

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY  
AND COMPLIANCE DIVISION  
ENERGY BRANCH

RESOLUTION E-3080  
July 8, 1988

## R E S O L U T I O N

RESOLUTION E-3080. PACIFIC GAS AND ELECTRIC COMPANY (PG&E). ORDER AUTHORIZING PG&E TO REVISE ITS CURRENT GEOTHERMAL ADDER FOR ENERGY PRICES PAID TO QUALIFYING FACILITIES (QFs). BY ADVICE LETTER 1190-E, FILED FEBRUARY 1, 1988 AND SUPPLEMENT, FILED JUNE 3, 1988, IN COMPLIANCE WITH DECISION 86-12-091.

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SUMMARY

1. By Advice Letter 1190-E, filed February 1, 1988 and Advice Letter 1190-E-A, (Supplement) filed June 3, 1988, PG&E requests authorization to revise its "geothermal adder" which is to be added to the energy price for those qualifying facilities (QFs) who are paid variable energy prices. This filing is made annually pursuant to Ordering Paragraph 20 of Decision 86-12-091.
2. PG&E is authorized to revise its "geothermal adder" to \$0.0005866 per kilowatt hour as requested in Advice Letter Supplement 1190-E-A.

BACKGROUND

1. The energy prices which are paid to QF projects are determined by avoided costs. This approach measures the savings in PG&E's electric system operating costs due to the availability of QF energy. These savings are then paid back in kind to QFs. Therefore, PG&E can save on geothermal costs because QF energy helps reduce steam prices paid to steam producers, as explained further below.
2. The contractual geothermal steam prices are determined by a set formula essentially based on the amount of conventional thermal and nuclear generation costs PG&E incurs. The geothermal steam prices are recalculated annually, where PG&E's results of operations for the past year are the basis for the new steam price the coming year (the steam price is calculated by a one-year lag). Since the availability of QF energy reduces the cost of PG&E's thermal generation, QF energy indirectly reduces the geothermal steam price. The reduction in geothermal

steam price is a cost savings which has become known as the "geothermal adder".

3. This cost savings must be calculated by evaluating a two year period because of the one year lag in the geothermal steam price formula. In Advice Letter 1190-E, the years used for calculating the 1988 geothermal adder are 1987 and 1988. The components needed to calculate the cost savings for 1988 are: (1) the amount of variable QF energy for 1988 and 1987, (2) the amount of thermal generation which QFs displaced in 1987, (3) the amount of geothermal generation in 1988, and (4) the geothermal steam price formula.

4. Energy payments to QFs, specified in Decision 86-06-006, are to be based on an average G-55 natural gas rate.

#### DISCUSSION

1. In Decision (D.) 86-12-091 (PG&E's 1986 ECAC), the Commission determined that QFs with variable energy payments should be paid an adder that represents the impact of QFs on reducing PG&E's geothermal steam costs.

2. The Decision states: "We will instruct PG&E to file an advice letter by February 1, 1987 which uses 12 months of recorded QF production, ending November 30, 1986, to calculate avoided geothermal costs for 1987. The advice letter should detail recorded as available QF production, its impact on geothermal costs, and the concomitant energy payments to QFs on a cents/kWh basis. Energy payments should be made to QFs based on their actual production starting February 1, 1987, and continue for the next 12 months. We expect PG&E to update this calculation annually to incorporate the latest recorded and forecasted QF production."

3. The Commission, in Ordering Paragraphs 18 and 20 of D.86-12-091, specifies the following:

"18. PG&E shall file an advice letter by February 1, 1987 which uses 12 months of recorded QF production, ending November 30, 1986, to calculate avoided geothermal costs for 1987.

...20. PG&E shall update the avoided geothermal costs due to QF production annually."

4. The energy prices PG&E must pay to the QFs are specified by the Commission in D.86-06-006 (PG&E's 1986 GAC). Here the Commission directs PG&E to use the average G-55 rate for QF energy payments.

5. Pursuant to the content of Decisions 86-12-091 and 86-06-006, the Commission, in 1987, set the current geothermal adder at \$0.00032 per kWh.

6. By the initial filing of Advice Letter 1190-E, PG&E proposed to reduce the current QF payment of \$0.00032 per kWh to \$0.00008547 per kWh, which is approximately one quarter the present payment.

#### PROTESTS

1. A joint protest was submitted to Advice Letter 1190-E by the California Department of General Services (DGS), the California Cogeneration Council (CCC), and the Independent Energy Producers (IEP) on February 22, 1988. The joint protestors specific concerns were that PG&E's proposed decrease of the geothermal adder had been incorrectly calculated and failed to conform to various Commission decisions.

2. Two basic issues were discussed in this protest:  
(1) PG&E's calculation of electric generation savings and  
(2) PG&E's calculation of the fuel costs.

3. As a result of the March 16, 1988 meeting between the Commission Advisory and Compliance Division (CACD) Staff, PG&E, and the joint protestors, the only item under protest which had still not been resolved was the portion of the Schedule G-55 rate to be used in calculating the geothermal adder. PG&E only included the commodity portion of the schedule in its calculation of the geothermal adder whereas all other energy payments to QFs are based on the weighted average of the Schedule G-55.

4. CACD agreed with the contention of the joint protestors that PG&E was not in compliance with D. 86-06-006 since the geothermal adder calculation in Advice Letter 1190-E was based on the commodity portion instead of the weighted average G-55 rate.

5. Following the March 16, 1988 meeting and subsequent to a letter dated May 10, 1988 from the Chief of the Energy Branch, PG&E filed Supplemental Advice Letter 1190-E-A, revising the geothermal adder payment to \$0.0005866 per kWh. This revised cost is based on the average Schedule G-55 rate rather than on the commodity portion alone and includes the new best heat rate (1) whereas when the original filing was made, the best heat rate for 1987 was not yet available.

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(1) PG&E is allowed to select the best heat rate of all fossil fuel plants, according to the contract.

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6. The Commission and Advisory and Compliance Division (ACAD) has reviewed Advice Letter 1190-E and Supplement 1190-E-A and recommends its approval.

7. In accordance with Section III, Paragraph G, of General Order 96-A, PG&E has mailed copies of this advice letter and supplement to utilities and interested parties.

FINDINGS

1. We find PG&E's request by Advice Letter and Supplement to revise its geothermal adder to \$0.0005866 per kWh is just and reasonable.

THEREFORE, IT IS ORDERED that:

1. Pacific Gas and Electric Company, as requested by Advice Letter Supplement 1190-E-A, is authorized under D. 86-12-091 and General Order 96-A to revise its geothermal adder energy payments.
2. Advice Letter 1190-E, Supplement 1190-E-A, and accompanying tariff sheets shall be marked to show that they were authorized by Resolution E-3080 and became effective on and after July 8, 1988.
3. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on July 8, 1988. The following Commissioners approved it:

STANLEY W. HULETT  
President

DONALD VIAL  
G. MITCHELL WILK  
JOHN B. OHANIAN  
Commissioners



Executive Director

Commissioner Frederick R. Duda  
being necessarily absent, did not  
participate.