

ALJ/MEG/gn

Decision 90 09 062 SEP 12 1990

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Investigation on the Commission's own motion to implement the Biennial Resource Plan Update following the California Energy Commission's Seventh Electricity Report.

I.89-07-004
(Filed July 6, 1989;
Petition for Modification
(Filed June 5, 1990)

Second application of Pacific Gas and Electric Company for approval of certain standard offers pursuant to Decision 82-01-103 in Order Instituting Rulemaking No. 2.

Application 82-04-44
(Filed April 21, 1982;
amended April 28, 1982,
July 19, 1982, July 11, 1983,
August 2, 1983,
and August 21, 1986)

Application 82-04-46

Application 82-04-47

Application 82-03-26

Application 82-03-37

Application 82-03-62

Application 82-03-67

Application 82-03-78

Application 82-04-21

And Related Matters.

OPINION

I. Summary

By this order, we deny the Petition for Modification of Decision (D.) 90-03-060 (Petition) filed on June 5, 1990 by Independent Energy Producers and Geothermal Resources Association (IEP/GRA). We also deny IEP/GRA's Supplement to their Petition, filed on June 18, 1990. To address the concerns raised by

IEP/GRA in their Petition, we direct San Diego Gas & Electric Company (SDG&E) to make regular filings informing us of the status of their resource acquisition process.

II. Background

On June 5 and June 8, 1990 IEP/GRA jointly filed two petitions for modification of D.90-03-060 and D.86-07-004, respectively. The proposed modifications related to the scope and schedule of activities for Phase 1B of the Biennial Resource Plan Update (BRPU) proceeding.

On June 8, 1990, Administrative Law Judge (ALJ) Gottstein issued a ruling restructuring Phase 1B of the BRPU. The ruling was discussed and clarified at the June 8 and June 22 prehearing conferences.¹ Among other things, the ruling deferred consideration of respondents' resource plans until the base case could be updated by forecasts contained in the California Energy Commission's 1990 Electricity Report (ER90). In the meantime, hearings would be held on Standard Offer 2 (SO2) reinstatement and proposed changes to final Standard Offer 4 (FSO4) pricing and payment terms. Adopted changes would be implemented in time to incorporate the ER90 updates in a FSO4 and SO2 solicitation, assuming that the Commission determined a need for those offers during the ER90 update cycle.

Following ALJ Gottstein's June 8 ruling, on June 18, 1990 IEP/GRA filed a supplement to their petitions, withdrawing all but

¹ See Administrative Law Judges's Ruling On Scope and Schedule of Phase 1B, dated June 13, 1990, which includes the ruling read into the record, as well as clarifications made during the June 8 prehearing conference. See also the discussion of this ruling in the Reporter's Transcript (PHC-4), June 22 1990.

one aspect of their original request.² Specifically, IEP/GRA request that the Commission proceed with a portfolio of FS04 and SO2 contracts for SDG&E. Unlike Pacific Gas and Electric Company and Southern California Edison Company (SCE), IEP/GRA assert that SDG&E has a demonstrable need for new generation in the planning horizon. According to IEP/GRA, SDG&E is currently pursuing alternative means of meeting its resource needs, including seeking certification at the Energy Commission for its South Bay 3 augmentation project, and through solicitations from other utilities. IEP/GRA are concerned that, while the Commission awaits the outcome of ER90 and Phase 1B hearings on restructuring issues, qualifying facilities (QFs) will be shut out of SDG&E's resource planning process. Finally, IEP/GRA requests that the Commission encourage SCE to participate in SDG&E's solicitation "to test the veracity and practicability of the...merger benefits".³

Respondents oppose IEP/GRA's Petition. In their view, IEP/GRA's request is procedurally unsound and substantively inappropriate. In particular, SDG&E argues that the Commission cannot develop a portfolio of SO2 and FS04s for SDG&E alone until it establishes a policy governing the integration of SO2 and FS04s in the resource planning process. In PG&E's view, IEP/GRA's proposal diverts time and resources from addressing the more important and complex issues scheduled for Phase 1B. SCE and SDG&E also object to the introduction of merger-related issues in this proceeding. Finally, respondents question the merit of proceeding with a solicitation based on outdated assumptions.

² See IEP/GRA's Motion To Withdraw Petition For Modification of Decision 86-07-004 and Supplement To Petition For Modification of Decision 90-03-060, dated June 18, 1990.

³ See Petition at page 6.

III. Discussion

Having considered all the arguments, we conclude that it is not reasonable to proceed with a SO2 and FS04 solicitation for SDG&E at this time. As ALJ Gottstein pointed out in her June 8 ruling, we are currently working with a base case for SDG&E that is derived from the California Energy Commission's Seventh Electricity Report (ER7), issued in June 1989. Given the California Energy Commission's accelerated schedule for completion of ER90, the forecasts contained in ER7 will be superceded before Phase 1B hearings can begin. Moreover, the base case developed in Phase 1A of this investigation represents a "stand alone" case for SDG&E. As described in prior rulings, a final FS04 solicitation for SDG&E must await our decision on Application (A.) 88-12-035, the proposed merger between SDG&E and SCE. Our final decision in that proceeding will not be made before the end of the year. Given these circumstances, we believe that everyone's time will be put to better use this summer and fall if Phase 1B is restructured along the lines described in the ALJ's June 8, 1990 ruling, as clarified at the June 8 and June 22 prehearing conferences.

Nonetheless, we recognize that this delay may have unintended results. Based on SDG&E's Phase 1A compliance filing in this proceeding, it appears that SDG&E will need new resources over the planning horizon, on a stand-alone system basis. Some of these resources are potentially deferrable by QFs.⁴ As IEP/GRA point out, SDG&E could "commit" to utility-owned projects or interutility purchases that would, by definition, reduce the amount of

⁴ See Filing of SDG&E in Compliance With D.90-03-060, Ordering Paragraph 1, April 30, 1990.

deferrable resources available under the ER90 bid cycle.⁵ While SDG&E denies that it is making commitments right now, we will need to monitor the situation more closely.⁶ Between now and the completion of Phase 1B, SDG&E should file a monthly status report on its resource acquisition process. This report should describe the status of all resource additions, refurbishments, repowering or purchase opportunities being pursued by SDG&E, and why SDG&E believes they must be pursued prior to completion of Phase 1B. SDG&E may describe any contracts under negotiation in generic terms (e.g., type of contract, duration, megawatt/kilowatt-hour levels) without divulging the specific negotiation partners or terms. A copy of this report should be served on all appearances and the state service list in this investigation. SDG&E is placed on notice that any actions taken to accelerate its resource acquisition process before Phase 1A of the ER90 update cycle will be carefully scrutinized in that phase.

Findings of Fact

1. IEP/GRA request that the Commission use the Phase 1A base case to pursue development of FS04 and S02 contracts for SDG&E.
2. The Phase 1A base case for SDG&E is derived from ER7 assumptions for a stand-alone system.

5 Under the FS04 pricing methodology, committed resources become part of a "barebones" resource plan, against which potential new additions are tested for cost-effectiveness. An FS04 solicitation is issued when any of the new additions are deferrable by QFs. In this way, resources that become committed in-between updates are no longer candidates for deferral by QFs during the next update. Currently, there are no specific procedures in place to guarantee that QFs can compete with potentially deferrable resources that are pursued by a utility in-between updates. Parties will be addressing this issue as part of their Phase 1B testimony.

6 See Reporter's Transcript (PHC-4), June 8, 1990, pp. 66-67; Protest of SDG&E to Petition for Modification of D.90-03-060, July 17, 1990, pp. 9-10.

3. ER7 will be superceded by ER90 before Phase 1B hearings can begin.

4. The Commission's final determination on FS04 for SDG&E awaits completion of the merger proceeding in A.88-12-035.

5. SO2 is currently suspended and the Commission must consider SO2 reinstatement issues before the suspension can be lifted.

6. Under the ALJ's June 8, 1990 ruling, further consideration of the utility's resource plans is suspended until the base case assumptions can be updated using ER90 forecasts.

7. Based on the Phase 1A compliance filings, it appears that SDG&E will have a demonstrable need for resource additions during the planning horizon, on a stand-alone system basis.

8. Under our FS04 pricing methodology, resources that become committed in-between updates are no longer candidates for deferral by QFs during the next update.

Conclusions of Law

1. The scope and schedule of Phase 1B described in D.90-03-060, as modified by ALJ Gottstein's June 8, 1990 ruling, is reasonable.

2. It is reasonable to monitor SDG&E's resource acquisition process until we can address in Phase 1B the issues of accountability, power purchase opportunities that arise in-between updates, and other issues related to the ability of QFs to compete with non-QF resources.

3. In order to facilitate parties' preparation of testimony in Phase 1B of this proceeding, this order should be effective today.

O R D E R

IT IS ORDERED that:

1. The Motion To Withdraw Petition For Modification of Decision 86-07-004, filed on June 18, 1990 by Independent Power Producers and Geothermal Energy Association, is approved.

2. The Petition for Modification of Decision 90-03-060, filed on June 5, 1990 by Independent Power Producers and Geothermal Energy Association, is denied.

3. The Supplement to Petition For Modification of Decision 90-03-060, filed on June 18, 1990 by Independent Power Producers and Geothermal Energy Association, is denied.

4. Beginning on October 1, 1990, and every month thereafter until further order, San Diego Gas & Electric Company (SDG&E) shall file at the Commission's Docket Office an original and 12 copies of a status report on its resource acquisition process. This report shall describe the status of all resource additions, refurbishments, repowering or purchase opportunities that are being pursued by SDG&E, and why SDG&E believes they must be pursued prior to completion of Phase 1B in this investigation. It shall be served on all appearances and the state service list in Investigation 89-07-004. ✓

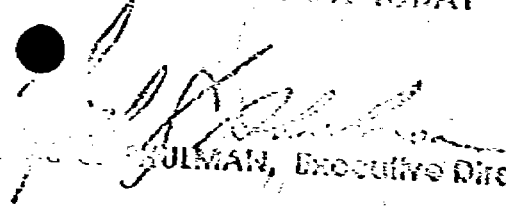
This order is effective today.

Dated September 12, 1990, at San Francisco, California.

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

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

Commissioner John B. Ohanian,
being necessarily absent, did not
participate.


JOHN B. OHANIAN, Executive Director
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