

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3236
October 23, 1991

R E S O L U T I O N

RESOLUTION E-3236. SAN DIEGO GAS & ELECTRIC COMPANY (SDG&E) REQUESTS AUTHORITY TO TERMINATE ITS HEBER BINARY RESEARCH AND DEVELOPMENT PROJECT AND SEEKS COMMISSION REVIEW AND APPROVAL OF SPECIFIC PROJECT TERMINATION ACTIVITIES.

ADVICE LETTER 817-E, FILED JUNE 5, 1991.

SUMMARY

1. By Advice Letter 817-E, filed June 5, 1991, San Diego Gas and Electric Company (SDG&E) seeks authority to terminate its Heber Binary Research and Development Project (Heber Project) and requests Commission approval of specific termination activities.
2. This Resolution grants SDG&E's request to terminate the Heber Project and finds the identified termination activities reasonable except as modified by this Resolution.

BACKGROUND

1. The Heber Project is an experimental 45 megawatt geothermal power plant located in Imperial County. SDG&E currently owns 89.2% of the plant and the Imperial Irrigation District (IID) owns the other 10.8%.
2. SDG&E filed Application 59280 in November of 1979 seeking Commission approval to commence the Heber Project. Decision 91271, dated January 29, 1980, authorized SDG&E to undertake Heber as a Research and Development Project, which would be provided expense and two-way balancing account treatment. Commission review of the Heber Project has been undertaken by filing of annual Heber Project Advice Letters and the submittal of Heber Project status reports with the Commission.
3. The experimental project started in 1980 in three phases: 1) Design, 2) Construction and 3) Demonstration. If the plant proved to be cost-effective, it would be put into commercial operation.
4. The Heber Project has received financial support from the U.S. Department of Energy, the Imperial Irrigation District,

Electrical Power Research Institute, California Department of Water Resources and Southern California Edison Company.

5. Decision 83-05-047, issued May 18, 1983 in Application 82-08-49, provided for continued funding of the Heber Project and established a cost limit of \$89.7 million for SDG&E expenses.

6. In the following years, the Commission authorized by Resolutions Heber Project funding in annual amounts ranging from \$944,000 to \$7 million.

7. In 1987, SDG&E experienced difficulties in operating the Heber Plant due primarily to an insufficient supply of hot brine from the Chevron and Unocal wells. In view of these difficulties SDG&E decided to shut down the plant operations and place it in a storage mode thereby reducing on-going expenses.

8. SDG&E terminated the heat supply contract with Chevron and Unocal and filed lawsuits seeking damages.

9. Following the plant shut down, SDG&E has investigated and actively pursued the sale of the Heber plant while continuing the heat supplier litigation. These activities gave rise to a new category of "Sale and Litigation" expenses. Only SDG&E and IID contributed to these expenses. The remaining equity partner, DOE, agreed to amend the cooperative agreement with SDG&E to exclude DOE from all litigation actions and outcomes.

10. SDG&E has previously reached a settlement with Unocal. SDG&E has now negotiated a settlement in principal with Chevron. Chevron will transfer its Heber Geothermal field assets to the Heber Geothermal Company (HGC). SDG&E will transfer the field assets option received in its settlement with Unocal. In return, SDG&E is to receive a cash payment and future royalty rights.

11. Resolution E-3146, dated April 26, 1989, determined that the expenses associated with the SDG&E/Chevron litigation should not be included in the Heber Balancing account, but instead accumulated in a deferred account. These expenses would be netted against the proceeds from any subsequent disposition or operation of the plant after a reasonableness review by the Commission.

NOTICE

1. Public notification of these filings has been made by placing it on the Commission calendar and by mailing copies of the filing to other utilities, governmental agencies and to all interested parties who requested such notification.

2. Workpapers supporting these filings have not been mailed to any of the above parties but were available from SDG&E upon request.

PROTESTS

1. The Utility Consumer Action Network (UCAN) submitted a protest to Advice Letter 817-E on June 17, 1991. UCAN supports the termination of the Heber project, but requests that a finding of reasonableness be put off until some later time. SDG&E submitted a response to the UCAN protest on June 25, 1991.
2. The City of San Diego (City) filed a "limited protest" to Advice Letter 817-E on June 21, 1991. SDG&E and the City successfully communicated on this matter, and the Commission was informed via a July 3, 1991 letter from SDG&E that the City no longer protests Advice Letter 817-E. A letter dated August 28, 1991 was received from the City withdrawing its "Limited Protest".
3. The United States Department of Energy (DOE) filed a protest to Advice Letter 817-E on July 31, 1991. SDG&E filed a response on August 7, 1991. DOE states that it does not oppose the litigation settlement proposed by SDG&E. DOE does, however, oppose the allocation of the settlement proceeds as proposed in Advice Letter 817-E.
4. DRA and CACD have reviewed the protest filed by UCAN. They conclude that now is the appropriate time to determine the reasonableness of the litigation settlements. It is anticipated that this review will be completed and filed in SDG&E'S next ECAC review. They recommend that the UCAN protest be denied.
5. DRA and CACD have reviewed the protest filed by DOE. DOE has not asked for any specific action by the Commission. DRA and CACD recognize that DOE may pursue the issue of litigation settlement allocation in other venues. In the event of future litigation on this matter, SDG&E should file a request to adjust its ERAM balancing account after DRA'S review. This would be consistent with the treatment the Commission ordered for the settlement proceeds in the Century Power transaction (Decision 91-04-063).

DISCUSSION

1. SDG&E has attempted to resolve the problems with the heat suppliers for the Heber Project since 1987. The litigation settlement which SDG&E has reached with Unocal and the settlement in principal with Chevron have been reviewed by DRA and CACD. DRA is currently reviewing the SDG&E/Chevron litigation expenses for reasonableness, but the effort has yet to be completed. CACD recommends that the litigation expenses be netted against the settlement proceeds as requested by SDG&E, but that they remain subject to refund pending a review of reasonableness by the Commission in SDG&E'S next ECAC.

2. SDG&E is requesting that the Heber Project be terminated by reducing its ERAM authorized base rate revenue by \$944,000 at the time the Commission approves this Resolution. SDG&E will credit the Heber balancing account with all SDG&E revenues resulting from the litigation settlements including the revenues from HGC. These revenues and the balance of the Heber balancing account are to be netted against the recorded sale and litigation expenses incurred by SDG&E. SDG&E will terminate the Heber balancing account and flow the balance to the ERAM balancing account. SDG&E intends to reflect the change to electric rates in its 1992 spring ECAC. DRA and CACD have reviewed these proposals and believe they are reasonable.

3. SDG&E intends to decommission and salvage the Heber Plant. It seeks Commission authority to establish a memorandum account which will track the expenses and revenues associated with the decommissioning and salvage activities. The memorandum account will exist for no more than three (3) years from the date it is authorized to commence. This memo account will be reviewed for reasonableness by the Commission.

FINDINGS

1. SDG&E has negotiated settlements with Unocal and Chevron for the failure to provide geothermal brine to the Heber Binary Research and Development Project. These settlements include transfer of Chevron/Unocal field assets to Heber Geothermal Company and the payment of cash and future royalty rights to SDG&E. The Commission finds these settlements reasonable and authorizes SDG&E to complete the transactions.

2. It is reasonable to reduce SDG&E's electric department ERAM authorized base rate revenue by \$944,000 at the time the Commission approves this Resolution.

3. A CPUC reasonableness review of the SDG&E/Chevron litigation is currently underway, but has yet to be completed. To minimize future rate adjustments, it is reasonable to net the litigation expenses against the settlement proceeds at this time, but they will be subject to refund pending a finding of reasonableness by the Commission.

4. The Heber balancing account should be terminated and the balance transferred to the ERAM balancing account.

5. SDG&E shall undertake activities to decommission and salvage the Heber Binary Plant. It is reasonable that SDG&E be authorized to establish a memorandum account to accrue decommissioning and salvage expenses and revenues. The memorandum account may exist no more than three years from its commencement. SDG&E may seek disposition of the memorandum account in a future filing.

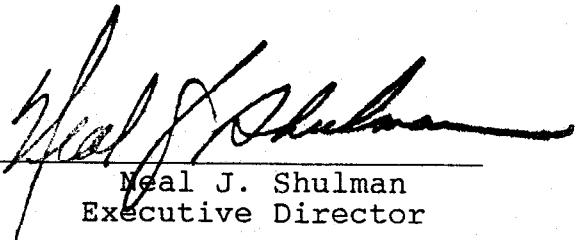
6. UCAN has not provided a basis for denying SDG&E's Advice Letter.
7. DOE has not requested specific Commission action in its protest. DRA and CACD recognize that DOE may pursue the issue of litigation settlement allocation in other venues. In the event of future litigation on this matter, SDG&E should file a request to adjust its ERAM balancing account after DRA's review. This would be consistent with the treatment the Commission ordered for the settlement proceeds in the Century Power transaction (Decision 91-04-063).

THEREFORE, IT IS ORDERED that:

1. The base rate revenue revisions for the Heber Binary Project are adopted as described in this Resolution.
2. San Diego Gas & Electric is instructed to file revised tariff sheets to reflect the revisions described in this Resolution and upon receipt of such substitute tariff sheets, authority is granted under Section V. A. of General Order 96-A to place Advice Letter 817-E and accompanying tariff sheets (as amended) into effect on May 1, 1992.
3. The above advice letter and tariff sheets, as modified, shall be marked to show that they were accepted for filing by Commission Resolution E-3236.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 23, 1991. The following Commissioners approved it:


Neal J. Shulman
Executive Director

PATRICIA M. ECKERT
President
JOHN B. OHANIAN
DANIEL Wm. FESSLER
NORMAN D. SHUMWAY
Commissioners