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Decision 92-06-006 June 3, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application of the SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) for Orders: (1) Approving the Amended Power Purchase Contract for AES Placerita, and (2) Approving the Termination of the Power Purchase Contracts for GWF Torrance and GWF Placerita.	Application 92-03-058 (Filed March 27, 1992)

O P I N I O N

This decision approves the application of Southern California Edison Company (Edison), filed March 27, 1992, for approval of certain contract amendments and termination agreements with qualifying facilities (QFs). The subject agreements are with GWF Power Systems Company, Inc. (GWF) and AES Placerita, Inc. (AES) for QFs at three sites. The application seeks ex parte, expedited treatment of the application. The Commission received no protests to the application.

Description of Requested Relief

Edison seeks approval of contract amendments involving three facilities:

- o GWF Torrance, a 10.4 megawatt (MW), petroleum coke-fired fluidized bed small power producer with an Interim Standard Offer (ISO) 4 contract signed April 16, 1985. The contract provides payments of 100% of forecasted annual marginal cost of energy and forecasts of as-available capacity;

- o GWF Placerita, a 9.0 MW gas-fired cogeneration plant for enhanced oil recovery, with a negotiated contract signed August 27, 1982. Contract payments are 93% of avoided cost with a $0.05 per kilowatt-hour (kWh) floor and $118/kW/year for capacity; and

- AES Placerita, a 98.7 MW gas-fired cogeneration plant for enhanced oil recovery, with an ISO 4 contract signed November 4, 1984. Contract payments are based on forecasted incremental energy rates and $176/kW/year for capacity.

In recent years, GWF has discussed with Edison the possibility of modifying the contract for its Torrance facility. The plant has experienced operational problems, requiring GWF to consider one of three options: (1) to invest in technical improvements at the plant; (2) to operate the plant at less than full reliability; or (3) to close down the plant permanently.

GWF's Placerita plant is under contract with Edison to provide energy with a $0.05 per/kWh payment floor and a firm capacity payment of $118/kW per year. According to Edison, these contract prices, while reasonable at the time they were negotiated, are now higher than market prices for QF energy. GWF sought to modify these contract terms in consideration for changes to arrangements for the Torrance plant.

AES concurrently sought changes to its contract with Edison, but for different reasons. AES Placerita holds an ISO 4 Energy Payment Option 3 contract for of 98.7 MW of firm capacity. The plant, however, is able to produce up to 110 MW of firm capacity. AES wished to contract for the additional capacity but Edison was unable to accommodate the request because Edison's ratepayers would not benefit from the additional capacity.

Believing that mutual benefits could be derived from modifying GWF's contracts and AES' contract, Edison recommended to GWF and AES that they develop a joint proposal to Edison.

The result is that AES, GWF, and Edison reached an agreement which Edison believes will save its ratepayers more than

$13 million and improve air quality. Specifically, the agreement would:

> Terminate the GWF contracts for the plants at Placerita and Torrance;
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> Amend the AES Placerita contract to add 11.3 MW of firm capacity for the 22-year remaining term of the contract at a levelized price of $137/kW year (compared to $176/kW/year for the existing contract capacity) and at the energy price included in the existing contract; and
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> Require AES to curtail production from 98.7 MW to 50 MW for 20 weekends per calendar year.

Edison states it has complied with the provisions of Decision 88-10-032 which requires that the subject projects be technically and financially viable prior to contract modifications. It states it has undertaken extensive analysis of the viability of the GWF plants. It is satisfied that the operational problems at GWF Torrance, which is not now operating, could be resolved with certain plant modifications, improving plant performance from about 19 percent annually to 70-85 percent annually. Two separate engineering studies are included in the application. Edison is convinced GWF has the financial resources required to make the plant modifications and includes an analysis of GWF's financial viability in its application.

Edison comments that the viability of the GWF Placerita plant is more readily ascertained because the plant is operating. The plant has no operational problems and has operated at an 85% capacity factor. The net present value of the plant if it continues to operate, according to Edison, will be $5.9 million.

Edison believes ratepayers will benefit substantially from the package of contract changes. Closure of the GWF Torrance plant would save ratepayers $15 to $17 million, according to Edison, because ratepayers will not have to pay contract costs which are above current and forecasted avoided costs. For the same reason, closure of the GWF Placerita plant would save ratepayers between $6 million and $9 million.

Edison believes the provisions in the AES contract will also benefit ratepayers. Under the contract modifications, AES would reduce generation at its plant on prescribed weekends, when demand is low and Edison does not require the power. The associated range of savings to ratepayers are estimated by Edison to be between $0.5 million and $4.5 million.

Edison estimates that the net increase in costs arising from the changes to the AES contract is $8.7 million. AES and GWF intend to share equally the increased capacity payments to AES, increasing revenues to AES and reducing GWF's business risk. Edison estimates that the range of net benefits to ratepayers from the changes for which Edison seeks approval is between $2.1 and $17.5 million.

Edison seeks expedited treatment of its application so that GWF Torrance may proceed with its plant improvements if the application is not granted. Edison also states that the package is most beneficial to the parties and ratepayers if it is effective prior to the 1992 summer capacity season.

Edison requests that the Commission find its proposed modifications to the three contracts to be reasonable and that any future liability for the contracts be limited to Edison's administration of the modified AES Placerita contract.

Discussion

We are pleased that Edison took the initiative to resolve the problems of three QFs in a creative fashion. Obviously, all three parties anticipate benefits from the changes proposed by Edison. We are satisfied that ratepayers will also benefit from the bargain because the agreement terminates two contracts priced higher than current avoided costs and improves dispatchability of energy from the AES Placerita plant. No party opposes the application.

Edison's application fulfills our requirements that contract modifications be accompanied by evidence that the plants in question are financially and technically viable. We make no finding as to air quality benefits of the agreement because we have no evidence of any such benefits. Although closing the GWF Torrance and GWF Placerita plants may reduce airborne emissions, eventual replacement power may offset those air quality benefits.

We will grant Edison's application with the condition that recovery of payments under the AES contract is subject to Commission review of the reasonableness of Edison's performance and administration of its obligations and exercise of its rights under the contract.

Motion of GWF for Confidential Treatment of Certain Exhibits

GWF filed a motion seeking confidential treatment of certain exhibits which are included as part of Edison's application and which were filed under seal. The motion states that exhibits GWF-1 through GWF-5 include information which should not be made public because of the likelihood that GWF would suffer competitive harm as a result. The information in the exhibits concerns financial information and technical analysis about the GWF Torrance plant and the GWF Placerita plant.

GWF makes a reasonable argument that publication of the subject exhibits may cause it competitive harm. The technology at the GWF plants is alleged to be unique and one which GWF intends to exploit commercially. Publication of associated engineering and financial information to potential competitors may reduce the value of the technology to GWF. Commission staff would retain access to the information even if the documents are sealed. We will therefore grant GWF's motion to retain the subject documents under seal. The confidentiality of the documents shall be retained until and unless further ruling or Commission order so provides. Such a ruling or order would be issued only after providing GWF an opportunity to address a request for public disclosure and following a showing that the public interest in full disclosure outweighs the potential harm to GWF by release of the information.

<u>Findings of Fact</u>

1. Edison seeks approval for an agreement under which it would terminate contracts for the GWF Torrance plant and the GWF Placerita plant and modify its contract for the AES Placerita plant so as to increase capacity under that contract, among other things.

2. Edison provides reasonable evidence that the GWF plants are technically and financially viable.

3. Edison provides reasonable evidence that the agreement which is the subject of this application will benefit ratepayers.

4. No party has opposed this application.

5. GWF seeks confidentiality of exhibits GWF-1 through GWF-5.

<u>Conclusions of Law</u>

1. The proposed amendments to the AES contract are reasonable.

2. The proposed termination agreements regarding the GWF Placerita plant and the GWF Torrance plant are reasonable.

3. The Commission should grant Edison's request for recovery of all payments under the AES contract. This grant should be subject to Commission review of the reasonableness of Edison's performance and administration of its obligations and exercise of its rights under the contract.

4. GWF's motion to retain the confidentiality of exhibits GWF-1 through GWF-5 should be granted. These exhibits should remain under seal and their confidentiality should be retained except by further ruling or Commission order.

O R D E R

IT IS ORDERED that:

1. The amended contract between Southern California Edison Company (Edison) and AES Placerita, Inc. (AES) is approved.

2. The pricing provisions of the amended contract between Edison and AES are reasonable, and Edison is entitled to recover all payments made pursuant thereto except as otherwise provided herein.

3. Recovery of payments under the contract between Edison and AES is subject to Commission review of the reasonableness of Edison's performance and administration of its obligations and exercise of its rights under the contract.

4. The motion of GWF Power Systems Company, Inc. to retain the confidentiality of exhibits GWF-1 through GWF-5, attached to Edison's application and filed under seal is granted. These exhibits shall remain under seal and their confidentiality shall be retained except by ruling or Commission order, consistent with the preceding discussion.

This order is effective today.

Dated June 3, 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, Executive Director