

APR 28 1988

Decision SS 04 070 APR 27 1988

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's)
own motion into the desirability of)
power purchases from cogenerators)
and small power producers located)
outside of the purchaser's service)
area or outside of California and)
the terms and conditions which)
should be applied to such purchases.)

I.85-11-008
(Filed November 6, 1985)

ORDER RESTRUCTURING INVESTIGATION

This order restructures I.85-11-008 so that the Commission, the utilities, cogenerators and other small power producers will apply their collective resources to problems that need resolution over the near term.

This investigation will remain open to allow for review on a case-by-case basis of out-of-service area Qualifying Facility (QF) interconnection to interties or bulk transmission lines when such interconnection may result in the displacement of economy power. Upon the petition of a QF denied an interconnection, the Commission will investigate the utility's claim of displaced economy power or other economic harm to ratepayers. Upon the filing of a QF petition, the utility must demonstrate the economic harm that will befall its ratepayers if an interconnection is allowed.

Absent a utility claim of economic harm, interconnection of out-of-service area QFs should occur without any fuss or additional requirements by the utility. This means, for example, that QFs outside of San Diego Gas & Electric Company's (SDG&E's) service area are eligible to participate in SDG&E's reinstated Standard Offer No. 2 (SO2). (See D.88-03-079, Ordering Paragraph 4.) Unless SDG&E raises a claim of economic harm to its ratepayers which is later upheld by the Commission, out-of-service area QFs

should be treated no differently than in-service area QFs in their efforts to participate in the reinstated S02.

Other issues which have been suggested by the parties that filed statements of issues to be addressed in this investigation are deferred.

Background

The Commission issued I.85-11-008 partly in response to a request of Cogeneration Services, Inc. (Hydro Pool) to wheel power from the Pacific Northwest to Pacific Gas and Electric Company (PG&E) over the Pacific Intertie. Hydro Pool represented a group of Oregon QFs that sought to participate in the interim solution adopted by the Commission for the interconnection of QFs to PG&E's constrained northern transmission system. The Commission decided that deliveries from Hydro Pool over the Pacific Intertie had a greater potential for the displacement of economy power purchases from the Pacific Northwest than other QF deliveries. Hydro Pool was not allowed to participate in the adopted interim solution.

The Commission stated in I.85-11-008 that the investigation on the desirability of purchasing power from QFs outside the service area of the purchasing utility should determine:

- "1. the extent to which unlimited power purchases resulting from interconnection of out-of-service area QFs would cause displacement of economy energy from the Northwest and Southwest;
- "2. the feasibility of developing pricing and curtailment options to assure that the true costs avoided by QFs are measured, including the foregone opportunity of the use of transmission lines for other sources;
- "3. additional contract terms needed to allow purchasing utilities to track the progress of out-of-service area QFs for resource planning purposes;

- "4. an evaluation of the circumstances, if any, under which it would be appropriate to make standard offers available to out-of-service area QFs and the form of such offers; and
- "5. the potential discriminatory and anti-competitive effects of accepting or not accepting out-of-state QFs with the possibility for economic harm or no economic harm to the California ratepayers; and
- "6. additional contract terms and conditions and other factors which would negate or ameliorate against any potential economic harm to the California ratepayer."

Since the issuance of I.85-11-008 a prehearing conference was held and evidentiary hearings were scheduled. Due to delays in the completion of the long-run standard offer proceeding, the evidentiary hearings were postponed and a second prehearing conference was held to review the issues which should be addressed by the Commission at this time.

A wide variety of positions were taken by the parties at the second prehearing conference on the proper course of action for the Commission. We observe that unlike the time when I.85-11-008 was issued, there are no visible QFs asking for access to an intertie.

Positions of the Parties

Division of Ratepayer Advocates (DRA)

DRA believes that there still are significant transmission related issues which should be addressed by the Commission.

First, DRA submits that the original focus of the investigation, i.e. utility requirements to purchase power from out-of-service area QFs, should be held. DRA believes that any changes from the standard offer contract terms for out-of-service area QFs should be reviewed by the Commission.

Second, DRA recommends that the Commission undertake an inquiry into wheeling QF power. DRA contends that the Commission can order a California investor owned utility (IOU) to wheel QF power and also may fix the rate that an IOU may charge for wheeling service. (See Public Utilities Code Sections 2833-2834.) If out-of-service area QFs are to sell power to California utilities, DRA believes that the Commission will have to visit the issue of wheeling and address the related questions of the availability of transmission capacity, potential operating and reliability problems, methods for prioritizing wheeling requests, and calculations of wheeling charges.

Third, DRA notes that the Commission may wish to review the usefulness of a transmission cost cap as proposed by PG&E.¹

Utilities

The utilities, PG&E, SDG&E, and Southern California Edison Company (SCE) believe that the investigation should be suspended, narrowed or left unchanged.

PG&E states that since the suspension of the long-run standard offers, no out-of-service area QFs have expressed an interest in delivering power to PG&E. Furthermore, PG&E notes that the Commission has recognized that PG&E does not need additional QF capacity for the foreseeable future. For these reasons, PG&E believes that the investigation should be suspended.

SDG&E submits that it would be unwise for the Commission to attempt to regulate transactions in the bulk power market. SDG&E states that off-system QFs trying to deliver power through facilities designed for the transfer of bulk power are participating in the bulk power market. SDG&E contends that any

1 PG&E had filed an advice letter #1182-E requesting approval of a \$63 per kilowatt cost cap on transmission system improvements to interconnect QFs. By letter dated March 3, 1988, counsel for PG&E stated that PG&E has decided not to employ this cost cap and has withdrawn the advice letter.

regulatory attempt to standardize a bulk power market transaction would be impractical and unsuccessful. For this reason, SDG&E concludes that the focus of the investigation should be extremely narrow and should avoid experimentation in the bulk power market.

SCE believes no changes need to be made from the issues stated in the order initiating the investigation or the subsequent administrative law judge's ruling. Rather than restructure the investigation, SCE states that the Commission should proceed to determine the impacts on the ratepayers of out-of-service area QF power deliveries as originally contemplated.

The QFs

Santa Fe Geothermal, Inc., Union Oil Company of California and Freeport-McMoran Resource Partners submitted a succinct statement of issues to be addressed by the Commission. First, they ask the Commission to determine whether SDG&E's near term need for additional capacity can be met by QF resources located outside of SDG&E's service area by transmission or exchange. They suggest that QF deliveries may be made to SDG&E over the Southwest Power Link, over portions of SCE's transmission system, or by exchange with SCE. Second, they ask whether the development of new QF resources may supplant the need for the development of the California-Oregon Transmission (COT) Project. Third, they ask whether any modification to the standard offer contracts is necessary other than a substitution of a provision for QF responsibility to secure transmission or exchange service for the provision on direct interconnection with the utility. Fourth and finally, they ask whether upgrades to a bulk transmission line are inherently system beneficial such that the cost of such upgrades is properly borne by the ratepayers as a whole.

The Independent Energy Producers Association (IEP) believes that the investigation should be broadened. In addition to the original objectives, IEP believes that the Commission should investigate the potential for the transmission of QF power by

displacement. For example, IEP suggests that northern California QFs whose output is committed to SCE could provide some of the electricity that SCE proposes to sell to the Sacramento Municipal Utility District (SMUD), rather than physically wheeling power from Southern California to SMUD. IEP also urges the Commission to examine the ability of utilities to purchase QF power from outside their service areas as well as the physical ability of QFs within California to transmit power to several utilities.

Yankee Caithness Joint Venture (Yankee) submitted a statement asking that the investigation should be phased to allow inquiry into its tender of standard offer contracts to SCE before the standard offers were suspended by the Commission. Yankee believes that its dispute with SCE is project-specific and should be resolved without exploration of the broad policy issues raised in the investigation. Accordingly, Yankee requests that its dispute with SCE be severed from the other issues and addressed first.

Cogeneration Service Bureau (CSB) asks for an interpretation of the D.85-09-058 system-wide benefits standard adopted for allocating costs of transmission upgrades between QFs and the utility's ratepayers.

The Department of General Services (DGS) asks the Commission to consider ways of allowing QFs to compete against resources located out-of-state that will deliver power through major transmission lines proposed by the utilities such as the COT Project and the Devers-Palo Verde No. 2 project.

Other Interested Parties

The Natural Resources Defense Council (NRDC) endorses the stated objectives of the investigation but would add one issue. NRDC believes the Commission should evaluate the extent to which California utilities are pursuing out-of-service area power purchases that involve investment in cost-effective conservation measures, as an alternative to or in addition to QFs. NRDC points

out that the Northwest Power Planning Council has identified conservation as the region's largest and cheapest unexploited electricity resource. NRDC submits that conservation-based power transfers should be part of any investigation of out-of-state purchases.

The California Energy Commission (CEC) simply stated that it would closely follow the investigation of any issues that are pertinent to the CEC's certification of power plants and its long-term energy forecasting and planning.

Discussion

We believe a restructuring of the investigation is warranted at this time. We issued I.85-11-008 more than two years ago to cope with what we then expected would be a large number of out-of-service area QFs. The situation today is quite different as there are no visible QFs seeking access to an intertie and only SDG&E has a near term need for QF capacity. For this reason, we will not undertake a statewide review of interties and QF access to them. Instead we will keep this investigation open for a case-by-case review of disputes between utilities and out-of-service area QFs over access to interties or bulk transmission lines. Since neither PG&E nor SCE has a near term need for QF power, we expect that the only review which may occur will involve QF deliveries to SDG&E.

A QF that is denied access to an intertie or bulk transmission line by a utility may file a petition in this docket asking for Commission review. Upon the filing of such a petition, the utility will be required to demonstrate the economic harm that will befall its ratepayers if interconnection is allowed. For example, if SDG&E denies access on the Southwest Power Link to an out-of-service area QF trying to participate in the reinstated S02, SDG&E will have to show that there is a substantial likelihood that economy power purchases will be displaced even considering the curtailment provision in S02.

Absent a claim of economic harm to its ratepayers, out-of-service area QFs should be allowed to deliver power to the utilities without any additional requirements. A simple alteration to the standard offer contract language requiring the QF to take care of transmission service should replace the provision on direct interconnection.² However, there do not appear to be any substantive issues that would require an evidentiary hearing as long as the interconnection does not raise the possibility of economy power displacement.

We are hopeful that this approach will conserve the collective resources of the Commission, the utilities, and the QFs. On the one hand, we do not carry out the original investigation on a generic basis for all the utilities. On the other hand, we provide an ongoing forum for QFs that do experience problems with the utilities. This approach should enable us to concentrate on disputes as they may arise. We, of course, expect the utilities and the QFs to negotiate and to explore all avenues for a resolution of their disagreements before coming to the Commission. The parties have considerable experience in workshops and other settlement procedures for arriving at mutually satisfactory resolutions of QF-related issues without Commission hearings. The Joint QF/utility Consultative Committee also may help in addressing generic problems. This experience should encourage a "meet and confer" approach over litigation.

With respect to the broad policy issues of wheeling, exchange, conservation-based power transfers, or competition with proposed major transmission lines, we are inclined to defer any investigation of these matters in this proceeding until the

² We are confident that this can be accomplished without the formal approval of standard contract language as the utilities indicated at the second prehearing conference that these types of contract modifications have been made in a routine manner with out-of-service area QFs.

utilities' need for QF capacity has increased. With respect to the petition of Yankee regarding the execution of certain standard offers with SCE, this matter may be addressed before the broad policy issues are resolved, as agreed to by the parties at the second prehearing conference.

Findings of Fact

1. I.85-11-008 was issued at a time when the Commission believed that large numbers of out-of-service area QFs would attempt to deliver power to California utilities over interties or bulk transmission lines.

2. More than two years have passed since issuance of I.85-11-008 and at this time only SDG&E has a near term need for QF capacity.

3. The collective resources of the Commission, the utilities, and the QFs will be conserved if the generic issues as set forth in the original investigation are not explored at this time.

4. The interests of out-of-service area QFs will be protected by the availability of a Commission forum in which the utilities will be required to demonstrate that any refusal to interconnect an out-of-service area QF is warranted because of economy power displacement or other economic harm to the utility's ratepayers.

5. This order should take effect on the date of issuance so that out-of-service area QFs interested in participating in SDG&E's reinstated S02 are made aware of their eligibility to participate.

Conclusions of Law

1. The generic issues set forth in the original I.85-11-008 and broad policy issues stated by the parties should be deferred until the utilities have a near term need for QF capacity.

2. The dispute between Yankee and SCE regarding the execution of certain standard offers may be addressed by the

Commission before the generic issues or broad policy issues are resolved.

ORDER

Therefore, IT IS ORDERED that:

1. Hearings on the generic issues stated in I.85-11-008 and the broad policy issues stated by the parties are deferred until the utilities have a greater near term need for Qualifying Facility (QF) capacity.

2. Out-of-service area QFs whose interconnection does not raise the possibility of the displacement of economy power are eligible to participate in the various standard offers.

3. If a QF is denied an interconnection because a utility claims that economy power displacement or other economic harm will occur, the QF may file a petition in this docket and ask the Commission to review the utility's claim. Upon the filing of a QF petition, the utility shall make a showing of the economic harm that would befall its ratepayers if the interconnection is allowed.

4. The petition of Yankee Caithness Joint Venture (Yankee) to have Southern California Edison Company (SCE) execute certain standard offer contracts shall be addressed in this proceeding on a schedule agreed to by Yankee and SCE as approved by the administrative law judge.

This order is effective today.

Dated APR 27 1988, at San Francisco, California.

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
C. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.


Victor Weisler, Executive Director