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Decision 92-05-071 May 20, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application of SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) for Authority to Increase its Authorized Level of Base Rate Revenue Under the Electric Revenue Adjustment Mechanism for Service Rendered Beginning January 1, 1992 and to Reflect this Increase in Rates.	Application 90-12-018 (Filed December 7, 1990)
And Related Matters.	I.89-12-025 (Filed December 18, 1989) I.91-02-079 (Filed February 21, 1991)

SIXTH INTERIM OPINION: PHASE 2 ISSUES

1. Summary of Decision

This opinion decides a single issue in Phase 2 of Southern California Edison Company's (Edison) test-year 1992 general rate case (GRC). A proposal by Edison to implement a new definition of seasonal time periods contained in Special Condition No. 17 of Edison's tariff Schedule TOU-8 is adopted.

2. Background

Phase 2 of Edison's GRC was established to consider numerous revenue allocation and rate design issues. Phase 2 stands submitted and a decision on these issues is pending. The rate changes to be adopted in that decision are scheduled to become effective on June 7, 1992, but the appropriate resolution of one issue which affects payments to Qualifying Facilities (QFs) requires that it be decided before June 1, 1992. We will therefore address this issue separately so that it can be decided before that date.

As described below, Edison and Cogenerators of Southern California (CSC) disagree on proposals to implement a revised definition of seasonal time periods contained in or referenced in Special Condition No. 17 of Schedule TOU-8. The definition determines when summer energy and capacity payments that Edison makes to QFs are applicable. It is significant because, among other things, summer capacity payment rates are much higher than winter rates.

The summer season is currently defined as the period which runs from the first Sunday in June to the first Sunday in October. It is a period of either 119 or 126 days, depending on the year. Edison, CSC, and the Division of Ratepayer Advocates (DRA) agree that the summer season defined in Schedule TOU-8 should be the 122-day period which begins June 1 and ends October 1 each year. The length of the summer season as defined in Schedule TOU-8 fluctuates by seven days, but the capacity allocation factors which are used to set capacity payments rates are based on the fixed 122-day summer season. This mismatch in the length of the summer season causes inappropriate variations in annual capacity payments.

3. Proposals

The parties agree on the need to change the definition of the summer time period. At issue is how to implement the revised definition. CSC recommends that the change be implemented for all QFs effective June 1, 1992. Edison proposes that this change be implemented on a staggered basis.[1] Under the Edison approach, the revised definition would become applicable to different groups of QFs depending on which year the QFs in that group began operation: June 1, 1992 for QFs which achieved firm operation in

1 Edison has filed Advice Letter No. 922-E in which it seeks to implement the same proposal. Edison submitted the proposed advice letter on September 4, 1991. It was accepted for filing on January 2, 1992. Disposition of that advice letter is pending.

1987, 1988, and 1992 and future years; June 1, 1993 for QFs that achieved firm operation in 1986, 1989, and 1991; and June 1, 1994 for QFs that achieved firm operation in 1985 and prior years and 1990. (For nonfirm QFs the criterion would be the year when initial operations began.) Although this issue was largely focused on the mismatch of capacity payments, the proposals would affect energy payments as well.

Edison proposed its implementation plan to mitigate the cumulative effect of variations in the lengths of past summer seasons on QF payments. In the seven summer seasons between 1985 and 1991, there were four 126-day seasons and three 119-day seasons. Edison's proposal is intended to ensure that over the life of each QF contract, the average number of days during which summer rates apply is close to 122 days. Edison believes this approach results in a better balance between QF benefits and ratepayer costs than CSC's approach does. DRA endorses Edison's position, arguing that it ensures to the greatest extent possible that both ratepayers and QFs are treated equitably.

CSC opposes Edison's staggered implementation proposal because CSC believes it: (1) constitutes prohibited retroactive ratemaking; (2) is contrary to the Commission's policy against retrospective downward adjustments to QF prices; (3) is based on flawed assumptions; and (4) would create unnecessary administrative burdens.

4. Discussion

We concur with the parties that the summer period definition should be changed. It makes little sense to base payment rates on a fixed 122-day period while basing actual payments on 119 days in some years and 126 days in other years. The proposed change properly matches payments with payment rates on a fixed 122-day basis. This proposed change will result in uniform and equitable payments from year to year.

Edison has shown through an analysis of hypothetical QFs that it is likely that, compared to its own proposal, CSC's proposal would benefit QFs at the expense of ratepayers. We find that Edison's implementation proposal better balances QF and ratepayer interests by better matching payments with payment rates over time. It is fair to both QFs and ratepayers. Edison's analysis also shows that it is unlikely that a perfect match could be reached, but its proposal comes closer than CSC's by ensuring that the summer payment period average over the lives of the contracts is approximately 122 days.

CSC does not argue that its proposal results in a better match of avoided costs and payments than Edison's proposal. Rather, CSC points to the fact that its members have received capacity payments in accordance with Edison's tariff definition. In essence, CSC argues that QFs should not be denied a benefit because the mismatch was created by Edison's tariff language. We disagree, since we find little reason not to adopt what we believe to be a fair balance.

As noted above, CSC gives four reasons why the Commission cannot or should not adopt Edison's staggered approach. We find none of these reasons to be persuasive. First, as Edison points out, the prohibition against retroactive ratemaking applies to charges demanded or received by Edison, not to purchased power contracts.

Second, the staggered approach does not violate Commission policy against retrospective downward adjustment of QF payments. The effect of Edison's proposal is to raise payments prospectively by increasing the summer period from 119 days to 122 days. This increase is effective June 1, 1992 for some QFs, on June 1, 1993 for other QFs, and on June 1, 1994 for the remaining QFs. We do not equate these deferred increases with retrospective decreases. Further, as Edison notes, the Commission policy cited by CSC expressly referred to energy payments, not capacity payments.[2]

Third, we do not believe that Edison made flawed assumptions in developing its plan for implementation of the revised definition over a two-year period. Edison assumed that each QF began firm operation on January 1 of each year. Edison further assumed that each QF achieved a capacity factor of at least 80% and, therefore, earned 100% of its capacity payments in each year of the contract. Given that Edison has formulated an appropriate method for better matching payments and payment factors, we fail to see what other, more reasonable, assumptions Edison might have made regarding operation history. In order to more precisely reach a 122-day summer payment, Edison could have designed a separate implementation schedule for each QF based on its operational history. We doubt that the additional precision of that approach would justify the complexity that would be associated with it.

Fourth, CSC asserts that staggered implementation would require Edison to list two sets of short-term energy prices on the monthly QF avoided cost postings throughout the implementation period. CSC believes that this would be necessary because the time-differentiated incremental energy rates (IERs), upon which energy payments are based, are dependent upon the number of hours (or days) in each season. CSC states that the additional confusion and administrative burden caused by Edison's proposal is not experienced under its proposal.

The question here is whether an administrative burden associated with Edison's proposal renders the proposal unacceptable. We conclude it does not. As DRA notes, it is Edison that must administer the QF contracts, and Edison that is willing

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2 10 CPUC 2d 623.

to accept whatever administrative burden will occur. From the QF perspective, each contract will have only one set of seasons in effect each year.

The establishment of IERs for energy payments is not directly at issue in this proceeding. However, CSC contends that two sets of IERs will be required. Edison, on the other hand, argues that using the same IERs for all QFs under its proposal will not result in significant inaccuracies. Edison relies on another proceeding to show that the Commission has recognized a need to sacrifice precision in posted energy prices, but it does not point to a basis in this record for determining how much precision would be sacrificed by retaining a single set of IERs. Edison simply asserts that the differences are minor. We must weigh that assertion against the testimony of CSC's witness that the energy payment mismatch would be similar to the capacity payment mismatch that now exists.[3] We conclude that two sets of energy prices are required.

For the foregoing reasons, we will adopt Edison's staggered implementation proposal and require two sets of energy prices to be posted.

5. Petition to Intervene

Watson Cogeneration Company (Watson) filed a "petition to intervene" in this proceeding on May 11, 1992. Watson states that it is a QF which sells electricity to Edison, and that it has a direct interest in issues such as the seasonal time period definition. Watson was previously a member of CSC but it recently left that organization. Watson requests leave to intervene for the purpose of filing comments on the proposed decision.

Rule 53 of the Rules of Practice and Procedure allows the filing of petitions to intervene in complaint proceedings.

3 Tr. 6696.

However, Rule 54 allows persons or entities to become parties in application and investigation proceedings such as this one by entering an appearance at the hearing. Because Watson recently left CSC, we grant it party status.

6. Proposed Decision

Comments on the proposed decision were filed by Edison, DRA, CSC, and Watson. We have considered these comments to the extent they comply with Rule 77.3 of the Rules of Practice and Procedure. We have not considered comments to the extent that they merely reargue positions taken in briefs, or to the extent they include new factual information untested by cross-examination.

Edison notes that, pursuant to Decision (D.) 91-10-039, it posts monthly energy prices on the second Monday of each month. The posted prices are effective from the second Monday until the second Monday of the following month. Thus, its currently posted avoided energy prices will be effective until June 8, 1992. We will clarify the proposed decision by providing that the set of IERs based on 122 days will, for the 1992 summer season, become effective Monday, June 8, 1992.

Findings of Fact

1. The proposed change in the definition of the summer period in Special Condition No. 17 of Schedule TOU-8 properly matches payments with payment rates on a fixed 122-day basis and will result in uniform and equitable payments from year to year.

2. Compared to simultaneous implementation of the revised definition for all QFs as proposed by CSC, Edison's staggered implementation proposal is fairer because it balances QF and ratepayer interests by better matching payments with payment rates over time.

3. Edison's implementation proposal raises payments to QFs on a staggered basis effective June 1, 1992 for some QFs, June 1, 1993 for other QFs, and on June 1, 1994 for the remaining QFs.

4. Assuming that each QF began firm operation on January 1 of each year and achieved a capacity factor of at least 80% is reasonable for the purpose of developing an implementation schedule as proposed by Edison.

5. The establishment of two sets of IERs for determining energy payments does not result in an undue administrative burden.

6. Two sets of IERs may be required to avoid a mismatch of energy payments and energy rates similar to the capacity payment mismatch being remedied by this decision.

7. Pursuant to D.91-10-039, Edison posts monthly energy prices for QF payments effective from the second Monday of each month to the second Monday of the following month.

<u>Conclusions of Law</u>

1. Time periods governing QF payments should be the same as the time periods upon which the payment rates are based.

2. The prohibition against retroactive ratemaking applies to charges demanded or received by Edison and therefore does not govern the issue of payments to QFs.

3. Deferred increases in the capacity payments which result from Edison's proposed implementation schedule are not the same as retrospective decreases.

4. Edison's staggered implementation proposal should be adopted.

5. Edison should post two sets of short-term energy prices to reflect the different time period definitions that will be in effect during the two-year implementation period.

6. The avoided cost energy payments posted by Edison on May 11, 1992 should remain in effect until June 8, 1992.

7. This order should be effective today to provide the affected QFs with the benefit of the revised definition.

SIXTH INTERIM ORDER

IT IS ORDERED that:

1. Southern California Edison Company (Edison) is authorized and directed to file tariff revisions which implement revisions to Special Condition No. 17 of Schedule TOU-8 as set forth in Exhibit 617. The revised tariff pages shall become effective June 1, 1992 and shall comply with General Order 96-A.

2. Effective June 8, 1992, Edison shall post two sets of short-term energy prices to reflect the different time period definitions that will be in effect during the two-year implementation period.

This order is effective today.

Dated May 20, 1992, at San Francisco, California.

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

Commissioner Patricia M. Eckert, being necessarily absent, did not participate.

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

Neal J. Shulman

NEAL J. SHULMAN, Executive Director

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