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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY  
AND COMPLIANCE DIVISION  
Energy Branch

RESOLUTION E-3139  
July 19, 1989

R E S O L U T I O N

RESOLUTION E-3139. PACIFIC GAS & ELECTRIC COMPANY AUTHORIZED TO REVISE ITS CURRENT GEOTHERMAL ADDER FOR ENERGY PRICES PAID TO QUALIFYING FACILITIES IN COMPLIANCE WITH PRIOR COMMISSION ORDER.

BY ADVICE LETTER 1237-E, FILED FEBRUARY 1, 1989 AND SUPPLEMENTAL ADVICE LETTERS 1237-E-A, 1237-E-B AND 1237-E-C, FILED APRIL 11, 1989, APRIL 17, 1989 AND JUNE 26, 1989, RESPECTIVELY.

SUMMARY

1. By Advice Letter 1237-E, filed February 1, 1989, and Supplemental Advice Letters 1237-E-A, 1237-E-B and 1237-E-C, filed April 11, 1989, April 17, 1989 and June 26, 1989, respectively, Pacific Gas & Electric Company (PG&E) requests authorization to revise its "geothermal adder" which is a component 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 the provisions of Ordering Paragraph 20 of Decision 86-12-091.

2. Supplemental Advice Letter 1237-E-C supercedes and replaces all calculations submitted with Advice Letters 1237-E, 1237-E-A and 1237-E-B and these prior advice letters are withdrawn.

3. This resolution approves PG&E's request, in Advice Letter 1237-E-C, to decrease the geothermal adder from \$0.0005866/kwh to \$0.0004167/kwh and sets the effective date at May 1, 1989.

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 to the QFs. PG&E

July 19, 1989

saves on geothermal costs because QF energy helps to offset higher-cost geothermal energy from steam producers.

2. The contractual geothermal steam prices are determined by a formula established by PG&E in Advice Letter 1138-E, dated January 30, 1987. This formula was derived from the provisions of Commission Decisions 86-08-083 and 86-12-091 and is essentially based on the amount of conventional thermal and nuclear generation costs PG&E incurs. The geothermal steam prices are recalculated annually, using PG&E's results of operations for the past year as the basis for the new steam price the coming year (the steam price is calculated with 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 translates into a value known as "geothermal adder", which is then paid to QFs.

3. Ordering Paragraph 20 of Decision 86-12-091 requires PG&E to update the "geothermal adder", based on avoided geothermal costs due to QF production, annually. This filing is the second annual update. The current geothermal adder was filed by Supplemental Advice Letter 1190-E-A, (June 3, 1988) and was approved by Commission Resolution E-3080 on July 8, 1988.

#### NOTICE

1. Public notification of these filings have been made by mailing copies of each advice letter and related tariff sheets to other utilities, governmental agencies and to all interested parties who requested such notification. Workpapers supporting the final revisions presented by Advice Letter 1237-E-C have not been mailed to any of the above parties but were available from PG&E upon request.

#### PROTESTS

1. On February 21, 1989, the Law Firm of Morrison & Foerster, representing the California Cogeneration Council (CCC), filed a protest to Advice Letter 1237-E. At issue was the effective date of the payment revision and the amount of the payment.

July 19, 1989

2. Supplemental Advice Letters 1237-E-A and 1237-E-B were filed on April 11, 1989 and April 17, 1989, respectively to correct errors in the calculations used in the initial filing and subsequently discovered by PG&E.

3. On May 9, 1989, CCC filed a supplemental protest to PG&E's Supplemental Advice Letter filings and requested additional time to analyze PG&E's filings and to prepare a protest. On May 24, 1989, CCC filed an additional protest to the Supplemental Advice Letter filings, challenging two aspects of the geothermal calculations.

4. Since that time PG&E and CCC have met and conferred to weigh the merits of the issues of the filing and to resolve the points of differences.

5. Supplemental Advice Letter 1237-E-C is the compromise agreement between PG&E and CCC. PG&E's response to CCC's latest protest consisted of the filing of Advice Letter 1237-E-C, which is the culmination of meetings between the two parties and the arrival at an agreement mutually acceptable to both sides.

#### DISCUSSION

1. Due to errors in the calculations and a dispute in the methodology used to calculate the geothermal adder, PG&E initially filed for an increase in the geothermal adder to \$0.0007906/kwh. This has since been revised three times, with the resultant determination, as presented by Advice Letter 1237-E-C, described in Paragraph 2 below.

2. Recorded, as-available, QF production was 6,173,656,607 kwh for the twelve months ending November 30, 1988. Using the formula derived from Decisions 86-08-083 and 86-12-091, the geothermal rate calculated in Advice Letter 1237-E-C, without the relevant QFs for the same period would create geothermal savings of \$2,913,104. Dividing this by the Energy Cost Adjustment Clause (ECAC) forecast of variable QF generation produces a geothermal adder of \$0.0004167/kwh for a decrease of approximately 29 percent from the currently effective adder of \$0.0005866/kwh.

3. Decision 86-12-091 specifies that, following Commission approval, the geothermal adder may be revised only at the beginning of each quarter, i.e.: February 1, May 1, August 1, or November 1.

July 19, 1989

4. In the initial filing, 1237-E, PG&E requested to file the modified adder in its "Draft Energy Prices For Qualified Facilities", effective May 1, 1989.

5. The initial protest filed by CCC on February 21, 1989, objected to this requested effective date of the revised geothermal adder. The CCC claimed that Decision 86-12-091 specifies that the revisions to the geothermal adder must be made effective on February 1 of each year.

6. The CCC has voiced a similar objection to the effective date of the revised geothermal adder from the previous year, which was filed by Advice Letter 1190-E on February 1, 1988.

7. After some re-calculations, Supplemental Advice Letter 1190-E-A (filed June 3, 1988) was approved for filing on July 8, 1988, by Resolution E-3080, which placed the revised geothermal adder into effect at the start of the next available quarter, namely August 1, 1988. The CCC filed a letter with the Commission on January 10, 1989, contending that the effective date of the 1988 revision to the geothermal adder should have been February 1, 1988, and requesting retroactive payments for the period between February 1 and July 31 of that year.

8. February 1, 1987 was selected by the Commission in Decision 86-12-091 as the effective date of the first geothermal adder component in order to coincide with the start of the next available quarterly price change. No further Commission action was required at that time as the authority to file this rate was vested in Decision 86-12-091.

9. Additionally, PG&E was instructed to revise the geothermal adder payments on an annual basis. However, any such revision required additional Commission approval.

10. PG&E contended that the calculations needed to determine the new geothermal adder depended upon recorded data through November 30 of each year and that it take approximately 30 days from the date that the "books are closed" until that information is available for use in computations. Allowing for the required 40 days review time when an advice letter is filed, it is just not possible for the utility to prepare an accurate advice letter filing in time for Commission approval prior to February 1 of each year.

July 19, 1989

11. During the recent discussions held between PG&E and CCC, it was determined that the February 1 effective date is not practical due to insufficient data at that time and that the effective date for the revised geothermal adder should be May 1 for both 1988 and 1989, as well as for all future years.

12. Therefore, PG&E requests, and CCC concurs, that this revised geothermal adder, as presented by Advice Letter 1237-E-C should be made effective as of May 1, 1989 and that Commission Resolution E-3080 should be modified to make the revised geothermal adder filed by Advice Letter 1190-E-A effective as of May 1, 1988.

13. PG&E further requests that the Commission allow PG&E 90 days within which to adjust any retroactive payments to QFs as ordered by this resolution.

14. At issue here are payments and not rates. Therefore any such action as described above would not constitute retroactive rate making and thus is not prohibited by the PUC Code.

15. Supplemental Advice Letters 1137-E-A and 1137-E-B were filed on April 11, 1989 and April 17, 1989, respectively, due to discovered errors in the initial filing.

16. The second protest from CCC filed on May 24, 1989, challenged two aspects of PG&E's geothermal adder calculations. First, CCC contended that PG&E incorrectly calculated the average utility electric generation (UEG) gas price in the adder calculation.

17. The gas price that PG&E used to calculate the adder in Advice Letters 1237-E, 1237-E-A and 1237-E-B is an average price derived from the applicable tariffs in effect from December 1987 to November 1988 (Schedule G-55 through April 30, 1988 and Schedules G-UEG, G-NR2, and G-PC thereafter) and the actual UEG throughput in that period. CCC contends that a more appropriate methodology for calculating the gas price would be to calculate the respective actual monthly average UEG rates based on actual monthly UEG throughput and revenues.

18. After discussions with CCC, PG&E agrees with CCC's suggestion that actual monthly average UEG gas rates are appropriate to use in calculating the geothermal adder. The UEG customer charge tariff components, however, are excluded since

the Commission determined in Decision 88-07-024 that customer costs are not avoided by QF power purchases. Supplemental Advice Letter 1237-E-C reflects PG&E's adoption of CCC's proposed methodology.

19. CCC's second point of dispute concerns PG&E's classification of certain non-zero band width Interim Standard Offer 4, Energy Payment Option 3 (ISO4/EPO3) QFs as fixed price rather than variable priced.

20. CCC contends that QFs with band widths large enough to allow the use of a variable, incremental energy rate should be classified as variable priced. For the purpose of calculating the 1989 geothermal adder, CCC believes that it has identified two such QFs that would be classified from fixed to variable priced. However, reclassification of these two QFs would have insignificant effect on the 1989 geothermal adder.

21. After extensive discussions among CCC, PG&E and the Commission's Division of Ratepayer Advocates (DRA), CCC has agreed to allow PG&E to classify all ISO4/EPO3 QFs as fixed price for purposes of the 1989 geothermal adder.

22. However, treating these QFs as fixed price for the purposes of the 1989 geothermal adder would not set precedent for classification of ISO4/EPO3 QFs either in future geothermal adder calculations or other QF-related calculations, nor would it preclude CCC or PG&E from requesting that this issue be addressed in the future by the Commission.

23. As a result of the above determinations, Advice Letter 1237-E-C does not modify the fixed/variable split submitted by Advice Letter 1237-E-B.

24. The Commission Advisory and Compliance Division (CACD) has reviewed these filings. CACD believes that the proposed revision to the geothermal adder, as submitted by Advice Letter 1237-E-C is reasonable because it was calculated in accordance with the formulae specified in Decisions 86-08-083 and 86-12-091, and the final calculation methodology is acceptable to both PG&E and CCC.

25. The CACD further believes that the effective date of May 1 of each year as agreed upon by both parties, is also reasonable in that it allows sufficient time for Commission review after all

July 19, 1989

of the recorded data has been submitted. Making both the 1988 and the 1989 geothermal adder revisions effective on those respective dates would allow for uniformity and would remove any objections raised by CCC as to the effective dates of the geothermal adder revisions.

26. In order to avoid such disputes in the future, the CACD recommends that PG&E make an advice letter filing revising the Preliminary Statement of its filed Electric Tariffs to include a section describing the method and timing of payments to QFs as determined by this resolution.

27. This filing will not increase any rate or charge, conflict with other schedules or rules, nor cause the withdrawal of service.

#### FINDINGS

1. PG&E's request, as filed by Advice Letter 1237-E-C, to revise its geothermal adder from \$0.0005866/kwh to \$0.0004167/kwh is the culmination of discussions between PG&E and CCC, and is based on the methodology agreed upon by both parties and the formulae contained in Decisions 85-08-042 and 86-12-091. For these reasons, this revised geothermal adder is just and reasonable, and therefore, should be adopted.

2. PG&E's request to make the revised geothermal adder effective May 1, 1989, is also a culmination of the discussions between PG&E and CCC and is also just and reasonable and should be adopted.

3. For the above reasons, Commission Resolution E-3080 should be modified to change the effective date for the revised geothermal adder for 1988 to May 1, 1988.

4. The revised geothermal adders reflect payments to suppliers and not rates to customers. Therefore, this does not constitute retroactive ratemaking and thus, the above requests to make the effective dates for both the 1988 and the 1989 revisions to the geothermal adder effective on May 1 of the respective years should be granted.

5. PG&E should have adequate time to adjust its payments to the QFs in order to reflect the retroactive effective dates

July 19, 1989

described above and therefore the ninety (90) days requested by PG&E is just and reasonable.

6. At the end of that ninety day period, PG&E should have an additional thirty (30) days in which to file a report to the Commission on the final disposition of all QF accounts for both the 1988 and the 1989 revised geothermal adder component.

7. Also, within ninety days of the effective date of this order, PG&E should submit an advice letter filing, revising the Preliminary Statement of the filed Electric Tariffs to include language describing the methodology and the timing to be used in revising the geothermal adder component of payments to QFs. Specifically, this section should state that the utility will file the revised filing with the Commission on or before February 1 of each year and that such revised payment component should become effective on May 1 of that year.

8. Finally, Advice Letters 1237-E, 1237-E-A and 1237-E-B and all accompanying tariff sheets and calculations are all superceded and replaced by Advice Letter 1237-E-C and should therefore, be withdrawn, without prejudice.

THEREFORE, IT IS ORDERED that:

1. Pacific Gas & Electric Company is authorized under the provisions of Decisions 85-08-042 and 86-12-091 to revise the geothermal adder component of payments to Qualifying Facilities from \$0.0005866 per kwh to \$0.0004167 per kwh.

2. Such revision to the geothermal adder shall apply to all payments made to QFs on and after May 1, 1989.

3. Under the provisions of Section 490 of the Public Utilities Code, Commission Resolution E-3080 is hereby modified to make the effective date of the 1988 revised geothermal adder component May 1, 1988.

4. Within ninety (90) days of the effective date of this order, Pacific Gas & Electric Company shall reconcile all QF accounts to adjust for the retroactive revised payments as of May 1, 1988 and May 1, 1989, respectively, and shall report to the Commission on the current disposition of all QF accounts within one hundred and twenty (120) days after the effective date of this order.



July 19, 1989

5. Within ninety (90) days of the effective date of this order, Pacific Gas & Electric Company shall submit an advice letter filing revising the Preliminary Statement of the filed Electric Tariffs to detail the methodology and the timing of filing revisions to the geothermal adder components of payments to Qualifying Facilities.
6. Advice Letters 1237-E, 1237-E-A and 1237-E-B, together with all accompanying tariff sheets and workpapers are superceded and withdrawn.
7. Advice Letter 1237-E-C and accompanying attachments shall be marked to show that they were approved for filing by Commission Resolution E-3139.
8. The effective date of this resolution is the date hereof.

I hereby certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on July 19, 1989. The following Commissioners approved it:

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



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Executive Director

Commissioner Patricia M. Eckert,  
being necessarily absent, did  
not participate.