

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

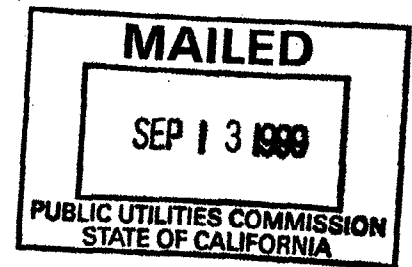
**ENERGY DIVISION**

**RESOLUTION E-3635  
SEPTEMBER 2, 1999**

**RESOLUTION**

**Resolution E-3635. Southern California Edison Company Requests Authorization for Restructuring of a Qualifying Facility Contract with Oxbow Power of Beowawe, Inc. Approved.**

**By SCE Advice Letter 1381-E Filed May 20, 1999**



**SUMMARY**

In Advice Letter 1381-E, Southern California Edison Company (SCE) proposes for Commission approval an Execution Agreement (Agreement) and an Amendment No. 6 to the power purchase contract (Contract) between SCE and Oxbow Power of Beowawe, Inc. (Beowawe). The Agreement and Amendment No.6 (collectively, the Restructuring Documents) provide for:

- o termination of the Contract on December 31, 2005, instead of August 6, 2016 as originally specified; and
- o supplemental monthly capacity payments to Beowawe in return for early termination.

The advice letter claims, and accompanying documentation demonstrates, that the contract restructuring results in positive customer savings under all reasonable scenarios.

Prior to this filing, and as required by D.98-12-066, SCE submitted this advice letter to the Office of Ratepayer Advocates (ORA) for review. ORA requested certain modifications, which were agreed to by SCE and ORA, and are incorporated into the proposed Restructuring Documents.

Specifically, SCE requests a resolution:

- o approving as reasonable the Agreement and Amendment No.6;
- o authorizing recovery of all payments that SCE has made and will make to Beowawe under the Agreement and Amendment No.6 through SCE's Annual Transition Cost Proceeding or any other mechanism authorized by the Commission, subject only to SCE's prudent administration of the Agreement and Amendment No.6.

- o finding that SCE is entitled to a shareholder incentive of \$240,000 for the Agreement and Amendment No.6.

No protests were filed in response to this advice letter.

The advice letter is approved without modifications.

## **BACKGROUND**

### **Contract and Project Overview**

On November 9, 1984, SCE and Chevron, U.S.A. Inc. entered into a 30 year Interim Standard Offer No.4 (ISO4) Power Purchase Contract (Contract). SCE agreed to purchase energy and capacity generated by a 12.5 MW (nameplate rating) geothermal generating facility located in north-central Nevada near the town of Beowawe. On August 7, 1986, the project began deliveries of 10 MW firm capacity and associated energy to SCE via a 55 kV interconnection with Sierra Pacific Power Company (SPPC) at the California-Nevada border.

At the time of Contract execution, Chevron selected energy payment Option 1 for the first ten years of the contract (First Period), under which energy payments are based on 100 percent of the Commission-approved Forecast of Marginal Cost of Energy. The Contract's First Period ended on August 6, 1996. Energy payments for the remaining 20 years are at SCE's posted short-run avoided cost of energy, including an Energy Loss Adjustment Factor (ELAF) multiplier of 1.023.

Capacity payments for the entire life of the Contract are fixed in accordance with capacity payment Option B, which is \$158/kW-year. This payment is subject to the firm capacity performance requirements defined in the Contract. Beowawe is also eligible for bonus payments if the project exceeds certain performance thresholds.

A series of agreements, between Beowawe and SPPC, between SCE and Beowawe, and between SCE and SPPC, were entered into to transmit power to the project's designated Point of Interconnection at the California-Nevada border.

Beginning on April 18, 1985, SCE, through a series of affiliate relationships, owned 50 percent of the Beowawe project. SCE ended its project ownership on January 1, 1998. The most recent ownership reorganization occurred on October 31, 1998, when Oxbow Power of Beowawe, Inc. assumed full rights and responsibilities for the Contract.

The generating facility components include a steam generator, turbine, condenser, and cooling tower. It is served by three production wells and one injection well. It

is designed to operate on a 24 hour-per-day basis, providing baseload electrical generation to SCE.

### **Historical and Projected Performance**

In the early years of the Contract (1986-1991) the capacity factor varied between 73.5 and 88.6 percent (based on a 12.5 MW nameplate rating). Subsequently, the project has operated at a higher capacity factor, exceeding 92 percent in every year except 1995. That year's performance was marred by a turbine failure and subsequent eight week outage.

The project's performance has been affected by the installation of production wells and injection wells. For example, a dramatic decline in reservoir pressure began in 1991 when a third production well was brought on line. Even more dramatic was the pressure increase resulting from the re-positioning of the injection well in 1994. Since then (except for 1995), capacity factors have remained above 95.4 percent.

As part of the Contract re-negotiation process, SCE considered the economic and technical viability of the project in order to determine the likelihood that the project would continue to operate throughout its remaining Contract term at historical operating levels. This included an analysis of the generating facility and other considerations, such as the capacity of the geothermal resource.

To verify its own analyses of Beowawe's viability, SCE hired GeothermEx, Inc. and Dr. Ronald DiPippo, Ph.D., third party consultants with expertise in geothermal energy. The final reports of these consultants have been included with SCE's advice letter filing. Dr. DiPippo's report concludes that the project will remain technically and economically viable until the end of the original Contract term, in 2016. The GeothermEx report focuses on the geothermal resource itself and concludes that it has sufficient reserves to support the current level of plant capacity through 2016. Based on these studies, SCE concludes that, absent the Contract restructuring, the project would be technically and economically capable of maintaining its high level of output through the remainder of the original Contract term.

### **Negotiations for Contract Restructuring**

In early 1996, SCE initiated discussions with Beowawe to restructure or buyout the Contract. Since an SCE affiliate had an ownership interest in the project at that time, SCE conducted discussions only with the non-affiliate partner, and the two entered into a confidentiality agreement to ensure this. In October 1996, SCE tendered an offer to completely buy out the Contract; the offer was rejected.

Negotiations resumed in early 1997. These continued until April, 1998, when SCE and Beowawe reached an agreement in principal. (By that time, SCE no longer had

an affiliate ownership interest in Beowawe.) SCE and Beowawe signed the Execution Agreement on November 4, 1998.

### **Summary of the Restructuring**

The main points of the Agreement and Amendment No.6 are as follows:

- o the Commission must approved the Restructuring Documents by September 30, 1999;
- o if approved, the restructuring will be executed on the first business day after final approval;
- o the Contract will terminate on December 31, 2005 (10 years and 7 months earlier than provided for in the unamended Contract (i.e., August 6, 2016);
- o SCE will make monthly supplemental capacity payments retroactive to July 1, 1998, and continuing until December 31, 2005.

### **Summary of Customer Benefits**

Implementing Amendment 6 is expected to yield a total savings to SCE's customers of between \$2.2 million and \$4.3 million (NPV, using a discount rate of 10%), depending primarily on the Energy Loss Adjustment Factor (ELAF) assumed.<sup>1</sup> These savings result from the replacement of Beowawe's high fixed-priced capacity from January 1, 2006 to August 6, 2016 with lower market-priced capacity, net of the Supplemental Payments SCE will pay to Beowawe.

### **Procedure for Filing QF Contract Restructurings**

In Decision 98-12-066, the Commission established a Restructuring Advice Letter Filing (RALF) procedure for review of Qualifying Facility (QF) contract restructurings. This procedure provides for Commission approval of QF contract restructurings by means of a resolution in response to the filing of an advice letter. A key feature of this process is a letter from ORA accompanying the advice letter, stating its neutrality or support. As noted above, ORA reviewed the proposed advice letter prior to its being filed. ORA requested certain modifications, which were agreed to by SCE and ORA, and are incorporated into the proposed terms of the Contract restructuring.

A proposed resolution approving the restructuring advice letter shall make at least the following findings:

- o that the restructuring is reasonable;

---

<sup>1</sup> As its name suggests, the ELAF is added to (or subtracted from, as the case may be) energy volumes sold in order to reflect line losses. Line losses are in part a function of the distance between the generator and the load. Currently, SCE pays its QFs an additional 2.3% for power purchases (the ELAF is, thus, 1.023). There is the possibility that the Commission may adopt a new method for determining the ELAF – the Generator Meter Multiplier calculated by the California Independent System Operator – which would result in a much lower ELAF for Beowawe.

- o that all payments to be made pursuant to the restructuring shall be recovered through the Annual Transition Cost Proceeding or other Commission-approved mechanism, subject only to the utility's prudent administration of the restructuring agreement.

### **Commission Policies on Contract Restructurings**

In Decision 99-02-085, the Commission issued the following rulings regarding QF restructurings:

- o the standard of reasonableness is "in light of the whole record, consistent with the law, and in the public interest..." (Finding of Fact #1); the Commission declined to adopt a new standard for reasonableness (Conclusion of Law # 3);
- o the filing of advice letters should be voluntary for both the utility and the QF (Order # 3);
- o utility decisions in restructuring negotiations should be subject to reasonableness reviews regarding anti-competitive behavior (Order #4);
- o the shareholder incentive to renegotiate QF contracts is retained at the level of 10% of estimated ratepayer savings; this will be trued up, however, to adjust for the time value of money associated with the time lag between the initial filing of the net present value of the savings and the final Commission approval of the contract restructuring (Orders # 5, 6, and 7).

### **NOTICE**

Notice of SCE's Advice Letter 1381-E was made by publication in the Commission Daily Calendar and by mailing copies to interested parties.

### **PROTESTS**

No protests were filed in response to this advice letter.

### **DISCUSSION**

It is Commission policy to foster ratepayer savings by encouraging QF contract restructurings. Previous Commission decisions (D.98-12-066 and D.99-02-085) have provided the procedural framework for the processing of QF contract restructurings via advice letter and resolution and also the guidelines to be used in evaluating the advice letters.

In conformance with Commission guidelines regarding RALFs, SCE included with its advice letter submission a letter from ORA stating that it finds the proposed Beowawe Contract restructuring reasonable.

One possible cause for concern may have been that SCE owned a 50% interest in the Beowawe facility during the early phases (until January 1, 1998) of the contract restructuring negotiations. However, SCE conducted its negotiations only with the non-SCE-affiliate part of Beowawe, and signed a confidentiality agreement to ensure that anti-competitive behavior was not occurring.

SCE hired two independent firms to study whether the Beowawe facility would continue to be viable were it not for the contract restructuring, *i.e.*, until 2016. The studies concluded that the geothermal resource as well as the facility itself would be viable both technically and economically until the end of its contract life.

The estimated savings to ratepayers resulting from the Contract restructuring range between \$2.2 million and \$4.3 million, depending on what ELAF would have been in place during the period from January 1, 2006 to August 6, 2016. These savings are robust and substantial.

The Commission policy is that shareholders should be rewarded 10% of any estimated ratepayer savings resulting from QF contract restructurings. SCE is proposing a shareholder reward of \$240,000. This is equal to 6% of \$4.0 million, or 10% of \$2.4 million, which lies on the low end of the range of ratepayer savings expected to result from the Contract restructuring.

Because this Contract restructuring provides robust ratepayer savings under a variety of scenarios, it is in ratepayer interests and should be approved. Furthermore, all payments to be made pursuant to the restructuring should be recovered through a Commission-approved mechanism such as the Annual Transition Cost Proceeding, subject only to the utility's prudent administration of the restructuring agreement.

## COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code Section 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

**FINDINGS**

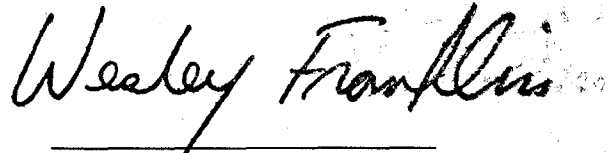
1. In Advice Letter 1381-E, filed on May 20, 1999, SCE proposes that the Commission find reasonable a restructuring of the geothermal QF Contract with Beowawe.
2. In conformance with Commission policies regarding RALFs, SCE included with its advice letter submission a letter from ORA stating that it finds the proposed Beowawe Contract restructuring reasonable.
3. The current Contract with Beowawe is a 30-year ISO4 contract which ends on August 6, 2016. The Contract contains both energy and capacity payment components.
4. Independent studies support the claim that were it not for the Contract restructuring, Beowawe would be viable both technically and economically through the end of the current Contract term.
5. Under the proposed restructuring, SCE's obligation to procure power from Beowawe would end on December 31, 2005. In exchange, SCE would pay Beowawe a series of monthly Supplemental Payments retroactive to July 1, 1998 and ending on December 31, 2005. Ratepayer savings would result from the avoidance of capacity payments after January 1, 2006. Estimates of ratepayer savings range from \$2.2 million to \$4.3 million.
6. SCE proposes a shareholder reward of \$240,000. This equals 6% of \$4.0 million, or 10% of \$2.4 million.
7. No protests were filed against this advice letter.
8. The Contract restructuring is reasonable.
9. All payments that SCE has made and will make under the Restructuring Documents should be authorized to be recovered through the Annual Transition Cost Proceeding or any other mechanism authorized by the Commission, subject only to SCE's prudent administration of the Agreement and Amendment No.6.
10. SCE is entitled to a shareholder incentive of \$240,000 for the Agreement and Amendment No.6.

September 2, 1999

**Therefore it is ordered that:**

1. SCE Advice Letter 1381-E shall be approved.
2. SCE shall revise its list of Contracts and Deviations to include the Restructuring Documents ordered above and shall file such revised tariff sheets with the Commission within sixty (60) days of the effective date of this Resolution.
3. This resolution shall be made effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on September 2, 1999; the following Commissioners voting favorably thereon:



WESLEY M. FRANKLIN  
Executive Director

RICHARD A. BILAS  
President  
HENRY M. DUQUE  
JOSIAH Z. HYATT  
CARL W. WOOD  
Commissioners