

ORIGINAL

Decision 93255 JUL 7 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's )  
Own Motion into the Adequacy and )  
Reliability of the Energy and Fuel )  
Requirements and Supply of the )  
Electric Public Utilities in the )  
State of California. )

Case 9581  
(Petition for Modification  
filed March 20, 1981)

Investigation on the Commission's )  
own motion into the natural gas )  
supply and requirements of gas )  
public utilities in the State of )  
California. )

Case 9642  
(Petition for Modification  
filed March 20, 1981)

(See Decisions 87510, 90998, and 92704 for appearances.)

ORDER DENYING REQUEST TO MODIFY DECISION

By Decision (D.) 92704 dated February 18, 1981, this Commission modified and amended its end-use priority system for the statewide allocation of natural gas<sup>1/</sup> by creating a new Priority (P) 3A for gas used in cogeneration projects as determined in Application (A.) 59459 et al. By D.92792 dated March 17, 1981 in A.59459 et al. we established a natural gas rate for electrical generation by cogenerators consistent with avoided cost principles and D. 91109 and 91239 in Order Instituting Investigation (OII) 26.<sup>2/</sup>

1/ The end-use priority system was established by D.85189 dated December 2, 1975, and amended by D. 86357, 87510, 88664, and 90794.

2/ OII 26 is the Commission's investigation into the electric resource plan and alternatives of Pacific Gas and Electric Company (PG&E).

On March 20, 1981, Central Plants, Inc. (CPI) filed a petition to modify D.92704 to include mechanical cogeneration within the definition employed to determine a gas customer's priority classification. CPI argues that this position is consistent with that expressed by Southern California Gas Company's (SoCal) witness Morris on cross-examination. It states that Morris (1) took the position that P-3A should apply to those customers who meet the operating and efficiency standards in 18 CFR Part 292.205(a) and (b) and the ownership criteria specified in 18 CFR 292.206 as set forth in Federal Energy Regulatory Commission (FERC) Order No. 70, Docket No. RM79-54, or any superseding rulings, (2) noted that there were pending proceedings before FERC (Docket No. RM80-62, Order No. 104) in which that body was giving consideration to including mechanical cogeneration projects as distinct from electric and thermal cogeneration projects as ones which would be exempt from incremental pricing, and (3) testified that the Commission should consider any further modification of FERC Order No. 70 in defining who should qualify as a qualified cogenerator under P-3A. CPI states that it is unaware of any opposition by any party to including mechanical cogenerators within the definition of cogeneration for purposes of administering P-3A.

With respect to the FERC definition of cogeneration, CPI states that some six weeks after submission of briefs in this proceeding FERC issued its Final Rule implementing Section 206(d) of the Natural Gas Policy Act of 1978 in Docket No. RM80-62, Order No. 104. It states that FERC determined that mechanical cogeneration projects should be exempted from incremental pricing just as electrical cogeneration projects had been made exempt. It argues that the consideration and favorable determination given mechanical cogeneration by the Federal Government is ample evidence that the energy savings to be achieved by mechanical cogeneration should be taken into account by this Commission in defining cogeneration.

In D.91109 (OII 26) we defined cogeneration as "the sequential production of electricity and heat, steam or useful work from the same fuel source." In considering the alignment of State priorities with Federal priorities, D.92704 noted that SoCal supported P-3A classification for cogenerators meeting the operating and efficiency standards of FERC. In that decision we stated:

"Our purpose here is simply to rank the cogeneration priority in the state's curtailment system as mandated by the Calvo Bill. The proceedings in Application No. 59459 et al. will prescribe how cogeneration volumes will be determined for billing purposes and will, therefore, define the volumes eligible for P-3A."

In A.59459 et al. PG&E opposed the inclusion of mechanical energy in the definition of cogeneration. In that proceeding PG&E's witness cited an instance where an industrial cogenerator, wanting to take advantage of avoided cost pricing and a cogeneration gas rate, would install electrical generating equipment to create mechanical power and electricity although only mechanical power was needed. It was argued that a cogeneration rate applied to mechanical power would not necessarily increase the amount of cogeneration, but that it would be installed for other reasons.

Mechanical cogeneration was also addressed in D.92792 (A.59459 et al.) and was rejected. In that decision we stated:

"Some parties want the cogeneration gas rate applied to mechanical power. At this time the Commission feels that an application of the cogeneration gas rate to the sequential production of mechanical power and heat, steam or useful work would, in most instances, not result in the production of additional mechanical cogeneration nor provide additional sources of electrical capacity. Thus the cogeneration gas rate is to be applied to cogeneration which results in the sequential production of electricity and steam, heat or useful work. . . ."

In addition to the above, there are other reasons for excluding mechanical energy from the definition of cogeneration. Mechanical energy is like other forms of conservation in that it reduces the user's electric energy consumption. It does not produce energy that can flow back into the general utility system. Utilizing mechanical energy has the same result as installing energy efficient lighting and appliances. Electric cogeneration, on the other hand, has the potential to produce an additional supply of electricity to the grid.

Further, a direct use of mechanical energy gives the user a greater degree of control over the machine driven. Since direct use of mechanical energy is more efficient than conversion to electric energy and reconversion to mechanical energy, a user of mechanical energy gains an efficiency margin. To add electric cogeneration would decrease the efficiency gained.

#### Findings of Fact

1. D.85189, as modified by D. 86357, 87510, 88664, and 90794, establishes an end-use priority system for the statewide allocation of natural gas.
2. D.92792 in A.59459 et al. established a natural gas rate for electrical generation by cogeneration consistent with avoided cost principles.
3. D.91109 in OII 26 defines cogeneration as "the sequential production of electricity and heat, steam or useful work with the same fuel source." Such definition does not include mechanical cogeneration.
4. D.92792 rejected the request that a cogeneration gas rate be applied to mechanical power.
5. Cogeneration, as used in D.92704 in Case 9642, D.92792 in A.59459 et al., and D.91109 in OII 26, has excluded mechanical energy produced at a cogeneration project.

6. Mechanical cogeneration does not produce additional electric energy that can flow back into the general electric utility system.

7. Mechanical cogeneration should not be included in the definition of cogeneration which is entitled to P3A rates.

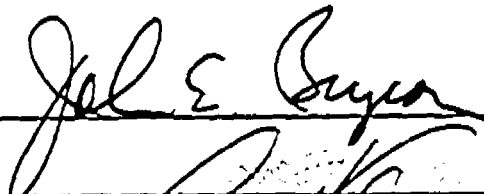
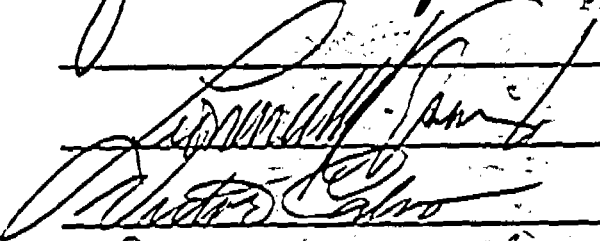

Conclusion of Law

The relief requested should be denied.

IT IS ORDERED that the relief requested is denied.

This order becomes effective 30 days from today.

Dated JUL 7 1981, at San Francisco, California.

  
\_\_\_\_\_  
President  
  
\_\_\_\_\_  
  
\_\_\_\_\_  
Commissioners

Commissioner Richard D. Gravelle, being necessarily absent, did not participate in the disposition of this proceeding.