Decision 89 06 021 JUN 7 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 Authority to Establish a Spot Pricing Rate Option for Qualifying Interruptible Customers.

Application 88-05-048
(Filed May 23, 1988)

Philip Walsh, Attorney at Law, for Southern California Edison Company, applicant.
Barakat, Howard & Chamberlin, by Nancy Thompson, for the firm; Karen Edson, for KKE & Associates; A. Kirk McKenzie, Attorney at Law, for California Energy Commission; and Reed V. Schmidt, for Chester & Schmidt Consultants; interested parties.
Irene Moosen, Attorney at Law, for the Division of Ratepayer Advocates.

OPINION

I. Summary

This opinion authorizes Southern California Edison Company (Edison) to implement a Spot Pricing Amendment (SPA) to Contract for Service Agreement (Agreement). The SPA Agreement would provide rate discounts on incremental on-peak energy sales to qualifying large customers who have inverted load profiles. The SPA Agreement adequately protects Edison's ratepayers and results in an increased contribution to Edison's margin.

This authority expires after the 1991 summer season unless extended by the Commission.

II. Introduction and Procedural History

A. Need for a Special Program

Under Edison's existing rate structure, on-peak rates are higher than off-peak rates to reflect the costs of capacity. Under this rate structure, some of these customers cease or reduce production during on-peak periods because the high on-peak rates make production uneconomic or uncompetitive. These customers and Edison believed they could both benefit by discounted interruptible rates for on-peak usage. The customers would benefit through less expensive on-peak energy, while Edison's other ratepayers would realize a contribution to margin.

B. Spot Pricing Test Program

Edison was authorized to establish a Spot Pricing Test program (test program) for a single customer, TAMCO, by Decision (D.) 87-07-006. TAMCO is a large industrial customer who uses an electric arc furnace in producing reinforcing steel for the construction trade in Southern California.

The test program was designed to test the effects of the program as well as its administrative feasibility. It was designed to increase on-peak production, not merely shifts from mid-peak or off-peak usage to the on-peak period. The objectives of the test program were to:

1. Generate additional total electricity sales through additional interruptible on-peak sales.

2. Provide a discounted on-peak rate that is low enough to allow economic production while generating a substantial contribution to SCE's fixed costs.

3. Test the administrative feasibility of an electricity pricing program that could have frequent pricing changes.

Edison believes that all the stated objectives were achieved by the test program which expired on December 31, 1987.

C. Prior Edison Spot Pricing Amendment Applications

As a result of the success of the test program, Edison filed two applications for SPAs, Application (A.) 88-04-048 and A.88-04-056. These applications sought authority to enter into SPA Agreements with TAMCO and Air Products respectively.

By D.88-05-075 the Commission approved both SPAs, concluding that they were reasonable and adequately protected ratepayer interests. Edison was ordered to credit the Energy Cost Adjustment Clause (ECAC) balancing account with the revenue generated by the SPAs.

III. SPA Agreement Request

A. Description

In this application Edison requests that the Commission authorize it to establish a new standardized SPA Agreement that would be available to all eligible interruptible customers without the need for individual Commission authorization.

This authorization would allow Edison to implement a new program of incremental, interruptible on-peak rates to eligible customers who find the existing on-peak rates to be uneconomic. Edison estimates that up to 20 of its 286 existing interruptible customers would be eligible for this program.

B. Terms of the Agreement

1. Customer Eligibility

Customers who meet the following conditions are eligible to participate in this program:

a. Eligible Rate Schedules

The customer must be currently served under one of the following interruptible rate options:

Schedule No. I-3, Rate A;
Schedule No. I-5, Rate A;
Schedule No. I-6-A.

b. Load Profile

The customer must have an inverted load profile, with mid-peak and/or off-peak demands for electricity measured in kilowatts (KW) exceeding on-peak demand KW.

c. Eligible Purchases

Only incremental on-peak sales are eligible for the discounted rate. On-peak sales existing before the customer entered into the SPA Agreement and any sales resulting from shifting energy usage from mid-peak and off-peak sales are not eligible. The following provisions apply in determining eligible purchases:

(1) Eligible purchases equal the total purchases in a month less the sum of the average historic on-peak, mid-peak, and off-peak usages in the month.

(2) Eligible on-peak purchases are capped by the higher of the average demand mid-peak or off-peak times the number of on-peak hours in the month.

2. Pricing

Edison proposes the following pricing provisions:

a. A minimum rate of seven cents per kilowatt-hour (¢/kWh) for normal operating conditions. This is based on Edison's estimate of its on-peak avoided energy cost at approximately four ¢/kWh plus a three ¢/kWh contribution to margin.

b. An alternative rate applies when other operating conditions increase the marginal energy cost, as follows:

(1) High Energy Cost

This condition occurs when Edison's marginal energy cost plus three ¢/kWh exceeds the minimum rate of seven ¢/kWh. In this case, Edison will charge a rate based on the three ¢/kWh contribution to fixed costs plus the higher of:

- Edison's then currently published on-peak avoided energy rate;
- The energy cost of a combustion turbine required to meet system demand; or
- Edison's purchased energy cost.

(2) Low Spinning Reserve Condition

This condition exists when Edison's spinning reserves are below the normal minimum seven and one-half percent. In this case SCE would charge SPA Agreement customers its then current on-peak energy charge under the otherwise applicable rate schedule.

The full SPA Agreement is attached as Appendix A.

3. Customer Reliability Allowance

Edison proposes to negotiate reliability allowances so that customers may shut their plants down for planned maintenance or for equipment failure without being penalized with reduced eligible purchases. The allowance will be a specified number of hours per year based on individual customer needs. If the customer exceeds its reliability allowance its eligible purchases will be reduced.

In exchange for this consideration, the customer is responsible for notifying Edison on a monthly basis of its planned outages, so that Edison can plan system operations accordingly.

IV. Discussion

A. Benefits

The proposed SPA Agreement is alleged to offer certain benefits to ratepayers through contribution to margin as a result of increasing on-peak sales. Edison states that the margin contribution is three ¢/kWh based on the SPA Agreement rate of seven ¢/kWh less the avoided on-peak energy cost of four ¢/kWh.

DRA agrees that the SPA Agreement provides a contribution to margin, but believes that it may be less than three ¢/kWh when all applicable costs are considered. However, DRA concludes that the margin contribution would be 2.5¢/kWh or greater and is substantial enough to justify interim approval of the SPA Agreement. DRA recommends that Edison be required to provide further detailed justification of the rate in the 1991 Edison general rate case (GRC) if it wishes to continue to offer the SPA Agreement after the summer of 1991.

We consider the likely level of on-peak energy cost for Edison for the 1989 summer period. There is no current on-peak energy cost since the peak period begins on the first Sunday in June and ends on the first Sunday in October. The April 1989 filing[1] by Edison indicates proposed avoided cost energy pricing for cogeneration and small power production through July 31, 1989. The basis for the avoided costs is:

Gas commodity cost	\$2.22/MMBtu
Gas cost including demand charges	\$2.95/MMBtu
Oil price on gas-equivalent basis	\$2.91/MMBtu
Gas/oil production ratio	67%/33% .

1 This is a regular quarterly filing in compliance with D.88-12-120.

On-peak heat rate	15,295 Btu/kWh
Variable operation and maintenance (O&M) costs	$0.003/kWh

The on-peak energy cost using full gas costs including demand charges is: ($2.95 x .67 + $2.91 x .33) ÷ MM x 15,295 + .003 = $0.0479 or 4.79 ¢/kWh.

Whether or not it is appropriate to use gas costs including demand charges in determining the on-peak energy cost for this purpose has not been addressed in detail in this proceeding. We expect to address it in the Edison 1991 test year GRC if Edison requests that the SPA Agreement be extended beyond the 1991 summer.

We observe that the SPA Agreement sales will not affect the gas demand charge, a fixed cost that is independent of the level of gas purchases. Parties may justify in the GRC that the calculation of on-peak energy costs for SPA Agreement sales should be based on a partial allocation of gas demand charges, which would lower the value.

However, whatever reasonable means is used to determine the on-peak energy cost, the contribution to margin should be more than two ¢/kWh. We conclude that this is a substantial contribution for this contract in this time period.

The direct benefit to customers qualifying for, and electing to subscribe to the SPA Agreement is the ability to increase economic production at existing facilities. This usually results in more efficient use of facilities and employees. Currently these customers curtail production substantially during the on-peak period because of rates that make production uneconomic.

DRA considered whether it is equitable for these customers, who will have the same load profile after subscribing to the SPA Agreement as other customers now have, to receive a lower rate. Since the customers eligible for the SPA Agreement have demonstrated that they need lower energy costs by selecting interruptible rates and by curtailing on-peak production due to the existing rates, DRA concludes that a discounted rate is justified.

The other likely benefits resulting from the SPA Agreement are societal. The higher production from existing in-state facilities will benefit California's economy by increasing employment and by helping to keep these product costs competitive.

No other parties offered evidence on the margin contribution or other alleged benefits of the SPA Agreement.

We conclude that significant benefits will result from the SPA Agreement in the near term. Ratepayers will benefit by additional margin contribution resulting from the incremental on-peak sales that would not otherwise occur. The margin contribution will result in lower rates to Edison's other customers. Energy intensive industries will be able to use their existing facilities more efficiently, more jobs should result, and more revenue will be generated for California's economy. Finally, the affected industries will be better able to remain competitive.

We agree with DRA that the SPA Agreement rate is justified for the eligible customers who have demonstrated a need for lower on-peak rates. We conclude that the SPA Agreement does not offer unduly discriminatory rates.

B. Resource Plan Impacts

The parties agree that for the near term the SPA Agreement will not impact Edison's resource plan.

We conclude that the SPA Agreement is consistent with the Edison resource plan since excess on-peak energy is currently available from existing Edison resources. The interruptible nature of the SPA Agreement insures that it will not result in a need for new facilities.

C. Term of the SPA Agreement

Edison proposes to limit the SPA Agreement to single annual terms, subject to renewal in subsequent years after verification of the customer's continuing eligibility.

DRA suggests further limitations on the SPA Agreement:

- Continuing availability should be subject to reconfirmation in the Edison 1991 test year GRC.
- The authority should terminate after the 1991 summer season unless extended.

We will adopt these conditions. If Edison desires to extend the SPA Agreement beyond the 1991 summer season, we will consider whether the conditions then will allow similar benefits to result.

D. Ratemaking

Edison originally proposed to credit the ECAC balancing account and the Annual Energy Rate (AER) in an amount determined by multiplying the SPA sales volume by the avoided energy cost, then splitting it 90% to ECAC and 10% to AER. DRA objected to this method since it is inconsistent with the ratemaking used for SPA sales under contracts previously approved by the Commission. Under those contracts with TAMCO and Air Products, we ordered Edison to credit the ECAC balancing account and AER with 90% and 10% respectively of the actual revenues from the sales.

Edison now agrees that DRA's recommended ratemaking treatment is appropriate for use at this time.

We will adopt the ratemaking proposal of DRA, with which Edison now agrees. This is consistent with the ratemaking we adopted for the TAMCO and Air Products SPA contracts approved earlier.

E. Reporting

The California Energy Commission (CEC) indicates that it needs timely information on SPA Agreements for use in forecasting energy use for the Biennial Report. CEC requests that Edison furnish a report annually with the following information for each two-digit Standard Industrial Classification (SIC) code:

1. The number of customers taking service under the SPA Agreement.

2. The total megawatt-hours (MWh) these customers will be taking under the SPA Agreement rates.

CEC requests that this report be made within 30 days of the beginning of the Edison summer billing period when the rates go into effect. Edison agrees to furnish the report, but is concerned with confidentiality in instances where there are fewer than three customers in a particular SIC code. In such instances parties may be able to identify individual customers and obtain a competitive advantage. Therefore Edison requests that this information be kept confidential to prevent disclosure. CEC suggests that if such instances arise, Edison should request the CEC to protect that information under the confidentiality regulations set forth in Section 2505(a) of Title 2 of the California Code of Regulations.

DRA also requests this report and recommends that Edison request necessary confidentiality under § 583 of the Public Utilities (PU) Code.

We conclude that the report requested by the CEC and DRA is appropriate and necessary in order to adequately and timely monitor and forecast energy use. We will order Edison to provide the report requested to the CEC and DRA. Edison may request confidentiality under the appropriate regulatory and statutory provisions.

Comments

Edison informed the Commission by letter of May 24, 1989 that all parties agreed to waive the comment period on the proposed decision. The Commission therefore waives the 30-day period under Public Utilities Code § 311(d), allowing us to issue our decision in less than 30 days.

Findings of Fact

1. Edison requests authority to implement an SPA Agreement for large interruptible customers who have inverted load profiles.

2. The SPA Agreement proposes to offer discounted rates for incremental on-peak load.

3. The SPA Agreement is intended to increase on-peak sales to large interruptible customers.

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

5. The SPA Agreement contains provisions for rate increases if Edison's costs of providing on-peak energy increase significantly.

6. Edison and DRA agree that SPA Agreement ratemaking should be consistent with ratemaking treatment of prior SPA applications.

7. DRA recommends that the SPA Agreement terminate after the summer of 1991 unless extended in the Edison 1991 test year GRC.

8. The CEC requests and Edison agrees to furnish a report within 30 days of the beginning of each summer season indicating the number and MW load of customers taking service under the SPA Agreement by two-digit SIC code. DRA requests a copy of this report.

9. Edison requests that the information in the above report be kept confidential for SIC codes where there are fewer than three customers, in order to protect customer identity.

Conclusions of Law

1. The proposed SPA Agreement rate will provide a reasonable contribution to Edison's margin.

2. The SPA Agreement is reasonable and adequately protects the interests of Edison's ratepayers.

3. The SPA Agreement is not unduly discriminatory.

4. Ratemaking for the SPA Agreement should be consistent with the ratemaking the Commission adopted for prior SPA sales.

5. Edison should furnish to the CEC and DRA a report on the customers and load served under the SPA Agreement. In order to protect customer identity, it is reasonable for Edison to request

confidential treatment of report information on SIC codes having fewer than three customers.

6. The SPA Agreement should terminate September 30, 1991 unless extended.

7. Because of the need for the SPA Agreement to be available for the summer season of 1989, the order should be effective immediately.

ORDER

IT IS ORDERED that:

1. The Spot Pricing Amendment (SPA) to Contract for Service Agreement (Agreement) for electric service between Southern California Edison Company (Edison) and eligible large interruptible customers, attached as Appendix A, is found to be reasonable, and Edison shall credit its Energy Cost Adjustment Clause balancing account monthly at 90% of the appropriate rate for each kilowatt hour sold under the SPA Agreement. Similar credits shall be made to other balancing accounts as provided in the Preliminary Statement of Edison's tariffs to cover the incremental costs of producing the energy sold under the SPA Agreement. The Annual Energy Rate shall be credited with 10% of the appropriate rate for each kilowatt hour sold under the SPA Agreement.

2. Edison shall furnish a report to the California Energy Commission and to the Division of Ratepayer Advocates by June 30 of each year in which the SPA Agreement is in effect. The report shall indicate the number and megawatt load of customers taking service under the SPA Agreement by two-digit Standard Industrial Classification (SIC) code. Edison may request that the information contained therein be kept confidential under applicable regulatory and statutory provisions for instances where there are fewer than three customers in an SIC code.

3. This authority shall expire on September 30, 1991 unless extended by the Commission.

This order is effective today.

Dated JUN 7 1989, at San Francisco, California.

G. MITCHELL WILK
President
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

Commissioner Frederick R. Duda, being necessarily absent, did not participate.

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

Victor Weisser

Victor Weisser, Executive Director

SPOT PRICING AMENDMENT (SPA) TO CONTRACT FOR SERVICE, Schedule No. __

This Spot Pricing Agreement to Contract for Service (SPA Agreement) is entered into between SOUTHERN CALIFORNIA EDISON COMPANY (Edison) and ______________________ (Customer).

This SPA Agreement amends the Contract for Service, Schedule No. __ (Contract), which the parties executed on ____________, 19__. This SPA agreement is designed to encourage Customer to purchase electric energy for incremental load during Edison's on-peak hours.

In consideration of the above recitals, the parties agree as follows:

1. <u>Eligible Purchases</u>

Customer's eligible on-peak energy purchases (Eligible Purchases) for the current regularly scheduled billing period shall be determined in accordance with the following formula:

$$EP = TP - ([OnkW \times OnH] + [MidkW \times MidH] + [OffkW \times OffH])$$

where the above terms, which are specific to the current billing period, are defined as follows:

EP = Eligible Purchases (kWh)
TP = Total energy (kWh) purchases
OnkW = Average Demand (kW) over the on-peak period. This value shall equal ______ kW.
OnH = Number of on-peak hours
MidW = Average Demand (kW) over the mid-peak period, but not less than ______ kW.
MidH = Number of mid-peak hours
OffkW = Average Demand (kW) over the off-peak period, but not less than ______ kW.
OffH = Number of off-peak hours

Average Demand is equal to total kilowatthours (kWh) consumed in a given billing period divided by the number of hours in the billing period.

A. <u>Maximum on-peak Purchases</u>

Customer's Eligible Purchases shall not exceed the higher of the mid-peak or off-peak Average Demand in the current billing period times the number of on-peak hours in the current regularly scheduled billing period.

B. Plant Shutdown or Equipment Failure

In order to reflect plant shutdown or equipment failure, Customer may request that Edison reduce the number of hours used in the above calculations for OnH, MidH, and OffH. In months when Customer experiences plant shutdown or equipment failure, Customer shall advise Edison, in writing, of such events. Such notice shall be submitted each month not later than two working days after Customer's meter is read, and shall indicate the actual hours during which each event occurred. Customer shall be limited to a total of not more than ___ hours per annum of plant shutdown and equipment failure time to reduce the number of hours used in the above calculations for OnH, MidH, and OffH. In no event shall the reduction be less than the maximum number of hours in the mid-peak period, or the off-peak period, which ever is applicable. Such reports by Customer of equipment failure or plant shutdown are subject to verification by Edison; should such reports later prove to be inaccurate for any reason, Customer shall be backbilled for any resulting undercollection.

2. Rates

All Eligible Purchases shall be subject to a Minimum Rate of $0.070 per kilowatthour (KWh). All on-peak KWh usage in excess of Customer's Eligible Purchases shall be charged an SPA Excess Usage Rate. The SPA Excess Usage Rate shall equal the lower of: (1)_____ cents per KWh; or (2) Customer's average on-peak charges (in cents per KWh) under Rate A of Schedule No. __, based on Customer's on-peak usage during the current billing period.

The SPA Minimum Rate and SPA Excess Usage Rate recover both energy and demand components.

A. Energy Charge

All Eligible Purchases may be charged at the higher of the following energy charges when one or more of the following conditions exist:

(1) High Energy Cost Conditions

Whenever Edison's on-peak marginal energy cost (including an adjustment for line losses) exceeds $0.050 per KWh, Edison may, at its option, charge Customer a rate which reflects the higher of 3 cents per KWh plus:

(a) Edison's current on-peak avoided energy cost[1], plus an adjustment for line losses[2]; or

(b) Edison's energy cost of a combustion turbine which is required to meet system load; or

(c) Edison's cost of purchasing electrical energy in order to meet system load.

(2) Low Spinning Reserves Condition

When Edison's spinning reserves are below seven and one-half percent, Edison may charge Customer Edison's then currently-effective energy charges under Schedule No. __, or its successor rate schedule.

Edison shall make a reasonable effort to advise Customer when either of the above conditions, which may result in a rate which exceeds the Minimum Rate, are present.

B. Components of SPA Minimum Rate, SPA Excess Usage Rate, and SPA Energy Charge

The SPA Minimum Rate, SPA Excess Usage Rate, and SPA Energy Charge consist of the following components: an Energy Cost Adjustment Billing Factor (ECABF), an Annual Energy Rate (AER), a Conservation Load Management Adjustment Billing Factor (CLMABF), an Electric Revenue Adjustment Billing Factor (ERABF), a Major Additions Adjustment Billing Factor (MAABF), a PUC Reimbursement Fee, and a Base Rate. Values for the ECABF, the AER, the ERABF, the MAABF, the CPUC Reimbursement Fee, and the Base Rate shall be determined in accordance with the Commission's Decision authorizing this Agreement. After a decision has been rendered in I.86-10-001 regarding Balancing Account contributions for Incremental Sales Agreements, values for the ECABF, the AER, the CLMABF,

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1 As described in Edison's then currently applicable Avoided Cost Pricing Update for Cogeneration and Small Power Production.

2 Applicable line loss multipliers: for service below 2 kV - 1.097; for service between 2 kV and 50 kV - 1.076; for service above 50 kV - 1.030. These values are subject to revision in Edison's next General Rate Case.

the ERABF, the MAABF and the CPUC Reimbursement Fee shall be determined in accordance with the specific procedures adopted by the Commission in that proceeding.

3. Term

This Agreement shall not become effective until authorization of the Public Utilities Commission (Commission) is first obtained.

This Agreement shall then be effective for the ____________ billing period, shall commence on ____________, 19__, and shall terminate on ____________, 19__, unless otherwise terminated as provided in Item 5 below.

4. Acknowledgement

Except as amended herein, Customer acknowledges that it is fully subject to all terms and conditions contained in Schedule No. __, or its successor rate schedule.

5. Termination

This Agreement shall terminate: (1) upon 10 days' written notice from Edison to Customer; or (2) if Customer no longer takes service under Schedule No. __, or its successor rate schedule.

6. Customer Affidavit

To receive service under this Agreement, Customer must file a signed, notarized affidavit with Edison. The affidavit shall state: (1) under the current on-peak rate in Schedule No. __, Customer cannot produce their product on-peak at a competitive cost; (2) under the on-peak rate provided for under this Agreement, their on-peak product cost is competitive; and (3) if this Agreement is not executed, Customer's load shall return to an inverted pattern.

7. A customer complaint regarding service in accordance with this Agreement need not impede the provision of utility service to Customer. The Customer may request that the Commission require service be provided pending resolution of the dispute. In such circumstances, the Commission may require the Customer to deposit any sum of money in dispute with the Commission pending final resolution.

8. This Agreement shall at all times be subject to such changes or modifications by the Public Utilities Commission of the State of California, as such Commission may, from time to time, direct the exercise of its jurisdiction.

APPENDIX A
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In Witness Thereof, Edison and Customer have executed this Agreement this ___ day of ____________, 19__.

SOUTHERN CALIFORNIA EDISON COMPANY

By ______________________________

____
Title

CUSTOMER

By ______________________________

____
Title

____
(Telephone Number)