

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**RESOLUTION E-3508
NOVEMBER 19, 1997**

RESOLUTION

RESOLUTION E-3508. PACIFIC GAS AND ELECTRIC COMPANY (PG&E) REQUESTS COMMISSION APPROVAL OF REVISIONS TO ITS TARIFF LANGUAGE FOR DIABLO CANYON NUCLEAR POWER PLANT (DIABLO CANYON) TO REFLECT THE MODIFIED RATEMAKING TREATMENT ADOPTED IN DECISION (D.) 97-05-088. APPROVED AS MODIFIED.

BY ADVICE LETTER NO. 1679-E, JUNE 18, 1997.

SUMMARY

1. By Advice Letter 1679-E, PG&E requests approval of revisions to its Preliminary Statement Parts B-Energy Cost Adjustment Clause (ECAC), D-Electric Revenue Adjustment Mechanism and I- Rate Schedule Summary; and to add Preliminary Statements Parts AN-Diablo Canyon Property Tax Balancing Account (DCPTBA) and AO-Diablo Canyon Audit Costs Memorandum Account (DCACMA) in compliance with Decision (D.) 97-05-088.
2. One protest was filed by the Office of Ratepayer Advocates (ORA) protesting two sections of PG&E proposed tariff language. ORA requests that these sections be deleted.
3. This Resolution approves PG&E's tariff language filed in Advice Letter 1679-E as modified. PG&E is required to file an advice letter supplement with the modification specified in this Resolution.
4. PG&E is ordered to incorporate the entries adopted in this Resolution into its Transition Revenue Account (TRA) or appropriate filing to comply with D. 97-10-057 ("Streamlining" Decision).

BACKGROUND

1. In 1988, the Commission adopted a settlement reached by PG&E, ORA's predecessors DRA, and the Attorney General for Diablo Canyon's ratemaking treatment, D. 88-12-083, (Original Settlement). This settlement instituted a performance-based pricing mechanism for the Diablo Canyon Nuclear Power Plant (Diablo Canyon). The settlement established predetermined prices negotiated by the parties to the agreement consisting of a fixed price and an escalating price. Diablo Canyon revenues were strictly a function of its electric generation output. In 1994, DRA petitioned to reopen the

Original Settlement. Another settlement was reached on this petition that renegotiated the predetermined prices downward, this settlement was adopted by the Commission in D. 95-05-043.

2. Ordering Paragraph 23 of the D. 95-12-063, as modified by D. 96-01-009 (Preferred Policy Decision) required PG&E to file an application proposing ratemaking treatment for Diablo Canyon that would price the plant's output at market rates by the end of year 2003 and would provide the opportunity to recover all of Diablo Canyon's competitive transition costs no later than the end of 2005, later reduced by Assembly Bill 1890 to December 31, 2001. Ordering Paragraph 23, also required that PG&E's proposal include at least one alternative comparable to the ratemaking treatment adopted for Southern California Edison Company (Edison) San Onofre Nuclear Generating Station, Units 2&3 (SONGS). In compliance with this order, PG&E filed Application (A.) 96-05-054.

3. On May 21, 1997, the Commission adopted D. 97-05-088 for this application, which modified the ratemaking treatment for Diablo Canyon and terminated the Original Settlement. This new ratemaking treatment is similar to the Commission's adopted ratemaking treatment for Edison's SONGS Units 2 & 3. This ratemaking treatment allows for the accelerated recovery of Diablo Canyon sunk costs at a reduced rate of return and establishes an incentive pricing, the incremental cost incentive price (ICIP) for recovering variable costs associated with the operation of the plant. D. 97-05-088 determined Diablo Canyon's sunk costs to be \$3,286,706,000 as of December 31, 1996 and an ICIP price schedule. The total estimated annual revenue requirement authorized in D. 97-05-088 is shown in the table below:

CPUC Jurisdictional
(Millions of Dollars)

	1997	1998	1999	2000	2001
Fixed Cost Recovery	1,385	1,322	1,259	1,197	1,135
ICIP Expenses	<u>515</u>	<u>523</u>	<u>532</u>	<u>542</u>	<u>552</u>
Total Revenue Requirement	1,900	1,845	1,791	1,739	1,687

The authorized Diablo Canyon ICIP price schedule for the period 1997-2001 at an 83.6% capacity factor is shown below:

Adopted ICIP Prices
(Cents/kWh)

1997	1998	1999	2000	2001
3.26	3.31	3.37	3.43	3.49

November 19, 1997

4. D. 97-05-088 ordered PG&E to file within 20 days an Advice Letter to establish the balancing accounts and tariff language to reflect the modified ratemaking treatment and memorandum accounts to track the invoiced auditor costs for the audit order in this decision. In compliance with this order, PG&E filed Advice Letter 1679-E.

5. On October 22, 1997 the Commission adopted D. 97-10-057 on the Commission's proposed policies governing restructuring California's electric services industry and reforming regulation. D. 97-10-057 eliminates the ECAC and ERAM mechanisms as of January 1, 1998 and adopts with modifications, PG&E's proposed Transition Revenue Account (TRA). PG&E was ordered to file their tariff modifications by November 3, 1997 to implement D. 97-10-057.

NOTICE

1. PG&E's Advice Letter 1679-E 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.

PROTESTS

1. One protest letter was filed by the ORA protesting two sections of PG&E's Advice Letter filing. ORA objects to Section B.6.i on Sheet No. 14394-E, where PG&E states that "Pursuant to Decision 95-12-063, Diablo Canyon net generation will be scheduled on a "must-take" basis and taken by the grid whenever produced." ORA states that D. 95-12-063 does not require that Diablo Canyon generation be scheduled on a "must-take" basis as alleged by PG&E. ORA also states that D. 97-05-088, the basis for this Advice Letter filing, did not authorized this "must-take" status. ORA also objects to Section D.6.f-h, on Sheet 14399-E and states that D. 97-05-088 does not specify any amount of costs for these categories to be included in rates, and that PG&E must first seek recovery and approval of these costs by the Commission. ORA requests that the tariff language in the Advice Letter filing for these sections be deleted.

DISCUSSION

1. PG&E's Advice Letter filing modifies the tariff language in the Preliminary Statement Part B, Energy Adjustment Clause (ECAC), to implement the modified ratemaking treatment adopted in D. 97-05-088 which requires a reallocation of revenues between ECAC and ERAM. Revenues associated with the ICIP component of the modified ratemaking treatment are recovered through ECAC. The estimated amount for 1997 is \$ 545,080,000 at a 89% capacity factor adopted in the 1997 ECAC for Diablo Canyon Generation and 3.26 cents/kWh ICIP fixed price. Other changes to this section include the removal of \$1,672,644,000 in forecasted revenue requirement from ECAC

authorized for 1997 under the Original Settlement. These changes comply with D. 97-05-088.

2. PG&E's proposed ECAC tariff language specifies Diablo Canyon net generation as "must-take" (item 6.i.). PG&E maintains that the Preferred Policy Decision authorized Diablo Canyon's net generation as "must-take". ORA has protested this section of PG&E's Advice Letter stating that D. 95-12-063 does not require that Diablo Canyon generation be scheduled on a "must-take" basis as alleged by PG&E, and that D. 97-05-088, the basis for this Advice Letter filing, did not authorize this status. ORA also states that the Energy Division cannot grant PG&E's request when the Commission has not authorized it and that the Advice Letter process is not the appropriate mechanism for obtaining the "must-take" status for Diablo Canyon generation. ORA adds that if the Commission allows the "must-take" designation, the language "and take by the grid whenever produced" must be deleted because it is overly broad, and the grid operator always has the right not to accept generation for reliability and safety reasons.

3. The Energy Division has reviewed this issue and finds that the Commission's Preferred Policy Decision¹ authorized the "must-take" status for Diablo Canyon's net generation, and no subsequent Commission decision has been adopted that changes the "must-take" treatment for nuclear facilities. The Energy Division concurs with ORA's argument that the grid operator should have the authority to curtail Diablo Canyon's generation for reliability and safety reasons. Therefore, we adopt PG&E's "must-take" tariff language with ORA's recommendation to delete, "and taken by the grid whenever produced."

4. PG&E's tariff language revisions to Preliminary Statement Part B removes the funding of the Diablo Canyon Independent Safety Committee from ECAC, it will now be recovered through ERAM, pursuant to Finding of Fact 39.a and 40.a of D. 97-05-088. This change complies with the D. 97-05-088.

5. PG&E's Advice Letter filing modifies Preliminary Statement Part D-Electric Revenue Adjustment Mechanism. PG&E removes \$166,468,000 from base revenues which was authorized under the Original Settlement, and includes \$1,385,592,000 in revenue requirement for the accelerated recovery of Diablo Canyon sunk costs adopted in D.97-05-088. These changes are in compliance with D. 97-05-088.

6. PG&E includes new tariff language, section D.6.f-h of its Preliminary Statement Part D, for the items listed in Finding of Fact 39 and 40 of D. 97-05-088. These items include the funds required for the operation of the Independent Safety Committee, Department of Energy decontamination and decommissioning expenses, costs of recovering specific assessments, costs of operation and maintenance expenses and unamortized fuel costs, if either or both Diablo Canyon Units shut down, and property taxes attributable to the shut down of either unit.

¹ D. 95-12-063, p. 35, fn.11; pp. 115, 129.

7. ORA objects to these sections of the Advice Letter filing, stating that D. 97-05-088 did not specify any amount of costs for these categories to be included in rates and that it merely specifies that PG&E could seek recovery of such costs separate from the recovery of Diablo Canyon sunk costs and ICIP costs. ORA is correct in pointing out that D. 97-05-088 does not specify any amounts of costs for these categories, except for the authorized \$673,077 revenue requirement for funding of the Independent Safety Committee. PG&E, however has not included any specific amounts for the other items listed above. However, it is necessary to clarify that cost recovery for the items listed in section, D.6.f-h, with no amounts specified by D. 97-05-088 must first be approved by the Commission before being authorized for recovery.

8. PG&E's Advice Letter filing revises the rate components in Preliminary Statement Part I to reflect the revenue changes and reallocation resulting from the modified ratemaking treatment adopted by D. 97-05-088. Both ECAC and ERAM rate components are adjusted to reflect these changes. These changes do not increase the overall rates or charges, therefore these changes are in compliance with the rate freeze order by AB 1890. Although the overall total revenue requirement for the implementation of the modified ratemaking treatment adopted in D. 97-05-088, is higher than under the Original Settlement, PG&E offsets the increase with revenue reductions resulting from Qualifying Facilities (QF's) expenses and from the 1995 Diablo Canyon modified settlement D.95-05-043.

9. In compliance with Ordering Paragraph 5 of D. 97-05-088, PG&E adds section AN to its Preliminary Statement establishing the Diablo Canyon Property Tax Balancing Account DCPTBA. D. 97-05-088 requires that Diablo Canyon property taxes be subject to a two-way balancing account treatment. This account will record the differences between actual and authorized costs associated with Diablo Canyon property taxes. This section of the tariff filing is in compliance with the Commission's order.

10. Ordering Paragraph 4.a of D.97-05-088 orders a financial verification of PG&E's Diablo Canyon Accounts by an independent accounting firm paid for by PG&E. In compliance with Ordering Paragraph 11, PG&E adds section AO to its Preliminary Statement establishing the Diablo Canyon Audit Costs Memorandum Account (DCAMA). This account is to record all invoiced costs incurred by PG&E associated with this financial audit. This section is in compliance with the Commission's order.

11. On October 22, 1997 the Commission adopted D. 97-10-057 on the Commission's proposed policies governing restructuring California's electric services industry and reforming regulation. D. 97-10-057 eliminates the ECAC and ERAM mechanisms as of January 1, 1998 and adopts with modifications, PG&E's proposed Transition Revenue Account (TRA). Since tariff modifications in this Advice Letter filing are approved as part of the ECAC and ERAM mechanisms, PG&E should incorporate the entries adopted in this Resolution into its TRA or appropriate filing to comply with D. 97-10-057.

FINDINGS

1. On June 18, 1997, Pacific Gas and Electric (PG&E) filed Advice Letter 1679-E requesting approval of revisions to its tariff language in compliance with Decision (D.) 97-05-088.
2. On May 21, 1997, the Commission adopted D. 97-05-088 which modified the ratemaking treatment for Diablo Canyon and terminated the Original Settlement adopted by D.88-12-083. This new ratemaking treatment is similar to the Commission's adopted ratemaking treatment for Edison's SONGS Units 2 & 3.
3. D. 97-05-088 ordered PG&E to file within 20 days an Advice Letter to establish the balancing accounts and tariff language to reflect the modified ratemaking treatment and memorandum accounts to track the invoiced auditor costs for the audit order in this decision.
4. PG&E's Advice Letter filing modifies the tariff language in the Preliminary Statement Part B, Energy Adjustment Clause (ECAC), to implement the modified ratemaking treatment adopted in D. 97-05-088 which requires a reallocation of revenues between ECAC and ERAM.
5. PG&E's proposed ECAC tariff language specifies Diablo Canyon net generation as "must-take" (item 6.i.). PG&E maintains that the Preferred Policy Decision authorized Diablo Canyon's net generation as "must-take".
6. ORA states that if the Commission allows the "must-take" designation, the language "and take by the grid whenever produced" must be deleted because it is overly broad, and the grid operator always has the right not to accept generation for reliability and safety reasons.
7. ORA protested this section of PG&E's Advice Letter stating that D. 95-12-063 does not require that Diablo Canyon generation be scheduled on a "must-take" basis as alleged by PG&E, and that D. 97-05-088, the basis for this Advice Letter filing, did not authorize this status.
8. The Energy Division has reviewed this issue and finds that the Commission's Preferred Policy Decision² authorized the "must-take" status for Diablo Canyon's net generation, and no subsequent Commission decision has been adopted that changes the "must-take" treatment for nuclear facilities.
9. PG&E's tariff language revisions to Preliminary Statement Part B removes the funding of the Diablo Canyon Independent Safety Committee from ECAC, it will now be recovered through ERAM, pursuant to Finding of Fact 39.a and 40.a of the D. 97-05-088.

² D. 95-12-063, p. 35, fn.11; pp. 115, 129.

10. PG&E's Advice Letter filing modifies Preliminary Statement Part D-Electric Revenue Adjustment Mechanism. PG&E removes \$166,468,000 from base revenues which was authorized under the Original Settlement, and includes \$1,385,592,000 in revenue requirement for the accelerated recovery of Diablo Canyon sunk costs adopted in D.97-05-088.
11. PG&E adds section D.6.f-h to its Preliminary Statement Part D, for the items listed in Finding of Fact 39 and 40 of D. 97-05-088.
12. ORA objects to these sections of the Advice Letter filing, stating that the D. 97-05-088 did not specify any amount of costs for these categories to be included in rates.
13. Cost recovery for the items listed in section, D.6.f-h, with no amounts specified by D. 97-05-088 must first be approved by the Commission before being authorized for recovery.
14. PG&E's Advice Letter filing revises the rate components in Preliminary Statement Part I to reflect the revenue changes and reallocation resulting from the modified ratemaking treatment adopted by D. 97-05-088. These changes do not increase the overall rates or charges, complying with the rate freeze ordered by AB 1890.
15. The total revenue requirement for the implementation of the modified ratemaking treatment adopted in D. 97-05-088, is higher than under the Original Settlement, PG&E offsets the increase with revenue reductions resulting from Qualifying Facilities (QF's) expenses and from the 1995 Diablo Canyon modified settlement D.95-05-043.
16. In compliance with Ordering Paragraph 5 of D. 97-05-088, PG&E adds section AN to its Preliminary Statement establishing the Diablo Canyon Property Tax Balancing Account DCPTBA.
17. In compliance with Ordering Paragraph 11, PG&E adds section AO to its Preliminary Statement establishing the Diablo Canyon Audit Costs Memorandum Account (DCAMA).
18. D. 97-10-057 eliminates the ECAC and ERAM mechanisms as of January 1, 1998 and adopts with modifications, PG&E's proposed Transition Revenue Account (TRA). PG&E should incorporate the entries adopted in this Resolution into its TRA or appropriate filing to comply with the D. 97-10-057.

THEREFORE, IT IS ORDERED that:

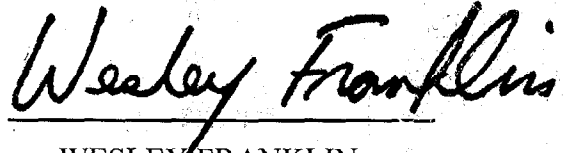
1. PG&E's Advice Letter 1679-E is approved as modified. Within 30 days of the effective date of this order, PG&E shall file an advice letter supplement, making the

November 19, 1997

revision described in Discussion paragraph 3. PG&E shall incorporate the items adopted in this Resolution into its TRA or appropriate filing to comply with D. 97-10-057.

2. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on November 19, 1997. The following Commissioners approved it:



WESLEY FRANKLIN
Executive Director

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