

**ORIGINAL**

Decision 84-10-098 October 17, 1984  
BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Second Application of PACIFIC GAS AND ELECTRIC COMPANY for Approval of Certain Standard Offers Pursuant to Decision No. 82-01-103 in Order Instituting Rulemaking No. 2 ) Application 82-04-44 (Filed April 21, 1982; amended April 28, 1982, July 19, 1982, July 11, 1983, and August 2, 1983)

Application 82-04-46 (Filed April 21, 1982; amended May 12, 1982, July 11, 1983, and August 10, 1983)

And Related Matters. ) Application 82-04-47 (Filed April 21, 1982; amended July 11, 1983 and August 2, 1983)

INTERIM OPINION

BACKGROUND

In Decision 83-09-054, (September 7, 1983), we adopted an interim long-run standard offer to continue our implementation of the Public Utility Regulatory Policies Act of 1978 (PURPA). Standard Offer No. 4 was the result of a negotiating conference held during the summer of 1983. The goal of the negotiating conference was to develop an interim Standard Offer No. 4 which the parties "could comfortably tolerate and work under while refinement and

"perfection" could be pursued in subsequent evidentiary hearings" (D.83-09-054, at p. 8.) In that decision, however, we expressed certain reservations about the continued availability of the Standard Offer Option #3 ("incremental energy rate option") to oil and gas cogenerators:

"We recognize the benefits of having oil and gas cogenerators on the system to displace the utilities' incremental oil and gas generation units, but only to the extent that: 1) cogeneration results in a more efficient use of fossil fuels (i.e., the cogenerator's actual incremental energy rate is lower than the utility's), and, 2) California's resource base, no matter how well it can be diversified, may require some oil and gas generation units to meet demand. We are

concerned, however, that this energy payment option could, over time, provide incentives to oil and gas cogenerators that are not commensurate with the benefits described above." (p. 44-45 Decision 83-09-054)

The resource planning issues relating to oil and gas cogenerators have not yet been addressed in the evidentiary hearing process on a final long-run standard offer, nor does it appear that they will be over the next few months. These issues are becoming critically important in PG&E's service territory in light of the magnitude of OF power currently under contract, and the quantity of large cogeneration projects anticipated to sign long-term contracts in the near future.

At the request of our Public Staff, PG&E has informed the Commission that their records indicate a magnitude of over 1800 MW of capacity currently signed under Standard Offer #4, with over 600 MW of that capacity attributed to oil and gas cogenerators. Attachment A to this order presents this reporting information. It is also projected that large cogenerators will sign long-term contracts under Payment Option #3 at an accelerating rate over the next few months. These realities have exceeded all our original expectations concerning the magnitude of oil and gas cogenerators on PG&E's system under the payment option put forth on an interim basis. Since we did not impose a MW limitation on the quantity of OFs signing up under Option #3, the question before us now is whether the ratepayer will incur unreasonable costs if we allow this option to continue to be available without modification.

#### DISCUSSION

We continue to support the development of cogeneration projects in PG&E's service territory, but we also continue to believe that our avoided cost contract prices should result in a sound, economic and reliable resource base for electric power. Although a final decision on a long-run costing methodology will be made following careful deliberation, we need to create a workable forum at this time for gathering pertinent facts and to hear from the affected parties. In Phase 1 of the evidentiary hearing on A.82-04-44 et al., the Public Staff has recommended limiting the availability of the long-run offer due to the resource planning and pricing implications of additional capacity increments. In consideration of the above, we order the following:

1. The availability of Payment Option #3 under interim Standard Offer No. 4 is temporarily suspended for QF's with projects over 50 MW in PG&E's service territory who have not yet signed an offer as of the date of this order.

2. Within 10 days from the date of this order, PG&E, the Public Staff and any interested parties shall file with the Commission and all parties to A.82-04-44 et al. the following information:

A. Estimates of how many of the 1800 MW of signed capacity under Standard Offer #4 will actually come on line in PG&E's service territory.

B. Projections of additional signed and on-line projects under Standard Offer No. 4 and, in particular, large cogeneration projects over the next 12 months in PG&E's service territory.

C. The effect of these magnitudes of on-line capacity on the parameters of Payment Option #3 including the incremental energy rate, the marginal fuel and fuel price, and the capacity value.

3. On November 5, 1984, the Commission will meet en banc to receive comments from parties on what further action should be taken. Alternatives include:

A. Reinstating payment Option #3 without revision.

B. Establishing a MW limit for the availability of the current payment Option #3.

C. Opening a settlement conference to agree on new prices and/or a MW limit for Option #3 and.

D. Continuing suspension of Option #3 until completion of the long-run avoided cost proceedings.

Authority must be obtained from the California Energy Commission for projects over 50 MW.

... We solicit other alternatives for the Commission to consider.

It should be emphasized that the suspension affects only the future availability of the interim Standard Offer No. 4 Payment Option #3. Existing contracts that is accepted and signed offers remain in effect. The availability of Options #1 or #2 under interim Standard Offer No. 4 or any pricing option under Standard Offers No. 1, No. 2 or No. 3 are unaffected by this order. We also encourage utilities to negotiate cogeneration contracts with more firm pricing provisions based on current estimates of long-run avoided costs.

We take the step of suspending PG&E's Standard Offer No. 4 Payment Option #3 to projects over 50 MW reluctantly, and only because we perceive that a significant cost to ratepayers will result by continuing to offer this payment option without further scrutiny. We are also mindful that continued additions of large increments of cogenerators under long-term contracts could drive down the energy price for existing OFs on the available and firm capacity contracts.

We intend to make any adjustments to Payment Option #3 as soon as possible so that any uncertainties aroused by today's actions will be short-lived. Therefore, this suspension order will automatically expire on December 5, 1984 unless the Commission issues an order outlining specific steps for further action on this issue on or before that date.

This matter did not appear on the public agenda as required by the Government Code, however, a sufficient emergency exists to justify our action today under Public Utilities Code Section 306(b).

FINDINGS OF FACT

1. The Commission has implemented PURPA to support the development of OFs in California and to keep the ratepayer indifferent to whether the OF or the utility supplied power.
2. To make available an interim long-run standard offer, the Commission convened a negotiating conference May 1983. The terms agreed to by the participants in the negotiating conference were approved by the Commission as Standard Offer No. 4.
3. Under Standard Offer No. 4, the Payment Option #3 for cogenerators was

- approved for a limited period due to reservations about the effect of this option on ratepayer indifference over time.
4. In PG&E's service area, capacity from cogenerators has, and is, projected to become so extensive under Payment Option #3, that the pricing terms of that option may need to be adjusted.
  5. This additional capacity may lead to uneconomic resource decisions, causing ratepayers to assume an unreasonable economic burden.

CONCLUSIONS OF LAW

1. Continuing to allow cogenerators to contract under the terms of Payment Option #3, Standard Offer #4, may adversely affect the ratepayer.
2. This order should be made effective immediately, with an automatic sunset provision, to mitigate the impacts of this action on the QFs and ratepayers.

INTERIM ORDER

IT IS ORDERED that:

1. All terms and conditions of PG&E's Payment Option #3 under interim Standard Offer No. 4 adopted in D. 83-09-054 shall be suspended for QF projects of over 50 MW capacity until December 5, 1984.
2. Within 10 days of the effective date of this order, PG&E, the Public Staff and other interested parties shall file to parties in A. 82-04-44 et al., the long-run avoided cost proceeding, the following information:
  - A. Estimates of how many of the 1800 MW of signed capacity under Standard Offer #4 will actually come on line in PG&E's service territory.
  - B. Projections of additional signed and on-line projects under Standard Offer No. 4 and, in particular, large cogeneration projects over the next 12 months in PG&E's service territory.
  - C. The effect of these magnitudes of on-line capacity on the parameters of Payment Option #3 including the incremental energy rate, the marginal fuel and fuel price, and the capacity value.
3. PG&E, Public Staff and other interested parties shall appear before the Commission en banc in the Commission courtroom, 350 McAllister St., San Francisco, CA, on November 5, 1984 at ten o'clock to put forth their positions on what further action the Commission should

take regarding the availability of Payment Option #3 to cogenerators of over 50 MW in PG&E's service territory.

4. This suspension order automatically expires on December 5, 1984

unless the Commission issues an order outlining specific steps for further action on this issue on or before that date.

5. A copy of this order shall be served on all parties in A. 82-04-44 et

This order is effective immediately.

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Dated: October 17, 1984, at San Francisco, California.

VICTOR CALVOT, S  
DONALD VIAENEZ  
WILLIAM T. BAGLEY  
Commissioners

I abstain because of financial interest in potential small power producers.

/s/ PRISCILLA C. GREW  
Commissioner

Within 10 days of the effective date of this order, PG&E, the Public Utility Commission, and other interested parties shall file with the Commission the following information:

A. Estimates of how many of the 1980 MW of signed capacity under Standard Order No. 4 will actually come on line in PG&E's service territory.

B. Projections of additional signed on-line capacity under Standard Order No. 4 and in particular, large dependence projects over the next 15 months in PG&E's service territory.

I CERTIFY THAT THIS DECISION

WAS MADE BY THE ABOVE COMMISSIONERS TODAY.

Joseph E. Bodovitz, Executive Director

A.82-04-44 et al. /ALJ/jt

Attachment A

Projects in total Megawatts which have executed Standard Offer #4 as of September 30, 1984, PG&E only.

Cogeneration	684.8
Solid Waste/Biomass	250.7
Hydro	252.1
Wind	624
Total	1811.6Mw

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Application 82-04-50-00 (Filed April 21, 1982; amended July 11, 1983; and August 2, 1983)

Application 82-04-51-00 (Filed April 21, 1982; amended July 11, 1983; and August 2, 1983)

Application 82-04-52-00 (Filed April 21, 1982; amended July 11, 1983; and August 2, 1983)

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Application 82-04-58-00 (Filed April 21, 1982; amended July 11, 1983; and August 2, 1983)

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Application 82-04-62-00 (Filed April 21, 1982; amended July 11, 1983; and August 2, 1983)

Application 82-04-63-00 (Filed April 21, 1982; amended July 11, 1983; and August 2, 1983)

Application 82-04-64-00 (Filed April 21, 1982; amended July 11, 1983; and August 2, 1983)

Application 82-04-65-00 (Filed April 21, 1982; amended July 11, 1983; and August 2, 1983)

INTERIM ORDER OPINION

BACKGROUND

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concerned, however, that this energy payment option could, over time, provide incentives to oil and gas cogenerators that are not commensurate with the benefits described above." (p. 44-45 Decision 83-09-054).

The resource planning issues relating to oil and gas cogenerators have not yet been addressed in the evidentiary hearing process on a final long-run standard offer, nor does it appear that they will be over the next few months. These issues are becoming critically important in PG&E's service territory in light of the magnitude of OF power currently under contract, and the quantity of large cogeneration projects anticipated to sign long-term contracts in the near future.

At the request of our Public Staff, PG&E has informed the Commission that their records indicate a magnitude of over 1800 MW of capacity currently signed under Standard Offer #4, with over 600 MW of that capacity attributed to oil and gas cogenerators. Attachment A to this order presents this reporting information. It is also projected that large cogenerators will sign long-term contracts under Payment Option #3 at an accelerating rate over the next few months. These realities have exceeded all our original expectations concerning the magnitude of oil and gas cogenerators on PG&E's system under the payment option put forth on an interim basis. Since we did not impose a MW limitation on the quantity of OFs signing up under Option #3, the question before us now is whether the ratepayer will incur unreasonable costs if we allow this option to continue to be available without modification.

DISCUSSION

We continue to support the development of cogeneration projects in PG&E's service territory, but we also continue to believe that our avoided cost contract prices should result in a sound, economic and reliable resource base for electric power. Although a final decision on a long-run costing methodology will be made following careful deliberation, we need to create a workable forum at this time for gathering pertinent facts and to hear from the affected parties. In Phase 1 of the evidentiary hearing on A:82-04-44 et al., the Public Staff has recommended limiting the availability of the long-run offer due to the resource planning and pricing implications of additional capacity increments. In consideration of the above, we order the following:

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4. In PG&E's service area, capacity from cogenerators has, and is, projected to become so extensive under Payment Option #3 that the pricing terms of that option may need to be adjusted.

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CONCLUSIONS OF LAW

1. Continuing to allow cogenerators to contract under the terms of Payment Option #3, Standard Offer #4, may adversely affect the ratepayer.
2. This order should be made effective immediately, with an automatic sunset provision to mitigate the impacts of this action on the QFs and ratepayers.

INTERIM ORDER

IT IS ORDERED that:

1. All terms and conditions of PG&E's Payment Option #3 under Interim Standard Offer No. 4 adopted in D. 83-09-054 shall be suspended for QF projects of over 50 MW capacity until December 5, 1984.
2. Within 10 days of the effective date of this order, PG&E, the Public Staff and other interested parties shall file to parties in A. 82-04-44 et al., the long-run avoided cost proceeding, the following information:
  - A. Estimates of how many of the 1800 MW of signed capacity under Standard Offer #4 will actually come on line in PG&E's service territory.
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