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1966

WALTER D. MANNING

CERTIFIED PUBLIC ACCOUNTANT

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USNRC

'87 APR 23 P8:13

April 6, 1987

DOCKETING & SERVICE
BRANCH

President Ronald Reagan
The White House
Washington, D.C. 20500

Honorable Sir:

I enclose a copy of a letter dated March 3, 1987 that was sent to all shareholders of Pacific Gas & Elec. Co. I am both a customer and a shareholder.

I wish to impress upon you the deplorable situation that this utility is in and will be unless something is done. The Diablo Canyon nuclear power plant was licensed by the Nuclear Power Commission and subject to delays imposed by many changes imposed by this federal agency. The Certified Public Accountants have always issued an unqualified opinion except in one year where a qualified opinion was issued on the Financial Statements for that year. It appears to me that if the C.P.A.'s issued an unqualified opinion on the financial statements that the utility should be entitled to a rate base based on actual costs. I feel sure that this same situation applies to practically all public utilities in the United States and it is my opinion that the Federal Regulatory Commission should have jurisdiction over the rate base and not politically motivated state public commissions which in many cases are politically set up with prior prejudices against fair rates for public utilities even though they are supposed to be fair minded.

I wish to point out that the Federal law compelling public utilities to purchase electricity from wind, solar, biomass and cogeneration facilities has added high cost fuel to the systems on which the utility takes a loss. This is unfair to the shareholders and with low oil prices it is time to repeal this law.

My dividends help me to put food on the table for my family and I appeal to you for fairness.

Yours very truly,

cc: U. S. Nuclear Regulatory Commission
Washington, D.C. 20555

cc: Senator Pete Wilson
New Senate Office Building
Washington, D.C. 20510

cc: Congressman Ernest Konnyu
429 Cannon Building
Washington, D.C. 20515

8704300488 870406
PDR PR
50 52FR6980 PDR

Add: P. Crane, H-1035

J. Lane, 266 Phil

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nd,

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NRC

WALTER D. MANNING, C.P.A.

April 6, 1987

President Ronald Reagan

(page 2)

cc: Senator Alan Cranston
New Senate Office Building
Washington, D.C. 20510

cc: Govenor Duke Deukemejan
State Capitol
Sacramento, Ca. 95814

PACIFIC GAS AND ELECTRIC COMPANY

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RICHARD A. CLARKE
CHAIRMAN OF THE BOARD

March 31, 1987

Dear PGandE Shareholder:

Your Board of Directors has unanimously determined to maintain the current annual common stock dividend of \$1.92 per share at the same time that it also has authorized a change in the method by which it records revenues from the Diablo Canyon Nuclear Power Plant. This change will not affect our cash position nor our right to ultimate recovery of our investment in the Plant. It will, however, reduce reported 1987 earnings by about \$1.25 per share.

Your Board's decision to maintain the dividend reflects our confidence in the basic financial strength of your Company and our conviction that we have charted a course for continued success in a changing business environment.

These actions are prompted by a combination of recent events and the consequences of persistent delays in recovering the costs of owning and operating Diablo Canyon.

The California Public Utilities Commission (CPUC) currently is reviewing PGandE's request to recover in rates the cost of building and operating Diablo Canyon. A key step in this process is a report and recommendation to be made by the Commission's Public Staff Division, a branch of the CPUC which serves as a public advocate in Commission proceedings. This report was originally due to be filed last year, and recently the Commission was told that it would be issued in March of this year. As of today, however, the report has not been released.

Earlier this month, the CPUC deferred action on increasing the interim rates for Diablo Canyon (rates authorized pending completion of the entire case) until after issuance of the Public Staff Division's report. If the CPUC maintains this position, it means that, as long as the Public Staff Division continues to delay its report, PGandE will be foreclosed from recovering any further portion of the costs of owning and operating the Plant. The decision also suggests the possibility that, even after the Public Staff Division report is issued, any further interim rates could be limited to amounts which are not contested in the Public Staff Division's recommendation, no matter how extreme that recommendation may be.

In addition, it appears likely that, when it is released, the report will indeed include an extreme and unfounded recommendation that PGandE not be allowed to recover a very substantial portion of our \$5.8 billion investment in Diablo Canyon. Of course, the Public Staff

Division's recommendations are not binding on the Commission. Nevertheless, such excessive recommendations cannot be taken lightly.

These factors are particularly significant since the CPUC has allowed PGandE to recover in interim rates only about 40 percent of the total costs of owning and operating Diablo Canyon, even though the Plant has been generating electricity for almost two years. The difference has been accruing at about \$63 million each month as a deferred account receivable. Following accepted utility accounting principles, this non-cash receivable has been included in current income and amounted to \$871 million as of December 31, 1986.

Prudent management dictates that we now change this method of recording revenues from Diablo Canyon. Effective January 1, 1987, we will reflect in recorded revenues only the cash amounts actually received through the interim rates approved by the CPUC. By doing this, we will reduce the rapid build-up of the deferred account receivable which otherwise could grow to about \$3 billion by the time the CPUC renders its final decision in the case.

This change will not affect our cash position. However, it means that our income statement will show annual earnings per share which are about \$1.25 less than they otherwise would have been. These lower earnings will be reflected in our first quarter earnings and can be expected to continue until the CPUC renders its final decision.

An objective review of the facts should result in a reasonable decision in the case. Because of this confidence, and because the change in the method of recording revenues does not affect our cash position, the Board of Directors has unanimously agreed to maintain the current annual common stock dividend of \$1.92 per share.

Further interim rate recovery would reduce the impact on earnings which will result from the change in the method of recording revenues. Accordingly, we will file a petition with the Commission seeking additional interim rates on an expedited basis. If these rates are approved, we will record the resulting revenues as current income, and reported earnings will increase.

In addition, we will continue our aggressive efforts to recover all of the revenues to which we are entitled as a result of the investment prudently made in Diablo Canyon and the costs of operating the Plant. We will seek an expeditious and objective process to achieve a timely and fair result. As a part of that process, we will mount one of the strongest cases ever presented to a state regulatory commission. Independent experts will demonstrate that the Diablo Canyon project was well managed in the face of formidable obstacles and determined political opposition, that the costs incurred were reasonable, and that the Plant is a safe, reliable, and valuable energy resource for California.

In our case before the Commission, we will demonstrate that:

- * Diablo Canyon was designed and built with the assistance of world renowned experts and was completed at a cost about the same as the average cost of the other U. S. nuclear plants which began operation in the mid-1980s.
- * Diablo Canyon has operated at a high level of safety and has set national records for performance and reliability. It is one of the best nuclear plants in the nation.
- * Diablo Canyon's benefits to our customers already are being demonstrated. In 1987, when low hydroelectric production is expected in California due to below average levels of precipitation, Diablo Canyon will assure adequate energy supplies and will shelter our customers from the major rate increases that usually occur in poor hydroelectric years.
- * Diablo Canyon was the subject of intense political opposition throughout the Nuclear Regulatory Commission's licensing process. This opposition resulted in lengthy delays and significantly higher costs.

When the Public Staff Division's recommendation is released, it is important to remember that it is only that: a recommendation. The final decision on rate treatment for Diablo Canyon will be made after extensive hearings by the CPUC. The Commission can accept in whole or in part, or reject entirely, the Public Staff Division's recommendation. For example, in the recent case of the San Onofre Nuclear Generating Station in Southern California, the Commission adopted only 20 percent of the disallowance recommended by the Public Staff Division, and currently is even re-examining a part of that decision.

These new obstacles to recovery of our investment in Diablo Canyon come at a time when PGandE has been successfully implementing a strategy that will enable your Company to continue to be relied upon in the years ahead, as we have in the past, for safe, efficient, and reasonably-priced energy service.

This tradition of service and our commitment to maintaining it must not be diluted or jeopardized in any way. We are unequivocally determined to develop fully your Company's great potential in the interest of our customers, our shareholders, our employees, and the communities of which we are a part.

Nuclear power from Diablo Canyon is part of an exceptionally diverse mix of electric generation, including the largest privately-operated hydroelectric system in the nation, the largest geothermal complex in the world, and a wide range of fossil fueled, wind, solar, biomass, and cogeneration facilities. These resources will assure long-term reliable electric supplies and will help protect our customers against higher rates which otherwise would result from inevitable future increases in the cost of oil and gas.

Our fundamental strengths also include our employees, who are among the most creative and competent in our industry, our service territory, which includes one of the nation's most dynamic and prosperous economies, and our long-term strategy and business plans, which provide a sound foundation for shaping our future.

We will meet the challenges presented by the Diablo Canyon rate case as we have met many other challenges over the years -- with vigor, innovation, and determination.

We will keep you advised of significant developments in the Diablo Canyon rate case as they occur. Thank you for your continuing support.

Sincerely,

Richard A. Clarke
RICHARD A. CLARKE
Chairman of the Board
and Chief Executive
Officer

Stanley T. Skinner
STANLEY T. SKINNER
Vice Chairman of
the Board

George A. Maneatis
GEORGE A. MANEATIS
President