

Decision 89 01 019 JAN 11 1989

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 an order containing)
findings of fact and conclusions)
of law that the Edison-Bonneville)
Power Administration Sale and Ex-)
change Agreement is a nondeferrable)
resource and not subject to)
qualifying facility bidding.)

Application 88-10-048
(Filed October 20, 1988)

OPINION

Southern California Edison Company (Edison) seeks an order containing findings of fact and conclusions of law that the Edison-Bonneville Power Administration Sale and Exchange Agreement (the Agreement) executed October 18, 1988 is a nondeferrable resource and that the megawatts (MW) associated with the Agreement are not subject to Qualifying Facility (QF) bidding.

Under the Agreement Bonneville Power Administration (BPA) deliveries to Edison commence July 1, 1989. However, Edison has the right to terminate the Agreement prior to April 1, 1989 if acceptable regulatory treatment has not then been received from the Commission. Edison negotiated this termination provision in light of the Commission's recent resource planning Decisions (D.) 86-07-004, D.87-11-024, and D.88-03-026, which raise the possibility of regulatory risk for interutility contracts signed between biennial update proceedings. Although technically BPA is not a utility but a power marketing agency, the Agreement is in the nature of an interutility transaction. These decisions suggest that before adding resources to its system a utility should first demonstrate to the Commission during the biennial update proceeding their cost-effectiveness and nondeferrability by QFs. The

Commission has not yet adopted policies or procedures for interutility contracts signed between biennial updates.

Edison did not have the opportunity to make this demonstration for the Agreement, as signed, during the prior (and first) biennial update proceeding as the Agreement was under negotiation but not signed at that time. Edison desires to comply with Commission orders regarding resource additions and to minimize regulatory risk associated with this Agreement. Edison knows of no specific procedural vehicle to address this situation and believes this application, seeking issuance by the Commission of findings of fact and conclusions of law that the Agreement is a nondeferrable resource and not subject to QF bidding, is the most appropriate manner in which to proceed in the present regulatory climate. Edison seeks prompt resolution from the Commission so that Edison will have the ability to timely exercise its contractual termination rights, if necessary.

Edison asserts that the Agreement is a committed resource; that it is cost-effective; that it provides substantial operational, economic, transmission, termination, and environmental benefits; and that it is therefore nondeferrable and not subject to QF bidding. Edison does not believe QFs could or would provide all the benefits provided under the Agreement.

The Commission has adopted a general policy that QFs through the second price auction and solicitation for Final Standard Offer (SO) 4 have the first opportunity to provide the MW associated with the utility's proposed cost-effective resource additions within an eight-year deferral window. These resource additions that QFs can provide are called "deferrable." "Deferrable" or "avoidable" resources are those cost-effective baseload or intermediate resource additions appearing in the first eight years of the Commission-selected resource plan that a QF can defer or avoid. "Deferrable" resources are those whose construction or purchase can only be deferred or delayed by a QF.

signing a Final SO 4. "Avoidable" resources are those whose construction or purchase can be entirely avoided or eliminated by a QF signing a Final SO 4. "Nondeferrable" or "nonavoidable" resources are those which cannot be deferred or avoided by a QF; the Commission has identified seven categories of resources that are nondeferrable. (Although the terms "deferrable" and "avoidable" have different meanings, in this application only the term "deferrable" is used and is intended to include both concepts; similarly, only the term "nondeferrable" is used but includes "nondeferrable" and "nonavoidable" concepts.) The seven categories of resources exempted from this policy are peakers, those that are nondeferrable on a project-specific basis, demand-side management programs, fleeting opportunities, committed resources, noncost-effective resources supported by express regulatory policy, and hydro relicensing projects.

In D.86-07-004 the Commission adopted a biennial update proceeding for review of utility resource plans and designation of a specific resource plan scenario for each utility as the basis for the utility's Final SO 4 and projection of shortage capacity costs and incremental energy rates for the various payment options. In D.88-03-026, the biennial update proceeding was expanded to address fixed capacity payments for all four standard offers, nonprice terms and methodology, costing periods and combustion turbine capacity proxy costs.

The Commission's biennial update process consists of five steps: (1) filing of the utilities' resource plan applications which include a base case using the California Energy Commission's most recent Electricity Report and, at the utilities' election, also includes alternative scenarios, (2) hearings on the utilities' applications including participants' criticisms and challenges to the reasonableness of each utility's assumptions, (3) Commission determination of deferrable and nondeferrable resources for the respective utilities, (4) each utility's solicitation process and

QF auction to fill identified resource needs, and (5) update of the Final SO 4 which repeats the first four steps.

The Commission has identified the selection of deferrable resources as the "key Commission act" in the long-run standard offer process. Edison believes the identification of proposed resource additions - either as deferrable or nondeferrable - is equally critical to the utilities, QFs, and the Final SO 4 process.

Edison alleges that:

1. The 20-year Agreement is the culmination of more than four years of negotiation and is a partial replacement for the previous long-term exchange agreement which terminated July 31, 1987. The Agreement remains in force and effect until May 31, 2009, unless otherwise terminated pursuant to its own provisions (Agreement, Section 1). Deliveries will continue for approximately 20 years, from July 1, 1989 to March 31, 2009. It provides for the sale of 250 MW of capacity and associated energy from BPA to Edison commencing July 1, 1989 at an initial price of 28.5 mills/kilowatt-hour (kWh). The power sale can convert to a seasonal capacity/energy exchange if certain economic events occur, if BPA experiences a specified power insufficiency, or if there is no Federal Energy Regulatory Commission-approved rate in effect.
2. Prices projected to be paid under the Agreement as contrasted with Edison's projected avoided costs indicate that the Agreement is likely to save Edison ratepayers more than \$60 million during the first five years and as much as \$760 million (nominal) over the 20-year term of the Agreement.
3. In addition to the clear economic benefits of the sale and exchange, the Agreement has other substantial benefits including (1) the sale of 250 MW of additional capacity to Edison, at Edison's election, for any given summer by notifying BPA in the prior spring, (2) Edison's ability to

shape deliveries (i.e., prescheduled and real time deliveries) and (3) the use of BPA's portion of the DC Line, under specified conditions, to make return deliveries for existing arrangements between Edison and both Portland General Electric Company and Pacific Power and Light Company.

4. There are other operational and economic as well as termination and environmental benefits provided by the Agreement.

Edison knows of no party who would be prejudiced by ex parte treatment of this Application because: First, the MW represented by the Agreement were included in Edison's resource planning testimony in the last biennial update proceeding and, although the Commission declined to address any specific aspect of the utilities' resource plan showings, as made in the first biennial update proceeding, the Commission has determined that there are no deferrable resources in Edison's resource plan during the eight-year deferral window. Second, parties to Application 82-04-046, et al., were made aware in August 1986, when Edison first filed its resource planning testimony and included the MW associated with the Agreement in its resource plan scenarios and in its narrative testimony, that the Agreement was under negotiation. In oral testimony, Edison indicated that power would be delivered only during the on- and mid-peak period; no party argued that it would provide power under comparable conditions. Furthermore, Edison does not believe that QFs could or would provide power at the Agreement's initial price of 28.5 mills/kWh (or 2.85¢/kWh); and, clearly, QFs cannot provide all the other benefits provided under the Agreement.

Edison requests that the Commission issue its order as follows:

- a. Issuing findings of fact and conclusions of law that the Agreement is a nondeferrable resource and that the associated MW are not subject to QF bidding;
- b. Issuing findings of fact and conclusions of law that the Agreement satisfies existing procedures regarding the addition of resources between biennial update proceedings and that the Agreement is not subject to any procedure developed in the future regarding such resource additions;
- c. Issuing findings of fact and conclusions of law that the concept of an application to achieve resolution of the issues raised herein is not precedential nor binding;
- d. Granting ex parte treatment and other expedited treatment of this application in sufficient time that Edison may exercise its termination rights under the Agreement, if necessary, by April 1, 1989; and
- e. Granting such other, further, or different relief as this Commission finds to be just and reasonable.

Service of this application was made on all known interested parties. No protests have been received. The Division of Ratepayer Advocates and the Independent Energy Producers Association support the application. A public hearing is not necessary.

Findings of Fact

1. The Agreement is a nondeferrable resource. The MW associated with the Agreement are not subject to QF bidding.
2. The Agreement satisfies existing procedures regarding the addition of resources between biennial update proceedings.

The Commission concludes that the application should be granted.

ORDER

IT IS ORDERED that the application is granted. The Southern California Edison Company-Bonneville Power Administration Sale and Exchange Agreement executed October 18, 1988 is a nondeferrable resource and the megawatts associated with the Agreement are not subject to Qualifying Facility bidding.

This order is effective today.

Dated JAN 11 1989, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
JOHN B. O'HANLON
Commissioners

Commissioner Stanley W. Hulett
being necessarily absent, did
not participate.

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

Victor Weiss
Victor Weiss, Executive Director

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