RETURN TO ENERGY BRANCH
ROOM 3102

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3196
AUGUST 8, 1990

R E S O L U T I O N

RESOLUTION E-3196. PACIFIC GAS AND ELECTRIC COMPANY SEEKS COMMISSION APPROVAL OF A CONTRACT TO ACQUIRE THE UNITED STATES NAVY'S ELECTRICAL DISTRIBUTION SYSTEM LOCATED IN HUNTERS POINT NAVAL SHIPYARD.

BY ADVICE LETTER 1299-E, FILED ON JUNE 1, 1990.

SUMMARY

1. Pacific Gas and Electric Company (PG&E) requests approval of a contract authorizing PG&E to extend PG&E's facilities to provide electrical service into an area owned by the United States Navy (Navy) known as Hunters Point Naval Shipyard (Shipyard).

2. This Resolution grants the requested authority.

BACKGROUND

1. PG&E is currently providing electrical energy to the Navy at the Shipyard through two (2) meters using tariff schedule, **E-20 - Service To Customers With Maximum Demands In Excess Of 1,000 kW.** Navy uses the electrical energy for itself and provides electrical service to tenants located in the Shipyard.

2. The Navy had filed a complaint, Docket No. EL89-54-000, with the Federal Energy Regulatory Commission (FERC) requesting that FERC rule that the Navy was entitled to purchase electrical energy at wholesale rates. As a compromise resolution of the complaint, PG&E and Navy agreed to have PG&E take over the electrical distribution facilities of the Shipyard, which would entail replacing Navy's entire distribution system.

3. The contract between PG&E and Navy is not the usual type of contract for extension of PG&E's facilities because of the following special conditions:

> To provide electrical service to the Shipyard area PG&E proposes to construct a new overhead distribution

system. The overhead distribution system will meet the requirements of Commission General Order 95-A, **Rules For Overhead Electric Line Construction** (GO 95-A) but will not conform to the Commission policy on new line extensions stated in D.76394 which states that underground electric distribution is standard in California. The proposed distribution system will be constructed by PG&E at no cost to the Navy; it is expected to cost PG&E $600,000.

Navy guarantees an annual minimum revenue from the Shipyard area to PG&E, called the Incremental Base Annual Revenue (IBAR) also referred to as Minimum Base Revenue Requirement, to cover any deficiency. The IBAR is the product of the current monthly cost of ownership percentage for PG&E financed distribution facilities, as stated in PG&E's Rule 2, times PG&E's estimated cost of the Extension, for the 120 month term of the contract. The Minimum Base Revenue Requirement established by PG&E is $129,000. The Navy Guarantees to make up any deficiency in revenue up to $140,000.

Navy will be responsible for the clean-up or removal of any hazardous waste discovered during the construction of PG&E's new system.

Navy will pay a Termination Charge if the Shipyard is closed and PG&E is directed to remove its distribution system. The Termination Charge is defined as "PG&E's original estimated installed cost, plus the then current (at the time of termination) estimated removal cost, less the then current estimated salvage value the the extension, less accrued depreciation, all as determined by PG&E in accordance with its standard accounting practices." The maximum termination charge that may be paid is $758,000.

PG&E will provide electrical energy to the Navy and its tenants under PG&E's tariff schedules, as applicable to each customer.

4. The Commission Advisory and Compliance Division (CACD) obtained PG&E's clarification of certain items pertaining to the contract. PG&E's responses are shown in Attachment A and summarized below.

[Answer 1] The Navy's existing distribution system does not meet the requirements of G.O. 95. PG&E will use no part of the Navy's system.

[Answer 2] Navy will continue to use a part of its system for Navy's own use at locations to which it is uneconomical to extend PG&E's proposed distribution system.

[Answers 3 and 7] PG&E has been only **orally** advised that the Navy "is fully committed to the thorough and responsible environmental cleanup of the Shipyard and is following a process consistent with federal and state environmental laws and regulations." Navy is and will remain responsible for the cleanup of environmental hazards and contaminants.

[Answer 4] PG&E does not have a complete study of all environmental contaminants which may be found, nor has complete information on what measures may be required to dispose of them.

[Answer 6] Navy advised PG&E that, according to a computer model it developed in 1989 the estimated cost for the cleanup of Shipyard will be $100 million.

[Answer 8]: PG&E will construct no electric distribution facilities at Shipyard underground unless the requesting party agrees to pay for the work.

[Answer 9]. There is no protection available to prevent this extension of service from becoming a financial burden upon the other customers after Navy's guarantee of revenues to PG&E expires. The City and County of San Francisco, in cooperation with several unidentified state legislators, is preparing a "master plan" for the Shipyard site which will presumably be published at a later date.

5 There is nothing in the record to substantiate that Navy's tenants have been advised of the exact changes which will result from this contract, or that they may protest this Advice Letter to the Commission.

NOTICE

1. Public notification of this filing has been made in the Commission Calendar of June 6, 1990 and by mailing to each of the parties on PG&E's Electric Advice Filing Mailing List. PG&E states that Navy's Shipyard tenants were personally visited and advised of this contract and the possible changes in energy charges which may result. In addition Navy, by letter dated May 8, 1990, notified all tenants of the proposed change in electric service arrangements (Attachment B). The Navy letter of May 8, 1990 states neither (1) when the Advice Letter will be filed nor (2) the date by which interested parties may file a protest with the Commission. On June 7, 1990 PG&E sent all Shipyard tenants a letter with a brochure telling them that the utility will at a future date become their energy provider and that they would be responsible for making certain changes in their service installations. Another brochure "Hunters Point Power Update" dated July 1990 gave the Commission address in case the tenants desired to let the Commission know they support the proposed agreement.

PROTESTS

1. No formal protests to this Advice Letter have been received.

DISCUSSION

1. This contract deviates from the usual extension of facilities contract primarily in that PG&E will construct the $600,000 extension at no cost to the applicant, Navy. Instead of the advance deposit usually required, Navy guarantees an annual minimum amount of revenues to be received from customers being served from the distribution facilities. The contract will be in effect for ten (10) years. The Navy is not sure of the continued use of Shipyard, what alternative uses may be made of the site, or that there will be continued income to PG&E from Shipyard after the ten year period.

2. Construction of new overhead facilities proposed in this Advice Letter is a deviation from PG&E's Tariff Rule 15, **Line Extensions**, and from the Commission policy established in Decision 76394 of November 4, 1969 which states that the standard construction of electric distribution facilities in California shall be underground. Overhead construction is proposed because final arrangement of electric distribution facilities to serve this area has not been determined, and is said to be expensive. No estimates of underground or overhead costs for electric distribution systems have been presented nor does it appear that any systems have been designed. In Decision 80100 of May 31, 1972, the Commission stated that in such circumstances application for relief from mandatory undergrounding is premature. The proposed overhead construction should be considered as temporary installation and PG&E should be put on notice that it is expected to construct its distribution system at Shipyard underground when the future use of the area becomes known.

Clause 15 of the Contract states that when an underground distribution system is eventually constructed Navy is obligated to pay the costs.

3. Undergrounding of electric distribution facilities at Shipyard should not be considered as a part of the undergrounding budget established in conformance with tariff Rule 20 **Replacement Of Overhead With Underground Facilities.** Any undergrounding at the Shipyard should be part of PG&E's general construction budget. PG&E should be directed not to charge any of the future conversion of overhead to underground facilities to the tenants in the area it will be serving.

4. There is no language in the Advice Letter as to Navy's responsibility for extraordinary unusual expenditures which may occur after the ten year contractual period is up. The contract provides that Navy shall clean up any hazardous contamination which may yet be discovered. It is not stated what recourse, if any, PG&E may have should Navy fail to complete the environmental cleanup or if the federal regulations should

change. If Navy should fail to implement the environmental cleanup, PG&E should not be allowed to recover the cleanup costs from its customers.

5. It also is not known who will be responsible if Navy limits its expenditures to $100 million. There is no indication who will be financially responsible for the costs incurred for the cleanup of hazardous contaminants in excess of $100 million. PG&E should not be authorized to look to its customers to bear any additional expense.

6. PG&E should be required to demonstrate that it was prudent to enter into this contract and extend its facilities in this fashion. PG&E states that such protection is not provided in conjunction with any other contract for line extension. Here PG&E is funding the construction of new line extensions, not the applicant as is the usual practice. Until Navy and the United States Government decide what the future use of the site will be, representations made in anticipation of a "master plan" currently under development are tenuous, and make any investments by PG&E to serve the area of questionable prudence.

FINDINGS

1. The existing facilities located on Shipyard do not meet the current minimum operational or safety requirements of Commission General Order 95.

2. Construction of permanent replacement facilities underground, as required by PG&E's Tariff Rule 15, is not indicated at this time, as future use(s) of this site are unknown.

3. It has been the Commission policy for some twenty years that underground construction of new electric distribution lines and line extensions be standard in California.

4. The Contract provides that PG&E receive sufficient revenues for ten years to compensate it for the cost of ownership of the new overhead facilities to be constructed. The minimum base revenue requirement is $129,000.

5. The Navy is contractually obligated either to pay the cost of undergrounding the distribution facilities on the Shipyard or to terminate and pay the Termination Charges of up to $758,000 as set forth in the Contract during its term.

6. Uncertainties in the contract between PG&E and Navy, and events that may take place after the term of the contract, could result in increased expenses to PG&E. It is not reasonable to permit such expenditures to be recovered from the ratepayers without Commission review of the reasonableness and prudence of those expenses.

7. PG&E did not provide adequate notice of the proposed change of service; it only advised its 50 plus tenants on the Shipyard that the change will occur in the future.

8. PG&E should notify each customer of the proposed change as approved herein.

THEREFORE, IT IS ORDERED that:

1. Pacific Gas and Electric Company is authorized to enter into the contract with the United States Navy submitted with this Advice Letter.

2. Pacific Gas and Electric Company shall maintain an account of all expenditures made and revenues received from the execution of this contract.

3. When underground facilities are constructed on Shipyard, Pacific Gas and Electric Company shall not include the costs of such construction as a part of its overhead to underground conversion program budget established in accordance with its Rule No. 20 **Replacement of Overhead With Underground Facilities**, but will charge the construction to the General Construction or Operations and Maintenance funds. Customers in the area shall not be charged for underground construction of their line extensions or service drops.

4. No costs of placing the distribution system to serve the Shipyard area underground, which are not recovered from Navy or other developers of this site, shall be included into the cost of electric plant for rate setting purposes.

5. Pacific Gas and Electric Company shall mail a copy of this Resolution to each Shipyard tenant and file a certificate of service with the Commission.

6. This Resolution shall be effective thirty (30) days after this date.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on August 8, 1990. The following Commissioners approved it:

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

Neal J. Shulman
Executive Director