

Decision 83 07 035 JUL 20 1983**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

|                                       |                      |
|---------------------------------------|----------------------|
| In the Matter of the Application of ) |                      |
| SOUTHERN CALIFORNIA EDISON COMPANY )  |                      |
| for Authority to Lease 302 Acres of ) | Application 83-05-30 |
| Real Property to VENTUS ENERGY )      | (Filed May 12, 1983) |
| CORPORATION. )                        |                      |
| _____ )                               |                      |

O P I N I O N

Southern California Edison Company (Edison) requests authority, under Public Utilities (PU) Code Section 851, to lease to Ventus Energy Corporation (Ventus) 302 acres of Edison-owned land on which Ventus will construct wind generation units and substation facilities (Project).

Notice of the filing of the application appeared on the Commission's Daily Calendars of May 18 and 19, 1983. No protests have been received.

Summary of Decision

This decision grants Edison the authority requested in its application.

Edison, a California corporation, operates as a public utility under the jurisdiction of this Commission. Edison generates, purchases, transmits, distributes, and sells electric energy in portions of central and southern California.

In this application, Edison proposes to enter into a lease with Ventus with respect to 302 acres of Edison-owned land

located in the San Gorgonio Pass region of Riverside County. This region has been documented as an area of high wind resources potential in studies conducted by the California Energy Commission. Edison purchased land in this area (including the land described in the application) for wind resource development. Edison presently intends to lease this land to entrepreneurs for the development of these resources. ✓

Ventus desires to construct wind energy generating units, with a total nameplate rating of 30 megawatts (MW), of which 12 MW will be developed on this parcel, including facilities appurtenant or incidental to the units. The facilities are to be located on 302 acres of Edison-owned land which is two miles east of the intersection of State Highway 62 and Interstate 10. Ventus will pay for permitting costs and will own, operate, and maintain the generating equipment and appurtenant facilities.

Edison's total investment in the land to be leased to Ventus is \$1,099,000. In consideration for leasing real property and providing the necessary interconnections, Edison will purchase net energy and capacity from Ventus over the term of the lease at a price below Edison's projected avoided costs.

The lease agreement between Edison and Ventus will commence approximately 30 days after approval by the Commission and will expire 30 years later (coterminous with the power purchase contract). Edison will lease Ventus 302 acres of land in the

Gorgonio Pass area near Palm Springs for a fee of \$299,000 per year which Edison considers to be the fair market lease value of the land. Edison will have the right to monitor construction, operation, and maintenance of the facilities. Ventus can use the land only for the purpose of wind energy generation unless authorized by Edison to do otherwise.

The fee of \$299,000 which Edison has negotiated with Ventus is based on the amount required to provide Edison an after-tax return on its incremental cost of capital equal to 14.97%. This return is based on assumptions provided by Edison to the Commission's Revenue Requirements Division and to the Utilities Division. The Divisions have determined that Edison's cost of capital assumptions are about what Edison requested in its last general rate case (A.61138) and somewhat higher than the 16% return on equity and 12.55% return on rate base that the Commission allowed in its D.82-12-055. The Divisions conclude that the lease fee of \$299,000 can be expected to cover the costs to the ratepayer of including the land in Edison's rate base. Accordingly, the Divisions have no objection to the Commission's approval of Edison's application.

The application states that the proposed lease is in the public interest as it expands Edison's resource base to include power purchases from what will be an important wind generation

facility without adversely affecting Edison's normal operations. The Revenue Requirements Division and the Utilities Division concur that the proposed lease is in the public interest.

Edison's application states that Commission approval of the proposed lease is required before the transactions can be consummated.

Edison, therefore, requests that authorization for the lease be expedited. Edison states that unless construction of the Project begins by August 1, 1983, Ventus will be unable to complete it by December 31, 1983, and will, therefore, be unable to qualify for 1983 energy tax credits available to owners of commercial alternative energy projects, such as wind farms. Edison states that, if these credits are not available, Ventus may withdraw from the Project, thereby depriving Edison's ratepayers the benefits of this additional renewable resource.

In issuing this decision, the Commission is not addressing nor does it guarantee the following:

1. The power purchase and sales agreement between Edison and Ventus;
2. The recovery of payments made for power purchases through an Energy Cost Adjustment Clause; or
3. Recovery of the associated land, inter-connection, or related capital costs.

These issues will be addressed in future proceedings if appropriate. However, as part of this order, we will require Edison to establish memorandum accounting records that track Edison's leasing revenues and energy purchases.

Because of the need to begin construction of the Project immediately so that it may be completed in time to qualify for 1983 energy tax credits, the Commission's Revenue Requirements Division recommends this order be effective on date of signature.

Findings of Fact

1. Edison, a California corporation, operates as a public utility under the jurisdiction of this Commission.
2. The proposed lease of the land, described in the application, to Ventus would facilitate the development of a wind energy generation facilities and would be for a proper purpose.
3. The proposed lease of Edison-owned real property, as described in the application, is reasonable and not adverse to the public interest.
4. There is no known opposition to the application and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.
2. The application should be granted to the extent set forth in the order which follows.

3. PU Code Section 851 requires that Commission authorization be obtained for Edison to enter into a lease for the land on which wind energy generation units and substation facilities are to be constructed in the San Gorgonio Pass region near Palm Springs in Riverside County.

4. The lease of the land as described in the application should be approved.

This authorization is for the purpose of this proceeding only and is not to be construed as an approval of: (1) the power purchase and sales agreement between Edison and Ventus; (2) the recovery of payments made for power purchase through an Energy Cost Adjustment Clause; or (3) recovery of the associated land. interconnection, or related capital costs. Furthermore, this authorization is neither a finding of the value of Edison's property nor does it indicate the amounts to be included in ratesetting proceedings.

The following order should be effective on date of signature to permit the construction of the wind energy generation facilities expeditiously.

O R D E R

IT IS ORDERED that:

1. The Southern California Edison Company (Edison), on or after the effective date of this order, may lease the real properties covered by Edison's application under terms and conditions consistent with those set forth in the application. ✓

2. Edison's execution of the proposed lease of its real properties will be at its own risk. There is no guarantee (1) that the power purchase and sales agreement between Edison and Ventus will be found reasonable; (2) that Edison will recover payments for power purchases through an Energy Cost Adjustment Clause; or (3) that Edison will be allowed to recover through rates, associated land, interconnection or related capital costs. ✓

3. Edison shall file one copy of the lease with the Commission within 15 days after its execution.

4. Edison shall maintain memorandum accounting records that track Edison's leasing revenues and energy purchases associated with the Project.

5. Edison shall submit to the Commission's Revenue Requirements Division a copy of its proposed accounting entries showing the account numbers and titles to record the lease transactions. ✓

This order is effective today.

Dated JUL 20 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.  
President

VICTOR CALVO

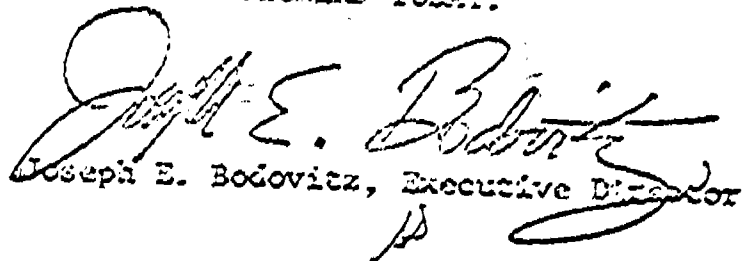
PRISCILLA C. GREW

DONALD VIAL

WILLIAM T. BAGLEY

Commissioners

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

  
Joseph E. Bodovitz, Executive Director



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