

Docket No.: A.25-05-009

Exhibit No.: CALCCA Ex-8

Date: May 6, 2026

Sponsor/Witness: PG&E Witness Hegarty (Cross Exhibit)

CALCCA EX-8

1992 Cal. PUC LEXIS 971; 47 Cal. Pub. Util. Comm'n 2d 143

California Public Utilities Commission

December 16, 1992

Decision No. 92-12-057, Application No. 91-11-036 (Filed November 26, 1991), Application No. 91-08-049,
Application No. 90-04-003, Investigation No. 92-02-002, Investigation No. 90-02-043

CA Public Utilities Commission Decisions

Reporter

1992 Cal. PUC LEXIS 971 *; 47 Cal. Pub. Util. Comm'n 2d 143

**Application of PACIFIC GAS AND ELECTRIC COMPANY for Authority,
Among Other Things, To Increase Its Rates and Charges for Electric and Gas
Service. (Electric and Gas) (U 39 M) And Related MattersPART 3 OF 8**

Core Terms

recommend, has, plant, energy, ratepayer, was, cost, electric, technology, steam, dollar, air, retrofit, turbine, cost-effective, storing, spend, wind, shareholder, saving, funding level, load, customer, depreciate, budget, fuel, retirement, estimate, flexibility, annual

Counsel

(See Appendix A for appearances.)

Panel: Daniel Wm. Fessler, President; John B. Ohanian, Patricia M. Eckert, Norman D. Shumway, Commissioners

Opinion

Line	Project	Expense	ADOPTED	
			Capital	Total
1	Solar Thermal Development & Testing	635		
2	Wind Development & Analysis	100		0
3	System Storage Development	50		
4	Photovoltaic Development & Testing	50		
5	PVUSA (incl. Dist. Utility PV-Grid Project)	1,000		
6	Hybrid Energy Systems	967		
7	Advanced Thermal Generation	1,017		
8	Strategic Studies	50		

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		ADOPTED	
			Total
Line	Project	Expense	Capital
9	Fuel Cell Engineering, Scaleup & Demo.	0	
10	Fuel Cell R&D at PG&E Test Facility	500	
11	Distributed Utility: Customer Sited PV	0	0
12	Distributed Utility: Mod Gen Sets	500	0
13	Distributed Utility: Batteries	500	0
14	Total Advanced Energy Systems	5,369	0
15	Advanced Computing Technologies	485	
16	Improve Geversers Power Plant Availability	372	
17	Power Plant Heat Rate Improvement	818	
18	Operations & Maintenance Support	748	
19	Power Generation System Operations	315	
20	Advanced Hydro	667	
21	Total Power Plant Systems	3,400	0
22	Electric Distribution System	1,723	
23	Energy Systems Integration	1,690	
24	ED&C Planning & Development	440	
25	Gas System	1,617	
26	Electric Transmission System	1,130	
27	Total Energy Delivery & Control	6,600	0
28	Commercial Energy Efficiency	851	
29	Industrial/Agricultural Energy Efficiency	728	
30	Residential Energy Efficiency	421	
31	Power Quality/Electronics/Motors	758	
32	Transportation	885	
33	Customer Systems Planning	287	
34	Food Service Technology Center	240	
35	ACT2 for Maximum Energy Efficiency	3,000	
36	Total Customer Systems	7,170	0
37	Fossil Emissions & Waste Reduction	1,567	
38	Geversers Emissions & Waste Minimization	253	
39	Natural Resources Management	1,200	
40	Health & Safety Tech Development	680	
41	Total Environ Health & Safety	3,700	0
42	Research Contributions	3,780	

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Overall, objections raised by TURN do not compel us to alter or modify that Joint Recommendation. Despite the comments of the few parties who raised concerns regarding certain aspects of the Joint Recommendation, we find it to be reasonable and in the public interest. This is particularly true in light of the fact that it is a temporary device and policy issues will be ultimately determined in the DSM policy proceeding. We encourage the parties who raised concerns in this proceeding to continue to participate in the policy-making proceeding on these issues. Certainly for purposes of this GRC, the Joint Recommendation balances well the interests of PG&E's ratepayers, stockholders, and other interested parties to our proceedings. Further, it does comport with our statutory requirements as set forth in the Code.

20.2.4 Thermal Energy Storage

The one area where PG&E and DRA were unable to reach agreement regarding DSM issues relates to PG&E's thermal energy storage (TES) program. Thermal energy storage systems make chilled water [*70] or ice during off-peak periods to meet cooling load during peak periods. As such, they are promoted as a load management program. Thermal energy storage systems has been an ongoing program for many years. (RT 49:4586.) During the hours of greatest air conditioning load, the chilled water or ice reduces the size of the air conditioning unit needed for the building, thus reducing electrical demand. In a time of relatively high reserve margins for PG&E, this capacity would have a reduced value.

DRA recommends that PG&E's thermal energy storage program be funded at \$ 1.6 million per year. This is the same level of funding as was approved by the Commission in PG&E's last GRC decision. ([34 CPUC2d 199, 408, 412 \(1989\)](#).) The CEC joined DRA in this recommendation.

PG&E, on the other hand, recommends funding of \$ 6 million for 1993, a four-fold increase.

DRA acknowledges that the Commission recently gave PG&E an amount of additional funding for its TES program in a recent ECAC decision. (D.91-12-015, mimeo., page 49.) There, \$ 2.5 million was authorized for 1992 TES program. PG&E argues that given what happened in the last ECAC proceeding, the budget should be over \$ 4 million. [*71] DRA responds that the ECAC decision should not form an adequate basis for a three-year expansion of this program. DRA contends that the issue was not the subject of much scrutiny in the ECAC proceeding. In fact, DRA points out that the decision only has one sentence of discussion of PG&E's proposed funding level. DRA argues that the record is much more substantial in this GRC proceeding and fails to support the expansion of this program.

DRA believes the Commission should treat thermal energy storage as a "resource program." Then TES would be subject to the same scrutiny as other resource programs that is rigorous measurement and resource plan linkages through Integrated Cost Effectiveness Methodology (ICEM) analyses. DRA points out that such a demonstration has not been made by PG&E for this program.

In addition, both DRA and CEC point out that PG&E's own analysis of this program shows it to be only marginally cost-effective with the benefit/cost ratio of only 1.08:1. Therefore while DRA acknowledges that this program may have some merit and deserves further study, the increase sought by PG&E is inappropriate at this time.

Finally, PG&E raises the point that if TES is not [*72] pursued now in new construction or major remodeling projects, it becomes a "lost opportunity" that can never be pursued. Therefore, PG&E contends that now is the time to increase the TES program from the level approved in the last ECAC decision to the \$ 6 million level sought in this GRC.

We are more persuaded by the testimony of DRA's and CEC's witnesses on this issue. An increase granted in an ECAC proceeding does not preclude us from doing a more formal analysis in a GRC. In fact, it is in the GRC where these programs obtain the scrutiny that they deserve. We concur with the arguments raised by CEC and DRA on this issue and will adopt a funding level for 1993 of \$ 1.6 million.

20.2.5 Conservation Voltage Reduction

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This issue was injected into the proceeding by Mr. Sesto Lucchi requesting that PG&E continue its conservation voltage reduction (CVR) program. Mr. Lucchi is a former Commission employee. However, PG&E has been filing reports to the Commission regarding CVR, indicating that beyond current maintenance it is not cost-effective and will remain noncost-effective until marginal costs rise significantly. In fact, PG&E points out that the Commission staff currently [*73] is no longer interested in even receiving reports about CVR (Exhibit 99). Mr. Lucchi point to no studies of cost-effectiveness nor did he know the cost of the proposal he is making. In its brief PG&E says that it will continue its current CVR maintenance activities. PG&E points out that it will reevaluate the program and reinstitute it when and if it becomes cost-effective in the future. But PG&E does not have any desire to continue to generate reports for CACD that no current employees of the Commission have an interest in reviewing.

We concur with PG&E that there is no reason at this time to continue the reporting requirements which we set up some time ago for CVR. Likewise, Mr. Lucchi's recommendations are not backed up by facts to justify us to take any further action in this area at this time. While Mr. Lucchi's history of the program was of some interest, it has added nothing of substantive value to this proceeding.

21. The Geysers 15 Retirement

21.1 Overview

PG&E and DRA disagree on several issues surrounding the Geysers 15 power plant. The Geysers Unit 15 was retired on December 29, 1989. PG&E proposes to recover, through the ECAC balancing account, [*74] its prudently incurred steam costs for the operation of Unit 15, including the \$ 5,028,865 in steam payments for which recovery was deferred pending reasonableness hearings. PG&E also proposes to accord Unit 15 normal retirement status with no explicit adjustments to rates.

DRA disagrees and believes PG&E should not recover the deferred steam costs. In addition, DRA believes PG&E should refund over a five-year period, with interest, \$ 36 million that will have been accrued in a memorandum account for depreciation, return, and net O&M expenses for assumed costs allocable to Unit 15 during the period February 23, 1990 through December 31, 1992.

In addition, PG&E and DRA have a major disagreement over rate base treatment of this plant. DRA believes that PG&E should reduce the overall Geysers plant rate base by \$ 30.2 million and the Commission should allow PG&E to recover that amount over a five-year period, without interest. DRA believes it inappropriate to pay a return on Geysers 15 because it is no longer used and useful. DRA believes its proposed ratemaking treatment fairly balances costs and risks between utility shareholders and ratepayers. DRA further contends that its [*75] recommendation is squarely in line with Commission precedent.

A brief history of electric generation at The Geysers since the 1950s may be in order. During the 1960s and 1970s, the development and operation of PG&E's geothermal power plants became a highly successful venture, both economically and technically. The Geysers developed into the largest geothermal installation in the world. Located in Northern California, The Geysers was viewed as a clean, environmentally preferred resource and was actively encouraged at virtually all levels of government from the CEC, the State Legislature, our own Commission, and the Federal Government.

The unit in question here, Geysers Unit 15 was actually PG&E's 13th Geysers plant, achieving commercial operation in 1979. Unit 15 was the first in an area that had not previously been developed but at the time showed every promise of being as reliable and consistent as the then-developed portions of The Geysers. Unfortunately, almost from the start of operation, there were problems with the quality and quantity of steam available to Unit 15. PG&E made numerous efforts to rectify the situation, making physical improvements to the plant, and working [*76] with the steam supplier. Later, efforts were made to sell the plant.

These efforts did not work out. When PG&E enforced an offset provision in the steam purchase contract and ceased payments for steam, the steam supplier cut off steam to Unit 15 on April 7, 1989, thereby idling the plant. Thus, the retirement occurred on December 29, 1989. DRA does not dispute this chronology of Geysers 15 history. What is in dispute is the appropriate ratemaking treatment of this plant given its current circumstances.

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PU § 55.5 is relevant to the determination of the Geysers Unit 15:

"455.5. (a) In establishing rates for any electrical . . . corporation, the commission may eliminate consideration of the value of any portion of any electric . . . generation or production facility which, after having been placed in service, remains out of service for nine or more consecutive months, and may disallow any expenses related to that facility. Upon eliminating consideration of any portion of a facility or disallowing any expenses related thereto under this section, the commission shall reduce the rates of the corporation accordingly and shall, for accounting purposes, record the value of that [*77] portion of the facility in a deferred debit account and shall treat this amount similar to the treatment of the allowance for funds used during construction. When that portion of the facility is returned to useful service, as provided in subdivision (c), the corporation may apply to the commission for the inclusion of its value and expenses related to its operation for purposes of the establishment of the corporation's rates.

"(b) Every electrical . . . corporation shall periodically, as required by the commission, report to the commission on the status of any portion of any electric . . . generation or production facility which is out of service and shall immediately notify the commission when any portion of the facility has been out of service for nine consecutive months.

"(c) Within 45 days of receiving the notification specified in subdivision (b), the commission shall institute an investigation to determine whether to reduce the rates of the corporation to reflect the portion of the electric . . . generation or production facility which is out of service. For purposes of this subdivision, out-of-service periods shall not include planned outages of predetermined duration scheduled [*78] in advance.

"The commission's order shall require that rates associated with that facility are subject to refund from the date the order instituting the investigation was issued. The commission shall consolidate the hearing on the investigation with the next general rate proceeding instituted for the corporation."

In compliance with that section, PG&E notified the Commission after Geysers Unit 15 had been shut down for nine months. The Commission responded by issuing I.90-02-043 on February 23, 1990, and the investigation was properly consolidated with the general rate case proceeding in accordance with the above code section.

21.2 Appropriate Rate Base Treatment

The parties' disagreement over the appropriate rate base treatment for the Geysers Unit 15 is fundamental. PG&E believes that because the Geysers plants are for accounting reasons treated via group depreciation, there is no need to remove from rate base any dollar amount that relates to Geysers 15 plant alone. PG&E points out that like most other utilities in the country and in conformance with CPUC Standard Practice U-4, PG&E groups similar items of plant and equipment together and depreciates the group over [*79] a single, composite average life, due to the belief that an estimate of the group average life will generally be more accurate than an estimate of the expected life of any individual element. The use of a composite life assumes that not all items in the group will live exactly the expected average for the group; some items will have a shorter-than-average life, while others will experience longer-than-average lives. Under group depreciation, according to PG&E, an asset is considered fully depreciated at the time of its retirement. (Exhibit 221.) Therefore, PG&E concludes that there need be no removal of any dollar amount for Geysers Unit 15 from PG&E's rate base because the concepts of group depreciation are controlling.

DRA strongly disputes PG&E's analysis and points to Commission precedents that make PG&E's position incorrect. DRA points out that group depreciation is an accounting mechanism for setting depreciation rates. However, DRA believes that accounting methodologies must not override important ratemaking principles, the one at issue here being that shareholders earn a return only on plant that is used and useful. DRA's witness discussed this point:

"My conception [*80] of my testimony here is that PG&E was in compliance with FERC regulations with respect to use of group life depreciation. However, although they were complying with FERC accounting regulation and also Generally Accepted Accounting Principles, my testimony is that rate-making policy is mandated by this

Commission, being the Public Utilities Commission. And that overrides FERC accounting regulations as well as a Generally Accepted Accounting Principles when it comes to rate-making policy." (RT 28:2391.)

DRA goes on to point to just two examples where the Commission removed from rate base property that was no longer used and useful. DRA points out that when a plant is prematurely retired, as happened with Geysers 15, the ratepayers pay all of the costs of the plant, even though it operated less than expected. Under those circumstances, shareholders should receive their investment back and a return when the plant operated, but should receive no return on undepreciated plant. DRA points to the first case, regarding PG&E's Humboldt Bay nuclear power plant retirement, for support of this proposition:

"With respect to PG&E's equity argument, we observe that plants which have exceeded [*81] their estimated useful lives have been fully depreciated. Thus, the shareholder already has recovered his entire investment from the ratepayer. The ratepayer who has paid for the entire plant is entitled to receive any additional benefit from the plant's continued operation. In the case of a premature retirement, the ratepayer typically still pays for all of the plant's direct cost even though the plant did not operate as long as was expected. The shareholder recovers his investment but should not receive any return on the undepreciated plant. This is a fair division of risks and benefits." (D.85-08-046, 18 CPUC 2d 599.)

DRA points out that group depreciation accounting is a convenience to PG&E and other companies that use it. If group depreciation were not used, utilities and regulatory commissions would need to litigate and set individual depreciation rates for each unit. As an administrative convenience, group depreciation is an asset to regulatory commissions and to utilities. DRA concludes, however, that group depreciation is a liability when the utility seeks, as PG&E has done here, to use it to attempt to thwart long-standing regulatory principles. Particularly for [*82] an asset of the size of Unit 15, the duty of the Commission and its staff to analyze the retirement costs is critical.

We will once again quote from the Humboldt Bay plant retirement decision to set forth the appropriate used and useful criteria which determine utility eligibility to earn a return on rate base:

"We agree with staff that Unit 3 is no longer 'used and useful' and should be excluded from rate base. While Unit 3 did operate for 13 years, it will never operate again and can no longer be considered 'useful' utility plant. Unit 3 was entered into rate base under the assumption that it would serve customers for 30 years. Shareholders were entitled to a return and ratepayers were liable for the full ownership cost as long as unit 3 no longer qualified for inclusion in rate base and was eventually and properly removed from the rate base in 1979. We will not deviate from the Commission's well-established principle that only 'used and useful' utility plant shall be included in rate base." (18 CPUC2d 599.)

Additionally, DRA has correctly cited another case where the Commission has rejected a specific argument about group life depreciation. (D.85-12-108, [20 CPUC2d 115, 142.](#)) DRA concludes that Geysers 15 plant is retired and nonfunctional and therefore requires the Commission adopt ratemaking treatment consistent with that status. DRA argues that we are bound to remove from rate base the undepreciated portion of Geysers Unit 15. The dollar value of that removal is estimated by DRA to be \$ 30.2 million. DRA points out that that number was derived from material obtained from PG&E during discovery in this proceeding.

PG&E tries to isolate the two Commission decisions relied on by DRA, arguing that those were exceptions rather than the rule. Unfortunately, PG&E could not point to any other Commission decision that supports its rationale regarding group depreciation.

We conclude that regarding this issue DRA has made a more rational argument consistent with Commission precedent. Therefore, we will adopt DRA's recommendation and remove \$ 30.2 million from rate base to reflect Geysers Unit 15's retirement. We once again endorse our longstanding regulatory principle that shareholders should earn a return only on used and useful plant. We note that DRA's recommendation does provide that ratepayers pay PG&E's shareholders for the entire remaining [*84] unamortized plant balance on Geysers 15, but simply not pay a return. We believe our decision is consistent with the Legislature's directives in PU § 455.5, and is fully supported by the record before us.

However, we will allow PG&E to raise its group depreciation argument again in its next GRC if it chooses to do so. The burden is on PG&E to produce a stronger showing.

21.3 Operation and Maintenance Expenses Memorandum Account

Our investigation on the Geysers Unit 15 plant put revenue collected attributable to the operation of Geysers Unit 15 into a memorandum account subject to refund. DRA recommends that this amount, now at \$ 36 million, be returned to ratepayers because the costs could not have been incurred by a plant that was not in operation.

PG&E counters that these O&M expenses specific to Unit 15 are only an estimate of a pro rata share of overall O&M expenses that were allocated to Unit 15 in PG&E's last general rate case. PG&E acknowledges that O&M expenses at Unit 15 were certainly less than PG&E had believed they would be during the 1989 GRC; however, PG&E argues that it incurred certain other expenses that had not been anticipated in the last GRC request. [*85] PG&E argues that it is precisely because of these unexpected changes that expense dollars are not adopted for specific items, and management is given discretion to redirect the funds as needed. PG&E points out that at no time has DRA argued that there was any imprudence on PG&E's part in the operation and the decision to retire Unit 15.

We disagree with PG&E. Clearly since the plant was not in operation, ratepayers should not pay for costs estimated to be associated with that plant because they were never incurred.

Therefore we direct PG&E to refund the balance of the memorandum account over five years as recommended by DRA.

21.4 Steam Offset Payments

PG&E points out that despite DRA's conclusion that PG&E acted reasonably in its operation of Geysers Unit 15, DRA has recommended that PG&E not be allowed to recover some \$ 5,028,865 of steam payments made to the Unit 15 steam supplier, GRI. The dispute between PG&E and DRA centers on the offset provision of Section 60 of the steam contract between PG&E and GRI.

The offset formula was based on PG&E's recovery of investment costs for the portion of the plant which remained idle due to insufficient steam. The recovery was [*86] collected through a reduction in the monthly payment for steam deliveries. During the period of time that the steam supplier was not supplying full contract quantities of steam, PG&E sometimes enforced the offset provision, and sometimes chose to suspend the offset and pay for the steam received. Because of the pending reasonableness review now the subject of this GRC, PG&E deferred recovery of the offset payments in rates, and recorded the undercollection, including interest, in a subaccount of ECAC for future collection. Despite DRA's conclusion that PG&E acted prudently in its efforts to increase the steam supply and improve unit performance, DRA concludes that these payments were not required by the contract. PG&E points out and DRA agrees that there was a great deal of uncertainty about the enforceability of the offset provision of the contract, with which the DRA disallowance witness has no reason to disagree.

Finally, PG&E notes that its primary concern in deciding to suspend offset payments was that GRI would shut off the steam supply and go into bankruptcy. In fact when PG&E did resume the offsets in early 1989, GRI did shut off the steam supply on April 7, 1989, which [*87] led to the eventual retirement of the plant, and went into bankruptcy in addition. This bankruptcy has left PG&E and its ratepayers little recourse against the steam supplier. (RT 26:2298-2299, 2307.)

We agree with DRA's analysis of this issue. DRA points out that from March 1984 through October 1986, PG&E appropriately reduced its Steam payments to GRI. The payments resumed without justification in November 1986 through April 7, 1989. We conclude that PG&E was not required to make these payments under the contract.

22. Lake County Wastewater Pipeline Project Proposal