

Decision 18-11-036 November 29, 2018

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California
Edison Company (U338E) for
Approval of the Coso Termination
Agreement.

Application 18-03-010

DECISION APPROVING COSO TERMINATION AGREEMENT

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DECISION APPROVING COSO TERMINATION AGREEMENT

Summary

This decision approves an agreement between Southern California Edison Company (SCE) and Coso Geothermal Holdings, LLC (Coso) to terminate two geothermal power purchase agreements prior to their current expiration dates. This decision finds as reasonable SCE's payment to Coso, for early termination of the power purchase agreements. SCE may seek recovery for the costs of the early termination payment in its 2020 and 2021 Energy Resources Recovery Account Forecast applications. This proceeding is closed.

1. Background

On March 19, 2018, Southern California Edison Company (SCE) filed an application for approval to terminate two power purchase agreements (Application). Specifically, the Application requests from the Commission:

- 1) Approval of an agreement between SCE and Coso Geothermal Power Holdings, LLC (Coso) to terminate two geothermal power purchase agreements as of December 31, 2018 (Coso Termination Agreement);
- 2) An upfront finding that the cost of SCE's payment to Coso for early termination of the power purchase agreements, pursuant to the Coso Termination Agreement (Early Termination Payment), is reasonable.

Upon final Commission approval of the Coso Termination Agreement, SCE would cease payment to Coso after December 31, 2018 for electric energy and capacity according to the two power purchase agreements; SCE has sought recovery for these costs through annual true-ups of its Energy Resources Recovery Account (ERRA) balancing account. In place of energy and capacity payments, SCE would include the cost of the Early Termination Payment, broken

up into specified installments, in SCE's 2020 and 2021 ERRF Forecast applications for recovery from both bundled and unbundled customers.

The Commission did not receive any timely protests or responses to the Application. On May 14, 2018, when the Commission held the prehearing conference, Coso requested and obtained party status to this proceeding.

On June 28, 2018, Clean Power Alliance and Southern California Desert Community Energy (Joint Community Choice Aggregators, or Joint CCAs) filed and served a joint motion to late-file a protest to the Application, identifying an interest in this proceeding to ensure "SCE's costs from the Coso Termination Agreement are correctly valued and that cost recovery from departing load customers is accurately calculated under the [Power Charge Indifference Adjustment (PCIA)] Current Methodology, or under a successor methodology should the Application be approved after a final Commission decision in R.17-06-026."¹ On July 3, 2018, the Joint CCAs filed and served a joint motion for party status. The assigned Administrative Law Judge (ALJ) granted the Joint CCAs' joint motion for party status on July 5, 2018.

On July 6, 2018, Coso and SCE each filed and served a response to the Joint CCAs' joint motion for late filed protest, asserting the joint motion does not adequately explain the Joint CCAs' failure to timely protest the Application or to appear at the prehearing conference.² Additionally, Coso's response asserts that only one issue, *i.e.*, cost-effectiveness and benefit of the proposed termination

¹ *Joint Motion for Late Filed Protest of Clean Power Alliance of Southern California and Desert Community Energy to Application 18-03-010*, filed June 28, 2018, at 2-3.

² SCE also filed and served a response to the Joint CCAs' joint motion for party status on July 6, 2018.

agreement, is relevant to the proceeding; the issue of whether SCE appropriately determines cost recovery from departing load customers is “not immediately relevant to the approval of the Termination Agreement and can be addressed in a subsequent proceeding when SCE seeks cost recovery.”³

On July 9, 2018, the assigned ALJ issued a ruling directing SCE and Coso to file and serve supplemental information. On July 19, 2018, SCE and Coso filed and served their responses to the July 9, 2018 ruling. SCE also filed and served a motion to file under seal the confidential version of its response to the July 9, 2018 ruling.

On July 23, 2018, the assigned Commissioner issued a scoping memo and ruling, confirming that the reasonableness of SCE’s valuation of the Coso Termination Agreement and its cost recovery proposal are within scope, but the issue of whether SCE correctly calculates departing load customers’ equitable share of the Early Termination Payment should be addressed as part of SCE’s ERRRA Forecast applications. The scoping memo and ruling also set a deadline for parties to request an opportunity to conduct evidentiary hearing. No party requested an opportunity to conduct evidentiary hearing.

On August 3, 2018, the assigned ALJ directed SCE via email ruling to file and serve supplemental information regarding cost recovery details, confidentiality of forecasting assumptions specified in SCE’s workpapers, and SCE’s forecasting assumptions for future departing load. On August 8, 2018, SCE filed and served a response to the August 3, 2018 email ruling.

On August 22, 2018, SCE filed and served its opening brief. On

³ *Response in Opposition to the Joint Motion for Late Filed Protest of Clean Power Alliance of Southern California and Desert Community Energy to Application 18-03-010*, filed July 6, 2018 (Coso Response), at 4.

August 24, 2018, SCE filed and served a motion to enter into evidence its testimony for this Application, which the assigned ALJ granted. No other party filed a brief or moved to enter testimony into the evidentiary record.

On September 13, 2018, the assigned ALJ issued a ruling directing SCE to file and serve supplemental information regarding SCE's resource adequacy obligations, debt equivalence assumption, and non-confidential forecasting assumptions specified in SCE's workpapers. On September 24, 2018, SCE filed and served a response to the September 13, 2018 ruling.

2. Issues Before the Commission

The general issue before us is whether the Coso Termination Agreement is reasonable and should be approved. To determine reasonableness of the Coso Termination Agreement, we focus on whether SCE uses reasonable assumptions to determine whether the cost of the Coso Termination Agreement will be lower than the net cost (*i.e.*, accounting for benefits) of continuing the Coso contracts to their scheduled expiration dates.

3. Cost-Effectiveness of the Coso Termination Agreement

As discussed in its testimony, SCE's valuation process for the Coso Termination Agreement results in an estimated net present value (NPV) of SCE's two existing power purchase agreements (PPAs) with Coso, the SO4 PPA, which was procured on February 1, 1985, and the Coso Clean Power PPA, which was procured on November 15, 2006. Pursuant to the current contract terms, the SO4 PPA terminates on March 12, 2019 and the Coso Clean Power PPA terminates on January 31, 2030. The total current contracting capacity of the generating

facilities under both PPAs is 181 megawatts (MW).⁴ The NPV of the existing power purchase agreements includes the payments that SCE is obligated to make to Coso (costs), in return for energy and capacity delivered from the geothermal resources contracted under the PPAs to meet SCE's load serving requirements (benefits). This estimated NPV is subject to some uncertainty, including but not limited to future energy prices and monetary value of unsubscribed renewable energy credits (RECs). SCE includes two sensitivities to generate a range of possible NPV estimates for the SO4 and Coso Clean Power PPAs. SCE compares each of these NPV estimates with the NPV of the Early Termination Payment to determine whether terminating the existing power purchase agreements will result in lower costs to SCE's "responsible" (*i.e.*, bundled and unbundled) customers, relative to honoring the agreements through the specified end dates (March 12, 2019 for the SO4 PPA and January 31, 2030 for the Coso Clean Power PPA).⁵

We find, even under the most conservative of reasonable forecasts, the Application is reasonable as presented, that is, not accounting for unforeseeable circumstances as of the submission date of the proceeding.

3.1. Reasonableness of the Cost-Effectiveness Estimates

3.1.1. Costs of the Coso Contracts

SCE identifies three main components in its estimation of the costs of the Coso contracts: payments for energy, payments for capacity, and debt equivalence.

⁴ Exhibit SCE-01, *Testimony of Southern California Edison Company in Support of Its Application for Approval of the Coso Termination Agreement* (SCE-01), at 5-6.

⁵ SCE-01, at 6.

With respect to energy and capacity payments that SCE is obligated to pay pursuant to the Coso contracts, SCE forecasts the energy production (in megawatt-hours (MWh)) of the contracted facilities, based on the economic, technical and resource viability of these facilities. SCE represents that the geothermal facilities contracted under the Coso contracts should remain viable for the remaining term of the Coso Clean Power PPA (*i.e.*, until January 31, 2030).⁶

To estimate energy payments, SCE multiplies the fixed contract price established by the Coso Clean Power PPA by its forecast of energy production for the geothermal facilities contracted under that PPA. SCE states that more than 99 percent of the costs of the Coso contracts originate from the Coso Clean Power PPA, which is paid on a fixed contract price.⁷ For the SO4 PPA, SCE multiplies the monthly Short Run Avoided Cost (SRAC) price forecast by its forecast of energy production for the geothermal facilities contracted under that PPA.

Capacity costs are only paid on the SO4 PPA.⁸ SCE explains it selected firm capacity, which as of September 2017 was 61.132 MW, as the basis for its capacity payment, with a current contract price of \$175/kW-year, under the SO4 PPA.

With respect to debt equivalence, SCE states:

Pursuant to D.04-12-048 and D.08-11-008, the Commission permits the utilities to recognize in their valuation processes

⁶ SCE-01, at 15-20.

⁷ SCE-01, at 29.

⁸ SCE-01, footnote 10. *See also* Exhibit SCE-04, *SO4 PPA* (SCE-04), at 40 – 41 (Section 9.1.2, Capacity Payment Option B – Firm Capacity Purchase).

the cost associated with the effect debt equivalents has on the utilities' credit quality and cost of borrowing. D.04-12-048 at 243 (Ordering Paragraph (OP) 22); D.08-11-008 at 38 (OP 1). Consistent with these decisions, SCE considers debt equivalents in its valuation process using the 20 percent risk factor authorized by the Commission.⁹

SCE's characterization of what the Commission permits, pursuant to Decision (D.)04-12-048 and D.08-11-008, requires clarification and a more comprehensive accounting of Commission policy regarding consideration of debt equivalence. In D.04-12-048, the Commission directed the utilities to utilize Standard and Poor's (S&P) methodology for quantifying debt equivalence, using a 20 percent risk factor instead of S&P's 30 percent risk factor, in the process of evaluating bids in an all-source solicitation.¹⁰ At that time, the investor owned utilities (IOUs) were transitioning their resource portfolios from predominantly utility-owned generation to power purchase agreements, for which the IOUs contended they would incur a substantial cost in the form of an impact to their credit ratings, because credit rating agencies consider long-term fixed payments as an obligation that might impact utilities' ability to repay debt. Other parties contested this assertion, which the Commission addressed by specifying how the IOUs should account for debt equivalency, for the purpose of evaluating bids as part of their all-source solicitation review processes. The Commission further required the IOUs to justify the debt equivalence factors for PPAs on a

⁹ SCE-01, footnote 12.

¹⁰ D.04-12-048 *Opinion Adopting Pacific Gas and Electric Company, Southern California Edison Company and San Diego Gas & Electric Company's Long-Term Procurement Plans*, issued December 20, 2004 (D.04-12-048), Ordering Paragraph 22.

case-by-case basis in their cost of capital proceedings.¹¹

In D.07-12-052, the Commission revisited its earlier determination to permit the IOUs to recognize the effect of debt equivalence in their bid evaluations, through the so-called “DE adder” (*i.e.*, application of the 20 percent risk factor), and at that time concluded the DE adder should be eliminated from the bid evaluation process.¹²

In D.08-11-008, responding in part to petitions by all three electric IOUs to modify D.07-12-052, the Commission reversed its determination in D.07-12-052 and allowed the IOUs to use “the 20% DE adder in head-to-head competition between PPAs where no [utility owned generation] projects...are being considered.”¹³

Noting that D.04-12-048 required the IOUs to justify the debt equivalence factors for PPAs on a case-by-case basis in their cost of capital proceedings, the Commission required SCE to “provide any and all relevant citations to pleadings in prior cost of capital or other Commission proceedings, in which SCE justifies the debt equivalence factors applicable to the Coso contracts.”¹⁴ SCE’s response states:

SCE’s analysis of the Coso contracts termination
employed a 20% risk factor, as discussed in Exhibit

¹¹ D.04-12-048, Ordering Paragraph 23.

¹² D.07-12-052 *Opinion Adopting Pacific Gas and Electric Company’s, Southern California Edison Company’s, and San Diego Gas & Electric Company’s Long-Term Procurement Plans*, issued December 21, 2007, at 163-166, Findings of Fact 73 - 76, Conclusion of Law 30, and Ordering Paragraph 36.

¹³ D.08-11-008 *Decision on Petitions for Modification of Decision 07-12-052*, issued November 10, 2008, at 16.

¹⁴ *Administrative Law Judge’s Ruling Requiring Supplemental Information*, filed September 13, 2018, Question 2 at 2.

SCE-1, page 26, footnote 12. SCE's last CPUC cost of capital proceeding was A.12-04-015. In that application, SCE demonstrated that the Standard & Poor's risk factor for SCE is 25%. (A.12-04-015, Exhibit SCE-1, at page 43.)¹⁵

In D.12-12-034 (addressing A.12-04-015), the Commission affirmed its policy goal "to provide reasonable confidence in the utilities' financial soundness, to maintain and support investment-grade credit ratings, and provide utilities the ability to raise money necessary for the proper discharge of their public duty,"¹⁶ and adopted an authorized cost of capital for test year 2013 for SCE, implicitly approving SCE's assumed and proposed S&P risk factor of 25 percent for quantifying debt equivalence. Adjustments have been made to SCE's authorized return on equity since D.12-12-034, but not explicitly in response to changed assumptions regarding debt equivalence.

SCE does not, as part of this Application, provide more updated research or analysis that might better inform a determination as to the reasonableness of the assumed beneficial impact to SCE's cost of borrowing from terminating the Coso contracts. Although we find SCE's pleadings do not sufficiently justify its assumption of a 20 percent risk factor in quantifying the debt equivalency impact of the Coso contracts as an avoided cost (benefit) that SCE would realize by terminating the Coso contracts, we acknowledge that no party disputes the reasonableness of this assumption. We also find that removing this assumption

¹⁵ *Response of Southern California Edison Company (U 338-E) to Administrative Law Judge's September 13, 2018 Ruling Requiring Supplemental Information*, filed September 21, 2018 (SCE September 21, 2018 Response), at 4.

¹⁶ D.12-12-034 *Decision on Test Year 2013 Cost of Capital for the Major Energy Utilities*, issued December 26, 2012, at 29.

from the benefit-cost calculation does not render the Coso Termination Agreement a net cost, even in the reasonable worst-case scenario included in SCE's valuation process. Thus, we find the Coso Termination Agreement will result in a net benefit to SCE whether or not we recognize a benefit from avoiding the Coso contracts' debt equivalency impact on SCE's cost of borrowing.

To the extent the Coso Termination Agreement has a beneficial impact on SCE's cost of borrowing, such a benefit will not accrue to applicable responsible customers unless SCE proposes, in a future cost of capital application, a means to share with applicable responsible customers the beneficial impact that SCE asserts it will realize by terminating the Coso contracts. We will require SCE to include, as part of its 2020 cost of capital application, testimony that addresses the beneficial impact of the Coso Termination Agreement on SCE's cost of borrowing, and to include a proposal for applicable responsible customers to share in this beneficial impact.

3.1.2. Benefits of the Coso Contracts

SCE identifies two benefits associated with the Coso contracts: energy value and resource adequacy (RA) value. To calculate the energy value, SCE applies a market price forecast and locational adjustment factor to the same forecast of energy production developed for estimating the costs of the Coso contracts. To calculate the RA value, SCE multiplies the facilities' net qualifying capacity by the market-RA price forecast, and then attributes full RA benefit using the most current RA counting rules for ascribing qualifying RA capacity.

3.1.2.1. Energy Value Sensitivity

The energy payments and energy benefits of the Coso Clean Power PPA constitute the majority of the costs and benefits, respectively, of the Coso

contracts. Energy payments (*i.e.*, dollars per kWh) are fixed according to the Coso Clean Power PPA. Energy benefits are the product of electricity generation and power prices, which are subject to uncertainty. To account for uncertainty in power prices, SCE states it used a Monte Carlo simulation to model high and low market price scenarios. SCE applies these sensitivities to its estimated NPV of the Coso Termination Agreement as a means to gauge whether the Coso Termination Agreement will remain cost-effective if future market prices for energy deviate from SCE's expectation. Specifically, if future market prices for energy are significantly higher than SCE's forecast, the benefit of terminating the Coso contracts is lower than SCE estimates. Under a 'high energy price' sensitivity, as specified in SCE's testimony, the cost of continuing the Coso contracts remains greater than the cost of the Coso Termination Agreement.

3.1.2.2. Value of Unsubscribed Renewable Energy Credits

The generation facilities that are contracted under the SO4 and Coso Clean Power PPAs are eligible renewable energy resources, as defined by Public Utilities Code Section 399.12,¹⁷ and therefore generate renewable energy credits. SCE retires renewable energy credits (RECs) in order to comply with the State's Renewables Portfolio Standard (RPS) Program requirements. In this application, SCE asserts it will have a long REC compliance position, meaning that SCE does not need the RECs generated from the Coso contracts in order to meet its RPS requirements, throughout the term of the Coso Clean Power PPA. SCE further

¹⁷ See the California Energy Commission's list of RPS-eligible facilities: www.energy.ca.gov/portfolio/documents/List_RPS_CERT.xls

asserts “bundled RECs currently have very little or no liquidity in the market, resulting in an uncertain face value.”¹⁸

SCE includes a sensitivity in which it identifies a third benefit by ascribing a bundled REC value to RECs generated from the Coso contracts; SCE represents that the method it employs for determining an appropriate REC value “maintains consistency with the previously accepted value of approximately \$10 per bundled REC in the 2016-2017 timeframe.”¹⁹ The \$10 per REC price is an administratively set benchmark, from the Green Tariff Shared Renewables (GTSR) program, that is not used in the RPS proceeding. According to S&P Global Platts, which provides energy and commodities information, the current average price of a bundled REC in California is approximately \$15 per REC.²⁰ If future REC prices are significantly higher than SCE’s forecast, the benefit of terminating the Coso contracts is lower than SCE estimates. Under a ‘high REC price’ sensitivity, as specified in SCE’s testimony, the cost of continuing the Coso contracts remains greater than the cost of the Coso Termination Agreement.

3.2. Potential Impacts to Renewables Portfolio Standard and Resource Adequacy Requirements, Integrated Resource Plan

As part of this proceeding, the Commission determined to consider any impact(s) of the Coso Termination Agreement on SCE’s ability to fulfill its obligations under the Renewable Portfolio Standard (RPS) and RA programs, and on SCE’s Integrated Resource Plan (IRP) in the current (2017-2018) and

¹⁸ SCE-01, at 25.

¹⁹ SCE-01, at 31.

²⁰ See S&P Global Platts’ Megawatts Daily publication for weekly information on the market prices for bundled RECs in California.

2019-2020 cycle.

With respect to its RPS requirements, SCE's testimony includes load forecasts from which SCE estimates its RPS requirements for the forecast period of 2018 through 2030. These load forecasts are consistent with the load forecasts SCE uses in its annual RPS Procurement Plans; SCE's draft 2018 RPS Procurement Plan, filed August 20, 2018, does not drastically differ from the load forecast in this Application.

SCE explains that its load forecast accounts for community choice aggregators (CCAs) that have (1) filed a binding notice of intent to begin CCA service, (2) made an initial RA filing, (3) started CCA service, or (4) submitted a year-ahead system RA forecast in April 2018; starting in 2020, SCE's load forecast is additionally based on a Monte Carlo analysis of additional departing load.²¹ Specifically, the Monte Carlo simulation involves 10,000 random draws among all cities in SCE's service area (except those assumed to have already departed) for each year, from which SCE selects the 50th percentile outcome to forecast its total departing load.²² Based on its load forecast, SCE explains:

With the termination of the Coso Contracts, SCE currently forecasts a net long RPS position through 2027 without the use of its RPS bank. With the use of its RPS bank, SCE has more eligible renewable energy to meet its RPS obligations than it needs for its forecast window.²³

²¹ Lancaster, Apple Valley, Pico Rivera, Los Angeles Community Choice Energy Authority (LACCEA, currently CPA) Phases I and II, and San Jacinto. *Response of Southern California Edison Company (U 338-E) to Administrative Law Judge's Ruling Requiring Supplemental Information*, filed August 8, 2018, at 6-7.

²² *Ibid.*

²³ SCE-01, at 24.

Using SCE's assumptions, SCE's Renewable Net Short (*i.e.*, the amount of renewable energy SCE needs to meet RPS targets, after accounting for procured and banked resources) calculation shows that SCE will not need to procure additional renewable resources in order to satisfy its RPS requirements until 2028, whereas SCE will need to procure additional resources in 2023 based on CPUC assumptions, which are based in large part on the California Energy Commission's 2017 Integrated Energy Policy Report. By contrast, SCE's assumptions reflect internal forecasts of CCA load migration, forecasted electric vehicle adoption rates and transportation electrification load growth, the net effect of which is to lower its sales forecast relative to CPUC assumptions.²⁴ The Commission has yet to dispose of SCE's draft 2018 RFS procurement plan. We expect that SCE will continue to monitor CCA and other potential departing load activity and revise its bundled sales forecast accordingly, as part of its regular resource planning activities. In the event that SCE's bundled sales forecast turns out to have overestimated departing load (*i.e.*, SCE has underestimated its bundled sales forecast beginning in 2023), SCE should have sufficient time to secure alternative compliant eligible renewable energy resources to meet its RPS requirements, including pursuant to Senate Bill (SB) 100 (Chap. 312, Stat. 2018), which accelerates the timeline to procure 50 percent of total retail sales from eligible renewable energy resources and further sets a 60 percent target by December 31, 2030. SCE's recent update to its 2018 RPS Procurement Plan, filed

²⁴ R.18-07-003 *Southern California Edison Company's (U 338-E) 2018 Draft Renewables Portfolio Standard Procurement Plan, Volume 1 (Public Version)*, filed August 20, 2018, at 11-12.

October 8, 2018, confirms our expectation that SCE will be able to meet its RPS requirements pursuant to SB 100.²⁵

With respect to its resource adequacy obligations, SCE states:

The termination of the Coso Agreement will not impact SCE's ability to meet its resource adequacy (RA) obligations. SCE has many avenues through which it procures RA: annual solicitations, year-ahead firm energy imports, near-term firm energy imports, RA tags, quarterly e-mail solicitations, bilateral agreements, participation in other Load Serving Entities' RA solicitations, and other procurement programs that yield RA. SCE has always been able to meet its RA obligations through any number of the identified options.²⁶

SCE elaborates:

The analysis performed by SCE in support of the Coso termination assumed replacement of RA capacity in all months for the entire term of the original contract. The calculated savings...provided in the Coso Application is the result after replacing, among other project attributes, the cost of replacement RA capacity...SCE has contracts expiring on a regular basis and, as a normal course of managing SCE's contracted resources, SCE regularly contracts for RA to meet its RA obligations. The termination of the Coso Contracts as a standalone action will not impact SCE's ability to meet its RA obligations.²⁷

In essence, SCE represents that terminating the Coso contracts will not have a significant impact on its ability to meet RA obligations as part of its regular resource planning activities. Based on the amount of net qualifying

²⁵ R.18-07-003 Motion of Southern California Edison Company (U338E) to Update Its 2018 Draft Renewables Portfolio Standard Procurement Plan (Public Version), filed October 8, 2018, Update to Draft 2018 Written Plan, Appendix C.6.

²⁶ Response of Southern California Edison Company (U 338-E) to Administrative Law Judge Kao's Ruling Requiring Supplemental Information, filed July 19, 2018, Response to Question 1, at 2.

²⁷ SCE September 21, 2018 Response, Response to Question 1, at 2-3.

capacity provided by the Coso contracts and the relatively small proportion of SCE's total system RA obligations that the Coso contracts represent, we find SCE's determination is reasonable.

With respect to its IRP in the 2017-2018 and 2019-2020 cycles, SCE states:

The capacity represented by the Coso contracts that are contemplated for termination is currently included in SCE's baseline of existing contracted capacity for IRP purposes. SCE did not remove them from its baseline because the Commission has not yet approved these terminations. SCE has requested Commission approval of the Coso termination agreement by November 29, 2018, which is after the filing date for SCE's 2017-18 IRP. If the Commission approves the termination of the Coso contracts, SCE will remove them from its baseline resources in the next IRP cycle.²⁸

SCE's treatment of the Coso contracts in its 2017-2018 IRP is reasonable, and its proposed treatment of the Coso contracts, if terminated, in its 2019-2020 IRP is appropriate.

3.3. Reasonableness of Cost Recovery Proposal

3.3.1. Cost Recovery Schedule

SCE proposes a multi-year payment and cost recovery schedule that, SCE asserts, mitigates the bill impact of the Early Termination Payment relative to a one-time payment.²⁹

SCE proposes to record the Early Termination Payment, in specified multi-year payments, in the ERRR balancing account to be included in its ERRR Forecast applications. SCE explains:

²⁸ SCE July 19, 2018 Supplemental Information, Response to Question 2, at 2.

²⁹ SCE-01, at 3: "The Early Termination Payment is spread over multiple years to lessen its impact on responsible customers."

Because the actual costs that will be recorded in the ERRA balancing account have already been specified and agreed upon in the Coso Termination Agreement, there will be no difference between the amount forecast in the ERRA Forecast Application and the actual recorded cost. Along with all of SCE's power procurement costs, the recorded Early Termination Payment will be reviewed by the Commission in SCE's annual ERRA Review application consistent with the Commission-approved process for reviewing all costs recorded in the ERRA balancing account.³⁰

The proposed cost recovery schedule in SCE's testimony reflects an assumption that the Commission will issue a final decision on or before November 1, 2018. The earliest that the Commission will vote on this application is November 29, 2018, which moots the proposed cost recovery schedule included in SCE's testimony. Instead, SCE would seek recovery of any costs paid during 2019 in its 2020 ERRA Forecast application, for recovery in rates in 2020. According to this scenario, approval of the Coso Termination Agreement would likely result in more immediate benefits to responsible customers, as SCE would cease paying the costs of the Coso contracts as of January 1, 2019, but would not start paying for the Early Termination Payment unless and until the Commission approves those costs through SCE's 2020 ERRA Forecast application. In either scenario, however, the schedule and amounts for SCE's payment of the Early Termination Payment remain the same.

SCE's proposed cost recovery schedule is reasonable and should be approved.

³⁰ SCE-01, at 34.

3.3.2. Cost Recovery From All Responsible Customers

SCE proposes to include the costs of the Coso Termination Agreement in the Total Portfolio Costs used to set the 2019, 2020 and 2021 Competitive Transition Charge (CTC) and vintaged Power Charge Indifference Adjustment (PCIA) rates, consistent with its proposed schedule for including the Early Termination Payment costs in its 2019, 2020 and 2021 ERRA Forecast applications (again, depending on the date of a final Commission decision as discussed in Section 3.3.1). SCE currently recovers the current above-market costs of the SO4 PPA and the Coso Clean Power PPA from departing load customers through the CTC and vintaged PCIA rates, respectively:

The CTC collects the above-market costs of SCE's pre-restructuring resources that were procured or built prior to 2001, while the PCIA collects the above-market costs of the generation resources procured or built after 2001. The SO4 PPA was procured on February 1, 1985, and thus its Early Termination Payment should be recovered through the CTC, while the Coso Clean Energy PPA was procured on November 15, 2006 and thus its Early Termination Payment should be recovered through the PCIA.³¹

SCE asserts its proposed treatment is consistent with the Current Methodology for calculating above-market costs for the PCIA. SCE acknowledges that at the time of filing this Application, the Commission was considering potential revisions to the Current Methodology, and proposes to use the CTC and vintaged PCIA, "or their successor charges," to collect Coso Termination Agreement costs from departing load customers.³² SCE further asserts its proposed treatment is consistent with the Consensus Protocol,

³¹ SCE August 8, 2018 Response, Response to Question 5.

³² SCE-01, footnote 23.

intended to ensure “the PCIA continues to achieve bundled [service] customer indifference.” No party disputes SCE’s proposed cost recovery from all responsible customers, or its claim that the proposal is consistent with the Direct Access Customer Ratemaking Consensus Protocol for San Onofre Nuclear Generating Station (SONGS), which provides equitable and symmetrical rate treatment of SONGS retirement costs between bundled service and departing load customers.

In D.18-10-019 the Commission revised the inputs to the market price benchmark that is used to calculate the PCIA, effective as of January 1, 2019. The Commission also adopted an annual true-up mechanism, and a cap that will limit the change of the PCIA rate from one year to the next. SCE should collect departing load customers’ share of the Early Termination Payment pursuant to D.18-10-019 and any subsequent Commission decision regarding cost recovery for departing load customers, as applicable. Notwithstanding this provision, SCE’s proposed cost recovery from all responsible customers is reasonable and should be approved. The Commission’s approval of the Coso Termination Agreement shall not be considered precedent for any future proposals regarding IOUs’ resource portfolio management. The issues regarding IOUs’ resource portfolio management are being considered in R.17-06-026.

4. Motions to File Under Seal

Pursuant to Rule 11.4 of the Commission’s Rules of Practice and Procedure, SCE filed and served motions to file under seal:

1. Confidential portions of its July 19, 2018 response to the July 9, 2018 ruling;
2. Confidential portions of its August 8, 2018 response to the August 3, 2018 ruling;

3. Confidential portions of its opening brief, filed August 22, 2018; and
4. Confidential portions of its September 21, 2018 response to the September 13, 2018 ruling.

SCE represents that the information for which it requests confidential treatment is confidential pursuant to applicable sections of the Matrix adopted in D.06-06-066,³³ as identified in each motion for leave to file confidential information under seal. No parties objected or otherwise responded to SCE's motions to file the above-referenced information under seal. We will grant SCE's motions to file under seal the confidential portions of its pleadings, as detailed above.

5. Conclusion

Without reaching a finding on its debt equivalence assumption, for which SCE's evidence is not sufficient to meet its burden of proof, we find that SCE otherwise uses reasonable assumptions to determine the cost of the Coso Termination Agreement will be lower than the cost of continuing the Coso contracts to their scheduled expiration dates. Even assuming no debt equivalence benefit to customers, we conclude that the cost of continuing the contracts is greater than the costs of the Coso Termination Agreement. Therefore, it is reasonable to approve the Coso Termination Agreement between SCE and Coso. As part of the agreement, SCE will cease payments to Coso pursuant to the SO4 and Coso Clean Energy PPAs after December 31, 2018, and will remit the Early Termination Payment to Coso in installments pursuant to the

³³ D.06-06-066 *Interim Opinion Implementing Senate Bill No. 1488, Relating to Confidentiality of Electric Procurement Data Submitted to the Commission*, issued July 5, 2006, Appendix 1.

Coso Termination Agreement. SCE is authorized to include the multi-year Early Termination Payment remittances, pursuant to the Coso Termination Agreement, in its 2020 and 2021 ERRA Forecast applications.

6. Comments on Proposed Decision

The Commission mailed the proposed decision of the assigned administrative law judge in this matter to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. On November 19, 2018, SCE filed comments; no party filed reply comments.

SCE requests we modify the proposed decision to allow SCE to seek cost recovery, for its 2019 installments of the Early Termination Payment, in its 2019 ERRA Forecast application (A.18-05-003), explaining "SCE now has sufficient regulatory certainty with the timely issuance of the PD in this uncontested matter."³⁴ We see no reason why SCE could not, and should not, have anticipated these circumstances (i.e., a proposed decision issued in time for final non-appealable approval by December 31, 2018, as requested in SCE's uncontested application) and amended its application accordingly. Therefore, we find this requested modification is not timely and we do not entertain it. SCE's 2019 ERRA Forecast application must not include the Early Termination Payment installments that SCE will make in 2019.

SCE also requests we clarify the proposed decision's requirement for SCE to include testimony about the debt equivalence benefit of the Coso Termination

³⁴ *Opening Comments of Southern California Edison Company (U 338-E) on Proposed Decision*, filed November 19, 2018, at 3.

Agreement in its next cost of capital application, noting that SCE's authorized cost of capital for 2019 has already been established. This requested clarification is reasonable given that the proposed decision reflects the earliest indication of this requirement, which SCE could not have reasonably been expected to anticipate. We have modified the proposed decision to clarify that SCE must include testimony and propose a means for sharing the debt equivalence benefit of the Coso Termination Agreement in its 2020 cost of capital application.

We have made other revisions to the proposed decision for purposes of consistency and clarification.

7. Assignment of Proceeding

Clifford Rechtschaffen is the assigned Commissioner and Valerie U. Kao is the assigned ALJ in this proceeding.

Findings of Fact

1. Pursuant to the existing contracts, the SO4 PPA terminates on March 12, 2019 and the Coso Clean Power PPA terminates on January 31, 2030.
2. Removing SCE's debt equivalence assumption from its benefit-cost calculation does not render the Coso Termination Agreement a net cost, even in the reasonable worst-case scenario included in SCE's valuation process.
3. Any debt equivalence benefit from terminating the Coso contracts will accrue to SCE but not to applicable responsible customers, unless SCE proposes a means for applicable responsible customers to share in this benefit.
4. Without reaching a finding on its debt equivalence assumption, we find that SCE otherwise uses reasonable assumptions to determine the cost of the Coso Termination Agreement and the cost of continuing the Coso contracts to their scheduled expiration dates.

5. The net cost of continuing the Coso contracts is greater than the cost of the Coso Termination Agreement, even under the 'high energy price' and 'high REC price' sensitivities specified in SCE's testimony.

6. SCE's bundled sales forecast of its RPS requirements, using SCE assumptions, differ from its forecast using CPUC assumptions (based in large part on the 2017 Integrated Energy Policy Report), because SCE's assumptions include different assumptions about future departing load. In the event that SCE's bundled sales forecast turns out to have overestimated departing load, SCE will have sufficient time to secure alternative compliant eligible renewable energy resources to meet its RPS requirements.

7. The amount of net qualifying capacity provided by the Coso contracts is small relative to SCE's total system RA obligations, such that SCE should be able to fulfill its RA obligations as part of its regular resource planning activities.

8. SCE's treatment of the Coso contracts in its 2017-2018 IRP is reasonable, and its proposed treatment of the Coso contracts, if terminated, in its 2019-2020 IRP is appropriate.

9. SCE's proposed cost recovery schedule will mitigate the impact of the full amount of the Early Termination Payment by spreading the cost over multiple years and, accordingly, including those costs in multiple ERRA Forecast applications.

10. SCE's proposed cost recovery from all responsible customers is consistent with Commission policy regarding cost recovery from bundled and departing load customers.

Conclusions of Law

1. It is reasonable to conclude the Coso Termination Agreement will result in a net benefit to SCE whether or not we recognize a debt equivalence benefit from terminating the Coso contracts.

2. It is reasonable to require SCE to include, as part of its 2020 cost of capital application, testimony that addresses the beneficial impact of the Coso Termination Agreement on SCE's cost of borrowing, and to include a proposal for applicable responsible customers to share in this beneficial impact.

3. It is reasonable to conclude that the Coso Termination Agreement will not negatively impact SCE's ability to meet its RPS requirements.

4. It is reasonable to conclude that the Coso Termination Agreement will not negatively impact SCE's ability to fulfill its RA obligations.

5. It is reasonable to conclude that the Coso Termination Agreement will not negatively impact SCE's IRP activities.

6. SCE should collect departing load customers' share of the Early Termination Payment pursuant to D.18-10-019 and any subsequent Commission decision regarding cost recovery for departing load customers, as applicable.

7. It is reasonable to approve the Coso Termination Agreement and to authorize SCE to include the costs of the Early Termination Payment in its 2020 and 2021 ERRR Forecast applications.

8. SCE's motions for leave to file under seal confidential versions of its July 19, 2018; August 8, 2018; and September 21, 2018 responses and its August 22, 2018 opening brief should be granted.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company (SCE) is authorized to execute the Coso Termination Agreement with Coso Geothermal Holdings, LLC. Pursuant to the Coso Termination Agreement, SCE is authorized to include the cost of the Early Termination Payment, as specified in the Coso Termination Agreement, in its 2020 and 2021 Energy Resource Recovery Account Forecast applications. SCE must collect departing load customers' share of the Early Termination Payment pursuant to D.18-10-019 and any subsequent Commission decision regarding cost recovery for departing load customers, as applicable.

2. Southern California Edison Company (SCE) must, as part of its 2020 cost of capital application, include testimony that addresses the beneficial impact of the Coso Termination Agreement on SCE's cost of borrowing. As part of the same cost of capital application, SCE must also include a proposal for applicable responsible customers to share in the beneficial impact of the Coso Termination Agreement on SCE's cost of borrowing.

3. Southern California Edison Company's motions for leave to file under seal confidential versions of its July 19, 2018; August 8, 2018; and September 21, 2018 responses and its August 22, 2018 opening brief are granted. The information shall be kept confidential in accordance with the applicable time periods specified in the Investor-Owned Utility Matrix adopted in Decision 06-06-066, as modified by Decision 07-05-032, and shall not be made accessible or disclosed to persons other than the Commission and its staff except on further Commission order or Administrative Law Judge ruling. If Southern California Edison Company believes that it is necessary for this information to remain under seal

for longer than the time periods specified in the Investor-Owned Utility Matrix, it may file a motion showing good cause for extending this order by no later than 30 days before the expiration of this order.

4. Application 18-03-010 is closed.

This order is effective today.

Dated November 29, 2018, at San Francisco, California.

MICHAEL PICKER

President

CARLA J. PETERMAN

LIANE M. RANDOLPH

MARTHA GUZMAN ACEVES

CLIFFORD RECHTSCHAFFEN

Commissioners