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Decision 92-03-022 March 11, 1992

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)

OPINION DENYING PROTESTS TO SDG&E'S AVOIDED ENERGY COST POSTINGS FOR CERTAIN PERIODS IN 1991

1. Protests Under Consideration

On April 30, 1991, the California Cogeneration Council (CCC) filed a protest regarding the proposed avoided energy cost posted by San Diego Gas & Electric Company (SDG&E) on March 29 for the quarter running from May 1 through July 31, 1991. The Commission did not rule on the protest before the preliminary posting for the quarter running from August 1 through October 31, 1991. SDG&E filed that preliminary posting on July 1, using the same methodology that CCC protested the previous quarter. CCC filed a protest on July 19, 1991, renewing its protest and asking the Commission to require SDG&E to revise its quarterly postings for both the May 1 and August 1 quarters. In Decision (D.) 91-10-039, the Commission changed the posting period from quarterly to monthly, and on December 16, 1991, CCC extended its protest to apply to the posting for the November 1991 period as well.[1]

1 The actual monthly posting does not govern a calendar month, e.g., the 'November posting' is for prices effective November 11 through December 8. For convenience, we shall refer to the whole period by the month in which the posting is filed.

2. Background

The quarterly (now monthly) posting determines energy payments from SDG&E to qualifying facilities (QFs) priced at the purchasing utility's short-run avoided costs. One critical input in calculating this payment is the cost of the utility's marginal fuel, which in turn requires a specification of the fuel burned at the margin. The protests object to SDG&E's method for making this specification.

Natural gas is generally SDG&E's marginal fuel, but SDG&E also occasionally burns oil at the margin. (SDG&E had indicated that it expected oil to be the marginal fuel 16.7% of the time for the quarter commencing May 1, 8.5% of the time for the quarter commencing August 1, and 15% of the time for the November posting period.)

CCC protests SDG&E's marginal fuel mix specification as inaccurate to the extent that SDG&E's method for making that specification is not the volumetric method now used by Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (Edison). CCC requests the Commission order SDG&E to recalculate its marginal fuel mix using the volumetric method adopted for Edison in D.90-12-028. CCC also questioned whether SDG&E used the most appropriate oil price in its posting.

SDG&E filed a reply to CCC's initial protest. SDG&E notes that D.90-12-028 invited SDG&E to consider shifting to the volumetric method but did not explicitly order SDG&E to calculate its avoided energy prices using that method. SDG&E says it has examined both the volumetric and its own time-on-the-margin methods and has determined that the latter remains the most appropriate method for its system.

The renewed protests have resulted in extensive comments and rejoinders by CCC and SDG&E. CCC believes that SDG&E has not analyzed the two methods for determining marginal fuel mix but instead has reiterated its position against the volumetric approach. CCC also argues that SDG&E has not provided any substantive reasons for not adopting the volumetric method.

On the other hand, SDG&E claims that its method works well for its system and is free of bias. SDG&E cites the December posting period in support of the latter claim. For that period, use of SDG&E's method results in higher payments to QFs than use of the volumetric method.[2] SDG&E notes that CCC did not protest the December posting.

3. Discussion

The CCC protest has its roots in D.90-12-028. Before that decision, only PG&E used the volumetric method, while Edison and SDG&E used a time-on-the-margin method for projecting marginal fuel mix. In D.90-12-028, the Commission found the former method more appropriate than the latter for the Edison system, and directed Edison to use the volumetric method in its current and subsequent energy price postings. The Commission did not find that the time-on-the-margin method violated the policies of D.82-12-120 regarding short-run avoided cost; and while the Commission encouraged SDG&E to reconsider its method, the Commission did not require SDG&E to make the same change. CCC in essence argues that the reasons for this change for Edison apply with equal force to SDG&E. We disagree.

CCC argues that SDG&E must provide justification for not adopting the volumetric method. However, the burden of proof here falls on the protestant, not the utility, since as we explained

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2 The reason is that the time-on-the-margin method projects no oil in the December marginal fuel mix, while the volumetric method would project some marginal oil burns based on the fact that SDG&E is using some oil in its total fuel mix. SDG&E's oil in inventory is currently cheaper than its cost of gas, so given that price relationship, payments to QFs go down when oil's share of the marginal fuel mix goes up.

above, we declined to find in D.90-12-028 that the time-on-the-margin method was generically unacceptable or inferior to the volumetric method. In this case, SDG&E has made a showing that the time-on-the-margin method is feasible and reasonable for its system, while CCC has not demonstrated anything to the contrary.

SDG&E's argument regarding the fairness of the time-on-the-margin method is also persuasive. Switching to the volumetric method would increase the posted price in the protested periods but would lower the price in December (which was not protested). Future months' prices could be affected in either an upward or downward direction. It also appears that on SDG&E's system, the time-on-the-margin method does not produce the variations in price that caused us to adopt the volumetric approach for Edison.

CCC also questions the cost that SDG&E shows for the marginal oil. SDG&E uses the price paid for oil during the prior quarter or, if it made no such purchases, the price that it last paid for oil.[3] CCC would like to change this oil-in-inventory pricing method to one that more accurately reflects current market prices, whether or not the utility is currently buying oil.

We decline to change the oil-in-inventory method at this time. The method goes back many years, and SDG&E appears to have applied the method consistently and accurately for the protested periods. There is no pressing reason to address a possible methodological change now rather than in the methodology phase of the Update, which is when we normally take up such proposed changes for consideration if the issue seems to warrant the attention. We are also not convinced that reconsideration of this method is warranted, given the steady decline of utility oil usage. Inevitably, the methodology phase will deal with limited issues

3 Cf. D.82-12-120, 10 CPUC 2d 553, 621.

based on the Commission's priorities; it cannot possibly accommodate every issue that any party might wish to be heard.

Findings of Fact

1. SDG&E was not ordered in D.90-12-028 to use the volumetric method for determining its marginal fuel mix.

2. Circumstances warranting the switch to the volumetric method for Edison do not exist for SDG&E.

3. SDG&E has examined the volumetric method as requested in D.90-12-028, and has concluded that the time-on-the-margin method remains appropriate for its system.

4. CCC has not demonstrated that SDG&E's method produces inappropriate results.

5. No systematic bias appears from SDG&E's use of the time-on-the-margin method.

6. The time-on-the-margin method remains appropriate for SDG&E.

7. There is no need to reconsider at this time the oil-in-inventory method for determining the cost of marginal oil.

Conclusions of Law

1. The protested avoided energy cost postings of SDG&E comply with applicable Commission decisions.

2. CCC's protests should be denied.

3. In order to clarify the periodic posting procedure, this decision should be made effective immediately.

ORDER DENYING PROTESTS

IT IS ORDERED that the protests of California Cogeneration Council of the avoided energy cost postings of San Diego Gas & Electric Company for the quarterly posting periods commencing May 1, 1991, and August 1, 1991, and for the November posting period commencing November 11, 1991, are denied.

This order is effective today.

Dated March 11, 1992, at San Francisco, California.

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

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

Neal J. Shulman

NEAL J. SHULMAN, Executive Director