

Decision No. 91239 JAN 15 1980

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own motion into the electric resource plan and alternatives of Pacific Gas and Electric Company and the ratemaking implications and options relating to the various plans.

OII No. 26
(Filed September 6, 1978)

Application of Pacific Gas and Electric Company for authority to revise its gas rates and tariffs under the Gas Cost Adjustment Clause and the Supply Adjustment Mechanism and to change gas rate design.

Application No. 58892
(Filed May 25, 1979)

(Gas)

Application of Pacific Gas and Electric Company for authority to revise its gas rates and tariffs under the Gas Cost Adjustment Clause to reflect the effect of an increase in the border export price of Canadian gas.

Application No. 59045
(Filed August 6, 1979)

(Gas)

ORDER MODIFYING DECISION NO. 91109

Decision No. 91109 dated December 19, 1979, in OII No. 26 (cogeneration phase), inter alia, found that there is justification for an incentive gas rate for cogeneration use which is consistent with the avoided cost pricing approach and directed Pacific Gas and Electric Company (PG&E) to file a proposed incentive gas rate tariff to be

reviewed in the next gas proceeding for cogeneration consistent with the avoided cost principal developed in OII No. 26.

Decision No. 91108 dated December 19, 1979 in Application No. 58892 and 59045 (GCAC/SAM proceedings) authorized PG&E to establish a Schedule G-50 rate of 40 cents per therm, a Schedule G-52 rate of 34 cents per therm, and a Schedule G-55 rate of 30 cents per therm.^{1/} In that proceeding, Kerr-McGee Chemical Corporation (Kerr-McGee) proposed that a reduced natural gas rate be established for industrial cogenerators.^{2/} That request was referred to OII No. 26 for resolution.

On December 28, 1979, Kerr-McGee filed its Petition for Modification of Decisions Nos. 91108 and 91109. Its petition alleges that at its public conferences of December 18 and 19, 1979 the Commission debated and appeared to decide three issues concerning a cogeneration natural gas incentive rate:

1. The Commission would direct PG&E to file a cogeneration natural gas incentive rate.
2. The Commission would not delay implementation of the cogeneration rate.
3. The cogeneration rate, at least in the interim, would establish a rate for PG&E's cogenerating customers equal to PG&E's electric department's rate, i.e., at the Schedule G-55 rate.

Kerr-McGee states that in spite of the fact that the intent of the Commission was clear at the public conference sessions, some uncertainty may exist concerning when the cogeneration natural gas rate is to be implemented. While the language incorporated in the final

^{1/} Schedules G-50, 52, and 55 apply to industrial customers with alternate fuel capacity (Priorities 3, 4, and 5). Schedule G-50 is applicable to industrial customers with No. 2 fuel oil capacity; Schedule G-52 is applicable to industrial customers having No. 5 and 6 fuel oil capacity; and Schedule G-55 is applicable to boiler fuel usage by PG&E.

^{2/} The record in Applications Nos. 58892 and 59045 indicates that Kerr-McGee receives electric service from Southern California Edison Company at plants where cogeneration facilities are in operation. Gas service at such plants is furnished by PG&E.

revisions to Decisions Nos. 91108 and 91109 would support PG&E's submitting a proposed cogeneration rate tariff along with other tariffs reflecting increases in rates, PG&E has indicated it may be interpreting these decisions to require the filing of such a tariff not before the GCAC/SAM proceedings to increase gas rates effective July 1, 1980, an interpretation potentially leading to a delay of at least six months in implementing a cogeneration gas rate. Assertedly, this interpretation and the resultant delay would be totally inconsistent with this Commission's aggressive policies to encourage cogeneration, and most dramatically with the approximate \$7 million reduction in PG&E's revenues for its failure to develop cogeneration vigorously.

Kerr-McGee further asserts that such a delay is unnecessary and counterproductive because the policy decisions concerning a cogeneration gas rate already have been made; the Commission has decided that a cogeneration rate is necessary and, at least for the interim, at what level the rate will be.

Kerr-McGee requests that Decisions Nos. 91108 and 91109 be modified to provide that PG&E immediately implement petitioner's understanding of the Commission's intent in those decisions, as expressed in its Petition for Modification. The petition was served on parties of record in both proceedings. No response to the petition has been received.

We agree that the intent of the Commission is not fully expressed in the findings and order in Decision No. 91109. It clearly was our intent that, initially at least, PG&E should establish a gas rate for industrial cogenerators at the level applicable to PG&E's own rate for gas used as boiler fuel as an incentive for new cogeneration facilities to be established.^{3/} Such lower gas rate is intended to apply only to gas used in cogeneration operations, and is not intended to apply to other uses. It is also our

^{3/} The record in OII No. 26 shows that within PG&E's service area there are 18 customers with existing cogeneration facilities (16 with boilers, 5 with hot exhaust gas). These customers probably are capable of burning natural gas. The record also shows that there are 12 potential projects involving cogeneration for the near future (including 4 oil field projects where natural gas is being considered as an alternative fuel due to Department of Energy resistance to burning oil, and because of air quality problems with other fuels).

intent that the provisions of Decision No. 91109 be implemented as soon as possible in order to facilitate the immediate construction of needed new cogeneration facilities. Therefore, we will amend Decision No. 91109 to provide that PG&E shall file a new Schedule G-55A as more specifically set forth in Appendix A, and that such new schedule shall become effective five days after filing. Appendix A (Schedule No. G-55A) establishes a natural gas rate applicable to cogeneration uses which is on the same level as PG&E's rate for electrical generation boiler fuel (P-5) usage.

Since this is a corrective order it should be effective the date of signature.

IT IS ORDERED that:

1. Decision No. 91109 is modified as follows:
 - (a) The following finding is added:
 26. Until further order of the Commission, the establishment of an incentive gas rate for cogeneration usages on the same level as the Schedule No. G-55 rate applicable to gas used by PG&E for electrical generation will be consistent with the avoided cost pricing approach referred to in Finding 25 and will permit cogenerators and PG&E an equal rate for gas used to generate electricity.
 - (b) Ordering Paragraph 13 is amended to read as follows:
 13. PG&E is authorized and directed to file the rate schedule attached to this order as Appendix A not later than February 1, 1980. The rate schedule shall become effective five days after filing. The schedule shall apply only to service rendered on and after the effective date thereof.

2. In all other respects Decision No. 91109, as amended by Decision No. 91181, shall remain in full force and effect.

The effective date of this order is the date hereof.

Dated JAN 15 1980, at San Francisco, California.

James L. Stewart

President
Richard D. Kasel

Robert T. DeLoach

Thomas M. Sullivan

Commissioners

I dissent. Dissent opinion attached.

John E. Casper

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Commissioner John E. Bryson, Dissenting

I believe it would be fairer to adopt the special cogeneration rate for existing co-generators in July at the time of the next purchased gas offset case for Pacific Gas and Electric. To do otherwise stimulates no new co-generation. It does, however, result in a short term loss of projected revenues for the utility, and thereby the ratepayers, and a short term windfall for Kerr-McGee and other existing co-generators.

January 15, 1980
San Francisco, California


JOHN E. BRYSON
President

APPENDIX A

Schedule No. G-55A

COGENERATION NATURAL GAS SERVICE

APPLICABILITY

Applicable for natural gas service to cogeneration uses.

TERRITORY

The entire territory served.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Customer Charge	\$1.20
Commodity Charge:	
For all gas deliveries, per therm	0.30

SPECIAL CONDITIONS

1. Service under this schedule is subject to discontinuance in whole or in part without notice in case of actual or anticipated shortage of natural gas resulting from an insufficient supply, inadequate transmission or delivery capacity or facilities, or storage requirements. The Utility will not be liable for damages occasioned by interruption or discontinuance of service supplied under this schedule. Such interruption or discontinuance of service will be made in accordance with Rules Nos. 14 and 21.

2. Authorization: Service under this schedule is not available without prior authorization by Resolution of the California Public Utilities Commission.

3. The rate in this Schedule is applicable to the customer's cogeneration usage and is not applicable to gas used for other purposes.

4. For customers with gas uses served under more than one priority class and/or with more than one alternate fuel and who otherwise qualify for service hereunder, this schedule is available for that portion of customer's use which qualifies.

To be added to RULE NO. 1:

RULE NO. 1
DEFINITIONS

Cogeneration - The sequential production of electricity and heat, steam, or useful work from the same fuel source.
