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Decision 92-07-045 July 22, 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 ON SOUTHERN CALIFORNIA EDISON COMPANY'S PETITION TO MODIFY DECISION 88-03-026

1. Introduction

In today's decision we take up a methodological question prompted by our shift from a quarterly to a monthly energy price posting cycle for purposes of avoided energy cost payments (also referred to herein as variable energy payments) by utilities to qualifying facilities (QFs).[1] The question is raised by Southern California Edison Company (Edison) in its petition to modify Decision (D.) 88-03-026, 27 CPUC 2d 502.[2] We grant the petition, thus enabling utilities to revise certain components of the avoided cost calculation using values from recently adopted Commission decisions. The shorter lag between a Commission decision and the utilities' reflection of that decision in monthly postings is feasible and appropriate to the new, shorter posting cycle.

2. Background

D.88-03-026 deals with the schedule for revising certain components of the electric utilities' periodic avoided cost payments for energy and capacity from QFs. We have recently dealt

1 The new posting cycle is not based on calendar months but results in revision to posted energy prices roughly every 30 days.

2 Edison filed this petition on December 9, 1991.

with an aspect of such revision. Specifically, we adopted an interim method for calculating utilities' avoided energy costs. (D.91-10-039, slip op.) The interim method was developed because of changes in this Commission's natural gas policies.[3]

D.91-10-039 only addresses periodic revision of the marginal fuel cost component of the avoided energy cost calculation. For purposes of the interim method there adopted, we modified D.88-03-026 to require a monthly instead of a quarterly posting cycle for revising variable energy payments to QFs. But D.88-03-026 is also concerned with the schedule for revising many other things, including (1) the marginal efficiency component (the "Incremental Energy Rate") of the avoided energy cost calculation, and (2) the marginal capacity value (the "Energy Reliability Index") used to calculate variable capacity payments to QFs. Edison asks us to consider how the monthly postings established by D.91-10-039 should encompass the periodic revision of these other inputs to the utilities' avoided cost calculations.

Unlike the costs of the marginal fuel, which under the interim method are calculated from various market prices, a utility's Incremental Energy Rate and Energy Reliability Index are administratively determined by us in annual Energy Cost Adjustment Clause (ECAC) proceedings for each of the major electric utilities. D.88-03-026 provides that newly adopted Incremental Energy Rates and Energy Reliability Indexes are to be reflected in the first posting that takes place at least 45 days after the effective date of the relevant ECAC decision. (See 27 CPUC 2d at 504.) Edison

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3 All of the three major investor-owned California electric utilities rely on natural gas as their marginal fuel in most hours of the year; thus, the utilities' costs of natural gas are a major input to the calculation of their avoided energy cost payments to QFs. Major regulatory changes, such as our elimination of the gas utilities' noncore portfolios, may require corresponding changes in the way avoided energy costs are calculated.

requests that D.88-03-026 be modified to provide for only a 15-day minimum lag.

According to Edison, reducing the lag from 45 to 15 days will result in a closer match between the implementation period of these administratively determined inputs and the test-year upon which they are based. Edison notes that the interim method not only approved a monthly posting cycle but also eliminated the preliminary posting formerly filed by utilities. Edison argues that, with the elimination of the preliminary posting, there is no longer any rationale for the 45-day lag, because 15 days should generally allow enough time for mailing and receipt by the affected utility of a Commission decision adopting new Incremental Energy Rates or Energy Reliability Indexes.

No parties have filed comments on or protests to Edison's petition.

3. Discussion

Granting Edison's petition would enable the use of more current information in avoided cost postings by allowing reflection of a newly adopted Incremental Energy Rate or Energy Reliability Index after only 15 days instead of 45 days. The suggested change is consistent with the changes we made in D.91-10-039 to the former posting procedure. The latter changes, including a shorter posting cycle and use of fuel price indexes in preference to lagged actual prices, were likewise intended to make the posting procedure workable and verifiable, and result in posted prices reflecting the best current information.

We agree with Edison that 15 days should generally be enough time after the effective date of a relevant decision for the utility to receive the decision and perform the ministerial task of running the avoided cost calculation with the newly adopted inputs. As noted above, no party opposes Edison's petition.

Edison's petition proposes a 15-day lag only for newly adopted Incremental Energy Rates and Energy Reliability Indexes.

Edison is silent regarding other inputs to the avoided cost calculation that may be updated from time to time in Commission decisions in ECACs, general rate cases, or other proceedings. However, our reasons for granting the petition also support a 15-day lag rule for monthly postings to reflect any Commission decision updating an input to the avoided cost calculation.

In D.91-03-019 (slip op.), we dealt with a protest by Santa Fe Geothermal Company (Santa Fe) of what was then a quarterly posting by Pacific Gas and Electric Company (PG&E). Santa Fe argued that when the Commission adopts a new value for a utility's operation and maintenance (O&M) adder used in the avoided cost calculation, as the Commission had just done for PG&E, the utility should revise that input at the time of the earliest affected posting, not after a minimum 45-day lag pursuant to D.88-03-026.

We denied the protest, holding that although D.88-03-026 did not expressly address the O&M adder, PG&E was reasonable in applying the 45-day lag to revising that input as well as to new Incremental Energy Rates and Energy Reliability Indexes. It seems reasonable now, using the same rationale, that a 15-day lag apply uniformly. In other words, given the monthly posting cycle and our approval of a 15-day minimum lag, utilities should revise any input to their respective avoided cost calculations in the first scheduled posting that follows by at least 15 days the effective date of a Commission decision adopting a new value for that input.

When we changed from a quarterly to a monthly posting cycle (D.91-10-039), we were modifying the standard offer updating procedure then in effect, as set forth in D.88-03-026 (Table A). Unfortunately, D.91-10-039 did not expressly indicate the changes made to the findings or ordering paragraphs of D.88-03-026 or to Table A. We therefore append to today's decision those findings and ordering paragraphs, and the affected portions of Table A of D.88-03-026, conformed to reflect modifications ordered in D.91-10-039 and in today's decision.

Findings of Fact

1. The Commission has changed the electric utilities' energy price posting cycle from quarterly to monthly. The Commission has also directed the utilities to use various gas price indexes for these postings rather than lagged actual prices. This interim method for energy price postings is intended to make the posting procedure workable and verifiable, and to result in posted prices that reflect the best current information.

2. Edison has petitioned the Commission to modify D.88-03-026 to allow a utility to revise certain components of the avoided cost calculation using values from recently adopted Commission decisions. Specifically, Edison seeks authorization to reflect newly adopted Incremental Energy Rates and Energy Reliability Indexes in the first posting that takes place at least 15 days after the effective date of the relevant Commission decision (instead of the minimum 45-day lag required in D.88-03-026).

3. The change requested by Edison is generally consistent with Commission policy in previously changing the posting procedure as described in Finding of Fact 1. However, the change should not be limited to newly adopted Incremental Energy Rates and Energy Reliability Indexes. It is appropriate, regarding the avoided cost calculation, that a utility revise any input to the calculation in the first scheduled posting that follows by at least 15 days the effective date of a Commission decision adopting a new value for that input. To prevent "gaming" of the avoided cost calculations, this revision schedule should be mandatory, not permissive.

Conclusions of Law

1. Table A ("Standard Offer Updating") of D.88-03-026, 27 CPUC 2d 502, 506-08, and specifically those provisions of Table A that set forth updating procedure for Variable Capacity Payments and Variable Energy Payments, should be modified as described in the discussion and Finding of Fact 3 in this decision.

2. Because of the need for certainty regarding posting procedures, this order should be effective on the date signed and should apply to all avoided cost postings, commencing with the first scheduled posting that occurs at least 15 days after this order is signed.

3. The following changes should be made to D.88-03-026 to conform that decision to (1) the modified posting cycle approved on an interim basis in D.91-10-039, and (2) the 15-day minimum lag approved herein.

a. Finding of Fact 3 should read in full as follows:

"Limiting QF price changes to specific monthly revision dates pursuant to the procedure approved in D.91-10-039 is reasonable. Requiring utilities to revise any input to their respective avoided cost calculations in the first scheduled posting that follows by at least 15 days the effective date of a Commission decision adopting a new value for that input is reasonable."

b. Ordering Paragraph 2 should read in full as follows:

"Changes to prices paid under variable payment provisions of standard offers shall go into effect only on monthly revision dates pursuant to Decision 91-10-039. Such changes shall be subject to the 15-day minimum lag described in Finding of Fact 3."

c. In Table A of D.88-03-026, under the column titled "Variable Energy Payments," on the line "<u>How often updated</u>?" change "Quarterly" to "Monthly."

d. In Section III of D.88-03-026, delete the second paragraph. Also delete Conclusion of Law 2 and footnote 4 of D.88-03-026.

4. Appendix A to this decision should reproduce the findings, ordering paragraphs, and the affected portions of Table A of D.88-03-026, conformed to reflect modifications ordered in D.91-10-039 and in today's decision.

O R D E R

IT IS ORDERED that the procedure for posting updated prices for Variable Capacity Payments and Variable Energy Payments by utilities to qualifying facilities be modified in conformity with the discussion, findings, and conclusions set forth in this decision. To the extent indicated above, the petition of Southern California Edison Company for modification of Decision 88-03-026 is granted.

This order is effective today.

Dated July 22, 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

Decision 88-03-026 (Findings of Fact, Ordering Paragraphs, and affected portions of Table A) as modified by Decision 91-10-039 and by the foregoing decision.

Findings of Fact

1. Standard offers must be updated regularly in order to ensure consistency with current resource planning assumptions, allow orderly development of the QF industry, minimize administrative burdens, and create a balanced and diverse portfolio of power purchase agreements.

2. The updating procedures summarized in Table A will meet the goals stated in Finding of Fact 1.

3. Limiting QF price changes to specific monthly revision dates pursuant to the procedure approved in D.91-10-039 is reasonable. Requiring utilities to revise any input to their respective avoided cost calculations in the first scheduled posting that follows by at least 15 days the effective date of a Commission decision adopting a new value for that input is reasonable.

4. A super off-peak costing period is in place for PG&E and is ripe for implementation at this time by SDG&E and Edison.

THIRD INTERIM ORDER - COMPLIANCE PHASE

IT IS ORDERED that:

1. The standard offer updating procedures summarized in Table A are adopted. Revision of these procedures will be considered only in the biennial resource plan review.

2. Changes to prices paid under variable payment provisions of standard offers shall go into effect only on monthly revision dates pursuant to Decision 91-10-039. Such changes shall be subject to the 15-day minimum lag described in Finding of Fact 3.

3. San Diego Gas & Electric Company and Southern California Edison shall file proposed costing periods, incorporating a super off-peak period pursuant to Decision 87-05-060, within 30 days of the effective date of today's decision. The new costing periods will take effect at the quarterly revision date that is at least 30 days following the filing of the proposed costing periods.

Table A

Standard Offer Updating

	Variable Capacity Payments***	Variable Energy Payments***
Offers affected:	S.O. 1, 3, final S.O. 4 (Period 1)	All except interim S.O. 4 (Some options)**
How often updated?	Annually	Monthly (marginal or avoided plant fuel price) Annually (marginal efficiency)
Methodology:	Cost of combustion turbine, adjusted by EUE-based ERI (SDG&E, Edison), Target Reserve Margin (PG&E)*	Fuel price: Published data Marginal efficiency: IER calculated per CPUC decisions
Where updated?	ECAC	Fuel price: Utility energy price filings (similar to advice letters - no CPUC decision necessary unless protested) Marginal efficiency: ECAC

* The implementation of Target Reserve Margin for PG&E is subject to further comment.

** Interim S.O. 4 QFs generally have some or all of their energy payments fixed in their contracts for the first 10 years, after which they receive variable energy payments.

*** The payments for the increment of QFs being valued are calculated using QFs-in/QFs-out.

(Remaining portions of Table A are not modified and are therefore not reproduced above. For remaining portions of Table A, see 27 CPUC 2d at 507.)

(END OF APPENDIX A)