

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



August 5, 2009

Advice Letter 3444-E

Brian K. Cherry
Vice President, Regulatory Relations
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177

**Subject: Request Approval of the Interim Disbursement of Funds from
the Humboldt Bay Power Plant Unit 3 Nuclear Decommissioning
Trusts and Method for Review of Decommissioning Expenditures**

Dear Mr. Cherry:

Advice Letter 3444-E is effective July 30, 2009 per Resolution E-4258.

Sincerely,

A handwritten signature in blue ink that reads "Julie A. Fitch".

Julie A. Fitch, Director
Energy Division



March 27, 2009

Advice 3444-E

(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: Request Approval of the Interim Disbursement of Funds from the Humboldt Bay Power Plant Unit 3 Nuclear Decommissioning Trusts and Method For Review of Decommissioning Expenditures

Purpose

Pacific Gas and Electric Company (PG&E) hereby submits its updated schedule for completing the decommissioning of Humboldt Bay Power Plant Unit 3 (HBPP Unit 3) and requests approval for the Interim Disbursement from the Humboldt Bay Power Plant Unit 3 Nuclear Decommissioning Trusts (Trusts) of up to 90% of the CPUC-approved forecasted decommissioning costs. PG&E also requests approval of a procedure for reviewing and determining the reasonableness of HBPP Unit 3 decommissioning expenditures.

This filing will not increase any rate or charge, cause the withdrawal of service, or conflict with any rate schedule or rule. PG&E customers will see no change in their rates as a result of drawing upon the Trusts for these activities.

Background

HBPP Unit 3 is a 65 megawatt boiling water reactor that began commercial operation in 1963, ceased operation in 1976, and was placed in the SAFSTOR custodial mode in 1988 to await final decommissioning. In Decision (D).03-10-014 the California Public Utilities Commission (CPUC or Commission) approved a decommissioning plan to commence decommissioning HBPP Unit 3 in 2006 (later extended to 2009).

The Trusts were established in CPUC D.85-12-022, to allow PG&E “to recover from its ratepayers the cost of decommissioning the prudently constructed plant at Humboldt Bay Power Plant Unit 3.” Funds for the Trusts were collected from PG&E’s ratepayers from 1988 through 1991 per D.85-12-022, and from 2003

through 2009 per CPUC D.03-10-014 and D.07-01-003, which respectively approved PG&E's 2002 and 2005 Nuclear Decommissioning Cost Triennial Proceeding (NDCTP) Applications. As of December 31, 2008, the Trusts had a liquidation value of \$328.2 million, a market value of \$333.1 million, and an expense-equivalent value of \$391.6 million.¹

Section 2.01(7)² of the Trusts provides that, one year prior to the time decommissioning is estimated to begin, PG&E shall apply for CPUC approval of the estimated cost and schedule for decommissioning HBPP Unit 3, and that, upon approval, the CPUC shall issue an order authorizing Interim Disbursements from the applicable fund. Interim Disbursements are limited to 90% of the forecast of decommissioning costs approved by the CPUC; PG&E must separately apply for approval of Final Disbursements for amounts exceeding 90% of the forecast of decommissioning costs.

PG&E anticipates commencing decommissioning activities in June 2010. In accordance with Section 2.01(7), PG&E is hereby submitting its updated HBPP Unit 3 decommissioning schedule and seeking Commission authorization to commence withdrawing Interim Disbursements from the HBPP Unit 3 fund. At this time, PG&E is not seeking authorization for a specific disbursement from the Trusts. PG&E is seeking general authorization to gain access to Interim Disbursement funds in order to comply with Section 2.01(7) of the Trusts and to ensure that no delays are incurred in implementing planned decommissioning activities.

PG&E's 2009 NDCTP will include PG&E's updated HBPP Unit 3 nuclear decommissioning cost studies for Commission review, and decommissioning costs as ultimately approved in the 2009 NDCTP will provide the basis for determining the authorized amount of Interim Disbursements. As discussed below, PG&E intends to continue to make requests for financial disbursements from the Trusts through the Advice Letter process.

Summary of Early Decommissioning Planning Work

PG&E has been proceeding with decommissioning preparatory and planning activities at Humboldt, and the Commission has on several occasions found it

¹ The liquidation value of the Trusts reflects the amount available, after taxes, to pay for nuclear decommissioning projects.

² As amended by Amendment No. 6 to Pacific Gas and Electric Company Nuclear Facilities Nonqualified CPUC Decommissioning Master Trust Agreement for the Diablo Canyon Generating Station and Humboldt Bay Nuclear Unit No. 3 and Amendment No. 9 to the Pacific Gas and Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for the Diablo Canyon Nuclear Generating Station and Humboldt Bay Nuclear Unit No. 3. Amendment Nos. 6 and 9 were authorized through Advice Letter 3081-E, effective August 8, 2007.

reasonable to use decommissioning trust funds to finance projects in anticipation of full decommissioning of HBPP Unit 3.

In Resolution E-3503, adopted December 3, 1997, the Commission authorized PG&E to spend \$15.7 million on mitigation of caisson in-leakage; removal and replacement of the ventilation stack; and a site radiological survey to support the decommissioning cost study.

In the 1999 GRC Decision 00-02-046, the Commission authorized the expenditure of \$7 million for the purposes of securing Nuclear Regulatory Commission (NRC) licenses to authorize a dry cask storage system, referred to as the Independent Spent Fuel Storage Installation (ISFSI). In Resolution E-3737, adopted October 10, 2001, the Commission approved \$3.5 million for additional ISFSI design and licensing expenditures; \$0.95 million for decommissioning costs incurred above the \$15.7 million authorized in Resolution E-3503; and \$3.85 million for preparatory activities during 2001 through 2003 in anticipation of early transition from SAFSTOR to decontaminated status.

In Resolution E-3912, issued February 24, 2005, the Commission approved the disbursement of \$35.9 million for ISFSI design, fabrication, construction and cask loading activities, finding that ISFSI installation was a necessary first step to enable early decommissioning. Resolution E-4025, issued October 8, 2006, authorized an additional \$2.59 million for the shipment and burial of the spent fuel irradiated hardware; removal and disposal of abandoned equipment; and a Multi-Agency Radiation Survey and Site Investigation Manual Study.

Advice Letter 3147-E, effective December 1, 2007, authorized \$31.9 million in additional preparatory decommissioning work consisting of: disposal of Class B & C radioactive waste (\$8.1 million); disposal of Class A radioactive waste (\$0.7 million); facility modifications (\$0.9 million); purchase of a Greater Than Class C storage container (\$1.1 million); operation of the ISFSI (\$4.0 million); removal of equipment and piping from reactor feed pump room, turbine generator/condenser, and condenser pipe tunnel for packaging of radioactive waste (\$13.1 million); increase escalation on the dry cask storage system (\$1.3 million); and preparatory decommissioning activities to be performed from 2008 through 2009 while maintaining NRC SAFSTOR status (\$2.7 million).

In total, the Commission has authorized expenditure of 3% of the forecasted decommissioning costs for HBPP Unit 3 decommissioning planning purposes (D.07-01-003), and specific disbursements of \$101.22 million: \$53.52 million for non-ISFSI projects and \$47.7 million for ISFSI funding.

HBPP Final Decommissioning Schedule

The Commission approved PG&E's plan for early decommissioning of HBPP Unit 3 in D. 03-10-014. In preparation for full decommissioning, PG&E has developed detailed schedules and plans to decommission HBPP Unit 3. Developing an accurate decommissioning schedule requires thorough advance planning. Accordingly, PG&E has devoted substantial time to the decommissioning planning process. PG&E's planning has been conducted in two phases; the first phase was implemented from July through December 2008. PG&E sought the help of highly experienced staff and consultants to assist in this phase.³ Four major companies supplied personnel with previous experience in decommissioning at twelve sites throughout the United States, who were also able to draw upon many years of personal experience when drafting their work plans and technical work papers. PG&E was thus able to benefit from the collective lessons learned at other commercial nuclear and Department of Energy/Department of Defense facilities that have undergone decommissioning.

PG&E also obtained input from industry subject matter experts on a range of topics including radiation protection, radioactive waste, engineering, environmental issues and financial topics. This rigor was to ensure that the resultant plans would be of sufficient scope and breadth to ensure safe and cost effective completion of decommissioning. Finally, PG&E engaged field personnel to obtain the hands-on perspective to add realism and provide critical feedback on methods, schedules, equipment needed, and the risks associated with plan implementation.

The second phase, now underway, will develop final plans and document the baseline approach and strategy to complete decommissioning activities and release the Part 50 license for Unit 3.

PG&E intends to commence formal decommissioning of HBPP Unit 3 in June 2010. Prior to that time, PG&E will continue to engage in preparation for decommissioning activities, including engineering and planning studies and site preparation. PG&E intends to remove the major turbine components, including the turbine, generator, condenser and transformer, and mechanical and electrical systems, beginning in late 2009.

Final decommissioning will begin in June 2010, with the mobilization of the Reactor Vessel Removal Team. PG&E anticipates that the removal of the reactor vessel and associated components will be performed in 2011-2012. Following removal of the reactor vessel, the next phase of decommissioning will be the preparation of remaining buildings for demolition. PG&E expects to commence this phase in October 2012. Building demolition and soil remediation are planned to occur in late

³ In D.07-01-003 the Commission noted that "to reasonably undertake decommissioning a nuclear generating plant, [the utilities] must employ properly trained experts who have experience relevant to decommissioning a nuclear plant to plan and perform the decommissioning."

2013. PG&E expects to complete its site restoration and final site surveys by the end of 2015.

At least two years prior to the anticipated date of NRC license termination, PG&E must file a license termination plan, incorporating a site characterization, description of the remaining dismantling activities, plans for site remediation, procedures for the final radiation survey, designation of the end use of the site, an updated cost estimate to complete the decommissioning, and resolution of any remaining environmental concerns. One year prior to the time PG&E estimates use of funds exceeding 90% of the CPUC-approved forecast of decommissioning costs, PG&E will seek Commission approval to make Final Disbursements from the Trusts.

Reasonableness Procedure

PG&E requests that the Commission adopt a procedure to ensure cost-effective completion of HBPP Unit 3 decommissioning activities and the timely review of costs. To date, PG&E's authorized expenditures on HBPP Unit 3 early decommissioning activities have been reviewed for reasonableness in the NDCTP, upon completion of each specific project. PG&E submits that this procedure should be modified for the HBPP Unit 3 final decommissioning stage.

Under traditional cost-of-service ratemaking, utilities' earnings were directly impacted by the amount of rate base because utilities earned a rate of return on rate base. As a result, reasonableness review was required before major additions could be added to rate base. HBPP Unit 3 decommissioning work will not become a part of PG&E's rate base; rather decommissioning work will result in the *removal* of HBPP Unit 3. No asset upon which PG&E shareholders will earn a rate of return will be created. PG&E has no incentive, financial or otherwise, to increase the cost of, or delay the schedule for, HBPP Unit 3 decommissioning. Therefore, the reasons for a traditional cost-of-service ratemaking reasonableness review do not apply, and this distinction warrants a different approach.

Specifically, PG&E requests that, if the scope of work and the actual costs for decommissioning projects are within the approved 2009 NDCTP cost estimates (plus the contingency established by the 2009 NDCTP), the costs and associated activities will be presumed reasonable, without the need for subsequent review in an NDCTP. As mentioned above, PG&E will soon be filing its 2009 NDCTP containing updated cost estimates for nuclear decommissioning. At that time, the Commission and interested parties will have a full opportunity to evaluate the proposed costs

This standard of review is similar to that authorized for the review of the Southern California Edison Company and San Diego Gas and Electric Company SONGS 1 decommissioning. In D.99-06-007, the Commission approved a settlement establishing a presumption that the utilities' conduct is reasonable in performing

SONGS 1 decommissioning work if the scope of the work completed and costs incurred are bounded by the most recently approved SONGS 1 decommissioning cost estimate.

At the end of each year, commencing in 2010, PG&E will file for approval an Advice Letter containing an updated cost estimate and schedule for the upcoming year, with an associated request for disbursement of Trust funds, a description of the planned work and how previously planned work was executed, and a comparison of actual and planned expenditures. To the extent that costs and activities are within the most recently approved scope of work (approved either in the 2009 NDCTP or through a subsequent annual Advice filing), they would be presumed reasonable. These annual filings would, in the future, eliminate the need for triennial NDCTP reasonableness reviews for completed projects.

This procedure will serve as an efficient way of reviewing decommissioning expenditures. By presuming reasonableness of the work completed within the prior Commission-approved estimates, the Commission will be able to avoid unnecessary and potentially protracted litigation as to the reasonableness of each and every task previously approved, once completed.

PG&E will continue to manage HBPP Unit 3 decommissioning trust funds on behalf of its ratepayers. To avoid possible delays and associated increased costs, PG&E must frequently review and update decommissioning estimates as decommissioning proceeds. Decommissioning HBPP Unit 3 offers unique management challenges due to the limited footprint and the amount of activity that is underway at the site. The Humboldt site encompasses the HBPP Nuclear Unit 3, existing HBPP Fossil Units 1 and 2, construction of 10 new generating units and the operation of the ISFSI. Without particularly careful synchronization of work schedules to effectively manage the restricted space available to stage equipment and to place dismantled material, conflicts between projects could create delays to scheduled completions, and therefore costs that exceed approved budgets. Accordingly, PG&E requests that the Commission approve a process for annual updates.

Protests

Anyone wishing to protest this filing may do so by letter sent via U.S. mail, by facsimile or electronically, any of which must be received no later than April 16, 2009, which is 20 days after the date of this filing. Protests should be mailed to:

CPUC Energy Division
Tariff Files, Room 4005
DMS Branch
505 Van Ness Avenue
San Francisco, California 94102

Facsimile: (415) 703-2200

E-mail: jnj@cpuc.ca.gov and mas@cpuc.ca.gov

Copies of protests also should be mailed to the attention of the Director, Energy Division, Room 4004, at the address shown above.

The protest also should be sent via U.S. mail (and by facsimile and electronically, if possible) to PG&E at the address shown below on the same date it is mailed or delivered to the Commission:

Brian K. Cherry
Vice President, Regulatory Relations
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, California 94177
Facsimile: (415) 973-7226
E-mail: PGETariffs@pge.com

Effective Date

PG&E submits this Advice Letter as a Tier 3 filing and requests it become effective upon Commission approval.

Notice

In accordance with General Order 96-B, Section IV, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list and the service list for A.05-11-009. Address changes should be directed to Rose De La Torre at (415) 973-4716. Send all electronic approvals to PGETariffs@pge.com. Advice letter filings can also be accessed electronically at:

<http://www.pge.com/tariffs>.



Vice President - Regulatory Relations

CC: Service list A.05-11-009

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **Pacific Gas and Electric Company (ID U39 M)**

Utility type:

ELC GAS
 PLC HEAT WATER

Contact Person: Megan Lawson

Phone #: 415-973-1877

E-mail: mehr@pge.com

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas
PLC = Pipeline HEAT = Heat WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: 3444-E

Tier: [3]

Subject of AL: Request Approval of the Interim Disbursement of Funds from the Humboldt Bay Power Plant Unit 3 Nuclear Decommissioning Trusts and Method For Review of Decommissioning Expenditures

Keywords (choose from CPUC listing): Nuclear

AL filing type: Monthly Quarterly Annual One-Time Other _____

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: No

Summarize differences between the AL and the prior withdrawn or rejected AL:

Is AL requesting confidential treatment? If so, what information is the utility seeking confidential treatment for:
No

Confidential information will be made available to those who have executed a nondisclosure agreement: N/A

Name(s) and contact information of the person(s) who will provide the nondisclosure agreement and access to the confidential information:

Resolution Required? Yes No

Requested effective date: CPUC Approval

No. of tariff sheets: N/A

Estimated system annual revenue effect (%): N/A

Estimated system average rate effect (%): N/A

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected:

Service affected and changes proposed:

Protests, dispositions, and all other correspondence regarding this AL are due no later than 20 days after the date

of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division

Tariff Files, Room 4005

DMS Branch

505 Van Ness Ave., San Francisco, CA 94102

jnj@cpuc.ca.gov and mas@cpuc.ca.gov

Pacific Gas and Electric Company

Attn: Brian K. Cherry, Vice President, Regulatory Relations

77 Beale Street, Mail Code B10C

P.O. Box 770000

San Francisco, CA 94177

E-mail: PGETariffs@pge.com

**PG&E Gas and Electric
Advice Filing List
General Order 96-B, Section IV**

Aglet	Department of the Army	Northern California Power Association
Agnews Developmental Center	Dept of General Services	Occidental Energy Marketing, Inc.
Alcantar & Kahl	Division of Business Advisory Services	OnGrid Solar
Ancillary Services Coalition	Douglas & Liddell	PPL EnergyPlus, LLC
Anderson & Poole	Douglass & Liddell	Pinnacle CNG Company
Arizona Public Service Company	Downey & Brand	Praxair
BART	Duke Energy	R. W. Beck & Associates
BP Energy Company	Duncan, Virgil E.	RCS, Inc.
Barkovich & Yap, Inc.	Dutcher, John	RMC Lonestar
Bartle Wells Associates	Ellison Schneider & Harris LLP	Recon Research
Blue Ridge Gas	Energy Management Services, LLC	SCD Energy Solutions
Braun & Associates	FPL Energy Project Management, Inc.	SCE
C & H Sugar Co.	Foster Farms	SESCO
CA Bldg Industry Association	Foster, Wheeler, Martinez	SMUD
CAISO	Franciscan Mobilehome	SPURR
CLECA Law Office	G. A. Krause & Assoc.	Santa Fe Jets
CSC Energy Services	GLJ Publications	Seattle City Light
	Goodin, MacBride, Squeri, Schlotz & Ritchie	Sempra Utilities
California Cotton Ginners & Growers Assn	Green Power Institute	Sequoia Union HS Dist
California Energy Commission	Hanna & Morton	Sierra Pacific Power Company
California League of Food Processors	Heeg, Peggy A.	Silicon Valley Power
California Public Utilities Commission	Hitachi	Smurfit Stone Container Corp
Calpine	Hogan Manufacturing, Inc.	Southern California Edison Company
Cameron McKenna	Imperial Irrigation District	St. Paul Assoc.
Cardinal Cogen	Innercite	Sunshine Design
Casner, Steve	International Power Technology	Sutherland, Asbill & Brennan
Cerox	Intestate Gas Services, Inc.	TFS Energy
Chamberlain, Eric	J. R. Wood, Inc.	Tabors Caramanis & Associates
Chevron Company	JTM, Inc.	Tecogen, Inc.
Chris, King	Los Angeles Dept of Water & Power	Tiger Natural Gas, Inc.
City of Glendale	Luce, Forward, Hamilton & Scripps LLP	Tioga Energy
City of Palo Alto	MBMC, Inc.	TransCanada
City of San Jose	MRW & Associates	Turlock Irrigation District
Clean Energy Fuels	Manatt Phelps Phillips	U S Borax, Inc.
Coast Economic Consulting	Matthew V. Brady & Associates	United Cogen
Commerce Energy	McKenzie & Associates	Utility Cost Management
Commercial Energy	Meek, Daniel W.	Utility Resource Network
Constellation	Merced Irrigation District	Utility Specialists
Constellation New Energy	Mirant	Vandenberg Air Force
Consumer Federation of California	Modesto Irrigation District	Verizon
Crossborder Energy	Morgan Stanley	Wellhead Electric Company
Davis Wright Tremaine LLP	Morrison & Foerster	Western Manufactured Housing Communities Association (WMA)
		White & Case
Day Carter Murphy	New United Motor Mfg., Inc.	eMeter Corporation
Defense Energy Support Center	Norris & Wong Associates	
Department of Water Resources	North Coast SolarResources	