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Decision 98-01-016 January 7, 1998

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for an Order Approving an Amendment to the Power Purchase Agreement for Long-Term Energy and Capacity Between Pacific Gas and Electric Company and Crockett Cogeneration, A California Limited Partnership. (U 39 E)

Application 97-10-006
(Filed October 1, 1997)

ORIGINAL

O P I N I O N

1. Summary

Pacific Gas and Electric Company (PG&E) seeks ex parte approval of a Third Amendment to the Interim Standard Offer No. 4 (ISO4) power purchase agreement (PPA) between PG&E and Crockett Cogeneration, A California Limited Partnership (Crockett).

PG&E and Crockett have entered into a Third Amendment for the ISO4 PPA for Crockett's 260-megawatt (MW) qualifying facility project. PG&E claims that the Third Amendment will improve the operational flexibility of the Crockett facility, greatly enhance PG&E's current right to dispatch the facility, and provide other mutual benefits to the parties as described in the testimony of PG&E witness Ronald Yee, attached to the application.

As testified by Yee, the Third Amendment is estimated to provide approximately \$2 million to \$3 million per year in ratepayer benefits,¹ compared to the cost of

¹ In Decision (D.) 95-12-063, as modified by D.96-01-009, the Commission determined that "[w]hen a QF contract is renegotiated, shareholders should retain 10% of the resulting ratepayer benefits, which will be reflected by an adjustment to the CTC if the modification is approved by the Commission." (Conclusion of Law 74.) PG&E estimates that the Third Amendment will result in total average ratepayer benefits of approximately \$9.6 million on a net present value (NPV) basis. PG&E calculates that the resulting 10% shareholder incentive is \$960,000. On February 14, 1997, the Office of Ratepayer Advocates (ORA) filed a petition for

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replacement power and the payments which would otherwise have been made for starting the Crockett facility.²

The Commission grants PG&E's request.

2. Background

The ISO4 PPA which PG&E seeks to amend was originally signed by the parties on December 12, 1983 for Crockett's 260 MW gas-fired cogeneration plant at the California and Hawaiian Sugar Company's refinery in the town of Crockett, California. On July 8, 1988, Crockett and PG&E executed the First Amendment to the PPA, which permits PG&E to schedule deliveries of energy from the facility when it is the least expensive source and modifies the pricing arrangement for 13 years. A Second Amendment to the PPA, executed on July 13, 1988 and approved by the Commission on September 14, 1988 by D.88-09-038 concerned a paid deferral of the on-line date of the facility. Effective May 27, 1996, the parties entered into a Bridging Agreement which affords the parties certain of the operational benefits of the Third Amendment while PG&E seeks Commission approval of the amendment.³

The facility began initial operations on December 12, 1995 and established its firm capacity availability date under the PPA on May 27, 1996. The parties determined that it would be desirable to clarify certain issues related to firm capacity delivery and

modification of Decision 96-12-007 that argued that the shareholder incentive should be based on realized; rather than forecasted, benefits. We have not yet addressed ORA's petition.

² Yee's analysis focuses on the primary ratepayer benefits resulting from the Third Amendment - lower energy costs and lower facility startup costs. According to PG&E, other ratepayer benefits such as: (1) lower capacity bonus payments; (2) increased voltage regulation and VAR support; (3) spinning reserve value; and (4) load following and AGC value were not included because these benefits are more difficult to quantify over time and the Third Amendment shows robust benefits even without inclusion of these items.

³ A copy of the Bridging Agreement was submitted to the Commission in response to a data request from the Office of Ratepayer Advocates in connection with PG&E's Report on the Reasonableness of Electric Operations for 1996.

bonus requirements under the PPA, start-up charges for the plant⁴ and operating protocols for the facility. Further, the parties were concerned that the limited scheduling rights afforded PG&E under the First Amendment might not result in optimal operation of the Crockett facility. The proposed Third Amendment addresses the parties' mutual desire for increased operational flexibility of the facility by enhancing PG&E's scheduling or dispatch rights,⁵ by allowing for increased load-following capacity of the plant under automatic generation control and by creating better procedures for scheduling, voltage control and other operational issues.

3. Terms of the Agreement

The proposed Third Amendment contains the following major provisions:

- Greater ability to dispatch the facility. The existing PPA allows PG&E to dispatch the facility only at three dispatch points of 0 MW, 120 MW or 240 MW. The amendment allows PG&E the right to dispatch the plant based on economic dispatch principles anywhere within the 120-240 MW range.
- Lower heat rate than existing PPA. The existing PPA has a heat rate of 8,970 Btu/kWh for its two dispatch points of 120 MW and 240 MW. The amendment contains two heat rate curves which are lower than 8,970 Btu/kWh over the range of 120 - 240 MW. The low point of the heat rate curve for the peak and partial-peak periods is 8,550 Btu/kWh at 190 MW, representing a reduction of 4.7%. The low point of the heat rate curve for the off-peak and super off-peak periods is 7,900 Btu/kWh at 120 MW, which represents a reduction of approximately 11.8%.

⁴ Under the original PPA, Crockett was to construct two 130 MW generating units. The First Amendment to the PPA contained provisions requiring PG&E to pay a start-up charge each time PG&E scheduled one generating unit on-line. Crockett ultimately constructed one 260 MW generating unit and the parties disagreed as to how the start-up provisions in the First Amendment should be interpreted in light of this change. The proposed Third Amendment resolves this potential dispute by clarifying PG&E's start-up payment obligations when scheduling the Crockett generating unit on-line.

⁵ PG&E points out that in D.88-07-022, issued July 8, 1988, this Commission noted with favor the dispatchability and load-following characteristics of the facility brought about by the First Amendment.

- Firm capacity payment closely tied to performance. The amendment contains an innovative provision specifying that if Crockett's generation deviates by more than 2% from that scheduled by PG&E, Crockett will either: (1) lose a pro rata portion of its firm capacity payment if it under-generates; or (2) not be paid for energy deliveries that exceed PG&E's schedules by 2%.
- Reduced start-up costs. The amendment contains tiered start-up charges with the cost per start-up specified as a function of the cumulative number of start-ups scheduled during a year.
- Lower Firm Capacity Bonus payments. The existing PPA contains a maximum Firm Capacity Bonus Factor of 17.6%. The amendment specifies that the Firm Capacity Bonus Factor cannot exceed 16.5%.
- Five-year term. The amendment has a five-year term. The parties recognize that changes brought about by electric industry restructuring may necessitate renegotiation of the PPA after expiration of the term of the Third Amendment.
- Voltage Regulation and Reactive Power Support. The amendment contains provisions for greater voltage regulation and reactive power support than in the existing PPA.

4. PG&E's Testimony

As stated above, PG&E estimates savings to its ratepayers from the proposed Third Amendment of about \$2 million to \$3 million per year.

PG&E witness Yee examined the economic robustness of the proposed Third Amendment as compared to the existing PPA under a wide range of sensitivity cases developed from the resource and load assumptions adopted in the most recent 1997 Energy Cost Adjustment Clause (ECAC) proceeding (D.96-12-080). Sensitivity cases included changes in market forces such as: (1) hydro conditions; (2) load demand; (3) natural gas prices; and (4) Northwest imports. The study also included estimates of ratepayer benefits under the new gas transport market structure as contemplated in the Gas Accord. Production simulations of eight cases were performed using the PROMOD model. The study results are a range of single year estimates of ratepayer benefits for

the 1997 forecast year under the pre-Gas Accord and post-Gas Accord regulatory structures.

Yee states that unlike most other qualifying facility (QF) projects, the Crockett facility is dispatchable and the dispatch of Crockett's generation, under both the existing PPA and the Third Amendment, will depend on the Power Exchange (PX) price after the PX is operational. Yee believes that it is therefore not appropriate to use historical generation patterns to determine the amount of generation likely to be produced by the facility in the future. Yee points out that in addition, much uncertainty exists on how the statewide restructured electric market will operate and how the Independent System Operator and PX rules will evolve over the next several years. Yee contends that for these reasons, it is difficult to make a reliable forecast of the ratepayer benefits over the five-year term of the Third Amendment. He submits that the approach he used, which is based on the most current available information from the resource and load assumptions adopted in PG&E's 1997 ECAC proceeding, provides a reasonable estimate of ratepayer benefits resulting from the Third Amendment.

5. Discussion

We believe PG&E has presented evidence to demonstrate that the Third Amendment is reasonable and provides ratepayer benefits. We conclude that the Third Amendment should be approved. However, in this decision we do not address the exact amount of savings from this amendment which PG&E estimates to be in the \$2-3 million range. We also do not address the issue of how much of the savings to be realized from this renegotiation should be provided to PG&E as an incentive payment per D.95-12-063, as modified by D.96-01-009.

Findings of Fact

1. Notice of PG&E's request for an ex parte order approving the Third Amendment was published in the Commission's Calendar dated October 7, 1997. No protests were received.

2. The primary benefit of the Third Amendment is that it will allow optimal operation of the Crockett facility by enhancing PG&E's scheduling or dispatch rights.

3. PG&E estimates that the Third Amendment will provide approximately \$2 million to \$3 million per year in ratepayer benefits, compared to the cost of replacement power and the payments which would otherwise have been made for starting the Crockett facility.

Conclusions of Law

1. The terms of the Third Amendment are reasonable.
2. The Third Amendment should be approved as executed by PG&E.
3. PG&E's request for an ex parte order should be granted.

O R D E R

IT IS ORDERED that:

1. The Third Amendment to the Interim Standard Offer No. 4 Power Purchase Agreement (PPA), Pacific Gas and Electric Company (PG&E) and Crockett Cogeneration, A California Limited Partnership (Crockett), is approved.
2. The Commission's approval of the Third Amendment is final and not subject to further reasonableness review, except as provided in Paragraph 3 below.
3. Any recovery of payments under the PPA, as amended, is subject to Commission review of the reasonableness of PG&E's performance and administration of its obligations and exercise of its rights under the amended PPA.
4. This proceeding is closed.

This order is effective today.

Dated January 7, 1998, at San Francisco, California.

P. GREGORY CONLON
President
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
RICHARD A. BILAS
Commissioners