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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3086
March 9, 1988

R E S O L U T I O N

ORDER AUTHORIZING SOUTHERN CALIFORNIA EDISON COMPANY (EDISON) TO PROCEED WITH THE SALE OF THE SOUTHWEST RANGELY OIL AND GAS PROPERTIES AS MANAGED BY MONO POWER COMPANY (MONO) FOR THE BENEFIT OF EDISON'S RATEPAYERS.

(Advice No. 778-E, filed February 16, 1988.)

SUMMARY

Southern California Edison Company (Edison) requests Commission approval of the sale of the Energy Exploration and Development Adjustment (EEDA) properties which have been managed by Mono Power Company (Mono) for the benefit of Edison's ratepayers since the EEDA termination. The request is granted.

BACKGROUND

1. Order Instituting Investigation (OII) 82-07-01 was instituted by the Commission's own motion to consider whether the ratepayer supported exploration and development programs of Edison and San Diego Gas and Electric Company should be continued, modified, or terminated. Decision 84-09-078, dated September 6, 1984, found that Edison's Energy Exploration and Development Adjustment (EEDA) programs had been unsuccessful, that new EEDA programs should not be undertaken, and that the programs existing at that time should be wound down in a manner that would maximize ratepayer benefit. The decision ordered Edison to hire an outside consultant to forward a proposal to the Commission regarding the termination of the then existing EEDA programs. The consultants were selected with the concurrence of the Commission staff. The consultant reports were completed and provided to the Commission during the third quarter of 1985. In accordance with the recommendations of the consultants, some EEDA properties were terminated and some properties were offered through request for bid procedures and sold if the sale was more beneficial to the ratepayers than continuing to participate in the projects.

2. Decision 87-07-015, dated July 8, 1987, as the final decision in OII 82-07-01, terminated Edison's EEDA mechanism. Addressing the EEDA properties still retained by Mono, Ordering Paragraph 2 of that decision states that: "Edison shall continue to prudently manage its remaining EEDA investments for the benefit of the ratepayers and shall continue to attempt to dispose of the properties under more favorable terms. Edison shall seek

Commission approval for sales of those remaining properties through advice letter filings. Edison shall include in its annual Energy Cost Adjustment Clause (ECAC) filing, starting in 1988, a report on the status of the remaining unsold properties." Consistent with this Order, a report on the status of the remaining unsold properties was included in Edison's ECAC Application 88-02-016 as filed with the Commission on February 10, 1988.

3. Mono has now received an offer to purchase the Southwest Rangely Oil and Gas Properties located in the Rocky Mountain area of Colorado and in accordance with Ordering Paragraph 2 of Decision 87-07-015, Edison requests approval to sell these properties for the proposed offer.

DISCUSSION

1. Mono has received an offer to purchase the Southwest Rangely Oil and Gas Properties for a cash price of \$339,100. Southeast Rangely is an approved EEDA project located in the Rocky Mountain area of Colorado. It includes six currently producing wells, one well waiting on pipeline connection which is not currently scheduled, and six depleted wells waiting on abandonment.

2. The present value to the ratepayer of the future income from these properties calculated in accordance with the "Hurdle Value" formula authorized in Decision 85-11-062 for the valuation of the Gas Exploration and Development Adjustment properties is \$357,200.

3. The "Hurdle Value" is a calculation of the present value of benefits to the ratepayer of flowing the net income from operating the properties into the ECAC balancing account. The following assumptions were used in developing the "Hurdle Value":

- a. Gas Price - The value per unit of production being received currently.
 - b. Gas Price Escalation - DRI Natural Gas Long Term Price Inflation Projection.
 - c. Operating Cost - Current estimate of gas well operating costs in the region.
 - d. Cost escalation - GNP Implicit Price Deflation factor.
3. Present Worth Factor - 16% real rate (16% escalated by the GNP Implicit Price Deflator). As directed in Decision 85-11-062.

4. The present offer exceeds the highest offer received in response to a Request for Bid on this property sent to 190 companies in 1986.

5. Since Edison's involvement in the remaining EEDA properties is solely to manage the properties for the benefit of Edison's ratepayers, any and all benefits arising from the sale of the Southwest Rangely Properties would pass directly and entirely to the ratepayers.

6. Edison asserts that the offer is reasonable and that the sale of the Southwest Rangely Properties is to the benefit of Edison's ratepayers.

7. Pursuant to Ordering Paragraph 2 of Decision 87-07-015, Edison must seek approval of the sale of all remaining EEDA properties.

8. Edison recommends the Commission's expeditious approval of the sale of the Southwest Rangely Oil and Gas Properties for the offer submitted, and the potential purchaser has indicated a desire to complete the transaction immediately.

9. Should the sale of the Southwest Rangely Properties be approved, proceeds from the sale will be credited to the ECAC Balancing Account pursuant to Ordering Paragraph 3 of Decision 87-07-015.

FINDINGS

1. The "Hurdle Value" is a valid calculation of the present value of benefits to the ratepayer of flowing the net income from operating the properties.

2. Although the present offer is slightly less (five percent) than the calculated "Hurdle Value," it exceeds the highest offer received in response to a Request for Bid on this property sent to 190 companies in 1986.

3. The proposed offer is a reasonable price for the subject properties.

4. The sale of the Southwest Rangely Properties is to the benefit of Edison's ratepayers.

THEREFORE, it is ordered that:

1. Southern California Edison Company is authorized to proceed with the sale of the Southwest Rangely Properties at the proposed offer.

2. Proceeds from the sale are to be credited to the ECAC Balancing Account pursuant to Ordering Paragraph 3 of Decision 87-07-015.

3. Advice No. 778-E shall be marked to show that it was approved by Commission Resolution E-3086.

4. This Resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on March 9, 1988. The following Commissioners approved it:

STANLEY W. HULETT
President

DONALD VIAL

FREDERICK R. DUDA

G. MITCHELL WILK

JOHN B. O'HANIAN
Commissioners



Executive Director