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Decision 92-08-040 August 11, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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.)

ORIGINAL

I.89-07-004
(Filed July 6, 1989)

OPINION ON PROTESTS TO PACIFIC GAS AND ELECTRIC COMPANY'S
AVOIDED COST POSTINGS FOR VARIOUS MONTHS

1. Introduction

The monthly avoided cost posting determines energy payments from electric utilities, including Pacific Gas and Electric Company (PG&E), to Qualifying Facilities (QFs), for whom such payments are priced at the purchasing utility's short-run marginal costs. In this decision we resolve several issues raised by certain QFs regarding certain of PG&E's monthly postings. An earlier decision (Decision (D.) 92-05-022) disposed of one of these issues, as noted below. We resolve most of the remaining issues today, but one final issue is deferred, pending developments in one of our gas proceedings (Rulemaking (R.) 90-02-008).

2. Summary of Protests

On April 8, 1992, California Cogeneration Council (CCC) and Destec Energy, Inc. (Destec) protested the March 9 avoided energy cost posted by PG&E.¹ CCC protested two aspects of PG&E's posting, one of which Destec also protested. Destec also raised three other issues regarding the March 9 posting. PG&E responded

¹ It should be noted that the type of "monthly" posting in question does not conform exactly to any calendar month but simply covers a period of about 30 days. In general, the posting occurs on the second Monday of each month. (See D.91-10-039, slip op.)

to the protests on April 23. In the meantime, on April 13, PG&E posted prices for the next monthly period. Destec and CCC filed new protests on May 13 to this later posting. CCC raised one new issue, Destec repeated its prior objections, and PG&E responded on May 28 to both of the latter protests.² On June 10, Destec indicated that it continued to have the same four objections, while CCC repeated its two objections, to PG&E's May posting.³ PG&E replied on June 25. PG&E's June posting was similarly protested and defended.

These protests raise six issues in all. The issue regarding PG&E's use of an internal forecast of gas throughput was resolved in D.92-05-022 and is not discussed further herein. The remaining issues, as stated in the protests, are:

Issue 1: PG&E did not include igniter fuel usage in its calculation of avoidable energy costs.

Issue 2: PG&E has improperly used firm interstate rights on the Pacific Gas Transmission (PGT) Pipeline.

² Also, on June 3, Southern California Edison Company (Edison) filed "Comments" responding to CCC's protest of the April 13 PG&E posting.

³ Here is a complete tally of CCC and Destec protests recently resolved or resolved today: CCC filed protests on July 19, August 19, and December 16, 1991, and on January 16, February 13, and March 11, 1992, all of which concerned an issue that was resolved in D.92-05-022. On April 8, 1992, CCC filed a protest raising one new issue and renewed its protest of the issue subsequently resolved in D.92-05-022. While not explicitly dealt with in D.92-05-022, this latter aspect of the April protest is resolved, and PG&E should modify its postings for March and any subsequent months, consistent with D.92-05-022.

Today we resolve the new issue raised by CCC in its April 8 protest, as well as issues raised in CCC's May 13, June 10, and July 8 protests. Destec filed a protest on April 8, renewing it on May 13, June 10, and July 8. We resolve today all issues raised by Destec except for the issue deferred to R.90-02-008.

- Issue 3: PG&E improperly omitted the Transwestern Pipeline (TW) reservation charge for firm service for March.
- Issue 4: PG&E reflected the TW reservation charge incorrectly in the April posting.
- Issue 5: The Canadian gas price used by PG&E is not accurate.

We discuss these issues in the above sequence.

3. Discussion

3.1 Issue 1: Igniter Fuel

Destec reads D.88-07-024 to say that all Utility Electric Generation (UEG) gas costs are avoidable except customer costs. Destec does not quote that decision, but Destec apparently is referring to the following sentence from Conclusion of Law 3: "Except for the customer costs, all gas utility fixed costs allocated to the UEG customer are avoidable." (Id., 28 CPUC2d 511, 522.) Destec's reliance is misplaced.

D.88-07-024 addresses the avoidability of certain charges incurred by gas utility's UEG customers under our (then) newly unbundled gas rate design. (See 28 CPUC2d at 514.) The decision does not consider, or purport to consider, the avoidability by QFs of different categories of UEG gas consumption, which include use of so-called "igniter" fuel. In fact, D.88-07-024 says in so many words that QFs do not avoid some types of gas consumption, e.g., to maintain utility spinning reserves. (28 CPUC2d at 517.)

PG&E notes in its response that the Commission has previously held the cost of fuel consumed to "warm up" utility facilities is also not avoidable by QFs. (D.82-12-120, 10 CPUC2d

553, 622.)⁴ We agree with PG&E, and Destec does not dispute, that this statement refers to igniter fuel. Destec's protest in this regard borders on the frivolous.

3.2 Issue 2: Capacity Rights on PGT

This issue concerns allegations by several parties to R.90-02-008 that PG&E has improperly used its firm interstate capacity rights to transport gas supplies for use by its electric department. These parties have filed a petition to modify D.90-09-089 to present their allegations.

The issue of improper use belongs in the gas rulemaking forum. However, the issue of whether PG&E has made improper use of firm service is not the same as the issue of whether PG&E has accurately reflected in payments to QFs the gas transportation costs that PG&E's electric department incurs. The protests do not suggest PG&E's postings reflect something other than the transportation costs that PG&E is paying. The theory of the protests is (1) PG&E, under our gas rules, should be taking a different (and possibly higher cost) transportation service, and therefore (2) PG&E should be paying QFs an energy price that includes costs of the transportation service properly available (in Destec's view) to PG&E's electric department.

From our review of PG&E's postings and of the protests and replies, it appears that PG&E's postings do reflect the firm service for which PG&E's electric department claims entitlement. The Commission, however, has granted the petition referred to above.

4 The discussion in D.82-12-120 of fuel consumption not avoidable as a result of purchases from QFs, in which we specifically mentioned fuel consumed for spinning reserve and "warm-up" purposes, is cited with approval in D.88-07-024, 28 CPUC2d at 517, 524 note 4.

In granting this petition, we indicated that we had "never intended that PG&E's electric department would have access to firm interstate capacity which would not be similarly available to other noncore customers." (D.92-07-075, slip op., p.2.) We then directed PG&E "to offer to use its excess firm interstate capacity rights on behalf of all qualifying customers...pursuant to the rules adopted in D.90-09-089, as modified, on a short-term basis. Its electric department may bid for the capacity like any other noncore customer and is entitled to a pro rata share of the capacity. Any excess capacity that PG&E cannot utilize in this fashion may be used by its electric department." (*Id.*, pp.3-4.)

The protestants and PG&E should have an opportunity to comment on what impact D.92-07-075 may have on these protests, given the conditions that decision places on allowable use of PG&E's firm interstate capacity rights, on PGT or other pipelines, by PG&E's electric department. Such comments shall be concurrently filed and served no later than two weeks from the effective date of today's decision.

3.3 Issue 3: TW Reservation Charge for March

PG&E did not include the reservation charge associated with its access to firm service on TW in its March posting. Destec cites PG&E's April 1, 1992 filing in its Energy Cost Adjustment Clause (ECAC) proceeding as providing the proof that this firm service was available to PG&E prior to the March posting. However, PG&E states in its response that the contract for the firm service was not signed until after the date of the March posting and PG&E did not plan to utilize the contract during March. For these reasons, it is reasonable for PG&E to exclude the TW reservation charge for the month of March; accordingly, Destec's protest on this issue is denied.

3.4 Issue 4: TW Reservation Charges for April Onward

PG&E did include the TW reservation charge in its April posting, using a volumetric method that assumes full utilization of

the reserved pipeline capacity. CCC protests this method. CCC argues that the reservation charge is a fixed payment that PG&E incurs regardless of the load factor during the posting period. CCC says it agrees with the way Edison includes the reservation charge Edison pays for reserved capacity on the El Paso pipeline system (El Paso). CCC characterizes Edison's method as using a separate line item in its avoided energy cost calculation; the line item shows this charge as a fixed payment, rather than a volumetric payment.

Edison asserts, however, that PG&E's method is substantively identical to Edison's. The difference in result occurs because Edison has fully utilized the capacity associated with the El Paso reservation charge, while PG&E is currently utilizing about 10% of its reserved TW capacity. In other words, the critical issue is whether the utility should divide the reservation charge by the reserved capacity or the utilized capacity. Edison and PG&E say the denominator should be reserved capacity, CCC says it should be utilized capacity. With a 10% load factor, CCC's method would result in a unit cost 10 times higher than the utilities' method.

The utilities' method is correct. Reserved capacity, as opposed to interruptible capacity, is paid for by the owner of that capacity on a full-load basis, so costs of capacity reservation should be avoidable on the same basis. We agree with Edison that, had the utility forecast higher or lower QF deliveries when it reserved the capacity, more or less capacity might have been purchased (but still at full-load factor). Thus, QFs allow the utility to avoid fully utilized capacity rights, and the unit cost at full-load operation is the appropriate cost to reflect in energy payments to QFs.

3.5 Issue 5: Canadian Gas Price Index

3.5.1 Parties' Positions

PG&E's avoided cost posting uses certain published gas price indexes, as specified in D.91-10-039. CCC and Destec assert that PG&E has used the indexes incorrectly.

The protestants say the Canadian gas prices in two of the three indexes do not accurately represent a California border price for that gas. CCC has provided information in Attachment 1 of its May 13 protest indicating that at least one of the two indexes with which it takes exception represents a Canada-United States border price, not a California border price. PG&E does not contest this point in any of its responses but says merely that "PG&E does not have any information on what assumptions are in fact reflected in each publication's Canadian index."

CCC proposes two alternatives to remedy the Canadian "indexing errors." Under the first alternative, PG&E would calculate a price for its Canadian gas volumes using a "Southwest proxy" methodology. This methodology rests on CCC's assertion that PG&E's Canadian gas purchases have been priced on a "netback" basis at a value approximating the average California border price for supplies from the Southwest. Edison says such a proxy, at least as applied to Edison, would not be appropriate. Edison may have access to Canadian sources by November 1993 and expects to purchase Canadian gas at rates below "netback" pricing.

CCC's second alternative, which Destec also supports, calls for continued use of two of the three published Canadian indexes, namely, those in Natural Gas Intelligence and Inside FERC. However, the latter index would be modified to include both the total firm and interruptible charges on both PGT and the Northwest

Pipeline in order to achieve a "representational" California border price.⁵

PG&E has not evaluated either of CCC's alternatives in any of PG&E's responses to date. PG&E "acknowledges that D.91-10-039 suggested the Commission's willingness to revisit the question of appropriate indices for Canadian purchases" but scoffs at Destec's suggestion to hold a workshop, describing such a workshop as "pointless." (PG&E Response, filed April 23, page 3.)

The closest that PG&E comes to substantive analysis of the implementation issue regarding indexes for Canadian gas prices is the following: "PG&E's position is that the best proxy for UEG's Canadian gas purchases is UEG's actual costs. The Commission rejected the use of actual data in D.91-10-039. Additionally, the Commission stated its intent to adhere to the index methodology 'until a broader examination of pricing methodologies can occur in Phase III.' PG&E believes that the Commission should require the

5 The Inside FERC index, according to CCC, "clearly reflects sales into the Northwest Pipeline at Sumas, Washington. The 'Canadian border' price that PG&E included in its April posting is explicitly labeled as a subheading under 'Northwest Pipeline Corp.' Thus, the only way PG&E's electric department could receive volumes at the indexed price is if they are transported on Northwest Pipeline to Stanfield, Oregon, and then transported on PGT to Malin. Because Inside FERC's index for Canadian volumes fails to account for transport over Northwest to PGT, it is an inaccurate indication of PG&E's Canadian gas costs." (CCC Protest, filed May 13, page 2.) CCC would not use Natural Gas Week's Canadian index at all, asserting that the latter index reflects mostly sales to the Pacific Northwest.

Regarding the proposed modification to the Inside FERC index, CCC "recognizes that PG&E may not actually transport volumes over Northwest Pipeline at any given time. However, adjusting the Sumas border price by including Northwest transport charges would yield a proxy price that better reflects California's costs of purchasing and transporting Canadian volumes." (CCC Protest, filed May 13, page 5 note 1.)

parties to adhere to the current proxy for UEG Canadian gas purchases until at least the first annual report (January 31, 1993) has been submitted." (PG&E Response, filed April 23, page 4, citation omitted.)

3.5.2 Discussion

PG&E is basically refusing to deal with this implementation issue unless and until the Commission examines the underlying decision de novo. Such refusal is inappropriate as a general matter, and inconsistent with both the letter and spirit of D.91-10-039 (the decision in question).

Many Commission policies are set forth in broad terms. The policies are then implemented in good faith by the utilities using their sound judgment. A utility that favors some policy other than the one the Commission adopts is not thereby excused from using its best efforts to implement the adopted policy.

In the matter at hand, we expressly acknowledged in D.91-10-039 that there could be difficulty in using the same publications relied on for Southwest basin prices to index Canadian prices. After noting that parties disagreed on what publication might provide reliable data, we said, "We intend to use the best forecasts available. If all parties in this phase of the proceeding can agree on other sources of Canadian price forecasts upon which to rely, we hereby approve the use of those sources for Canadian spot-market price forecasting." (Id., slip opinion, page 15; see also Conclusions of Law 4 and 5.) Considering this language, we find PG&E's response (or lack of response) disappointing.

Turning to the substance of the protests on this issue, we see good policy arguments both for granting and for denying them. The index approach in essence uses market prices, as reported in industry journals, to provide a clear, current, and objective cost projection for UEG gas consumption (other than gas volumes procured through core subscription) to use in the avoided

cost calculation.⁶ An argument for denial is that any adjustment to these market prices (on the grounds, e.g., that they are unrepresentative) violates the principles underlying the index approach.

We are persuaded, however, that the protests should be granted in this regard. It is clear that the index price for any particular basin must include the cost of moving the gas to California.⁷ A publication that does not list sufficient information to derive both commodity and transportation costs from a particular supply region to California is not suitable for indexing that region's gas costs and either should not be relied on for that purpose or should be modified appropriately. Tailoring the index approach in this way is consistent with D.91-10-039.

We therefore grant the protests on this issue and direct PG&E to recalculate its avoided energy cost payments for the posting periods covered by the protests. PG&E should perform this recalculation using CCC's second alternative, i.e., relying on Natural Gas Intelligence and on Inside FERC with the modification

⁶ Another way to look at indexing is that it represents a market price for buying the commodity and transporting it to California. Each of the major supply basins is a "market," so the indexing approach lists a price for each such basin (including Canadian production). Each utility then weights the various basin prices according to relative throughput to that utility.

⁷ D.91-10-039 says as much: "To accurately mimic the current avoided cost methodology, the interim gas benchmark should reflect both interstate and intrastate rates for transportation." (Id., slip op., p.16.)

CCC describes.⁸ PG&E should also use this index approach in future postings.

Also, we reaffirm the portions of D.91-10-039 inviting the parties, through mutual consultation, to develop improvements to the Canadian index. If the parties reach agreement, they should propose the improvement(s) in a monthly posting, which would then be subject to protest per our existing procedures. If unprotested, the improvement(s) would take effect without further order of the Commission.

Findings of Fact

1. UEG consumption of igniter fuel is not avoidable by QFs.
2. PG&E's use of firm interstate capacity rights on PGT is the subject of D.92-07-075.
3. PG&E's contract for firm transportation service on TW was not signed until after the date of the March 1992 posting. PG&E did not plan to utilize the contract during March. Thus, PG&E reasonably excluded the TW reservation charge for March.
4. Reserved pipeline capacity, as opposed to interruptible capacity, is paid for by the owner of that capacity on a full-load basis, so costs of capacity reservation should be avoidable on the same basis. This is the basis used by PG&E for factoring the TW reservation charge into PG&E's avoided energy cost calculation for April 1992 and subsequent posting periods.
5. Gas price indexing for avoided energy cost calculations includes both commodity and transportation costs. Indexed prices should represent California border prices for gas from the various

⁸ CCC's proposed Southwest proxy for Canadian gas prices seems inappropriate. While we agree that the gas price used for the index must be a California border price, we continue to believe that the commodity portion of the Canadian index should rely on Canadian prices, which Natural Gas Intelligence and Inside FERC do provide.

supply regions. A publication that does not list sufficient information to derive both commodity and transportation costs from a particular supply region to California is not suitable for indexing that region's gas costs and either should not be relied on for that purpose or should be modified appropriately.

Conclusions of Law

1. Protests of PG&E's failure to include igniter fuel consumption in PG&E's avoided energy cost calculation should be denied.

2. The protestants and PG&E should have an opportunity to comment on how these protests are affected by D.92-07-075.

3. Protests of PG&E's failure to include the TW reservation charge for March 1992 in PG&E's avoided energy cost calculation should be denied.

4. Protests of PG&E's method for factoring the TW reservation charge into PG&E's avoided energy cost calculation for April 1992 and subsequent posting periods should be denied.

5. PG&E should recalculate its avoided energy costs for the posting periods covered by the protests, relying for Canadian gas prices on the indexes published by (1) Natural Gas Intelligence and (2) Inside FERC modified to reflect transportation charges on both PGT and the Northwest Pipeline. PG&E shall not rely on the Canadian gas index published in Natural Gas Week. PG&E's future postings should also use this calculation, subject to development of improvements to the Canadian index as provided for in D.91-10-039 and in today's decision.

6. To minimize disputes and uncertainty, this decision should be effective upon adoption.

ORDER

IT IS ORDERED that the protests of California Cogeneration Council and of Destec Energy, Inc., as enumerated in today's decision, are denied except to the extent that they are (1) held open for comments on the impact of Decision (D.) 92-07-075 (such comments to be concurrently filed and served no later than two weeks from the effective date of today's decision), or (2) granted in the foregoing opinion. Pacific Gas and Electric Company (PG&E), consistent with the discussion herein of the Canadian gas price index, shall recalculate its avoided energy cost payments for the posting periods covered by the protests. PG&E's future postings shall also use this calculation, subject to development of improvements to the Canadian gas price indexes as provided for in D.91-10-039 and in today's decision.

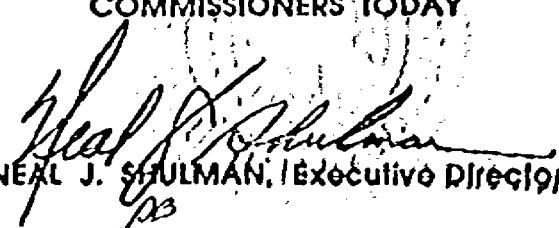
This order is effective today.

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

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

Commissioner John B. Ohanian,
being necessarily absent, did not
participate.

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


NEAL J. SHULMAN, Executive Director