

Mailed

Decision 91-10-030 October 23, 1991

OCT 23 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
Southern California Edison Company)
(U 338-E) for Authority to Recover)
the Accrued Cool Water Coal)
Gasification Project Demonstration)
Phase Expenses.)

ORIGINAL
Application 90-06-002
(Filed June 1, 1990)

OPINION

In this application, Southern California Edison Company (Edison) proposes to recover, through a Cool Water Billing Factor (CWBF), the revenue requirement reflecting Edison's costs associated with its participation in the Cool Water Coal Gasification Program (Program), which are recorded in the Cool Water Balancing Account (CWBA), and projected through December 31, 1990. Specifically, Edison is requesting that the Commission find reasonable the costs incurred by Edison as a participant in the Program; and find reasonable the entries to the CWBA and the forecast balance in the CWBA of \$84,428,000 as of December 31, 1990, for the purpose of establishing a four-year amortization rate and CWBF to recover the December 31, 1990 CWBA balance. The CWBF would result in an annual revenue increase of \$26.3 million effective January 1, 1991.

In the mid-1970s, Edison and Texaco, Inc. (Texaco) considered the development of an integrated coal gasification combined cycle (IGCC) demonstration project at Edison's Cool Water Generating Station near Daggett, California using Texaco's coal gasification technology to pursue innovative approaches to develop and ensure reliable energy sources. This demonstration project, if successful and followed by other projects, could potentially reduce the reliance on low sulfur foreign oil and help ensure the

availability of reliable, diversified, and environmentally acceptable energy resources. On July 31, 1979, Edison and Texaco entered in the Texaco/Edison Agreement (T/E Agreement) which specified that Texaco and Edison would each contribute \$25 million to the estimated \$292 million required to construct a facility of approximately 100 MW.

In November 1979, Edison filed Application (A.) 59268, for a certificate of public convenience and necessity (CPCN) approving Edison's participation in the demonstration Program. In August 1980, we issued Decision (D.) 92115 (4 CPUC 2d 195), which granted Edison a CPCN to participate in the Program and found that the Program was not a public utility subject to the jurisdiction of the Commission. In that decision we authorized Edison an opportunity to recover its costs through an Energy Cost Adjustment Clause (ECAC) based upon Edison's marginal cost for power produced by the plant. We recognized that the economic outlook for the Program depended on rising marginal costs dictated by oil and natural gas prices. At that time, Edison forecast oil prices of approximately \$55/Bbl. when the Demonstration Phase would begin in 1984 and approximately \$90/Bbl. in 1990 when it was scheduled to terminate.

In June 1981, we issued D.93203 to clarify D.92115. We established the CWBA as a cost-tracking mechanism used to record Edison's capital costs and other deferred expenses incurred during the demonstration period and stated that "Edison is entitled to recover any deferred Project costs, after justifying them as prudently incurred, plus a factor computed at the AFUDC rate, regardless of the Project's result at the conclusion of the demonstration period." (D.93203, at pp. 6-19.)

By early 1984, the plant was completed on schedule and under budget. The plant operated successfully during the five-year Demonstration Phase, and the participants achieved the objectives of the Program. While the Program was successful in achieving its

objectives, the decrease in Edison's avoided costs compared to forecasts made in the early 1980s has made continued operation of the plant uneconomical as a coal gasification combined cycle unit. The Program transferred the plant to Edison at the end of the demonstration phase. After conducting an open bidding process, Edison is currently negotiating the sale of the plant to Texaco. If the sale is completed, or disposition by salvage differs from current expectations, Edison's request will be modified by adjustment to the CWBA.

This application and request for recovery of Edison's deferred costs is made in compliance with the Commission's prior decisions authorizing Edison's participation in the Program.

The Division of Ratepayer Advocates (DRA) conducted an investigation to determine the reasonableness of Edison's request to recover its Cool Water plant related expenses, examine the disposition of the facility, propose conditions on future purchased power payments in the event the plant is sold, and propose ratemaking treatment for the requested expenses. Edison's forecasted CWBA activity and DRA's proposed recovery amounts are listed in Table 1. DRA examined each of the items in the CWBA and recommended recovery of only \$51,552,000 through the CWBA and proposed conditions on future purchased power payments in the event the plant is sold.

Table I

Estimated Cool Water Balancing Account Activity
Through December 1990

(Dollars in Thousands)

	<u>Edison Balance</u>	<u>DRA Adjusted Balance</u>	<u>Difference</u>
Avoided Cost Capacity Credit	\$(27,670)	(27,670)	
Investment in Partnership	24,981	24,981	
Asset Exchange	14,121	0	\$14,121
Capital Improvements & Post Demonstration Licensing	3,181	3,181	
Unit 1 Modifications	638	638	
Unreimbursed Overheads	4,538	4,538	
Oxygen Contract Termination Payments	10,889	4,882	6,007
Loan Principal Payments	8,840	8,840	
U.S. Treasury Payments	1,986	1,986	
Additional Operating Period Funding	5,101	5,101	
Equivalent AFUDC	44,790	32,042	12,748
Site Restoration	5,952	0	5,952
Salvage (Net)	(5,952)	0	(5,952)
Tax Benefits	(6,967)	(6,967)	
Total	84,428	51,552	32,876

(Red Figure)

There were three differences between Edison's position and DRA's at the time DRA submitted its report, with respect to the amounts in the CWBA that Edison should be authorized to recover:

1. Given DRA's estimate of oxygen plant cost of \$17.1 million, DRA recommended a disallowance of \$6,007,000 of the \$10,889,000 oxygen contract termination payment made by Edison to terminate the remaining two years of an oxygen supply contract.

2. Through Edison's initial data request responses, DRA was unable to verify that the assets Edison received in exchange for funding the quench gasifier were properly treated for accounting and ratemaking purposes. Therefore, DRA concluded that Edison should not recover its \$14,121,000 request for those assets.

3. DRA recommended that Edison not be authorized recovery of any equivalent Allowance for Funds Used During Construction (AFUDC) on the accrued balance in the CWBA after June 23, 1989. DRA's disallowance for equivalent AFUDC through December 31, 1990 amounted to \$12,748,000.¹

In response to data requests received from DRA after DRA issued its report, Edison provided adequate accounting data to verify that the exchange assets were booked to the proper accounts and had not received prior ratemaking treatment. Edison also provide DRA documentation supporting an original oxygen plant cost of \$35 million which was reflected in the oxygen contract termination payment schedule.

By letter to Administrative Law Judge Barnett on May 13, 1991, DRA withdrew Chapters C and G of its report, thereby removing its recommended disallowances for the exchange assets and the oxygen contract termination payment. Thus, with those two

¹ Edison applied its AFUCD factor to the accrued balance in the CWBA after June 23, 1989 in accordance with Edison's interpretation of D.92115 and D.93203.

adjustments, DRA recommended a CWBA recovery amount totaling \$71,700,000, and DRA continued to recommend no recovery of equivalent AFUDC after the Demonstration Phase ended.

Edison contends that whether equivalent AFUDC should continue to accrue on the CWBA after the Demonstration Phase ended is not entirely clear, based upon language in both the discussion and Ordering Paragraphs of D.93203. Edison believes that equivalent AFUDC should be applied to the balance in the CWBA after the Demonstration Phase because the CWBA is a balancing account that was specifically authorized in 1981 in D.93203. The Commission stated:

"Thus, Edison is entitled to recover any deferred Project Costs, after justifying them as prudently incurred, plus a factor computed at the AFUDC rate, regardless of the Project's result at the conclusion of the demonstration period".²

In no other demonstration project had the Commission authorized the establishment of balancing account ratemaking treatment prior to the commencement of the demonstration project. All of Edison's other balancing accounts accrue interest either at a rate equal to the three-month commercial paper rate or AFUDC on their balances.³ Moreover, the Commission stated that it would be possible to transfer any net debit in the CWBA to the ECAC balancing account for recovery at the end of the demonstration.⁴ DRA believes that equivalent AFUDC should be applied to the balance in the CWBA only until the end of the Demonstration Phase because

2 D.93203, p. 18, Ordering Paragraph 13.

3 The Commission applied the AFUDC rate to the project costs because, at that time, the AFUDC rate was less than the three-month commercial paper (ECAC) rate. (D.93203, p. 8.)

4 D.93203, p. 17, Ordering Paragraph 8.

D.93203 authorizes Edison to recover its project costs "plus a factor computed at the AFUDC rate accrued during the demonstration period."⁵ Thus, DRA argues that approximately \$22 million of AFUDC that would have accrued from the end of the Demonstration Phase to the end of 1991 should not be permitted. In addition, DRA questions the reasonableness of accruing equivalent AFUDC during the 11-month period between the end of the Demonstration Phase and the submittal of this application.

Due to the uncertainty related to this issue, DRA and Edison, on August 20, 1991, presented a Joint Recommendation (Exhibit 17) by way of settlement of all issues. It provides that the Commission adopt a compromise value of \$6,400,000 for equivalent AFUDC to partially compensate Edison's shareholders for the use of monies to fund the CWBA undercollection from the end of the Demonstration Phase through December 31, 1991. This results in a total CWBA balance, effective December 31, 1991, of \$78,100,000. DRA and Edison jointly recommend that the Commission authorize Edison to transfer the December 31, 1991 balance in the CWBA of \$78,100,000 to Edison's ECAC balancing account. They also recommend that, if the Commission's decision adopting this Joint Recommendation in A.90-06-002 is rendered in a timely manner, Edison's ECAC rates be increased to reflect recovery of the December 1991 balance of \$78,100,000 through the Commission's decision in Edison's ECAC A.91-05-050.

The remaining issue that was subjected to the settlement pertains to the proposed sale of the Cool Water facility to Texaco. The settlement provided that any payments made by Texaco to Edison regarding this sale would be a credit to the CWBA; the settlement states that DRA agrees that sale of the Cool Water facility to

⁵ See DRA Report (Exhibit 16) p. 15, citing Ordering Paragraph 13, D.93203.

Texaco for a sale price of \$35,000,000 is reasonable; the auction bid process for the sale of the Cool Water facility was reasonable; and DRA had found no actual conflict of interest in Edison's sale to Texaco.

After the Edison and DRA Joint Recommendation was served on all parties, Texaco stated that it objects to one sentence of the Joint Recommendation, which reads "Edison and DRA agree that the same scope of investigation as the present DRA cost effectiveness analysis and unit-specific purchased power proposal, that compares the proposed purchase price, expected plant operation under both Edison's continued ownership and with Texaco, and forecasted purchased power payments will be used if Edison and Texaco enter into such an agreement." By letter dated August 20, 1991 (Exhibit 18), Edison says given our "views of the concerns expressed by Texaco in its August 2, 1991 letter, we do not believe it is necessary for the Commission to clarify the effect of the Joint Recommendation."

In our review of the Joint Recommendation, it is our opinion that it does not prejudice the issues that could be raised or limit the scope of review of such an agreement nor does it tie Edison's hands in negotiating an agreement with Texaco. The Joint Recommendation places no restriction on Edison's ability to negotiate a nonstandard agreement other than a commitment from Edison to submit such an agreement for Commission approval.

Findings of Fact

1. Edison seeks to recover \$84,428,000 in its CWBA.
2. DRA, after analyzing Edison CWBA, recommends that only \$71,700,000 be recovered.
3. The difference in amount to be recovered was caused by a difference of opinion on how to evaluate AFUDC after the demonstration period ended.
4. There is a reasonable uncertainty relating to the recovery of equivalent AFUDC.

5. The recommendation of Edison and DRA that the Commission adopt a compromise value of \$6,400,000 for equivalent AFUDC to fund the CWBA undercollection from the end of the Demonstration Phase through December 31, 1991 is reasonable.

6. The sale of the Cool Water facility to Texaco for a sales price of \$35 million is reasonable.

7. The auction bid process for the sale of the Cool Water facility was not flawed and was reasonable.

8. There is no conflict of interest in Edison's sale of the Cool Water facility to Texaco.

9. When the sale to Texaco is completed, or the Cool Water facility is disposed of by other means, Edison shall credit the proceeds to the CWBA.

10. In the event the Cool Water facility is sold to Texaco and Edison purchases power from the facility, Edison agrees to submit any negotiated power purchase agreement between Edison and Texaco to the Commission for preapproval, if such an agreement is ever negotiated. Edison will submit the agreement for preapproval in this proceeding within 60 days of the date Edison and Texaco have reached tentative agreement on the terms and conditions of such an agreement, and that agreement shall be subject to Commission approval.

11. The Joint Recommendation is reasonable.

12. In conformity with the Joint Recommendation, the balance in the CWBA effective December 31, 1991 is \$78,100,000, and is reasonable.

13. The Joint Recommendation does not prejudge the issues and scope of any subsequent review of an Edison/Texaco Agreement for the purchase of power generated by the Cool Water facility.

14. The Joint Recommendation will not tie Edison's hands in negotiating to secure the benefit of the Cool Water facility.

15. There are no protests. A public hearing is not necessary.

Conclusion of Law

The Commission concludes that the Joint Recommendation should be adopted and Edison should be authorized to transfer the \$78,100,000 in the CWBA as of December 31, 1991 to its ECAC balancing account on January 1, 1992.

ORDER

IT IS ORDERED that:

1. The Joint Recommendation is adopted.
2. Southern California Edison Company is authorized on January 1, 1992, to transfer the balance of \$78,100,000 in its Cool Water balancing account to its Energy Cost Adjustment Clause balancing account.

This order is effective today.

Dated October 23, 1991, at San Francisco, California.

PATRICIA M. ECKERT
President
JOHN B. OHANIAN
DANIEL Wm. FESSLER
NORMAN D. SHUMWAY
Commissioners

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


NEIL J. SHULMAN, Executive Director