PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3146
April 26, 1989

R E S O L U T I O N

RESOLUTION E-3146. SAN DIEGO GAS & ELECTRIC COMPANY (SDG&E), ELECTRIC DEPARTMENT. AUTHORIZATION TO REVISE THE ELECTRIC BASE REVENUE TO OFFSET SDG&E'S PORTION OF THE 1989 PROJECTED EXPENDITURES FOR THE HEBER BINARY PROJECT. ADVICE LETTER 760-E, FILED FEBRUARY 8, 1989.

SUMMARY

1. By Advice Letter 760-E, filed February 8, 1989 SDG&E requests authorization to revise The Electric Authorized Base Rate Revenue to offset SDG&E's portion of the 1989 projected Research and Development expenditures for the Heber Binary Project (Heber).

2. SDG&E proposes to change the Authorized Base Rate Revenue amount, in the same manner as previously authorized by Resolutions E-3031 and E-3078, dated April 22, 1987 and March 23, 1988, respectively.

3. The Division of Ratepayer Advocates (DRA) audited the Heber Project and found that certain expense items should be deferred. This resolution adopts the resulting lesser amount recommended by DRA.

BACKGROUND

1. The Heber Binary Project is an experimental 45 Megawatt geothermal power plant located at Heber, Imperial County, California. The plant is a joint venture managed by SDG&E. It uses a binary cycle which takes hot geothermal brine through a heat exchanger to vaporize a hydrocarbon liquid which drives a turbine electric generator. The brine, then somewhat cooled, is re-injected into the earth via separate dry wells.

2. This experimental project which was started in 1980, and was divided into three phases: Design, Construction and Demonstration. Following the experimental stage, Commercial

operation was anticipated, if the plant proved cost-effective. The original estimate of the total project costs through the demonstration phase was $188 million which included the cost of developing the geothermal brine through this phase. Construction was completed in 1985. The plant was operated in a low power phase from June 1985 through June 1987. The Heber Plant is now shut-down in a "caretaker" storage phase.

3. In addition to SDG&E there were six other participants in the project with the following percentages of participation and maximum commitments of funding:

Participants	Percent Participation	Maximum Commitment
SDG&E	31.3	Unspecified
U.S. Department of Energy	50.0	$61 Million
Electric Power Research Institute	10.0	12.7 Million
Imperial Irrigation District	3.8	Unspecified
Southern California Edison Company	2.0	$2.5 Million
Calif. Department of Water Resources	1.2	Unspecified 1/
State of California 2/	1.7	$2.0 Million
	100.0%	$188 Million (Approx.)

1/ The California Department of Water Resources is no longer an owner and is limiting its participation, with its share of ownership being equally divided among the other participants.

2/ The California State Legislature authorized $2.0 million to be used only for the demonstration part of this project only. In the event of a sale, however, the State will receive its fair share of the proceeds. Administrative responsibility of this fund was placed with the Department of Water Resources (DWR) and is held as a separate account from the now-closed participation of DWR.

4. This filing is made pursuant to Ordering Paragraph 4 of Decision 91271, dated January 29, 1980 in application 59280, and Decision 93892, dated December 30, 1981, in Application 59788.

5. Decision 83-05-047, issued May 18, 1983 in Application 82-08-049 provided for continued funding of the project for SDG&E with an established limit of $89.7 million.

6. In the following years, the Commission authorized SDG&E, by resolution, to recover in rates annual expenses for the Heber Project in amounts ranging from $5 Million to $7 Million each year through March 31, 1988.

7. In 1987, SDG&E experienced difficulties in operating the Heber Plant due primarily to an insufficient supply of hot brine from the wells which were not under SDG&E's direct control. In view of these difficulties and for other reasons, SDG&E decided to shut down the plant operation and place it in storage with a minimum of on-going expense.

8. The decision to terminate the heat contracts came as a result of Chevron's finding that it would take up to two more years, or even longer, to get to a "full-flow" status, in order to operate the plant at peak capacity. The plant needs a "full flow" status to be commercially viable. This led to legal suits and counter-suits between the parties, giving rise to unanticipated litigation costs.

9. Following the shut-down of the operation, SDG&E made a further decision to sell its interest in the Heber Project. This decision gave rise to a new category of "sale support" costs, to cover negotiation and contract preparation costs involved in handling the sale of the property.

10. This resolution is concerned only with the authorization of SDG&E's on-going Heber Project expenses for 1989 in its present state through December 31, 1989, and is not related in any way to the proposed sale or litigation expenses. The Base Rate Revenue adjustment authorized by this resolution is subject to further review or revision when and if SDG&E completes a sale of the Heber Binary Project.

11. In the event that SDG&E is unable to sell its portion of the Heber Project, the utility will be forced to evaluate its position as to the most cost-effective method of dealing with the plant (mothballing, dismantling, use for other purposes, etc.). At that time, the utility will inform the Commission of its intent as to the disposition of this plant.

DISCUSSION

1. This filing is made in accordance with the Finding of Fact 10 of Decision 88-09-063, dated September 28, 1988, in

Application 87-12-003 and I.88-01-006, and Sections III.A.2. and III.H of the Stipulation and agreement approved by that decision. These provisions removed from consideration in SDG&E's 1989 Test Year General Rate Case, $2.4 million of RD&D expenses related to the total requested expenses of $3.5 million. These provisions also authorized SDG&E to seek recovery of these expenses in an annual advice letter filing on the Heber Project.

2. Since Decision 88-09-063 was issued, SDG&E has reduced its 1989 Heber Project expense and ad valorem tax estimates from $3.5 million to $2.1 million. By this filing, SDG&E seeks recovery of this amount and amortization of an undercollection of approximately $0.9 million which is projected to exist in the Heber Balancing Account as of April 1, 1989. The Base Rate Revenue change necessary to recover these amounts over the nine month period April 1, 1989 to December 31, 1989 is $3,451,100, annualized over the nine-month period. In the interest of rate stability, SDG&E proposes to change the Authorized Base Rate Revenue, but not to change rates at this time. This will lead to further undercollection.

3. The undercollection related to the Heber Project in SDG&E's ERAM Balancing Account will continue to accrue in ERAM until SDG&E's next scheduled revision date. By allowing the requested Heber Project adjustment to be reflected in the Base Rate Revenue (and thereby accrue to ERAM) without an immediate rate change, the rate impact of the 1989 Heber Project expenses will be absorbed in ERAM. The Heber Balancing Account, which SDG&E maintains as an internal memorandum account, will be almost fully amortized by year-end 1989, assuming that SDG&E's estimated expenditures for Heber for 1989 are accurate.

4. Attachment A to this resolution shows SDG&E's calculation of the net increase in the base rate revenue requirements related to the Heber Project. Attachment B sets forth the projected 1989 expenditures for the Heber Project.

5. Implementation of SDG&E's requested 1989 Heber Project adjustment necessitates the revision of the Authorized Base Rate Revenue amount set forth in Section 13.(b)(2) of SDG&E's Electric Department Preliminary Statement. The development of the revised Authorized Base Rate Revenue amount for SDG&E is shown as follows:

1.	1989 Authorized Base Rate Revenue	
1.	effective January 1, 1989 (pursuant to D88-12-085)	$772,455,000
2.	Proposed 1989 Heber Project Adjustment (Attachment A)	3,451,100
3.	1989 Authorized Base Rate Revenue effective April 1, 1989	$775,906,100

6. The objective of the audit of SDG&E's Heber account undertaken by DRA was to verify that the recorded 1986-1988 Heber costs charged to the ratepayers through the balancing account and the 1989 forecast of expenses related to the project were reasonable and within the intent of the Commission's decisions that established the Heber project.

7. The DRA staff reviewed prior audit reports, inspected the plant at its site, interviewed personnel directly involved with the project and examined workpapers supporting the Advice Letter.

8. Based on the above reviews, the DRA Staff recommends that the $3,451,100 increase in base rate revenue requirements requested by SDG&E be reduced by $1,409,500 to a new total of $2,418,400. This reduction is due to a reclassification of $166,600 of sale support costs and $611,400 of litigation costs, together with a $139,000 reduction in the 1989 forecasted expenses and the resultant $134,180 reduction in the gross-up amounts.

9. DRA considers that "sale support" costs are not reasonable RD&D expenses. This category of expenses should not be allowed to be charged to the Heber balancing account. All previously incurred "sale support" expenses up to 12/31/88 amounting to $144,600 should be reclassified and taken out of the balancing account. All projected 1989 "sale support" costs amounting to $22,000 should also be deleted from Advice Letter considerations.

10 DRA further believes that litigation expenses are also not reasonable RD&D expenses. This category of expenses should not be allowed to be charged to the Heber Balancing Account. All previously incurred litigation expenses up to 12/31/88 amounting to $290,300 should be taken out of the balancing account by reducing the undercollection amount at that time. All projected 1989 litigation costs amounting to $321,100 should also be deleted from Advice Letter considerations.

11. DRA recommends that all Heber "sale support" and litigation expenses, past and future, be accumulated in deferred accounts and can be netted out against the proceeds from any subsequent disposition or operation of the plant and from any court decision and settlement agreements pertaining to the project, after a reasonableness review by the Commission. The excess of the proceeds from disposition or operation of the plant and from any court decision and settlement agreements pertaining to the project, over actual costs, then, should be flowed through to the benefit of the ratepayers, by way of the balancing account mechanism.

12. After making the above adjustments and after deleting the contingency amounts used to cover unanticipated expenses, from the remaining anticipated 1989 costs, the DRA-recommended Heber balances are as follows:

	Per SDG&E	DRA Adjustment	DRA Proposal
1989 Projected Costs	$2,112,400	$ 22,000 (1) 321,100 (2) 139,000 (3)	$1,630,300
Balancing Account 1/1/89 Under-(Over) Collection	377,800	144,600 (1) 290,300 (2)	(57,100)
Net Increase in Revenues	$2,490,200		$1,573,200
Franchise Fees and Uncollectibles and City Franchise Fee Differential	55,000	20,200 (4)	34,800
Adjustment for Recovery from May-Dec. 1989	1,282,700	472,300 (4)	810,400
Increase in base rate revenues	$3,827,900	$1,409,500	$2,418,400

Notes: (1) "Sale support" expenses
(2) Litigation costs
(3) Contingency add-on "cushion" costs after deducting "sale support" and litigation costs.
(4) Difference between SDG&E and DRA amounts.

13. The Commission Advisory and Compliance Division (CACD) has also reviewed this filing and DRA's recommendations. CACD concurs with DRA's recommendations.

14. Public notification of this filing has been made by mailing copies of the filing to other utilities, governmental agencies and to all interested parties who requested such notification.

15. No protests have been received by CACD regarding this matter. DRA's audit and modifications were discussed with SDG&E. Mutual agreement was reached.

FINDINGS

1. The modifications to this base rate revenue revision are just and reasonable and therefore, should be adopted.

2. The base rate revenue revisions authorized in this resolution shall be made subject to further adjustment or revision when and if SDG&E completes the proposed sale of its interest in the Heber Binary Project.

3. This filing complies with the provisions of Decision 83-05-047, in that it provides for continual funding of Heber related expenses and a reasonableness review by the Commission.

THEREFORE, IT IS ORDERED that:

1. The adjustments proposed by the Division of Ratepayer Advocates for SDG&E's base rate revenue revisions for the Heber Binary Project are adopted and the filing shall be modified accordingly.

2. San Diego Gas and Electric Company is instructed to file revised tariff sheets to reflect the revisions proposed by DRA and upon receipt of such substitute tariff sheets, authority is granted under Section V.A. of General Order 96-A for SDG&E to place Advice Letter 760-E and accompanying tariff sheets (as amended) into effect on May 1, 1989.

3. The base rate revenue adjustment for the Heber Project authorized herein is to remain in effect until December 31, 1989, and will be subject to further revision by the Commission if San Diego Gas & Electric Company completes a sale of its portion of the Heber Binary Project prior to that date.

4. The above advice letter and tariff sheets, as modified, shall be marked to show that they were accepted for filing by Commission Resolution E-3146.

5. This resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on April 26, 1989. The following Commissioners approved it:

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

Victor Weisser

Executive Director