMPANY (PG&E). ORDER AUTHORIZING PG&E TO REVISE ELECTRIC RATES TO REFLECT THE RECOVERY OF THE FUTURE DECOMMISSIONING COSTS FOR THE HUMBOLDT BAY POWER PLANT, UNIT 3 AS PROVIDED IN ORDERING PARAGRAPH 3 OF DECISION 85-12-022.
(Advice Letter No. 1152-E, Filed May 5, 1987)

SUMMARY

1. By Advice Letter No. 1152-E, filed May 5, 1987, Pacific Gas and Electric Company (PG&E) requests an electric rate increase to recover over a four year amortization period the future decommissioning costs of Humboldt Bay Power Plant, Unit 3 (Humboldt 3). Rate recovery of $58 million (in 1986 dollars) is authorized, subject to refund. A schedule of ruling amounts is adopted, in order that PG&E may establish a tax free decommissioning fund in accordance with Internal Revenue Service (IRS) rules.

BACKGROUND

2. In Decision (D.)85-12-022, issued December 4, 1985, the Commission authorized the recovery over a four year amortization period of future costs incurred by PG&E to decommission Humboldt 3, a small nuclear power plant that is now closed. A decommissioning cost of $58 million (in 1986 dollars) was adopted, with the provision that PG&E allocate the cost between decommissioning of prudently constructed and imprudently constructed plant. That allocation was to be approved by the Evaluation and Compliance Division prior to filing of rates. D.85-12-022 also reduced PG&E operating and maintenance expenses due to the permanent closure of the plant, and concluded that previous low estimates of decommissioning costs were not imprudent or unreasonable.

3. Humboldt 3 is now in SAFSTOR status, essentially closed and "mothballed" until Federally approved nuclear disposal facilities are available. Eventually the contaminated portions of the plant will be dismantled and, along with spent nuclear fuel, shipped to the disposal site. This is called the DECON option, and PG&E will not require the future value of the $58 million until that time. PG&E estimates that the dismantling will begin in the year 2015.

4. By letter dated December 19, 1986 from Mr. Louis Vincent to Division Director Bruno A. Davis, PG&E informed the Evaluation and Compliance Division that the $58 million decommissioning estimate does not include any imprudently constructed plant. An affidavit from cost consultant Thomas S. LaGuardia was attached to the letter. PG&E further explained its need for tax-related findings, in a letter dated April 1, 1987, also from Mr. Vincent to Mr. Davis.

5. By letter dated April 14, 1987, Mr. Davis approved PG&E's estimate of recoverable costs, with several conditions. The letter is reproduced as Attachment A to this Resolution. The important conditions were that the rate calculations be updated for current data and a July 1, 1987 effective date, and that the rates be subject to refund, pending Commission review of a revised decommissioning cost study anticipated by PG&E.

6. On May 5, 1987 PG&E filed Advice Letter No. 1152-E, in which the company requests:

A. amortization rates for four years beginning July 1, 1987;

B. Commission approval of a schedule of ruling amounts, which are estimates of annual revenues that will be eligible for deposit in a tax free external fund;

C. certain language on the rate treatment of decommissioning costs.

PG&E included in the advice filing revised work papers and rate calculations per the terms of Mr. Davis' letter of April 14, 1987.

(Note: In this instance "tax free" means that ratepayer contributions through rates are not subject to corporate income taxes. The earnings by the fund are taxable or tax exempt according to conventional tax regulations.)

7. On March 6, 1987 the Commission issued D.87-03-029, which authorized decommissioning rates for PG&E's Diablo Canyon Power Plant, Units 1 and 2. On May 29, 1987 the Commission issued D.87-05-062, which approved schedules of ruling amounts for the Southern California Edison Company (Edison) share of Palo Verde Nuclear Generating Station, Units 1, 2 and 3 (Palo Verde), and for the San Onofre Nuclear Generating Station, Units 1, 2 and 3 (SONGS), owned in part by Edison and San Diego Gas and Electric Company.

8. With the adoption of this Resolution, decommissioning costs will have been considered by the Commission for all nuclear plants owned by regulated California utilities.

REQUESTED INFORMATION

9. Much of Advice Letter No. 1152-E is dedicated to adoption of certain language and schedules, in order that PG&E can comply with IRS rules regarding tax free decommissioning funds. For Humboldt 3 the requested information is presented herein.

10. Attachment VII to Advice Letter No. 1152-E is reproduced as Attachment B to this Resolution. Attachment B contains work papers which will be filed with the IRS in requesting approval of a schedule of ruling amounts pursuant to Section 468A of the Internal Revenue Code of 1954. The work papers include revenue requirements calculations, cost recovery assumptions, escalation rates and trust fund revenue analyses.

11. Attachment IX to Advice Letter No. 1152-E is reproduced as Attachment C to this Resolution. Attachment C presents in summary form the revenue requirements for the four year collection period and a proposed schedule of IRS ruling amounts.

12. The assumptions, calculations and development of schedule of ruling amounts shown in Attachments B and C to this Resolution are reasonable and are adopted.

13. This Commission recognizes that it is to the benefit of ratepayers that the maximum amount of decommissioning costs be tax deductible for both Federal and State tax purposes. The Commission recognizes that a ruling must be obtained from the IRS and California Franchise Tax Board (FTB) before the tax status of the decommissioning funds can be known with certainty. Consequently, this Commission will cooperate with PG&E to ensure that the maximum tax qualification is obtained from the IRS and the FTB.

14. In the event that the IRS or FTB reduces PG&E's ruling amount request below the levels assumed in this Resolution (or eliminates PG&E's tax qualifying percentage entirely), PG&E may request that authorized income tax expenses be increased over the amounts reflected in this Resolution. The ratemaking treatment of such an adverse IRS or FTB determination may be addressed in a future advice letter filing in order to allow PG&E to apply to recover any unforseen tax costs and to make appropriate adjustments, if necessary, to the decommissioning funding policy.

DISCUSSION

15. The Evaluation and Compliance Division has reviewed PG&E work papers calculating the four year amortization rates. The company calculations are done correctly. Using assumed cost escalation rates, assumed trust fund return rates and factors from PG&E's Test Year 1987 general rate case, the annual revenue requirement is $26,894,000. These annual revenues should be collected from July 1, 1987 through June 30, 1991.

16. The escalation rates, trust fund return rates and calculations of revenue requirement for Humboldt 3 are consistent with analyses adopted for California's other nuclear plants.

17. The scope of the anticipated revised decommissioning cost study is shown as Attachment D to this Resolution. It was included as Attachment III to Advice Letter No. 1152-E. Because the results of the study could change the decommissioning revenue requirement, PG&E should recalculate decommissioning rates following the study and file, by advice letter or application, for revised rates, using the same four year amortization period adopted herein.

18. Although the rate calculations for Humboldt 3 are reasonable and consistent with calculations for other plants, the Evaluation and Compliance Division recommends that future review of all plant decommissioning costs include scrutiny of cost escalation rates and fund returns. California utilities have consistently estimated that escalation rates will exceed fund returns. It is possible that dismantling costs will escalate faster than general inflation, and the conservative investment policy restrictions on decommissioning funds may limit returns. However, as a general notion long run investment returns usually track inflation.

19. In A.84-06-014 PG&E estimated that the Diablo Canyon fund will earn 6% on tax free securities, and that most costs will escalate at rates in the 5.6-7.3% range. In Order Instituting Investigation (OII) 86 Edison assumed after-tax returns of 5% on nuclear funds, and used 6.3-7.4% escalation rates for most costs. For Humboldt 3 PG&E uses a 7% fund return and somewhat higher escalation rates.

20. The disparities between escalation rates and fund returns are not huge, but over 30 years the ratepayer effects are significant. For Humboldt 3 the requested revenue requirement is $26.9 million per year. To collect the necessary $58 million (in 1986 dollars) over the next four years, without consideration of 30 years of escalation and de-escalation, approximately $22.9 million per year would be required. The difference of $4 million per year may be entirely subsumed by cost estimate contingency factors and forecasting inaccuracy, but it is worth revisiting in subsequent decommissioning studies. Comparison of recorded, not forecast, escalation rates and fund returns should be made in future studies. It is possible that even after the four year rate amortization period is completed, but prior to commencement of work at the plant, additional rates or refunds may be in order.

21. No protests to Advice Letter No. 1152-E were received.

THEREFORE:

1. The Pacific Gas and Electric Company (PG&E) revised electricity tariff sheets included as Attachment I to Advice Letter No. 1152-E are approved, effective July 1, 1987. The decommissioning rate increases shown therein shall be collected subject to refund, pending further Commission review of an anticipated new decommissioning study for Humboldt Bay Power Plant, Unit 3 (Humboldt 3).

2. PG&E shall file, by advice letter or application, revised rates for recovery of decommissioning costs at Humboldt 3, following completion of the anticipated new decommissioning study.

3. The schedule of ruling amounts shown in Attachment C to this Resolution is approved.

4. PG&E shall file testimony on decommissioning costs and fund revenues for Humboldt 3 in its next general rate case.

5. This order is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on June 15, 1987. The following Commissioners approved it:

Victor Weisser

Executive Director

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

Commissioner Donald Vial, being necessarily absent, did not participate.