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Decision 92-09-038 September 2, 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.	I.89-07-004 (Filed July 6, 1989)

OPINION ON PROTESTS TO AVOIDED COST POSTINGS: IMPACT OF "DOUBLE DEMAND CHARGE" TRACKING ACCOUNTS

1. Introduction

Representative of various qualifying facilities (QFs) have protested, on various grounds, recent monthly avoided cost postings by Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (Edison). Today's decision addresses only one of the protested matters, specifically, the utilities' deduction of "double demand charges" from avoided energy cost payments to QFs.[1] We order these deductions reversed, because we do not know at this time how much, if any, of the "double demand charge" dollars will be allocated and returned to utility electric generation (UEG) customers. We put QFs on notice, however, that if there is such an allocation to UEG customers, we will at that time order the refunds to the UEG to be contemporaneously reflected in avoided cost postings.

2. Discussion

On July 1, 1992, we ordered the gas utilities to establish accounts to "track" collection of interstate pipeline

1 The following QFs have filed protests on this issue, commencing with the July posting: California Cogeneration Council, KES Kingsburg, L.P.; Cogenerators of Southern California; and Watson Cogeneration Company.

charges that are embedded in the intrastate transmission rates of customers who receive their gas over interstate capacity neither owned or controlled by California gas utilities. (Decision (D.) 92-07-025, slip op., pp. 45-46.) We justified the establishment of these accounts as follows:

> "Because non-utility owned and controlled interstate pipeline capacity has been placed into service significantly before a capacity brokering program could be implemented, there now exists a mismatch which is causing pricing distortions as well as market disruptions. The Commission has long supported the notion of a 'level playing field' as a means of encouraging competition in the restructured gas industry. The current situation distorts the ability of those entities holding firm interstate capacity to effectively compete in the market. Further, the regulatory lag engendered by the delay in implementation of capacity brokering hampers the ability to market firm interstate capacity given the bias caused by the continued bundling of interstate and intrastate transportation rates.
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> "For these reasons we will...establish an interim tracking account for interstate pipeline demand charges that are embedded in the intrastate transmission rates of customers that receive their gas over interstate capacity that is not owned and controlled by the California [gas utilities,] effective the date of this order. However, we will defer determination, at this time, as to the allocation of the tracking account dollars among customer classes. This is an issue to be examined in each [gas utility's] cost allocation proceeding." (Id.)

Both PG&E and Edison, relying on D.92-07-025, have made downward adjustments to their avoided cost postings (starting with the July posting) to reflect costs forecast to be recorded in their respective tracking accounts. QF protestants essentially object that such adjustment is premature. They note that D.92-07-025 does not resolve (1) how much (if any) of the "double demand charges"

will be refunded to gas customers, and (2) if there are such refunds, how much will be allocated to UEG customers.

We agree with the QFs that any "double demand charge" adjustment of avoided cost payments is premature at this time. If some amount of double demand charges is eventually refunded to UEG customers, such refunds should be reflected at that time as a reduction to the electric utilities' gas costs included in their avoided energy cost calculations. This is fair to QFs, who are relieved of the arbitrary adjustment that PG&E and Edison currently propose, and fair to electric ratepayers, to whom the benefit of a "double demand charge" refund to UEG customers should flow through if we order such refunds.

3. Workshops

The double demand charge issue is one of the transitional problems in the gas pipeline capacity brokering program. Another problem, at least from the standpoint of QF pricing, is that electric utilities are purchasing gas at the California border from third-party shippers at prices that reflect a discount from the reservation charges incurred by these shippers on interstate pipelines as part of their firm transportation service.

Such discounting is not expressly provided for in the gas price indexing methodology we adopted in D.91-10-039. As a result, QFs have protested several postings that did not include full reservation charges for all firm interstate gas volumes. QFs also assert that third-party shippers are recovering at least a portion of their interstate reservation charges.

We believe that, if shippers are significantly discounting their reservation charges, we should consider a midstream modification to the indexing methodology to allow such

discounting to be reflected in avoided cost postings.[2] Both Edison and QF representatives have indicated their willingness to discuss such a modification. We will direct our Commission Advisory and Compliance Division to hold a workshop in the near future and to report the results of the workshop.

Findings of Fact

1. The Commission has ordered the gas utilities to establish interim tracking accounts for "double demand charges." The Commission has not decided when, or whether, to order a refund of tracking account dollars, nor has the Commission decided what portion of any such refund would be allocated to UEG customers.

2. It is premature for electric utilities to reduce avoided cost postings to reflect some allocation of tracking account dollars to UEG customers.

Conclusions of Law

1. The Commission should sustain QF protests of avoided cost postings reduced as indicated in Finding of Fact 2. Disposition of other issues raised by these protests should be deferred.

2. If and when tracking account dollars are refunded to UEG customers, such refunds should be contemporaneously reflected in avoided energy cost postings.

3. To ensure that upcoming avoided cost postings are not reduced for "double demand charges," this order should be made effective upon adoption.

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2 The electric utilities are to file reports on January 31, 1993, on the index methodology, after which we may revise the methodology in whole or part.

O R D E R

IT IS ORDERED that the protests of California Cogeneration Council, KES Kingsburg, L.P., Cogenerators of Southern California, and Watson Cogeneration Company are granted regarding the "double demand charge" adjustments made by Pacific Gas and Electric Company and Southern California Edison Company to their respective avoided cost postings. The Commission Advisory and Compliance Division should hold a workshop in the near future to discuss possible refinement of the gas price index methodology to deal with discounting of interstate pipeline reservation charges by third-party shippers.

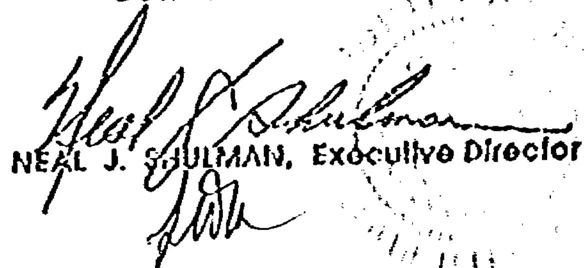
This order is effective today.

Dated September 2, 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, Executive Director