169 FERC ¶ 61,019
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Neil Chatterjee, Chairman;
Richard Glick and Bernard L. McNamee.

Pacific Gas and Electric Company Docket No. ER19-2568-000

ORDER ON ABANDONMENT COST RECOVERY

(Issued October 10, 2019)

1. On August 9, 2019, Pacific Gas and Electric Company (PG&E) filed, pursuant to section 205 of the Federal Power Act[1] and part 35 of the Commission's regulations,[2] a request to recover, through its Transmission Owner Tariff (TO Tariff) formula rate, 50 percent of the prudently-incurred costs that it incurred associated with the development of its Diablo Canyon Voltage Support Project (DCVS Project) and its Atlantic – Placer 115kV Transmission Line Project (Placer Project), which were ultimately abandoned. For the reasons discussed below, we grant PG&E's request for 50 percent cost recovery and authorize a one-year amortization period.

I. **PG&E's Filing**

2. PG&E seeks to recover 50 percent of the costs that it prudently incurred for the DCVS Project and the Placer Project. In support of its request, PG&E states that the California Independent System Operator Corporation (CAISO) approved the DCVS Project as part of the 2012-2013 CAISO Transmission Plan in order to address voltage control and support for the Diablo Canyon Power Plant. Subsequent engineering reviews determined that the Mesa Substation could accommodate the necessary equipment and the DCVS Project was put on hold in the 2017-2018 CAISO Transmission Plan. After further studies, CAISO concluded in the 2018-2019 Transmission Plan that a local area Remedial Action Scheme would mitigate any voltage concerns in the Diablo Canyon Power Plant area and therefore recommended that the DCVS Project be cancelled.

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[1] 16 U.S.C. § 824d (2018).

[2] 18 C.F.R. pt 35 (2019).

Consequently, PG&E states it cancelled the DCVS Project following CAISO's recommendation.[3]

3. PG&E states that CAISO proposed the Placer Project as part of the 2012-2013 Transmission Plan to address reliability issues in the Central Valley area. According to PG&E, CAISO concluded after further reviews that the Placer Project would not sufficiently address all contingencies identified in the Transmission Plan and the Placer Project was therefore put on hold in CAISO's 2016-2017 Transmission Plan. PG&E further states that CAISO later recommended the Placer Project be canceled in its 2018-2019 Transmission Plan.[4]

4. PG&E states that, in Opinion No. 295,[5] the Commission found that prudently incurred abandoned plant costs should be evenly split between a public utility's shareholders and ratepayers, and that the recovery of the investment could be amortized over the expected life of the plant.[6] PG&E seeks to recover 50 percent of $2.221 million, or $1.11 million, for costs prudently incurred between 2013 and 2018 for the transmission planning and project development of the DCVS Project. PG&E also seeks to recover 50 percent of $649,800, or $324,900, for costs prudently incurred between 2013 and 2018 for the transmission planning and project development of the Placer Project. PG&E states that costs for the projects fall primarily into four main categories, including: (1) Internal Labor, (2) Contract Costs, (3) Allowance for Funds Used During Construction, and (4) Capitalized Administrative and General, and Overhead Costs.[7] PG&E includes testimony and other exhibits supporting the amounts it seeks to recover associated with the two projects. PG&E also requests Commission authorization to amortize and recover the abandoned plant costs over a 40-year period.[8]

5. PG&E requests that the Commission accept its proposal to recover its costs associated with the abandoned transmission projects by October 10, 2019. PG&E explains that its Formula Rate Protocols require any changes to the Draft Annual Update

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[3] Transmittal at 2.

[4] Transmittal at 2-3.

[5] *N. Eng. Power Co.*, Opinion No. 295, 42 FERC ¶ 61,016, at 61,081-82, *order on reh'g*, Opinion No. 295-A, 43 FERC ¶ 61,285 (1988).

[6] Transmittal at 3.

[7] *Id*. at 3-4.

[8] *Id*. at 6.

to be made by October 15, 2019, and the Annual Update to be filed by December 1, 2019 for rates to become effective by January 1, 2020.[9]

II. Notice, Interventions, and Responsive Pleadings

6. Notice of PG&E's filing was published in the *Federal Register*, 84 Fed. Reg. § 42,910 (2019), with interventions and comments due on or before August 30, 2019. Timely motions to intervene were filed by Southern California Edison Company, Transmission Agency of Northern California (TANC), the California Department of Water Resources State Water Project (SWP), the Northern California Power Agency (NCPA), and the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (Six Cities). The California Public Utilities Commission (CPUC) filed a notice of intervention. On August 30, 2019, CPUC, SWP, NCPA, TANC, and the Six Cities (collectively, Joint Parties) also filed a joint protest. On September 9, 2019, PG&E filed a motion for leave to answer and an answer.

A. Protest

7. Joint Parties assert that PG&E's proposed 40-year amortization period would result in unjust and unreasonable rates, arguing that the amortization period should not exceed one year.[10] Joint Parties explain that with the extended amortization period, PG&E would collect \$2.9 million in return and taxes to recover \$1.4 million in costs.[11] Joint Parties further explain that, in this situation, a lengthy amortization period is not necessary to protect customers from a significant rate increase, noting that should the costs be amortized over one year, the impact on customers would be *de minimis*.[12]

8. Joint Parties also request that the Commission confirm that abandoned transmission projects become ineligible for incentive adders to the return on equity (ROE), such as adders associated with participation in an Independent System Operator

[9] *Id*. at 6. The Draft Annual Update is posted on PG&E's website on July 1, with any changes posted by October 15. *See also* PG&E Formula Rate Protocols at Appendix VIII, of PG&E's TO Tariff, FERC Electric Tariff Volume No. 5, Attachment 1.

[10] Joint Protest at 2.

[11] *Id*. at 3.

[12] *Id*. at 4.

(ISO) or Regional Transmission Organization (RTO), and therefore ROE incentives are not applicable with respect to abandonment costs.[13]

B. PG&E's Answer

9. PG&E notes that Joint Parties did not object to PG&E's request to recover costs associated with the DCVS Project and the Placer Project and do not contend that its request is inconsistent with Opinion No. 295. Instead, Joint Parties protest the proposed 40-year amortization period. PG&E states that its proposal to recover the costs over 40 years is consistent with Commission precedent under Opinion No. 295, but agrees that recovering costs over one year will have a *de minimis* impact on its transmission revenue requirement. Therefore, PG&E states that the Commission should approve a one-year amortization period in this case if it deems it appropriate.[14]

III. Discussion

A. Procedural Matters

10. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2019), the timely, unopposed motions to intervene and the notice of intervention serve to make the entities that filed them parties to this proceeding.

11. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2019), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept the answer filed by PG&E because it has provided information that has assisted us in our decision-making process.

B. Substantive Matters

12. We find that PG&E has demonstrated that it qualifies to recover 50 percent of the prudently-incurred project costs for the DCVS Project and the Placer Project based on the facts and circumstances presented in this proceeding, consistent with Opinion No. 295. Specifically, we find that the transmission projects for which PG&E seeks abandonment cost recovery were cancelled based upon CAISO's determination that the projects were no longer necessary. Thus, we conclude that the abandonment of the two projects was beyond PG&E's control and that the costs incurred appear to be prudent, and have not been shown to be unjust and unreasonable. Joint Protesters object to PG&E's proposed

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[13] *Id*. at 5-6 (citing *Pac. Gas and Elec. Co*., 160 FERC ¶ 61,018, at P 75 (2017)*; PJM Interconnection, L.L.C.*, 141 FERC ¶ 61,177, at P 71 (2012)).

[14] PG&E Answer at 1-2.

40-year amortization period. In its reply comments, PG&E has agreed to change the amortization period to one year. We therefore authorize the one-year amortization period that PG&E has agreed to adopt. This approach will reduce potential overall costs by avoiding years of carrying costs and, accordingly, will reduce the impact on PG&E's overall revenue requirement.[15]

13. With respect to the Joint Protestors' request that we confirm that abandoned transmission projects become ineligible for ROE incentive adders, such as the RTO/ISO participation adder, the Commission has explained that the RTO/ISO participation adder would not apply to abandoned transmission projects, which are not turned over to the operational control of an RTO/ISO.[16]

The Commission orders:

PG&E is hereby authorized to recover 50 percent of its prudently incurred abandonment costs associated with the DCVS Project and Placer Project over the period of one year, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

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[15] We note that PG&E's formula rate in its Transmission Owner Tariff provides for Commission-approved abandonment costs be accounted for separate from PG&E's other regulatory assets. PG&E may use Account 182.2, Unrecovered Plant and Regulatory Study Costs, to record the costs for this abandonment authorized for rate recovery.

[16] *See, e.g.*, *Pac. Gas & Elec. Co.*, 160 FERC ¶ 61,018, at P 75 (2017); *PJM Interconnection, L.L.C.*, 142 FERC ¶ 61,156, at PP 40-41 (2013).