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Mailed 12/6/2002

Decision 02-12-002 December 5, 2002

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 1999. (U 39 M)	Application 97-12-020 (Filed December 12, 1997)
Investigation into the Reasonableness of Expenses Related to the Out-Of-Service Status of Pacific Gas and Electric Company's El Dorado Hydroelectric Project and the Need to Reduce Electric Rates Related To This Non-Functioning Electric Generating Facility.	Investigation 97-11-026 (Filed November 19, 1997)
Application of Pacific Gas and Electric Company for Authority, Among Other Things, to Decrease its Rates and Charges for Electric and Gas Service, and Increase Rates and Charges for Pipeline Expansion Service.	Application 94-12-005 (Filed December 9, 1994)
Order Instituting Investigation Into Rates, Charges, and Practices of Pacific Gas and Electric Company.	Investigation 95-02-015 (Filed February 22, 1995)

OPINION ON PETITION OF PACIFIC GAS AND ELECTRIC COMPANY FOR MODIFICATION OF DECISION 00-02-046

1. Summary

Pacific Gas and Electric Company (PG&E) has filed a petition for modification of Decision (D.) 00-02-046, which resolved most of the issues in PG&E's Test Year (TY) 1999 general rate case (GRC). PG&E proposes several changes to D.00-02-046 in order to conform the words and numbers of the decision to what PG&E believes are the Commission's intended results. PG&E states that it is not, by this petition, contesting any of the decision's intended substantive results. PG&E also seeks modifications clarifying certain procedural requirements that were established by D.00-02-046.

This decision grants PG&E's petition to the extent set forth in the following discussion, and adopts several modifications to D.00-02-046 to correct and clarify the decision. In addition, the Commission finds that D.00-02-046 does not reflect the Commission's intent in that decision, as modified by D.01-10-031, to adopt a $10.6 million adjustment to supervision costs in Account 903. D.00-02-046, therefore, erroneously includes supervision costs that the Commission did not intend to approve. This decision orders that a correction be included in an updated results of operation calculation.

2. Background

The Office of Ratepayer Advocates (ORA) and James Weil filed responses to the petition. PG&E filed replies to the responses. Processing of the petition was suspended while the Commission considered applications for rehearing of D.00-02-046 filed by The Utility Reform Network (TURN) and by Weil. Those applications were resolved by D.01-10-031. PG&E's application for rehearing of D.01-10-031 was denied by D.02-01-044.

3. Conforming Changes

3.1 Electric Department Expenses

3.1.1 Accounts 555 and 557

At Appendix B, p. B-13 of D.00-02-046, the table titled "Electric Department Other Production Expense Test Year 1999" lists five accounts under the category "Maintenance." These include Account 555, "Purchased Power-Elec" (Line 7), and Account 557, "Other Power Supply Expenses-Elec" (Line 8). PG&E believes that the Commission intended to categorize both these accounts as "Other Power Generation" in accordance with the Uniform System of Accounts (18 Code of Federal Regulations, Chapter 1, Part 101), rather than "Maintenance" accounts. PG&E proposes that the entries for Accounts 555 and 557 on Lines 7 and 8 under the description "Maintenance" be moved to Lines 8 and 9 under the new description "Other Power Generation," with a new subtotal on Line 10, and that the remaining line numbers be adjusted accordingly.

PG&E included a proposed corrected table with its petition. However, ORA noted that PG&E's table did not correspond to PG&E's proposed changes. ORA included a revised corrected table that corresponds with PG&E's requested changes. PG&E agrees with ORA that PG&E's table was in error and that ORA's table is correct. We will make this uncontested change in order to properly categorize these accounts in accordance with the Uniform System of Accounts. The revised corrected table is attached to this decision as Attachment A.

3.1.2 Account 587

At p. 164, in Section 7.2.3.6.7 (Account 587 - Customer Installation Expenses), D.00-02-046 recounts the recommendations of PG&E for $28,967,000, of ORA for $27,272,000, and of Enron for $22,968,000. It then adopts a forecast of $22,272,000. PG&E believes this is a typographical error, and that the Commission intended to adopt ORA's recommended forecast of $27,272,000.

PG&E requests that the text at p. 164 be changed to reflect that intent. PG&E notes that at Appendix B, p. B-16, Line 6, the table titled "Electric Department Distribution Expense Test Year 1999" lists Account 587 - Distribution Customer Installation Expenses - Elec as $27,272,000.

PG&E bases its belief that the Commission intended to adopt ORA's recommendation for $27,272,000 on several statements in D.00-02-046. First, the Commission stated that the adopted amount is "[b]ased on our adoption of PG&E's forecast method, and consistent with our determination in Section 9.6 regarding IT [information technology] projects and Field Automation Systems." (D.00-02-046, p. 164.) Second, at the end of Section 9.6.6.7 (Field Automation System), the Commission stated "we find that it is reasonable to authorize the project costs and to adopt the higher savings estimate for ratemaking purposes as proposed by ORA" (*Id.*, p. 434). PG&E goes on to note that this result is supported by the decision's workpapers, which show that in Account 587 the authorized amounts are $22,320,000 for Labor and $4,952,000 for M&S (materials and supplies), for a total of $27,272,000.

The figure $22,272,000 at the end of Section 7.2.3.6.7 at p. 164 contains the typographical error of substituting "2" for "7" as the second digit. The figure $22,272,000 will be changed to $27,272,000 to correct the error.

3.1.3 Account 593

Ordering Paragraph 11 at p. 544 of the Decision states as follows:

> 11. PG&E shall establish a one way Vegetation Management Balancing Account (VMBA) to track actual vegetation management expenses in USOA 594 against the revenues authorized by this Decision.

PG&E believes that Section 7.2.3.3 (Vegetation Management, pp. 140-53) makes clear the correct account for vegetation management expenses is Account

593, not Account 594. Account 593 is for overhead lines (see pp. 165-67), while Account 594 is for underground lines (see pp. 167-68). To correct this error, PG&E requests that Ordering Paragraph 11 be revised to change "USOA 594" to "USOA 593." We will adopt this requested correction in order to reflect the proper account for activities tracked by the VMBA.

3.2 Common Expenses
3.2.1 Account 903
3.2.1.1 Supervision Costs

In Section 9.2.3.3.4, at p. 343, D.00-02-046 discusses PG&E's request for almost $28 million in forecast expenses for supervision in Account 903 (Customer Records and Collection). The discussion also addresses ORA's recommended reductions from that amount of about $10.6 million ($6.5 million for the electric department and $4.1 million for the gas department) based on ORA's determination that supervision costs should not exceed 10% of the amount projected in Account 903 for "other costs." The discussion concludes as follows:

> As we determined in connection with Account 902, ORA's proposed [supervision cost] adjustment is reasonable and will be adopted. (D.00-02-046, p. 343.)

Workpapers supporting the Account 903 amounts in Appendix B, p. B-17, Line No. 2, and Appendix C, p. C-14, Line No. 2 show that the calculations for D.00-02-046 incorporated PG&E's requested amount for supervision costs in Account 903. Those calculations do not include ORA's recommended adjustment. Thus, to the extent that the discussion indicates that the Commission intended to adopt ORA's proposed supervision cost adjustment for Account 903, there is a conflict between the discussion in D.00-02-046 and the numbers adopted by the decision.

To resolve this conflict, PG&E proposes that the text on p. 343 be modified by replacing "is reasonable and will be adopted" with "should not be adopted."

ORA and Weil agree that the text conflicts with the adopted numbers, but they dispute PG&E's proposed resolution of the conflict. Instead of revising the text to conform to the adopted numbers as PG&E proposes, ORA and Weil believe that the adopted numbers should be changed to incorporate ORA's proposed adjustment of $10.6 million.

Discussion

D.00-02-046 says that "ORA's proposed [supervision cost] adjustment is reasonable and will be adopted" but it also prefaces that clause with the introductory phrase "[a]s we determined in connection with Account 902…." We find that the Commission intended to treat ORA's proposed adjustment to supervision costs in Account 903 consistently with the treatment of ORA's proposed adjustment to supervision costs in Account 902. The underlying record fully supports this. In the hearings that led to D.00-02-046, ORA recommended substantially similar supervision cost adjustments for Accounts 902 and 903.[1] For both accounts, ORA recommended that allowable supervision costs should be capped, at 10% of meter read costs for Account 902 and at 10% of "Other Costs" for Account 903.

Therefore, in order to evaluate PG&E's proposal for Account 903 supervision costs as set forth in its petition for modification, as well as the counterproposals of ORA and Weil, it is necessary to consider the adopted

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[1] ORA's position was as follows: "Similar to the situation with supervisory costs for Account 902, ORA believes that PG&E inappropriately escalated its estimate of supervisory costs for Account 903." (ORA Opening Brief, p. 252.) ORA's proposals for the electric department were stated in Exhibit 73, p. 7-8 (Account 902) and p. 7-13 (Account 903). Its proposals for the gas department were stated in similar passages in Exhibit 75.

treatment of ORA's supervision cost adjustment in connection with Account 902. The following quotation supports PG&E's assertion that D.00-02-046 rejected ORA's adjustment to supervision costs in Account 902:

> Based on the foregoing, we find ORA's forecast for meter reading for the electric department to be not well-founded. The forecast for the gas department is based on an equivalent analysis and is similarly reasonable. PG&E's forecast of combined forecast of $71.1 million for electric and gas departments is therefore adopted. (D.00-02-046, p. 336.)

However, in granting rehearing of and modifying D.00-02-046, the Commission modified the adopted treatment of Account 902:

> Under these circumstances, we do not find PG&E's case convincing. We will return to the approach of the Proposed Decision and, for the reasons stated therein and above, we will adopt ORA's forecasts of $34.7 million and $28.2 million for the electric and gas departments respectively. (D.01-10-031, p. 18.)

The Proposed Decision proposed to adopt the forecasts of $34.7 million and $28.2 million for the electric and gas departments after discussing and finding "reasonable and appropriate" ORA's proposed cap on supervision costs. (Proposed Decision of ALJ Wetzell, pp. 315-316.) Therefore, the Commission has reversed its initial determination of the issue in D.00-02-046, and has adopted ORA's proposed supervision cost adjustment for Account 902.

Having approved and adopted ORA's supervision cost adjustment in Account 902, it would be contrary to the Commission's intent, i.e., that ORA's supervision cost adjustments for these two accounts be treated consistently, to reject the adjustment for Account 903. Accordingly, it is clear that in D.00-02-046, as modified by D.01-10-031, the Commission intended to adopt ORA's supervision cost adjustment for Account 903 as well as for Account 902. We deny PG&E's request to modify the language in D.00-02-046 to state otherwise.

Instead, the adopted numbers should conform to the text, and the decision should be modified accordingly. We will order that this correction be included in a separate results of operation analysis that will be performed in conjunction with the final results of operations analysis to be performed pursuant to the Commission's order in D.01-10-031, at p. 45. In comments on the draft decision, PG&E requests that the decision be clarified to provide that the Account 903 correction will be prospectively only. In fairness to PG&E, and in view of the circumstances pertaining to this petition, we concur with PG&E's proposed clarification. The following order provides that the correction is effective prospectively.

3.2.1.2 Accounts Services

In Section 9.2.3.3.3, at pp. 338-43, D.00-02-046 discusses PG&E's recommendation for $39 million and ORA's recommendation for $11.7 million for Accounts Services. The difference of $27.3 million is composed of a $20 million transfer to Account 903 from Account 912 (Demonstration and Selling Expenses) and $7.3 million associated with demand-side management, or DSM (pp. 338-39). PG&E believes that D.00-02-046 agreed with PG&E on the $20 million transfer and agreed with ORA on the $7.3 million associated with DSM. PG&E, therefore, believes that Finding of Fact 216 on p. 516 is in error because in approving an amount of $39 million it does not conform to the Decision's intended result of $31.7 million. PG&E recommends that Finding of Fact 216 be revised to correct this error.

In D.01-10-031, the Commission granted rehearing with respect to this issue, disallowing the $20 million transfer and modifying D.00-02-046 accordingly. Among other things the Commission modified Finding of Fact 216 to state that PG&E's proposal for Account Services in Account 903 "has not been

justified and is not reasonable." (D.01-10-031, Ordering Paragraph 20, p. 44.) Accordingly, PG&E's request in the instant petition to modify Finding of Fact 216 is no longer appropriate, and is therefore denied.

3.2.1.3 Office Hours

Section 9.2.3.3.6 (pp. 344-45) describes PG&E's recommendation that, because PG&E had reduced its business office hours, the authorized expense in Account 903 should be reduced by an estimated savings of $1.1 million. It also describes TURN's recommendation that the estimated savings should be $1.68 million. At the end of the section the Commission concludes:

> Rather than a reduction of expense associated with shortening office hours, we direct PG&E to keep the offices open and restore $1.68 million to PG&E's authorized expense in Account 903. (D.00-02-046, p. 345.)

PG&E believes that D.00-02-046 intended to restore the formerly reduced business office hours, and that there should be no reduction in the otherwise authorized expense in Account 903. PG&E further believes that to accomplish this result, $1.1 million should be restored to Account 903 because that is the amount that was taken out in PG&E's showing. PG&E notes that restoring $1.68 million as indicated in the text would result in the otherwise authorized Account 903 expense being increased by $.58 million. PG&E further notes that the workpapers in support of the tables (Appendix B, p. B-17, Line 2, and Appendix C, p. C-14, Line 2) indicate that the calculation was performed correctly, restoring $1.1 million rather than $1.68 million. PG&E concludes that the text is in error. To correct this error, PG&E recommends that the Commission replace "$1.68 million" with "$1.1 million" in the last sentence of Section 9.2.3.3.6, on p. 345.

PG&E's proposed modification will correct what is clearly a drafting error in D.00-02-046. It will therefore be adopted.

3.3 Common Capital
3.3.1 Diablo Canyon Decommissioning
3.3.1.1 Trust Funding

Findings of Fact 269 and 270 on p. 523 of D.00-02-046 state as follows:

> 269. Components of PG&E's analysis of Diablo Canyon nuclear decommissioning trust funding requirements contain calculation errors, are based on outdated information, are excessively conservative, and are methodologically flawed.
>
> 270. Applying conservative assumptions about the future, it is reasonable to conclude that the Diablo Canyon decommissioning trusts are adequately funded at this time.

PG&E believes that the text of Section 9.3.5.1.10 (pp. 382-83) clearly states the opposite conclusions, namely that PG&E's analysis is not in error and that the trusts are not adequately funded. In particular, PG&E points out, two sentences directly contradict Findings of Fact 269 and 270. First, with regard to Finding of Fact 269, D.00-02-046 states, at p. 382:

> ORA and [Federal Executive Agencies (FEA)] have argued, but have failed to prove that components of PG&E's analysis of Diablo Canyon nuclear decommissioning trust funding requirements contain calculation errors, are based on outdated information, are excessively conservative, and are methodologically flawed.

With regard to Finding of Fact 270 of D.00-02-046, the text at p. 383 states:

> It is not reasonable to conclude that the Diablo Canyon decommissioning trusts are adequately funded at this time for the costs of future decommissioning.

Because D.00-02-046 approves a substantial annual contribution to the nuclear decommissioning trust, PG&E believes that the Commission's intended reasoning is expressed in the text and that Findings of Fact 269 and 270 are misstated. Therefore, PG&E requests that we change these findings of fact to mirror the text, to read as follows:

> 269. ORA and FEA have argued, but have failed to prove that components of PG&E's analysis of Diablo Canyon nuclear decommissioning trust funding requirements contain calculation errors, are based on outdated information, are excessively conservative, and are methodologically flawed.
>
> 270. It is not reasonable to conclude that the Diablo Canyon decommissioning trusts are adequately funded at this time for the costs of future decommissioning.

ORA concurs with PG&E that the text and the two findings are in conflict. ORA further concurs with PG&E's proposed revision to Finding of Fact 270. However, ORA recommends that Finding of Fact 269 simply be eliminated as unnecessary and irrelevant in light of the discussion of decommissioning funding policy at pp. 372-373. ORA believes that the Commission rejected ORA's position on decommissioning funding on the basis of its statement in that discussion that forecasts of decommissioning costs that will be incurred 15 or more years in the future are "imprecise and speculative."

Discussion

We will adopt PG&E's proposed revisions to Findings of Fact 269 and 270 for the reasons stated below. The text at pp. 382-383 clearly reflects the Commission's intended outcome for Diablo Canyon decommissioning, and is fully consistent with the Commission's order (Ordering Paragraph 3) authorizing PG&E to establish a charge for recovering contributions to the nuclear decommissioning trust. Findings of Fact 269 and 270 are in direct conflict with the text, and are clearly in error.

ORA's argument that Finding of Fact 269 can simply be eliminated as unnecessary is not persuasive. ORA surmises that the Commission decided to approve substantial funding for the decommissioning trust based solely on its observation that forecasts are imprecise and speculative. We cannot agree. In

summarizing its reasons for approving additional funding, at p. 382, the Commission begins by describing what it found to be ORA's and FEA's failure to prove asserted faults in PG&E's analysis in support of such funding. Since the Commission included this statement in the concluding section on Diablo Canyon decommissioning, it cannot reasonably be argued that the statement has no bearing on the Commission's decision to approve substantial funding to the decommissioning trust, and that the sole reason for the approval was the imprecise and speculative nature of forecasts. A finding of fact that carries forward this language is relevant as it provides the factual basis for the Commission's reasoning.

3.3.1.2 Annual Contribution

Ordering Paragraph 3 on p. 542 states as follows:

> 3. PG&E is authorized to establish a nonbypassable charge for recovery of contributions to the nuclear decommissioning trust in the amount of $28 million annually.

However, a different annual contribution amount is stated in Section 9.3.5.10. Specifically, the text at p. 383 states as follows:

> We accept the arguments of the Redwood Alliance and PG&E that the current level of funding be continued but reduced to reflect 1997 trust balances and the assumed 11% return on equity investments in the trusts. Application of these assumptions results in an annual payment into the trusts of $26.5 million. This determination is appropriate given the continuing operation of Diablo Canyon for the benefit and convenience of the ratepayers who will continue to pay into the trusts.

Noting the discrepancy between the authorized annual trust contribution of $28 million in Ordering Paragraph 3 and the $26.5 million referenced in the text, PG&E believes that the decision's intended result is adoption of the latter

figure, i.e., the amount calculated "to reflect 1997 trust balances and the assumed 11% return on equity investments in the trusts," as stated at p. 383.

PG&E's reasoning is as follows. First, Finding of Fact 272 on p. 523 states that:

> 272. Current contributions to the decommissioning trust can be reduced from $34 million to $28 million to reflect the effect of the year end 1997 trust balances without jeopardizing the financial integrity of the trust.

PG&E notes that this finding follows the reasoning of Section 9.3.5.1.2 (Updated and Corrected Data, pp. 373-74) in arriving at the figure of $28 million. At the same time, PG&E notes, Finding of Fact 253 on p. 521 states as follows:

> 253. The 50-year historic return on the Dow Jones Industrial Average of 12.5% supports the contention that continuing the assumed equity earnings of 11.0% adopted in the last GRC is a conservative approach in this GRC.

Finding of Fact 253 follows the reasoning of Section 9.3.5.1.3 (Assumed Return on Equities, pp. 374-75), but in neither place is there a calculation of the additional reduction in the annual contribution caused by the adopted assumption of a higher return than PG&E had proposed. PG&E believes that the result of such a calculation, applying the higher assumed return in addition to using the year-end 1997 balances, is most closely reflected in the figure of $26.5 million as stated in the text at p. 383.

ORA accepts PG&E's reasoning on this issue, and we find it to be persuasive. Therefore, to conform Ordering Paragraph 3 to the Commission's intention to reflect both the 1997 trust balances and the assumed 11% return on equity investments in the trusts, we will change "$28 million" to "$26.5 million" in Ordering Paragraph 3 on p. 542.

3.3.1.3 Appendix E Assumptions

Appendix E of D.00-02-046 includes tables that list nuclear decommissioning assumptions for Diablo Canyon Units 1 (p. E-1) and 2 (p. E-3). As discussed in the following subsections, PG&E requests that the Commission make changes to Lines 7, 8, 9, and 10 of these two tables. Unless otherwise indicated, line number references apply to both tables.

3.3.1.3.1 - Line 7

Line 7 sets forth the assumed after-tax annualized rate of return of 6.2% for both Diablo Canyon units. PG&E believes that at a minimum, this should be changed to 6.34%. PG&E notes that the former figure reflects its original assumption of 10.5% pre-tax return on equities and 4.89% after-tax return on fixed income investments. PG&E notes that Section 9.3.5.1.4 (p. 375) adopted its proposed 4.89% after-tax return on fixed income instruments, but Section 9.3.5.1.3 (pp. 374-75) adopted ORA's proposed 11% pre-tax return on equities instead of PG&E's proposed 10.5%. Assuming trust investments are 50% in equities and 50% in fixed income instruments, the resulting after-tax rate of return would be 6.34%.

Additionally, PG&E notes, for the years beginning 2011 even the corrected figure of 6.34% fails to reflect the intent of the decision in Section 9.3.5.1.6 (Conversion to Lower Risk Investments, p. 376). In that section of D.00-02-046 the Commission adopted PG&E's approach, which calls for moving part of the portfolio to lower return and lower risk investments in later years. In order to implement this approach, PG&E requests that the entry "6.2%" on Line No. 7 on pp. E-1 and E-3 be replaced by the following figures:

1999 through 2010	6.34%
2011	6.05%
2012	5.76%
2013	5.47%

2014	5.18%
2015	4.89%

PG&E developed these figures for the later years by assuming that 1/5 of the equity portion of the portfolio is converted to fixed investment each year of a five-year transition period beginning in 2011.

ORA has no objection to PG&E's proposed modifications to Line 7. Appendix E will be modified to reflect the Commission's adoption of an 11% pre-tax return on equities and its adoption of PG&E's proposal to move part of the portfolio to lower return/lower risk investments in the later years.

3.3.1.3.2 - Line 8

Line 8 sets forth the assumed period over which decommissioning costs will be included in cost of service. The entries for both tables are "N/A." PG&E believes that they should be changed to "1/1/1999 to 5/6/2015" on p. E-1 and to "1/1/1999 to 3/12/2016" on p. E-3. PG&E states that while it may accelerate the recovery of decommissioning costs over the same depreciation period applicable to Diablo Canyon sunk costs (D.97-05-088, p. 55), it has not chosen at this time to accelerate the collection of decommissioning costs over a period shorter than the plant's original license life. Instead, it has continued to use the funding period adopted in the 1996 GRC decision (D.95-12-055, Tables 5A and 6A), where the Commission (at p. 69) found "it prudent to retain the existing funding period and adopt PG&E's assumptions for the decommissioning dates."

ORA has no objection to PG&E's proposed modifications to Line 8. Appendix E will be modified in order to reflect the funding period adopted in D.95-12-055.

3.3.1.3.3 - Line 9

Line 9 sets forth the assumed projected amount to be included in cost of service. PG&E believes that the amounts should be changed from "0" to "$8.79 million" on p. E-1 and from "0" to "$17.68 million" on p. E-3. PG&E notes that in approving continued nuclear decommissioning funding of $26.5 million, $8.79 million is attributable to Unit 1 and $17.68 million is attributable to Unit 2. The $8.79 million contribution for Unit 1 is shown on p. E-2, Column L - Cost of Service Amount, and the $17.68 million contribution for Unit 2 is shown on p. E-4, Column L - Cost of Service Amount.

ORA has no objection to PG&E's proposed modifications to Line 9. Appendix E will be modified in order to properly reflect the amount to be included in the cost of service.

3.3.1.3.4 - Line 10

Line 10 sets forth the assumed date on which plant will no longer be included in rate base. PG&E believes that the dates should be changed from "May 6, 2015" to "December 31, 2001" on p. E-1 and from "May 12, 2016" to "December 31, 2001" on p. E-3. According to PG&E, December 31, 2001 represents the date by which PG&E will have recovered its uneconomic generating costs associated with the plant. ORA objects to this proposed modification.

D.97-05-088 addressed Diablo Canyon ratemaking pursuant to the Commission's 1995 electric restructuring policy decision and related legislation (Assembly Bill 1890). PG&E contends that under D.97-05-088, the correct assumption for purposes of D.00-02-046 was that Diablo Canyon would no longer be in rate base as of December 31, 2001. We concur. Notwithstanding the energy crisis that occurred after the issuance of D.00-02-046 in February 2000, or subsequent determinations that the Commission has made or may make with

respect to Diablo Canyon ratemaking, PG&E's proposed modifications represent the correct assumptions as of that date. PG&E's proposed modifications to Line 10 will be approved.

3.3.2 Public Purpose Programs

Section 9.4 (Public Purpose Programs, p. 391) adopts PG&E's proposed electric and gas public purpose program funding levels. The table on page D-4 of Appendix D, "Electric Public Purpose Program Adopted Results Of Operations Test Year 1999," presents the correct figures in the column titled "Total Public Purpose Program." However, this table presents incorrect figures in the columns titled "R&D" (research and development) and "Renewables." PG&E finds that the apparent cause of the errors is a transposition of digits. On Line No. 12, the "Administrative and General" values for "R&D" and Renewables" are presented as "38,000" and "40,000," respectively, when they should be "30,000" and "48,000," respectively. PG&E points out that the correct values of $30 million for R&D and of $48 million for renewables are expressly stated in Public Utilities Code Sections 381(c)(2) and 381(c)(3), respectively. Correcting these two figures on Line No. 12 causes corresponding corrections in the "R&D" and "Renewables" columns on Line Nos. 1, 3, 10, 13, 16, 21, 22, 23, 25, 26, and 27. PG&E included a proposed corrected table with its petition.

ORA does not object to PG&E's proposed modifications. Noting that there is no net impact on revenue requirements, Weil supports the modifications.

In order to correct what is plainly an erroneous transposition of numbers, we will adopt PG&E's proposed modifications by replacing the table on page D-4 of Appendix D with the revised table attached to this decision (Attachment B).

3.3.3 Customer Information System

3.3.3.1 IBM Integrity System

In Section 9.5.5 (IBM Integrity System, pp. 416-21), D.00-02-046 discusses ORA's recommended exclusion of capital expenditures of $3.1 million of reserve

held for the IBM Integrity System in case of billing or other disputes with IBM. It concludes with the following paragraph on pp. 420-21:

> We accept ORA's proposed exclusion of $3.1 million that PG&E held in reserve in case of billing or other disputes with IBM. Ratepayer funding that is designated to take care of potential problems with IBM now that the Integrity Project is concluded is not necessary or appropriate. The above disallowance may be recoverable from IBM, and the recovery will accrue exclusively to PG&E's shareholders.

PG&E notes that certain other parts of D.00-02-046 do not reflect acceptance of ORA's proposed $3.1 million exclusion. For example, Section 9.5.7 (Conclusion – CIS, pp. 423-24) does not list the $3.1 million exclusion in summarizing the outcome as follows (p. 423):

> …PG&E has reduced its request for CIS-related capital additions to $84.6 million. We have determined that PG&E's CIS capital additions request should be reduced to reflect $10.8 million in costs associated with the IBM Integrity project which were written off by PG&E. Accordingly, we adopt an estimate of capital additions of $73.8 million.

Likewise, PG&E notes, Finding of Fact 297 on p. 527 does not list the exclusion:

> 297. Except for the $10.8 million write-off associated with the IBM Integrity project PG&E's requested CIS capital additions are just and reasonable.

Also, PG&E believes that Finding of Fact 304 on p. 528 suggests in its reference to the prospect of benefit to ratepayers that that the $3.1 million should not be excluded:

> 304. Funding that is designated to take care of potential problems with IBM now that the project is concluded may benefit ratepayers if PG&E is able to recover its losses, including the $3.1 million PG&E held in reserve for billing or other disputes with IBM.

PG&E concludes that the text on p. 423 and Findings of Fact 297 and 304 are at odds with the text on pp. 420-21 accepting ORA's proposed $3.1 million

exclusion. PG&E believes that workpapers that support the adopted plant in service and rate base numbers (Appendix B, pp. B-25 and B-28; Appendix C, pp. C-22 and C-25) make clear that the Commission intended to exclude the $3.1 million as stated on pp. 420-21. Accordingly, PG&E requests that the Commission modify the discussion at pp. 423-24 and Findings of Fact 297 and 304 to be consistent with the exclusion as discussed at pp. 420-21. ORA supports PG&E's proposed modifications.

PG&E has demonstrated that its proposed revisions to Section 9.5.7 and the associated findings of fact are necessary to correct errors in D.00-02-046. We will, therefore, adopt them.

3.3.3.2 Total Capital Addition Costs

Near the end of Section 9.5.4 (Reasonable Costs for Required CIS Capabilities, pp. 403-15), D.00-02-046 contains the following sentence (p. 415):

> Except for costs associated with the IBM Integrity project, discussed in the following section, and except for our earlier determination that the reasonable CIS capital addition costs should be reduced by $20 million, we accept as reasonable PG&E's requested capital additions.

PG&E points out that the phrase "our earlier determination that the reasonable CIS capital addition costs should be reduced by $20 million" is contradicted by the rest of the decision. PG&E notes that the preceding section (Section 9.5.3, Prior Ratepayer Funding of CIS Projects, pp. 396-403) rejected proposed reductions for CIS capital addition costs, and that the workpapers associated with the decision make no mention of a $20 million reduction. PG&E concludes that the text on p. 415 does not conform to the decision's intended result *not* to make such a $20 million reduction. PG&E, therefore, requests that the Commission delete the phrase ", and except for our earlier determination that the reasonable CIS capital addition costs should be reduced by $20 million."

PG&E is correct that D.00-02-046 did not adopt a $20 million reduction in connection with prior ratepayer funding of CIS projects, and that the text at p. 415 is inconsistent with the rest of the decision. However, after PG&E filed its petition for modification, the Commission granted rehearing on the issue of prior ratepayer funding of CIS projects. Among other things it modified the discussion at pp. 400-403 of D.00-02-046. (D.01-10-031, Ordering Paragraph 14, pp. 40-43) Most significantly, the Commission ordered a $7.2 million reduction in PG&E's request for CIS project costs in recognition of prior ratepayer funding of those costs. (*Id.; see also,* Ordering Paragraph 23, p. 44, adding new Finding of Fact 292a to D.00-02-046, and Ordering Paragraph 24, pp. 44-45 modifying Finding of Fact 297 of D.00-02-046). Accordingly, while a change is needed, the specific modifying language that PG&E proposes is no longer appropriate. We will modify the subject language to reflect the Commission's action in D.01-10-031 to reduce authorized CIS project costs by $7.2 million.

3.4 Cost Allocation/Separation

3.4.1 Removal Of Wave 1 Costs

During the last GRC cycle, PG&E was in the process of divesting its non-nuclear electric generating plants. As divestiture proceeded, the costs related to those plants needed to be removed from its authorized revenue requirement. By D.97-12-107 the Commission approved the sale of PG&E's Moss Landing, Morro Bay, and Oakland power plants as "Wave 1" of the broader divestiture process. In Exhibit 18, PG&E proposed a method to revise its 1999 test year estimates to reflect the Wave 1 sale. The proposed method had two steps: (1) remove Wave 1 costs and (2) reallocate the so-called fixed administrative and general (A&G) costs to non-generation functions. D.00-02-046 denied PG&E's proposed second step, and PG&E does not dispute the denial. However, in its petition for modification PG&E seeks confirmation that the Commission in fact did approve

PG&E's proposed first step for removal of Wave 1 costs. PG&E notes that it agreed with ORA on the removal of Wave 1-related operation and maintenance expense and assignable capital-related costs, but disagreed on the removal of assignable administrative and general expense. PG&E further notes that in workpapers for D.00-02-046, the calculations do remove the approximate amount of assignable A&G expense proposed by PG&E to reflect the Wave 1 sale ($8.606 million vs. $8.7 million). Therefore, PG&E believes the Commission intended to adopt PG&E's proposed first step for Wave 1 cost removal. To confirm this, PG&E requests that D.00-02-046 be modified to add the following language at the beginning of the "Discussion" section on page 466:

> To reflect the divestiture of the Wave 1 power plants, PG&E's initial estimates of 1999 fossil generation revenue requirements are reduced by the amounts proposed by PG&E as shown in the Comparison page A-132 of the Comparison Exhibit (Ex. 474).

We find that PG&E's requested clarification reflects the Commission's intended outcome and is reasonable. We will, therefore, adopt it for the purpose of clarifying the Commission's intent at the time it issued D.00-02-046.

3.4.2 Labor Amounts Used in Unbundled Cost Categories (UCC) Allocations

3.4.2.1 Presentation Errors in Table

At Appendix D, p. D-8, of D.00-02-046, the table titled "Total Electric And Gas Department Adopted 1999 Labor by Unbundled Cost Category Test Year 1999" presents labor dollar amounts for the eight UCCs and their subcategories, broken out by M&O (maintenance and operations) labor and A&G labor, summing to a total of $640.592 million. PG&E believes that several of the amounts presented in this table are in error in that they do not reflect the labor amounts shown in Appendices B and C and in the decision's workpapers. PG&E also believes that the errors in the labor amounts in the table on page D-8 are due

to inadvertent presentation mistakes involving the following lines: under the UCC "Electric Generation," the line titled "Subtotal Electric Generation"; under the UCC "Electric Transmission," the lines titled "Network Facility Operations," "Third-Party Generation-Ties," and "Subtotal Electric Transmission"; under the UCC "Electric Distribution and Customer Services," the lines titled "Wires and Services," "Transmission-Level Direct Connects," and "Gas and Electric Supply"; and the bottom line titled "TOTAL UTILITY LABOR." To correct the presentation of labor amounts by UCC, PG&E requests that D.00-02-046 be modified by replacing the table on page D-8 with a corrected table that PG&E attached to the petition. PG&E submits that the values shown its proposed corrected table are consistent with the labor tables in Appendices B and C. PG&E notes that the proposed corrected table contains the notation "Wave 1 in" for the reasons discussed in the following section.

ORA does not object to this request. PG&E has shown that approval of its proposed corrected table is necessary to properly reflect the labor amounts by UCC. We therefore will approve the corrected table, attached hereto as Attachment C.

3.4.2.2 Need for an Additional Table

As discussed earlier, we are approving PG&E's request that we confirm D.00-02-046's approval of PG&E's proposed method for the removal of costs associated with the Wave 1 divestiture of electric generating plants. As also noted earlier, the table that reflects adopted labor amounts by UCC before removing Wave 1 costs contains the notation "Wave 1 in." PG&E submits that for D.00-02-046 to be clear and complete regarding adopted labor amounts by UCC, it is necessary to show a corresponding "Wave 1 out" table. PG&E attached such a table to its petition. PG&E explains that all the labor amounts

shown in the "Wave 1 out" table are the same as those in the corrected "Wave 1 in" table, except for the line titled "Fossil Generation Facilities" under the UCC Electric Generation and corresponding changes in the Total Utility Labor line. The difference between the two tables is $20.974 million, which is the labor amount associated with the Wave 1 plants. Therefore, PG&E requests that the Commission modify the Decision by adding the "Wave 1 out" table in a new page D-8a.

ORA does not object to this request. PG&E has shown that approval of its proposed additional table is necessary to properly reflect the labor amount associated with the Wave 1 divestiture. We, therefore, will approve the corrected table, attached hereto as Attachment D.

4. Procedural Clarifications

4.1 Joint Systems Applications and Products in Data Processing, AG (SAP) Report by PG&E and the Energy Division

In Section 4.5.3, Supervision of Accounting Procedures related to Rate Proceedings (pp. 55-57), D.00-02-046 states as follows (pp. 56-57):

> However, we expect that our Energy Division will thoroughly review the SAP system with PG&E so as to understand its procedures for assigning transactions to particular accounts, and we expect PG&E to cooperate fully with our staff in making these matters transparent as they relate to the provision of utility distribution service, both gas and electric. The results of this review should be presented in a joint report by PG&E and Energy Division staff filed in the first attrition allowance application, and periodically updated thereafter.

At the same time, in Section 9.11.2, Verification Audit (pp. 452-53), and in Ordering Paragraph 13 at p. 544, D.00-02-046 requires ORA to file a report on its verification audit of PG&E's SAP business system. ORA filed its SAP report on June 6, 2000, PG&E commented, and a Commission decision on the report and comments is pending.

On September 27, 2000, the ALJ's Supplemental Ruling Pursuant To Ordering Paragraph 13 Of Decision (D.) 00-02-046 stated in part as follows (p. 4):

> D.00-02-046 directs PG&E and the Commission's Energy Division to thoroughly review the SAP system so as to understand its procedures for assigning transactions to particular accounts. (D.00-02-046, mimeo., p. 56.) It also directs PG&E and the Energy Division to jointly report on the review in the first attrition application filed by PG&E [Application 00-07-043], and periodically thereafter. In the August 22, 2000 letter, PG&E and ORA propose that PG&E and the Energy Division be relieved of these review and reporting requirements on the grounds that ORA's SAP review was "thorough and comprehensive."
>
> This proposed modification of a Commission decision is procedurally deficient and will not be addressed further here on the basis of the August 22 letter. (See Pub. Util. Code Section 1708 and Rule 47 of the Rules of Practice and Procedure.) From a practical standpoint, it would seem prudent for Energy Division, in consultation with PG&E, to carefully review the ORA's SAP report, to incorporate the review and analysis performed by ORA to the extent appropriate, and to generally avoid unnecessary duplication of effort.

In its petition for modification, PG&E requests that the Commission clarify the requirement for the joint PG&E/Energy Division SAP report as stated by ALJ Wetzell. Specifically, PG&E requests the Commission to insert the following sentence before the first full sentence on page 57 of the Decision:

> Energy Division, in consultation with PG&E, should carefully review ORA's SAP report, incorporate the review and analysis performed by ORA to the extent appropriate, and generally avoid unnecessary duplication of effort.

ORA did not address this recommendation. Weil stated that he does not oppose it. We will make this requested modification in the interest of procedural efficiency.

PG&E also asks the Commission to acknowledge that "the first attrition allowance application" referenced on page 57 has already been filed (Application 00-07-043), and to determine that the best proceeding in which PG&E and the Energy Division should file their joint SAP report is PG&E's upcoming GRC application or an alternative proceeding. To accomplish this, PG&E requests the Commission to delete the words "first attrition allowance" in the first full sentence on page 57 of the Decision and to replace them with the words "2002 GRC or alternative proceeding." Weil opposes this aspect of PG&E's request.

After PG&E filed this petition for modification, there was considerable uncertainty regarding the timing of PG&E's next GRC. As a result of this past uncertainty, it appears that there is a need for procedural flexibility with respect to the SAP report. We will adopt PG&E's proposed modification with a further modification to reflect events that have occurred since PG&E filed the petition.

4.2 Triennial Decommissioning Proceeding

In Section 9.3.5.1.10, Conclusion - Diablo Canyon Decommissioning (pp. 382-83), D.00-02-046 states (p. 383), "We will have an opportunity to again review the trusts' funding status in the Nuclear Decommissioning Cost Triennial Proceeding in not more than three years." There are additional references to the Commission's nuclear decommissioning cost triennial proceeding in Section 9.3.5.2 on Humboldt Decommissioning (pp. 387, 389-90).

PG&E seeks approval for modifying language that would clarify whether its PG&E's next decommissioning cost triennial nuclear proceeding should be conducted as part of or separate from the TY 2002 GRC. PG&E believes the Commission intends PG&E's next nuclear decommissioning cost triennial proceeding to be separate from its next GRC, because the Commission has

established nuclear decommissioning cost triennial proceedings for Southern California Edison Company and San Diego Gas & Electric Company that are separate from their general rate cases. Therefore, PG&E requests that the Commission add the following sentence on page 383 after the sentence quoted above: "The next Nuclear Decommissioning Cost Triennial Proceeding will be separate from PG&E's 2002 test year GRC."

PG&E's proposed modification correctly reflects our intention that the review be conducted in a separate proceeding from the next GRC. We will adopt PG&E's proposed modification and make a further modification to reflect the fact that the Commission has ordered PG&E to file a TY 2003 GRC rather than a TY 2002. We note that the separate decommissioning cost proceeding was filed by PG&E and is now underway (A.02-03-020).

5. Comments of Draft Decision

Pursuant to Public Utilities Code Section 311(g)(1), the draft decision of the Administrative Law Judge (ALJ) was issued on October 1, 2002. Comments and replies were permitted in accordance with Rule 77.7 of the Rules of Practice and Procedure. PG&E filed comments, which are addressed in the foregoing opinion. No reply comments were filed.

6. Assignment of Proceeding

Carl Wood is the Assigned Commissioner and Mark Wetzell is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. The adopted modifications to D.00-02-046 set forth in the following order make corrections and clarifications required to carry out the Commission's intent in that decision, as modified by D.01-10-031.

2. In D.00-02-046, as modified by D.01-10-031, the Commission intended to treat ORA's proposed supervision cost adjustments for Accounts 902 and Accounts 903 consistently.

3. As modified by D.01-10-031, D.00-02-046 adopts and implements ORA's proposed supervision cost adjustment for Account 902; and adopts but fails to implement ORA's proposed supervision cost adjustment for Account 903.

4. With the issuance of D.01-10-031, which among other things modified Finding of Fact 216, PG&E's proposed modification of that finding is no longer appropriate.

5. PG&E's proposed modified Finding of Fact 269 states the factual basis for the Commission's reasoning in approving ratepayer-funded contributions to the Diablo Canyon nuclear decommissioning trusts.

6. Irrespective of Commission determinations regarding Diablo Canyon ratemaking after the issuance of D.00-02-046, PG&E's proposed modifications to Line 10 in the tables on pps. E-1 and E-3 of Appendix E in D.00-02-046 represent the appropriate assumptions with respect to recovery of uneconomic generating costs, i.e., that Diablo Canyon Units 1 and 2 will no longer be in rate base as of December 31, 2001, as of the date that D.00-02-046 was issued.

Conclusions of Law

1. PG&E's petition for modification of D.01-00-046 should be granted, in part, as set forth in the following order.

2. Since D.01-10-031 determined that D.00-02-046 should be modified to adopt ORA's proposed supervision cost adjustment for Account 902, and the Commission intends that ORA's proposed supervision cost adjustments for Accounts 902 and 903 be treated consistently, D.00-02-045 should be modified to carry out the Commission's intent by implementation of a total adjustment of

$10.6 million in Account 903. Said implementation should be carried out prospectively from the date of this decision and should be carried out by performing two final results of operations analyses and two sets of attendant appendices: one analysis with appendices to be performed pursuant to D.01-10-031 that would not reflect or incorporate the $10.6 million adjustment in Account 903 and that would be effective from January 1, 1999, to the date of this decision; and a second analysis with appendices that would reflect and incorporate the $10.6 million adjustment in Account 903 and that would be effective prospectively from the date of this decision.

3. To the extent not granted herein, PG&E's petition for modification should be denied.

4. This proceeding should remain open to resolve other pending matters.

O R D E R

IT IS ORDERED that:

1. The petition of Pacific Gas & Electric Company (PG&E) for modification of Decision (D.) 00-02-046 is granted to the extent set forth in Ordering Paragraph 2 and in all other respects is denied.

2. D.00-02-046 is modified as follows:

   a. The table in Attachment A of this decision replaces the table on p. B-13, Appendix B of D.00-02-046.
   b. The text at the end of Section 7.2.3.6.7, at p. 164, is amended to read as follows:

      Based on our adoption of PG&E's forecast method, and consistent with our determination in Section 9.6 regarding IT projects and Field Automation Systems savings, we adopt a forecast of $27,272,000.

   c. Ordering Paragraph 11 is amended to read as follows:

PG&E shall establish a one way Vegetation Management Balancing Account (VMBA) to track actual vegetation management expenses in USOA 593 against the revenues authorized by this Decision.

d. The text at the end of Section 9.2.3.3.6, at p. 345, is amended to read as follows:

Rather than a reduction of expense associated with shortening office hours, we direct PG&E to keep the offices open and restore $1.1 million to PG&E's authorized expense in Account 903.

e. Finding of Fact 269 is amended to read as follows:

ORA and FEA have argued, but have failed to prove that components of PG&E's analysis of Diablo Canyon nuclear decommissioning trust funding requirements contain calculation errors, are based on outdated information, are excessively conservative, and are methodologically flawed.

f. Finding of Fact 270 is amended to read as follows:

It is not reasonable to conclude that the Diablo Canyon decommissioning trusts are adequately funded at this time for the costs of future decommissioning.

g. Ordering Paragraph 3 is amended to read as follows:

PG&E is authorized to establish a nonbypassable charge for recovery of contributions to the nuclear decommissioning trust in the amount of $26.5 million annually.

h. In Appendix E, the entries "6.2%" on Line No. 7 on pp. E-1 and E-3 are replaced by the following figures:

1999 through 2010	6.34%
2011	6.05%
2012	5.76%

2013	5.47%
2014	5.18%
2015	4.89%

i. In Appendix E, the entries “N/A” on Line No. 8 on pp. E-1 and E-3 are changed to "1/1/1999 to 5/6/2015" on p. E-1 and to "1/1/1999 to 3/12/2016" on p. E-3.

j. In Appendix E, the entries “0” on Line No. 9 on pp. E-1 and E-3 are changed to "$8.79 million" on p. E-1 and to "$17.68 million" on p. E-3.

k. In Appendix E, the entries "May 6, 2015" on p. E-1, Line No. 10 and "May 12, 2016" on p. E-3, Line No. 10 are changed to "December 31, 2001."

l. The table in Attachment B of this decision replaces the table on page D-4, Appendix D of D.00-02-046.

m. The text in the second and third sentences of the first paragraph of Section 9.5.7, at p. 423, is amended to read as follows:

   We have determined that PG&E’s CIS capital additions request should be reduced to reflect $10.8 million in costs associated with the IBM Integrity project which were written off by PG&E and to reflect $3.1 million in costs associated with the IBM Integrity project held in reserve by PG&E. Accordingly, we adopt an estimate of CIS capital additions of $70.7 million.

n. Finding of Fact 297 is amended to read as follows:

   Except for the $10.8 million write-off and the $3.1 million reserve associated with the IBM Integrity project PG&E’s requested CIS capital additions are just and reasonable.

o. Finding of Fact 304 is amended to read as follows:

Because there were no disputes with IBM regarding the IBM Integrity project, and all invoices were paid, funding that was designated to take care of potential problems with IBM that never arose should not be included in authorized CIS additions.

p. The text of the sixth sentence at p. 415 is amended to read as follows:

Except for costs associated with the IBM Integrity project, discussed in the following section, and except for our earlier determination that the reasonable CIS capital addition costs should be reduced by $7.2 million, we accept as reasonable PG&E's requested capital additions.

q. The text at the beginning of the "Discussion" section at p. 466 is amended by adding the following language:

To reflect the divestiture of the Wave 1 power plants, PG&E's initial estimates of 1999 fossil generation revenue requirements are reduced by the amounts proposed by PG&E as shown in the Comparison page A-132 of the Comparison Exhibit (Ex. 474).

r. The table in Attachment C of this decision replaces the table on page D-8, Appendix D of D.00-02-046.

s. The table in Attachment D of this decision is added immediately following the table on page D-8, Appendix D of D.00-02-046.

t. The text at p. 57 is amended by adding the following sentence before the first full sentence:

Energy Division, in consultation with PG&E, should carefully review ORA's SAP report, incorporate the review and analysis performed by ORA to the extent appropriate, and generally avoid unnecessary duplication of effort.

u. The text of the first full sentence at p. 57 is amended to read as follows:

The results of this review should be presented in a joint report by PG&E and Energy Division staff filed in the next GRC or other appropriate proceeding, and periodically updated thereafter.

v. The text at p. 383 is amended by adding the following sentence immediately prior to the last sentence of the first full paragraph:

The next Nuclear Decommissioning Cost Triennial Proceeding will be separate from PG&E's 2003 test year GRC.

3. In connection with the final results of operations analysis to be performed pursuant to the Commission's order in D.01-10-031, at p. 45, a separate results of operations analysis shall be performed which shall reflect and incorporate the Commission's adoption of the Office of Ratepayer Advocates' proposed supervision cost adjustments for Account 903 of $6.5 million for the electric department and $4.1 million for the gas department. Appendixes B, C, and D of D.00-02-046 shall be replaced by updated and corrected sets of those Appendixes incorporating both of the final results of operation analyses, with the Appendixes that do not incorporate the Account 903 supervision cost adjustments becoming effective January 1, 1999, and the Appendixes that incorporate those adjustments becoming effective with the effective date of this decision.

2. This proceeding remains open.

This order is effective today.

Dated December 5, 2002, at San Francisco, California.

HENRY M. DUQUE
CARL W. WOOD

GEOFFREY F. BROWN
MICHAEL R. PEEVEY
Commissioners

President Loretta M. Lynch, being necessarily absent, did not participate.