

Decision 88 05 075 MAY 25 1988

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of SOUTHERN CALIFORNIA EDISON)
COMPANY (U 338-E) for Authority to)
Enter Into a Spot Pricing Amendment)
to an Existing Contract With TAMCO.)

) Application 88-04-048
) (Filed April 14, 1988)

In the Matter of the Application)
of SOUTHERN CALIFORNIA EDISON)
COMPANY (U 338-E) for Authority to)
Enter Into a Spot Pricing Amendment)
to an Existing Contract With Air)
Products.)

) Application 88-04-056
) (Filed April 19, 1988)

O P I N I O N

I. Introduction and Procedural History

These companion expedited applications by Southern California Edison Company (Edison) request Commission authorization to enter into spot pricing amendments (amendments) to existing contracts for electric service with TAMCO and with Air Products and Chemicals, Inc. (Air Products). The amendments would encourage TAMCO and Air Products to increase purchases of nonfirm electric energy on-peak at a discounted variable rate during the summer 1988 billing period, June 5 through October 2, 1988. This on-peak electric energy would not otherwise be purchased by TAMCO since normal on-peak pricing is alleged to be uneconomic in producing reinforcing steel using electric arc furnaces. Similarly, most of this on-peak electric energy would not otherwise be purchased by Air Products since normal on-peak pricing is alleged to be uneconomic in operating its cryogenic air separation facility in El

Segundo to produce gases such as oxygen and nitrogen. Under current pricing, Air Products would be expected to continue to decrease its on-peak usage substantially as it recently has done.

The applications are made under the expedited application docket (EAD) procedure adopted by Resolution ALJ-159 on June 15, 1987. The EAD procedure is to be used for utility requests for approval of special service contracts. The procedure is designed to provide broader participation and a more formal review than is available under the Advice Letter procedure, but with a decision to be reached in approximately the same time frame. The EAD was originally limited to special service contracts offered to prevent individual customers from bypassing the gas or electric utility or to prevent reduced requirements due to fuel switching. Decision (D.) 88-03-008 in I.86-10-001 (the 3-R's proceeding) subsequently provided more detail on filing requirements and also expanded the applicability of the EAD procedure to include all special contracts, including those for incremental sales. These current applications deal with incremental sales.

A workshop was duly noticed and held on May 16, 1988 as a result of a protest by the Natural Resources Defense Council (NRDC). The NRDC protest is against both the TAMCO and the Air Products amendments and questions Edison's compliance with D.88-03-008 with regard to the menu of conservation options required to be made available to the customers. The Division of Ratepayer Advocates (DRA) furnished comments in support of the TAMCO amendment. No requests for evidentiary hearings were received on either application.

At the workshop, Mr. Ralph Cavanagh represented NRDC and withdrew the protest with regard to both amendments, indicating that NRDC is satisfied with Edison's commitment to conservation generally and that the short duration of these amendments makes the

conservation options essentially unavailable. NRDC nevertheless intends to actively participate in future applications under the EAD procedure.

Under the EAD procedure, in addition to meeting the usual requirements of the Rules of Practice and Procedure, the requirements of Appendix A of Resolution ALJ-159 and D.88-03-008 must be met. We will address the significant applicable requirements individually in this order. Since the two applications are closely related and substantially similar, they are consolidated in this opinion. Our discussion will relate to both, unless otherwise indicated.

The requirements/guidelines that must be met in order for the applications to qualify for accelerated review are listed below.

Floor Price

Energy Component

Transmission and Distribution (T&D) Component

Generation Component

Minimum Customer Size

Maximum Term

Rate Structure

Conservation Options

We will discuss the applications in terms of the individual guidelines to be followed by a section that discusses our overall findings regarding the applications when considered as a whole.

II. Guidelines

A. Floor Price

The floor price must consist of (A), an energy component, (B), a T&D component, and (C), a generation component.

DRA did not evaluate the individual components of price in detail, but rather based its conclusion on the overall effective rate. We will review the other rate components relative to the requirements of D.88-03-008 and then will consider the overall effect of the amendments rates.

1. Energy Component

The energy component must be based on the energy prices in Standard Offer No. 1 (SO #1), and be time differentiated.

SCE states that the minimum rate under the amendments is initially 75% higher than the SO #1 energy cost on-peak of 4¢/kWh. If either a high energy cost or low spinning reserve condition exists, a higher alternative rate applies. A high energy cost condition exists when Edison's on-peak avoided or marginal energy cost exceeds 5¢/kWh. The rate is then tied to the on-peak marginal energy cost plus 3¢/kWh contribution to margin. The marginal energy cost is the higher of Edison's currently published avoided energy cost, the energy cost of a combustion turbine required to meet system load, or the incremental real-time cost of purchased power. These provisions allow Edison to recover the additional costs if fuel or purchased power costs associated with incremental on-peak sales increase substantially.

A low spinning reserve condition exists when Edison's spinning reserves are below seven and one-half percent. Under this condition, Edison may charge the currently effective on-peak energy charges under Schedule No. I-5 (I-5), Rate A, in effect eliminating the lower Spot Pricing Amendment (SPA) rate.

DRA does not agree that the energy rate is 75% above SO #1 but does believe that the margin contribution overall is positive and sufficient for the short duration of this contract.

We conclude that the energy component is reasonable for Edison's ratepayers since it is priced higher than SO #1 energy prices and has provisions to insure a positive contribution to margin under all reasonably predictable operating conditions.

2. T&D Component

The T&D component is intended to recover the reasonable portion of costs attributable to the contract. The Commission in D.83-03-008 ordered that the T&D component be based on the marginal T&D cost determined in the most recent general rate case (GRC). In addition, contracts for incremental sales that cause a need for modification of the T&D system or acceleration of the planned improvements should recover an appropriate measure of those increased costs.

Edison recommends that the Commission use non-coincident T&D costs for TAMCO, which they allege to be 0.4¢/kWh, based on the premise that the interruptible feature should exempt these amendments from coincident T&D costs. In addition, since the on-peak demand eligible for SPA pricing may not exceed the higher of the average demand in the mid-peak or off-peak period, the amendments will not likely cause increased on-peak demand but rather will result in relatively flat demand during all TOU periods. As a result, Edison recommends that no modification to the T&D system is needed.

We conclude that use of non-coincident T&D costs satisfies the requirements for the reasons stated by Edison. No improvements to T&D should be necessary as a result of the amendments.

3. Generation Component

The generation component is a demand cost that must be based on Edison's SO #1 capacity price, including adjustments based on its most recent Energy Reliability Index (ERI).

Edison believes that since they involve interruptible power, the amendments should not have generation components. We note that under I-5, which is interruptible, demand charges apply to all TOU periods. Edison explains that this is due to different rate design structure. The total rates under I-5 are similar to

the amendment rates, although the I-5 energy rate is considerably lower than the amendment energy rate.

In this particular factual situation we are more concerned with overall effective rates rather than the individual components primarily because of the very short-term nature of these contracts. We agree that considering the rate structure of the amendments, no demand or generation component is appropriate.

In summary, the amendments' minimum rate of 7¢/kWh consists of the following components:

Energy Cost = 4.0¢/kWh

T&D Cost = 0.4¢/kWh

Contribution to Margin = 2.6¢/kWh

Total Minimum Rate = 7.0¢/kWh

B. Minimum Customer Size

The contract must be entered into with a customer with a demand of 1,000 kW or greater. TAMCO has a base demand exceeding 50 megawatts (MW) or 50,000 kW, while Air Products has a base demand exceeding 17 MW or 17,000 kW, therefore both amendments satisfy the minimum customer size qualification.

C. Maximum Term

The term of contract for incremental sales must not exceed three years. These amendments have terms of slightly less than four months, and therefore meet this qualification.

D. Rate Design

The contract must contain similar differentials between on- and off-peak rates as in the otherwise applicable TOU tariffs. Schedule I-5 otherwise applies and has significant rate differentiation between TOU periods. The amendments do not have rate differentials as such since they deal only with incremental sales on-peak. Edison states that since the amendment rates are as high as the customers can pay, the small differential between those rates (on-peak) and the schedule I-5 mid-peak rate is justified.

The amendments have terms intended to protect against increasing on-peak demand by shifting demand from other TOU periods. The amendment rates apply to demand that cannot exceed the highest demand during the other TOU periods. The expected result is a relatively flat demand across TOU periods. Requiring a greater differential between on-peak and mid-peak periods would likely defeat the purpose of the amendments and result in significantly less on-peak sales if the on-peak rates were raised in order to achieve the differential. On the other hand, lowering the mid peak and possibly off-peak rates in order to achieve the differential would result in significant loss of margin contribution from sales during those periods. We conclude that the amendments satisfy the intent of this requirement.

E. Conservation Options

Edison must present the customer a menu of conservation options during the negotiations for special contracts. The Commission has not yet acted on Edison's menu of conservation options in I.86-10-001. Such action is not anticipated before the Fall of 1988. Since these amendments terminate October 2, 1988, the conservation options are not likely to be available in Commission approved form before that time, and certainly not in the planning time frame of pre-summer of 1988. TAMCO and Air Products represent that they would not consider conservation options at this time in lieu of these short term amendments due to the need for on-peak rate relief for the summer of 1988.

NRDC has withdrawn its protest of these amendments, which related to conservation options, agreeing that such options are probably not viable for the short lead time and short duration of these agreements.

We agree and conclude that this requirement cannot practically be met at this time. However, we put Edison on notice that future applications will be carefully evaluated in this regard.

Although the amendments do not exactly comply with all the requirements of D.88-03-008, we believe that they fully satisfy the intent of the decision, of Resolution ALJ-159, and the EAD procedure. The amendment rates could have been structured somewhat differently but the importance lies in the total effective rate, which results in appropriate contributions to margin that would not likely be realized but for these amendments. Edison estimates the contribution to margin to be \$132,000 for the period of the TAMCO amendment based on the minimum rate of 7¢/kWh and full capacity on-peak operation. The corresponding estimated contribution for Air Products amendment is \$258,000.

We also believe that the amendments have adequate provisions to protect Edison's ratepayers in the event Edison experiences significant cost increases in providing the energy. Edison's ratepayers should benefit from the contribution to margin resulting from incremental sales under these amendments under reasonably foreseeable operating conditions. If conditions arise wherein the alternate rates cause TAMCO and/or Air Products to cease incremental on-peak purchases, Edison's ratepayers will be no worse off than if the amendments did not exist. We conclude that the amendments are reasonable and should be approved. Although the menu of conservation options is not practical due to the short lead time and short duration of these amendments, we intend to fully consider those options in later filings under the EAD procedure.

F. Credit to Balancing Account

Edison is required to credit its ECAC account monthly, and credit its other balancing accounts to cover the incremental costs of producing the energy sold under the amendments.

D.88-03-008 further requires Edison to furnish the details of the system and suggested tariff revisions it recommends to implement this requirement. However, the Commission has not yet acted on Edison's proposal in I.86-10-001. Since the Electric Revenue Adjustment Mechanism (ERAM) for customers with demand over 1,000 MW

is not proposed to be discontinued until September 1, 1988, Edison recommends that the balancing account system currently in effect as described in the Preliminary Statement be used at least until the Commission acts on its proposal. We agree and note that a request is pending in I.86-10-001 to extend the ERAM for such customers until January 1, 1989. We will order Edison to use the existing system unless further order of the Commission in I.86-10-008 changes it effective prior to October 2, 1988. If that happens, Edison is to follow the new procedure beginning with its effective date.

Findings of Fact

1. Edison filed these applications under the EAD procedure requesting Commission approval of amendments that modify existing contracts for electric service with TAMCO and Air Products.

2. The EAD procedure originated under Resolution ALJ-159 and applied to contracts offered to avoid bypassing the utility's gas or electric system, or to prevent substantial reduction of requirements by fuel switching.

3. D.88-03-008 allows incremental sales contracts to be filed under the EAD and provides further detail on filing requirements.

4. The amendments would likely result in increased on-peak sales to TAMCO and Air Products.

5. Increased on-peak sales will result in significant contributions to Edison's margin.

6. The amendments contain provisions for rate increases if Edison's costs of providing the energy increase significantly.

Conclusions of Law

1. The amendment to the contract between Edison and TAMCO is reasonable and adequately protects the interests of Edison's other ratepayers.

2. The amendment to the contract between Edison and Air Products is reasonable and adequately protects the interests of Edison's other ratepayers.

3. Because of the need for the amendments to take effect on June 5, 1988, the order should be effective immediately.

ORDER

IT IS ORDERED that:

1. The spot pricing amendment to the existing contract for electric service between Southern California Edison Company (Edison) and TAMCO is found to be reasonable, and that Edison shall credit its Energy Cost Adjustment Clause account monthly at the appropriate rate for each kilowatt hour sold under the spot pricing amendment. Similar credits shall be made to other balancing accounts as provided in the Preliminary Statement to cover the incremental costs of producing the power sold under the spot pricing amendment.

2. The spot pricing amendment to the existing contract for electric service between Edison and Air Products and Chemicals, Inc. is found to be reasonable, and that Edison shall credit its Energy Cost Adjustment Clause account monthly at the appropriate rate for each kilowatt hour sold under the spot pricing amendment. Similar credits shall be made to other balancing accounts as provided in the Preliminary Statement to cover the incremental costs of producing the power sold under the spot pricing amendment.

3. If the Commission issues an order in Rulemaking Proceeding I.86-10-001 changing the method of booking the revenues and costs associated with special contracts effective before October 2, 1988, Edison shall adopt that method beginning on the effective date of the order.

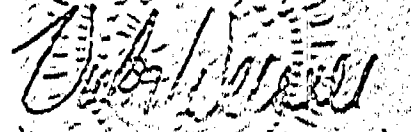
This order is effective today.

Dated MAY 25 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 W. Wilson, Executive Director