

Decision 88 05 030 MAY 11 1988 MAY 12 1988**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Sierra Pacific Power )  
 Company for approval of long-term )  
 agreement for the purchase and sale )  
 of electricity between Sierra )  
 Pacific Power Company and Sierra )  
 Pacific Industries. )  
 (U 903 E)

Application 87-11-011  
 (Filed November 12, 1987)

**OPINION****Summary**

This ex parte order finds that the 30-year agreement (agreement) between Sierra Pacific Power Company (Sierra) and Sierra Pacific Industries (SPI) is reasonable and adequately protects the interests of Sierra's California ratepayers. Sierra is authorized to recover payments to SPI pursuant to the agreement through the Energy Cost Adjustment Clause (ECAC) proceedings.

**Filing**

This is an application by Sierra concerning the agreement between Sierra and SPI for purchase and sale of electricity. There is no relationship between Sierra and SPI despite the similarity of names. Sierra seeks Commission determination that the agreement is reasonable and prudent, that it adequately protects the interests of Sierra's California ratepayers, and that Sierra may recover all payments to SPI through ECAC.

**Agreement**

The agreement between Sierra and SPI covers 30 years of operation of the proposed SPI project (project), which is to be certified as a qualifying facility (QF) under the Public Utilities Regulatory Policy Act (PURPA) by the Federal Energy Regulatory Commission (FERC). The agreement is subject to Commission approval

and will terminate if such approval is not obtained. The milestones specified in the agreement cannot be met due to late filing of the application, but the parties agree that the delay was the result of circumstances beyond the control of either party. Apparently the agreement will be revised with new milestones if the Commission approves it. The parties desire that this Order be effective immediately in order to allow construction by SPI to commence as soon as possible.

The project is a 23 megawatt (MW) thermal generation plant fueled by waste wood, to be located in Sierra's service territory near Loyalton, California. Although capable of delivering 20 MW to Sierra's system this agreement is limited to 10 MW due to limitations of Sierra's transmission system. Sierra is requesting Commission approval of only the initial 10 MW purchase, and will seek future approval of an amended agreement if Sierra's transmission system is expanded and the parties agree to increased purchases beyond the 10 MW level of this agreement.

Pricing is based on the schedule in Table 1 following:

TABLE 1

Year (Begins June 1)	Demand Charge \$/kW-mo.	Energy Charge \$/MWh
1988	3.44	26.18
1989	5.79	27.99
1990	8.05	29.95
1991	10.73	31.26
1992	13.22	32.94
1993 thru 2007	1992 rate adjusted by Handy-Whitman index for steam production plant	1992 rate adjusted by Producer Price index for coal subcategory
2008 thru 2017	Same as 2007	90% of weighted marginal energy cost for Sierra

The agreement is alleged by Sierra to benefit Sierra's ratepayers by virtue of rates substantially lower than the Public Service Commission of Nevada (PSCN) approved long-term rates based on avoided costs. In addition, the agreement is alleged to offer specific benefits to Sierra's ratepayers through two provisions.

- Sierra has the right to economically dispatch the project up to a maximum of 400 hours annually.
- The project will have the capability to provide electrical service to the Portola/Loyalton area in the event of outages on Sierra's system that affect the ability to serve that load.

#### Background

In considering long-term and non-standard QF contracts the Commission has determined that the primary criterion to be used in evaluation of such agreements is ratepayer economic indifference.

#### Division of Ratepayer Advocates (DRA) Review

DRA provided comments on the agreement by memo to Administrative Law Judge Stalder dated January 7, 1988. DRA's comments can be summarized as follows:

- DRA has no objection to preapproval of the agreement.
- Sierra has no long-term avoided cost prices on file with the Commission.
- Sierra has long-term avoided cost prices approved and on file at the PSCN.
- Financial analyses performed in part at the request of DRA by a consultant, Henwood Energy Services, Inc. (Henwood), indicate present worth savings due to the agreement ranging from approximately six million to 10 million dollars over the agreement life, depending on the plant capacity factor assumed. These savings are based on long-term avoided cost prices approved by the PSCN. The magnitude of savings depends on

the SPI plant capacity factor (CF), as shown in Table 2 below.

TABLE 2

<u>SPI Plant CF</u> (%)	<u>Present Worth Savings</u> (million \$) (percent)	
60	5.8	13.6
72	6.1	15.7
90	9.9	18.2

- The SPI project would provide increased service reliability to California ratepayers because of its location at the end of a long transmission line that has a record of frequent outages.
- The SPI project would provide operational flexibility to Sierra with 400 off-peak hours of curtailment available per year.
- The SPI project would reduce transmission losses on Sierra's system.
- Responding to DRA's request for an informal review of the agreement by the PSCN staff, the Chairman of the PSCN stated that the opinion of staff is that based on their resource planning assumptions, the agreement will not damage Nevada ratepayers. The Chairman does not object to speedy approval of the agreement.

### Discussion

Sierra requests prior approval on a non standard contract agreement. Normally the reasonableness of such an agreement would be an issue in the ECAC reasonableness review covering the past period in which the agreement was in affect. However, the Commission realizes that some parties are reluctant to enter into long-term agreements without assurance by the Commission that the agreement is acceptable and that the costs associated with it can be routinely recovered in ECAC. Prior review may also help utilities avoid adverse commitments that can be difficult and

expensive to get out of. In the past, we have issued decisions dealing with agreements of this type if adequate information on which to make such a determination is available. We will handle this application in the same manner.

This case is unique in that the agreement deals with a QF proposed to be located in California, but Sierra has no long-term avoided cost prices on file with this Commission. Sierra has long-term avoided cost prices on file at the PSCN, which the economic evaluation by Henwood was based on.

First we consider the primary concern, ratepayer indifference. Sierra alleges benefits to its ratepayers compared to PSCN avoided cost rates. DRA agreed that such benefits are realistic under the 72% and 90% CF assumptions used for the Henwood study, but also requested that an additional economic evaluation be made using 60% CF. The results in Table 1 above demonstrate that under all three assumptions, ratepayer benefits will occur. We are satisfied that DRA has adequately evaluated the agreement. The project is reasonably expected to operate in the 60+%CF range and would have to operate below that level before any economic disadvantage to ratepayers would occur. We conclude that Sierra ratepayers will not be disadvantaged by the agreement under reasonably expected operating assumptions, which satisfies our concern regarding ratepayer indifference.

Sierra did not indicate that there is a need to encourage or gain information on the technology to be used by SPI. We agree and will not further consider this issue.

As DRA points out, intangible benefits of the agreement to Sierra ratepayers are the limited ability of Sierra to dispatch the SPI plant, the reliability improvement to the Portola/Loyalton area, and the reduced transmission losses on Sierra's system due to the location of the project. We believe that the reliability improvement is particularly significant since the project provides another source of electricity to an area in which customers at the

end of a long transmission line are subject to frequent outages. The SPI project will not always be capable of serving the load in that area but will give substantial assistance. Additionally, the reduced transmission losses directly benefit ratepayers through reduced rates.

Although under reasonably expected operations, the SPI plant will benefit Sierra's ratepayers, we must also consider ratepayer exposure under unexpected conditions. The agreement has provisions dealing with conditions such as unreliable plant operations, lack of fuel, and force majeure. Following are some of the significant provisions:

- The agreement can be terminated if the project milestones are not met, or if the project does not deliver capacity and energy to Sierra for a continuous 180 day period, and SPI is not exercising best efforts to resume operation.
- If SPI does not deliver any capacity or energy, for reasons other than force majeure, for more than 90 consecutive days, SPI is liable for the added costs of replacement capacity and energy beyond the prices that Sierra would have paid under the agreement, for a period not to exceed three years.
- SPI is responsible for interconnection equipment and for connection to Sierra's system.
- If it is necessary for Sierra to install any facilities or equipment or to reinforce its system to accommodate SPI's deliveries, SPI will reimburse Sierra for those costs.
- SPI must provide evidence of self-certification of the project as a cogeneration or small power production facility by the FERC under PURPA.
- SPI must offer proof of an adequate wood resource supply to support the project for the term of the agreement.

Since the project milestones cannot be met, we will require Sierra to submit the revised milestones to the Commission Advisory and Compliance Division (CACD) for review. The revised milestones should be in substantially the same form as in the application.

The agreement appears to have adequate incentives to insure that SPI diligently carries out its obligations, and adequate protection for Sierra's ratepayers in the event it does not. We conclude that the agreement satisfies the concerns of ratepayer indifference, offers probable benefits to Sierra's ratepayers, and adequately protects them from undue risk. However, we expect Sierra to exercise any provisions of the agreement, including force majeure, for the benefit of Sierra's ratepayers if changing conditions warrant.

We will allow Sierra to normally recover costs associated with the agreement under ECAC.

#### Findings of Fact

1. Sierra and SPI entered into an agreement for purchase and sale of electricity.
2. Sierra seeks Commission determination that the agreement is reasonable and prudent, and that it adequately protects the interests of Sierra's California ratepayers.
3. Sierra requests authority to recover payments to SPI through ECAC proceedings.
4. The agreement covers 30 years of operation of the proposed SPI project.
5. The agreement requires Commission approval.
6. The project milestones in the agreement cannot be met and must be revised.
7. The SPI project is a 23 MW thermal generation plant fueled by waste wood.
8. Due to transmission system limitations, Sierra will purchase a maximum of 10 MW from the project under this agreement.

COMMISSIONER'S ROOM  
  
Victor W. Winters, Executive Director

DB

**CORRECTION**

**THIS DOCUMENT HAS  
BEEN REPHOTOGRAPHED**

**TO ASSURE**

**LEGIBILITY**

Since the project milestones cannot be met, we will require Sierra to submit the revised milestones to the Commission Advisory and Compliance Division (CACD) for review. The revised milestones should be in substantially the same form as in the application.

The agreement appears to have adequate incentives to insure that SPI diligently carries out its obligations, and adequate protection for Sierra's ratepayers in the event it does not. We conclude that the agreement satisfies the concerns of ratepayer indifference, offers probable benefits to Sierra's ratepayers, and adequately protects them from undue risk. However, we expect Sierra to exercise any provisions of the agreement, including force majeure, for the benefit of Sierra's ratepayers if changing conditions warrant.

We will allow Sierra to normally recover costs associated with the agreement under ECAC.

Findings of Fact

1. Sierra and SPI entered into an agreement for purchase and sale of electricity.
2. Sierra seeks Commission determination that the agreement is reasonable and prudent, and that it adequately protects the interests of Sierra's California ratepayers.
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5. The agreement requires Commission approval.
6. The project milestones in the agreement cannot be met and must be revised.
7. The SPI project is a 23 MW thermal generation plant fueled by waste wood.
8. Due to transmission system limitations, Sierra will purchase a maximum of 10 MW from the project under this agreement.

9. Sierra has no long-term avoided cost prices on file with the Commission.

10. Sierra has long-term avoided cost prices on file with the PSCN.

11. DRA has no objection to preapproval of the agreement.

12. Under the agreement Sierra will have the right to economically dispatch the project up to 400 hours annually.

13. The project will have the capability to provide electrical service to the Portola/Loyalton area when needed.

14. The project will reduce transmission losses on Sierra's system.

15. The Chairman of the PSCN has no objection to speedy approval of the agreement.

16. Financial analyses performed by Henwood indicate that present worth savings to Sierra's ratepayers range from 6 to 10 million dollars over the life of the agreement.

#### Conclusions of Law

1. The agreement between Sierra and SPI is reasonable and adequately protects the interests of Sierra's California ratepayers.

2. Sierra should submit the revised project milestones to the CACD for review.

3. Sierra should be authorized to recover payments to SPI under the agreement through ECAC proceedings.

4. Because of the need for SPI to commence construction as soon as possible, the order should be effective immediately.

#### ORDER

Therefore, IT IS ORDERED that:

1. The agreement between Sierra Pacific Power Company and Sierra Pacific Industries is found to be prudent and reasonable, and that Sierra Pacific Power Company may recover the cost of power

purchases made under the agreement through its Energy Cost Adjustment Clause or appropriate successor mechanism.

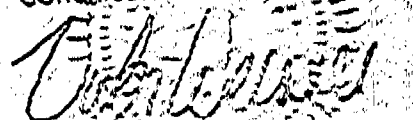
2. Sierra Pacific Power Company shall file the revised project milestones with the Commission Advisory and Compliance Division within 60 days of the effective date of this order.

This order is effective today.

Dated May 11, 1988, at San Francisco, California.

STANLEY W. HULETT  
President  
DONALD VIAL  
FREDERICK R. DUDA  
G. MITCHELL WILK  
JOHN B. OHANIAN  
Commissioners

I CERTIFY THAT THIS DECISION  
WAS APPROVED BY THE ABOVE  
COMMISSIONERS TODAY.

  
Victor Wozniak, Executive Director

JB

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- The project will have the capability to provide electrical service to the Portola/Loyalton area in the event of outages on Sierra's system that affect the ability to serve that load.

#### Background

In considering long-term and non-standard QF contracts the Commission has determined that the primary criterion to be used in evaluation is ratepayer economic indifference. Additionally, in some cases the evaluation may be tempered by societal benefits, the need to encourage or gain information on new or preferred technologies, and intangible benefits, as discussed in Decision 86-06-060, Findings of Fact 17 and 18 (p. 32):

"17. While societal benefits and technological differences of qualifying facilities have not been used as standards for developing standard offer terms and prices, such factors can be considered in determining the prudence of a nonstandard offer.

"18. For certain technologies to materialize, it may be reasonable for ratepayers to incur additional risks and payments if sufficient justification were presented. "

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This case is unique in that the agreement deals with a QF proposed to be located in California, but Sierra has no long-term avoided cost prices on file with this Commission. Sierra has long-term avoided cost prices on file at the PSCN, which the economic evaluation by Henwood was based on.

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Sierra did not indicate that the agreement is associated with societal benefits. Since the project will be fueled by wood waste products, there may be societal benefits but we conclude that this is not a major consideration in this case.

Similarly, Sierra did not indicate that there is a need to encourage or gain information on the technology to be used by SPI. We agree and will not further consider this issue.

As DRA points out, intangible benefits of the agreement to Sierra ratepayers are the limited ability of Sierra to dispatch the SPI plant, the reliability improvement to the Portola/Loyalton area, and the reduced transmission losses on Sierra's system due to the location of the project. We believe that the reliability improvement is particularly significant since the project provides another source of electricity to an area in which customers at the end of a long transmission line are subject to frequent outages. The SPI project will not always be capable of serving the load in that area but will give substantial assistance. Additionally, the reduced transmission losses directly benefit ratepayers through reduced rates.

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prices that Sierra would have paid under the agreement, for a period not to exceed three years.

- SPI is responsible for interconnection equipment and for connection to Sierra's system.
- If it is necessary for Sierra to install any facilities or equipment or to reinforce its system to accommodate SPI's deliveries, SPI will reimburse Sierra for those costs.
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- SPI must offer proof of an adequate wood resource supply to support the project for the term of the agreement.

Since the project milestones cannot be met, we will require Sierra to submit the revised milestones to the Commission Advisory and Compliance Division (CACD) for review. The revised milestones should be in substantially the same form as in the application.

The agreement appears to have adequate incentives to insure that SPI diligently carries out its obligations, and adequate protection for Sierra's ratepayers in the event it does not. We conclude that the agreement satisfies the concerns of ratepayer indifference, offers probable benefits to Sierra's ratepayers, and adequately protects them from undue risk. However, we expect Sierra to exercise any provisions of the agreement including force majeure if changing conditions warrant, i.e., if unforeseen conditions arise that cause severe hardship for Sierra's ratepayers under the agreement.

We will allow Sierra to normally recover costs associated with the agreement under ECAC.

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Findings of Fact

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11. DRA has no objection to preapproval of the agreement.
12. Under the agreement Sierra will have the right to economically dispatch the project up to 400 hours annually.
13. The project will have the capability to provide electrical service to the Portola/Loyalton area when needed.
14. The project will reduce transmission losses on Sierra's system.
15. The Chairman of the PSCN has no objection to speedy approval of the agreement.
16. Financial analyses performed by Henwood indicate that present worth savings to Sierra's ratepayers range from 6 to 10 million dollars over the life of the agreement.

Conclusions of Law

1. The agreement between Sierra and SPI is reasonable and adequately protects the interests of Sierra's California ratepayers.
2. Sierra should submit the revised project milestones to the CACD for review.
3. Sierra should be authorized to recover payments to SPI under the agreement through ECAC proceedings.
4. Because of the need for SPI to commence construction as soon as possible, the order should be effective immediately.

ORDER

Therefore, IT IS ORDERED that the agreement between Sierra Pacific Power Company and Sierra Pacific Industries is found to be prudent and reasonable, and that Sierra Pacific Power Company may recover the cost of power purchases made under the agreement through its Energy Cost Adjustment Clause or appropriate successor mechanism.

Sierra Pacific Power Company shall file the revised project milestones with the Commission Advisory and Compliance Division within 60 days of the effective date of this order.

This order is effective today.

Dated MAY 11 1988, at San Francisco, California.

STANLEY W. HULETT  
President  
DONALD VIAL  
FREDERICK R. DUDA  
C. MITCHELL WILK  
JOHN B. OHANIAN  
Commissioners