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Decision 96-02-070 February 23, 1996

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )	
PacifiCorp, dba Pacific Power & )	
Light Company (U-901E) for )	Application 95-07-005
Approval to Modify its Published )	(Filed July 10, 1995)
<u>Avoided Costs.</u> )	

O P I N I O N

**ORIGINAL**

Summary

PacifiCorp, doing business as Pacific Power & Light Company (Applicant) seeks an ex parte order modifying the avoided cost rates that it will pay to qualifying facilities in California.

Procedural Background

Applicant filed its application on July 10, 1995. Notice was published in our Daily Calendar on July 24, 1995. No protests were filed. The Division of Ratepayer Advocates (DRA) filed a response on August 24, 1995, recommending that the Commission approve the application.

Background

Applicant is an electric utility subject to our jurisdiction in California. We have previously approved Applicant's Schedule No. CG-5, which reflects the price of power that Applicant must pay for deliveries from qualifying facilities. We are authorized to establish such prices pursuant to Section 2821 of the Public Utilities (PU) Code and Section 210 of the Public Utility Regulatory Policies Act of 1978. (16 USC 824a-3.)

Applicant wishes to change the methodology by which it determines such prices. It currently relies upon Bonneville Power Administration (BPA) forecasts of new resource rates to determine short-run capacity costs and long-run capacity and energy costs, and bases short-run energy costs on the marginal

production cost of existing resources. Applicant formerly intended to meet its future resource requirements with purchases from BPA<sup>1</sup>, but now plans to do so through combustion turbines.

Accordingly, Applicant wishes to base short-run capacity costs on the fixed costs of a simple cycle combustion turbine and the long-run capacity and energy costs on the fixed and variable costs of a combined cycle combustion turbine. It would continue to calculate short-run energy costs using its existing production cost model. Applicant represents that it purchases power from six existing qualifying facilities, totaling less than 9 MW, and is not now engaged in active negotiations with any other qualifying facility for future projects. Applicant represents that the proposed changes will not affect any existing qualifying facility because the requested rates would only be applicable to new projects. Applicant also proposes to update its avoided cost rates by an advice letter filing by October 15 of each year, beginning in 1996.

#### Discussion

While we commend Applicant for taking a step in the right direction by modifying its avoided cost calculations to result in lower prices being paid to future qualifying facilities, we are concerned that Applicant's actual avoided costs on the term proposed may be even lower than they have calculated.

Our general approach to avoided costs is that they should reflect the costs that utilities would otherwise incur for energy purchased from qualifying facilities. (See 18 C.F.R. § 292.101.) When a utility changes the source of energy it would otherwise rely upon, it is appropriate that it change the basis on which it calculates avoided costs. While we will suspend the current schedule, as it no longer reflects the relevant energy market, we will deny the application, without prejudice, because

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<sup>1</sup> This was an outcome of an agreement with the Commission's former Public Staff Division in a 1986 rate case. (See In re PacifiCorp dba Pacific Power and Light Company (D.86-12-097) 23 CPUC2d 295, 311.)

Applicant has not shown that its proposed reliance on combustion turbine technology accurately reflects its resource options or the regional power market.

We do this in part because of the uncertainty that exists in how best to calculate a utility's avoided costs. This was an exceedingly contentious issue in our recent Biennial Resource Plan Update. Additionally, the Federal Energy Regulatory Commission (FERC) has recently given an advisory opinion that all sources of power, including purchases from other utilities in a regional power market, should be considered in calculated avoided cost payments. Although FERC's opinion is only advisory in nature, it nonetheless highlights the uncertainty in how best to calculate avoided costs.

In addition to this uncertainty, the entire concept of long-term avoided cost calculations is also being called into question by our efforts to restructure California's electric service industry. The entire concept of using administratively-determined benchmarks of avoided costs may change as we may increasingly choose in the future to rely on readily available market prices from the operation of the power exchange and direct access markets.

Suspending Applicant's current schedule for avoided cost payments should have no effect on Applicant's operations. Suspension of this schedule does not affect Applicant's existing contracts, and Applicant has stated that it has no active negotiations to enter into new contracts. Should Applicant's situation change, it is free to refile its application and prove that its proposed methodology accurately reflects costs not in excess of its resource options or the regional power market over the term of avoided costs proposed.

#### Findings of Fact

1. Applicant is an electric utility subject to our jurisdiction in California.

2. Applicant seeks an ex parte order modifying the avoided cost rates to be paid by it to qualifying facilities.
3. No protests have been filed.
4. DRA recommends that the Commission approve Applicant's proposed methodology as reasonable.
5. Applicant's current methodology is outdated.
6. Applicant has not shown that its proposed reliance on combustion turbine technology accurately reflects its resource options or the regional power market.

Conclusions of Law

1. Applicant's existing Schedule No. CG-5 should be suspended.
2. Applicant's Schedule No. CG-5, in the form attached as Exhibit 1 to its application, should not be approved, without prejudice to Applicant's ability to justify its proposed methodology in future proceedings.

O R D E R

THEREFORE IT IS ORDERED that the application of PacifiCorp pursuant to Section 2821 of the Public Utilities Code to modify its Schedule No. CG-5, in the form attached as Exhibit 1 to its application, is not approved, and it may not update avoided cost rates consistent with the methodology described in the application, beginning in 1996 through advice letter filings, which may be made in October of each year. It shall also suspend its existing Schedule No. CG-5.

This order is effective immediately.

Dated February 23, 1996, at San Francisco, California.

DANIEL Wm. FESSLER  
President  
P. GREGORY CONLON  
JESSIE J. KNIGHT, Jr.  
HENRY M. DUQUE  
Commissioners

I abstain.

/s/ JOSIAH L. NEEPER  
Commissioner