ALJ/SAW/p.c

Mailed

JUL 2 5 1991

Decision 91-07-052 July 24, 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

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)

## INTERIM OPINION

Beginning August 1, 1991, fundamental changes will occur in the way that gas utilities serve their utility electric generation (UEG) customers. (See Decision (D.) 90-09-089.) One change resulting from that decision is that gas utilities in California will no longer publish a noncore portfolio price.[1] This change is important to electric utilities and the power producers from whom they are required to buy electricity pursuant to the federal Public Utilities Regulatory Policies Act of 1978 (QFs, or qualifying facilities). The Commission requires that each electric utility post quarterly energy price offers intended

1 The noncore portfolio comprises the natural gas acquired to serve noncore customers. Noncore customers are those who choose to accept lower service priority in exchange for greater purchasing flexibility. In general, to qualify as a noncore customer, a customer must either consume more than 20,800 therms of gas per month or meet the following two conditions:

1. Have installed alternate fuel facilities capable of use on a sustained basis, and

2. Face costs of using alternate fuel that are lower than the price of core gas service. (See D.88-03-085.)

UEGs are noncore customers unless they choose to procure gas from the gas company's core portfolio.

to represent the utility's own avoided costs for the coming quarter.

In a series of decisions beginning with D.91109, the Commission established a methodology for posting quarterly energy prices. When the fuel on the margin is natural gas, the utility must apply its weighted average cost of gas to the calculation. If the utility includes noncore gas in its UEG supplies, then it must use the noncore weighted average cost of gas in its calculation.

Prior to August 1, 1991, the cost of natural gas to an electric utility is readily determined. For example, Southern California Edison Company (SCE) bases the cost of natural gas on gas volumes, transmission rates, and charges contained in Commission decisions and advice letters filed by Southern California Gas Company. QFs or other interested parties can refer to the gas portfolio prices and transportation tariffs to do their own gas cost calculation. However, since the gas utilities will cease publishing a noncore portfolio price as of August 1, 1991, a new means must be adopted for calculating avoided energy costs that reflects noncore volumes.

In Phase III of this proceeding, we plan to adopt a new pricing methodology. However, we must adopt an approach to be used by the electric utilities in the interim.

Pursuant to an Assigned Commissioner's Ruling (February 15, 1991), the Commission Advisory and Compliance Division (CACD) conducted a workshop on March 14, 1991, to seek consensus on a new interim gas price benchmark. CACD was directed to file a workshop report summarizing the parties' proposals and reporting any agreement reached at the workshop. In the absence of agreement, CACD was directed to include, in its report, its own recommended interim approach. By letter dated March 18, 1991, CACD representatives reported the workshop results to the Administrative Law Judge then assigned to the matter. The letter indicated that agreement had not been reached. On March 22, 1991, the Assigned

Commissioner issued a ruling calling for a second workshop (held April 8, 1991). The purpose of the second workshop was to further encourage agreement on an interim benchmark formula. Despite the concerted efforts of several parties, agreement did not result. Parties were allowed to file post-workshop comments. On April 30, 1991, CACD released its workshop report, which included its recommended interim approach.

The CACD recommendation drew upon the proposals of the parties but did not adopt any party's specific proposal. Parties were then provided with a formal opportunity to comment on the CACD proposal. Concurrent comments were filed on June 21, 1991.

In their comments, several parties objected to the adoption of the CACD proposal and expressed a preference for hearings to consider the merits of alternative approaches and to resolve questions of implementation raised by the CACD proposal, but acknowledged that there was not adequate time to hold hearings and issue a decision prior to August 1, 1991. SCE went a step further and asked that hearings be held, although the adopted solution is intended to be interim in nature. SCE offered several issues that it argued should be resolved in evidentiary hearings.

In a ruling dated July 1, 1991, the Assigned Commissioner set hearings on the proposed interim methodology. The hearings are scheduled to begin on July 29, 1991. Although the hearing process is expedited, we will not be able to issue a decision on the merits prior to August 1, 1991. So that there will be no interruption in the posting of quarterly energy prices, we will direct the electric utilities to use the current methodology for the quarter beginning August 1, 1991. Normally, this methodology would rely on the costs in effect on the first day of the quarter. However, since there will be no noncore weighted average cost of gas in effect on August 1, 1991, the utilities should apply the noncore weighted average cost rate in effect on July 31, 1991 for noncore volumes in this one-time calculation. In all other respects, August 1, 1991 figures apply. The prices calculated in this manner will be in effect for the full quarter unless our decision on the interim methodology allows for a change at an appropriate earlier date.

Findings of Fact

1. As of August 1, 1991, the gas utilities will no longer publish a noncore portfolio price.

2. The existing methodology for posting quarterly energy prices uses the noncore weighted average cost of gas in effect on the first day of the quarter.

3. Without a published noncore portfolio price of gas, the electric utilities that employ noncore gas for UEG will be unable to use the existing methodology for calculating quarterly energy price offers for QFs.

4. The Commission will consider changes to the energy price offer methodology in Phase III of this proceeding.

5. Hearings on an interim methodology to apply pending completion of Phase III will not be completed in time for a decision to take effect on August 1, 1991.

Conclusions of Law

1. Pending the adoption of an interim methodology for calculating energy price offers for QFs, an approach should be used that most closely resembles the existing methodology.

2. For the quarter beginning August 1, 1991, the electric utilities should use the price methodology currently in place, using the noncore weighted average cost of gas in effect on July 31, 1991 for noncore volumes.

3. This order must be made effective today to allow new energy price offers to go into effect on August 1, 1991.

INTERIM ORDER

IT IS ORDERED that for the quarter beginning August 1, 1991, the electric utilities shall calculate energy price offers using the methodology currently in effect, using the noncore weighted average cost of gas in effect on July 31, 1991 for noncore volumes; in all other respects, August 1, 1991 figures shall apply.

This order is effective today.

Dated July 24, 1991, at San Francisco, California.

PATRICIA M. ECKERT
President
G. MITCHELL WILK
JOHN B. OHANIAN
DANIEL Wm. FESSLER
NORMAN D. SHUMWAY
Commissioners

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

NEAL J. SHULMAN, Executive Director