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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 an Electric Service Agreement With the ARCO Oil Company - Ellwood Under the Accelerated Approval Guidelines of the Expedited Application Docket (EAD).	ORIGINAL (EAD) Application 89-07-034 (Filed July 18, 1989)

OPINION

Summary of Decision

We approve the Self Generation Deferral Agreement (the Agreement) between Southern California Edison Company (Edison) and ARCO Oil Company (ARCO) for electric service provided at ARCO's facility in Ellwood, California (Ellwood facility). The Agreement provides that ARCO will defer construction of an 800 kW cogeneration system and retain that load on Edison's system for a period of five years at tariffed rates; in return, Edison will fund certain conservation measures.

Background

Edison has negotiated the Agreement with ARCO for electric service provided at the Ellwood facility. According to the Agreement, Edison will fund the installation of certain conservation equipment and appurtenant modifications at the Ellwood facility to enable ARCO to utilize waste gas for industrial process. In return for Edison's funding, ARCO has agreed to defer construction of an 800 kW self-generation system and retain that load of Edison's system for five years at tariffed rates. The Agreement is attached to the application as Appendix A.

On July 18, 1989, Edison filed Application 89-07-034 requesting accelerated approval of the Agreement pursuant to Resolution ALJ-161 which adopted the Expedited Application Docket

(EAD) to be used for utility requests for approving special service contracts between the utility and its customers.

On August 9, 1989 the Division of Ratepayer Advocates (DRA) filed its comments on the application. Although DRA has some concerns regarding the contract, it does not oppose its approval. DRA plans to examine the contract during a future reasonableness review proceeding.

No other party has filed a protest or comments.

<u>The Agreement</u>

The Agreement requires Edison to fund installation of equipment and necessary design changes to enable ARCO to use waste gas in lieu of purchased natural gas for industrial process at the Ellwood facility. The waste gas at the Ellwood facility is currently being flared. This conservation measure is expected to provide ARCO with an annual saving of 665,000 therms of natural gas or $186,000 at 28¢/therm.

Edison has agreed to fund up to $200,000 for the conservation project. Edison has also agreed to provide ARCO with an additional $70,000 if additional cost-effective conservation measures can be installed at the Ellwood facility.

The terms of the Agreement allow Edison to terminate the Agreement on 60 days notice if the Commission determines that the Agreement adversely affects Edison's other ratepayers, or if the Commission orders modifications to the Agreement which significantly diminish ARCO's benefits under the contract. This provision allows the Commission to provide ARCO with the opportunity to self-generate or cogenerate at a later date if the Commission finds this to be in the best interest of the ratepayers.

Edison asserts that the Agreement is cost-effective and will provide significant benefits to ratepayers. Edison estimates that the conservation project's net revenue contribution[1] over the five-year period will be approximately $680,000. Edison also asserts that the Agreement passes the Total Resource Cost (TRC) test[2] by $418,500. The TRC test estimates the impact of the program on all participants as well as on society as a whole.

DRA's Recommendation

According to DRA's analysis, maintaining ARCO on tariffed rates, even after the expenditure of $200,000 to $270,000 in conservation funding, will be beneficial to Edison's other ratepayers. Therefore, DRA recommends that the Commission approve the Agreement.

While DRA recommends approval of the Agreement, it recommends that the Commission adopt the following guidelines for evaluating conservation-oriented EADs:

> "1. All conservation payments provided to customers as a means of deferring bypass by an electric customer should be filed as a special contract. Hence, conservation payments that involve any consideration by the customer regarding limitations on that customer's cogeneration options should be filed with the Commission.
>
> "2. Special Contract conservation payments may be used for the installation of energy efficiency improvements to gas equipment as well as electric efficiency improvements.

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1 Net revenue contributions are the incremental electric revenue recovered due to deferral of the cogeneration project, less incremental energy costs (measured using the Standard Offer No. 1 energy rate), revenue contributions (e.g., PUC Reimbursement Fee), foregone revenue, if any, from standby service to the cogeneration project, and the conservation payment specified in the Agreement.

2 The use of the TRC for analysis of anti-bypass contracts was approved in Decision (D.) 88-07-058 (I.86-10-001, "3Rs") in Conclusion of Law 2.

"3. The evaluation of the conservation option should demonstrate that the conservation measure, or group of measures, pass the Total Resource Cost test when considered relative to the status quo (i.e. no assumed installation of a self-generator).

"4. If the project involves the deferral of a gas-fired self generator, the evaluation should also demonstrate that the conservation measure or group of measures pass the Total Resource Cost test when considered as an electric fuel substitution application (i.e. when compared to the installation of the gas device).

"5. The amount of the conservation payment should minimize ratepayer contributions while achieving the objectives of the contract. At a minimum, of course, the payment should not exceed the level that would have been provided as a rate discount. Further, utility should obtain the maximum possible leverage from ratepayer funds. That is, the payment should be the least amount needed to gain acceptance of the conservation technology rather than the cogeneration alternative or the rate discount. The participant's test should be used to identify costs and benefits to the customer under several decision scenarios, including alternative levels of conservation payment." (DRA's Comments filed 8/9/89, p. 3.)

As to the evaluation of the Agreement against the proposed guidelines, DRA believes that Edison has followed the guidelines to the extent possible.

Discussion

We will authorize Edison to enter into the Agreement with ARCO because (1) the Agreement provides ARCO with lower overall costs of energy by allowing ARCO to utilize waste gas that would otherwise be flared or used to cogenerate and bypass the Edison system; (2) the Agreement results in no electric rate reduction to

ARCO; (3) the Agreement passes the TRC test; and (4) the Agreement will be beneficial to Edison's other ratepayers.

Turning to DRA's proposed guidelines for agreements involving conservation funding by a utility, we believe that since DRA proposes to apply the guidelines to all energy utilities, they should be addressed in a proceeding where the energy utilities and affected parties have chance to participate. In addition it should be noted that most of DRA's recommendations are adopted in D.88-07-058 in I.86-10-001. D.88-07-058 also requires utilities to seek approval of its conservation funding contracts which defer bypass by large users even if the contract does not require the utility to provide discounted rates (DRA Proposed Guideline #1). Therefore, we will not address them in this order.

<u>Findings of Fact</u>

1. Edison has filed an application under the EAD seeking approval of the Agreement with ARCO.

2. The Agreement provides ARCO with lower overall energy costs by allowing ARCO to utilize a waste gas product that would otherwise be flared.

3. The Agreement results in no electric rate reduction to ARCO.

4. The Agreement passes the TRC test.

5. The Agreement is cost-effective for Edison's other ratepayers.

6. DRA recommends approval of the Agreement, subject to later reasonableness review.

7. No party has filed a protest to the Agreement.

<u>Conclusion of Law</u>

The Agreement should be approved.

O R D E R

IT IS ORDERED that:

1. The Self Generation Deferral Agreement (the Agreement) between Southern California Edison Company (Edison) and ARCO Oil Company is approved.

2. Edison shall file the Agreement with the Director of Commission Advisory and Compliance Division within 15 days after the effective date of this order.

This order is effective today.

Dated SEP 7 1989, at San Francisco, California.

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

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

Wesley Franklin

WESLEY FRANKLIN, Acting Executive Directo

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