

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3454
May 8, 1996

R E S O L U T I O N

RESOLUTION E-3454. PACIFIC POWER AND LIGHT COMPANY
REQUESTS AUTHORIZATION TO SERVE ROSEBURG FOREST PRODUCTS
COMPANY UNDER THE TERMS AND CONDITIONS OF AN ENERGY
SERVICES AGREEMENT.

BY ADVICE LETTER 270-E FILED ON FEBRUARY 23, 1996.

SUMMARY

1. By Advice Letter 270-E, Pacific Power and Light Company (Pacific) requests authorization to serve Roseburg Forest Products Company (Roseburg) under the terms and conditions of an Energy Services Agreement (Agreement) for an initial period of eighteen months, continuing from month to month until superseded by another written agreement or terminated by either party by six months written notice.
2. Pacific's present alternative form of regulation, which is in effect through 1999, does not provide a mechanism for it to recover from its ratepayers the revenue difference between tariff prices and special contract prices. Thus, shareholders must fund 100% of the discount associated with the Agreement.
3. This Resolution authorizes Pacific to serve Roseburg under the terms and conditions of the Agreement, subject to a modification requiring Pacific to obtain further Commission approval before extending the Agreement beyond December 31, 1999.

BACKGROUND

1. Roseburg owns and operates a wood products plant in Weed, California. Pacific currently provides electric service to Roseburg under Tariff Schedule No. AT-48, LARGE GENERAL SERVICE-METERED TIME OF USE, 500 KW AND OVER.
2. Roseburg advised Pacific that it was planning to develop, construct and operate a self-generation facility at its plant in Weed.
3. By Advice Letter 270-E, Pacific requests approval to serve Roseburg under the terms and conditions of the Agreement which

provides for the delivery of electric energy from Pacific at discounted rates in order to defer the construction of Roseburg's self-generation facility.¹

4. The initial term of the Agreement is eighteen months, commencing after Commission approval. After the initial term, the Agreement will continue from month to month until superseded by another written agreement or terminated by either party by six months written notice.

5. Under the Agreement, Pacific shall make available to Roseburg up to 26,714 MWh of firm electric energy at a fixed price of 3.56 cents per KWh, and Roseburg shall take or pay for not less than 19,714 MWh of firm electric energy per Contract Year.

6. In Decision (D.) 93-12-016, the Commission approved an alternative form of regulation for Pacific which alters the Commission's ratemaking procedures for Pacific from 1994 through 1999. Under the alternative approach, price changes will be based only on cost escalations reduced by productivity gains. Pacific's shareholders must bear the risk of unforeseen cost increases or revenue shortfalls not reflected in the cost escalations.

7. Pacific's alternative form of regulation does not provide a mechanism for it to recover from its ratepayers the revenue difference between tariff prices and special contract prices. Accordingly, Pacific's shareholders must fund 100% of the discount associated with the Agreement.

NOTICE

1. Advice Letter 270-E was noticed in accordance with section III of General Order 96-A by publication in the Commission Calendar and distribution to Pacific's advice letter filing service list.

PROTESTS

1. No protests have been received by the Commission Advisory and Compliance Division (CACD) for this Advice Letter filing.

¹ Enclosed with Advice Letter 270-E is a technical assessment package to support Commission review of the Agreement. Pacific requests this package be exempt from public disclosure under Section 583 of the Public Utilities Code.

DISCUSSION

1. Pacific submitted and requested approval of the Agreement both by Advice Letter and under the Expedited Application Docket (EAD) process discussed in D.88-03-008.
2. The EAD expired for electric utilities in 1990, thus the expedited review sought by Pacific is being handled through the advice letter process. The level of review for the Agreement, however, is similar to that received by special contracts in the EAD.
3. The EAD was established to review all special contracts that utilities entered into with customers who were threatening bypass of the utilities' systems. The purpose of the review was to determine the viability of the bypass threat and to ensure that other ratepayers were not unfairly subsidizing special contract customers.
4. The first question is whether the project planned by the customer in lieu of a special contract poses an imminent and credible threat of the customer leaving the utility's system. Based on Pacific's feasibility review of Roseburg's proposed self-generation project and a declaration by Roseburg made under penalty of perjury which outlines its efforts and intentions to pursue the self-generation facility, CACD believes that Roseburg's planned project poses a viable threat of bypass.
5. In conjunction with the viability test, consideration must be made to determine whether the proposed contract is needed to avert uneconomic bypass. Bypass is considered uneconomic when a customer leaves the utility system even though the cost of the bypass is greater than the marginal cost of utility service. In this scenario, bypass would be uneconomic to the utility's ratepayers who could still receive some positive contribution to margin if the customer stayed on the utility system and paid a rate less than or equal to the cost to bypass, but still high enough to recover the utility's marginal cost.
6. Economic bypass occurs when a customer's cost to bypass a utility's system is less than the marginal cost needed for the utility to serve this customer. Allowing the customer to bypass would be economic to the utility's ratepayers since no positive contribution can be made if the utility, in order to compete with the customer's cost to bypass, had to offer a negotiated rate which was below the utility's marginal cost needed to serve the customer.
7. CACD verified that Pacific's discounted contract rate will produce revenues that will enable Pacific to recover and exceed its estimated marginal costs to serve Roseburg. Accordingly, CACD believes that the Agreement is necessary to avert uneconomic bypass.

8. CACD recommends that Pacific be allowed to serve Roseburg under the terms and conditions of the Agreement for an initial eighteen-month term. Although the Agreement has an additional provision that it will continue from month to month until superseded by another written agreement or terminated by either party by six months written notice, CACD recommends that Pacific be required to obtain further Commission approval before extending the Agreement beyond December 31, 1999. After 1999, the alternative form of regulation adopted in D.93-12-016 will expire possibly shifting the funding of the discount from shareholders to ratepayers.

9. CACD recommends that no findings of reasonableness be associated with this recommendation because under Pacific's alternative form of regulation, Pacific's shareholders will bear 100% of the revenue shortfall associated with the Agreement through 1999. Furthermore, Pacific's alternative form of regulation ensures that Pacific's shareholders will be solely, financially responsible for any difference between its forecasted and actual marginal costs if the actual marginal costs to serve Roseburg are greater than the forecasted marginal costs contained in Pacific's advice letter filing.

FINDINGS

1. Pacific filed Advice Letter 270-E on February 23, 1996 to request authorization to serve Roseburg under the terms and conditions of the Agreement for an initial period of eighteen months, continuing month to month until superseded by another written agreement or terminated by either party by six months written notice.
2. The self-generation project planned by Roseburg poses a credible and imminent bypass threat to Pacific's system.
3. The rate charged under the Agreement will produce revenues that will enable Pacific to recover and exceed its estimated marginal costs of serving Roseburg. Accordingly, the Agreement is necessary to avert uneconomic bypass.
4. Pacific should be allowed to serve Roseburg under the terms and conditions of the Agreement for an initial eighteen-month term.
5. Although the Agreement has an additional provision that it will continue from month to month until superseded by another written agreement or terminated by either party by six months written notice, Pacific should obtain further Commission approval before extending the Agreement beyond December 31, 1999.
6. No findings of reasonableness should be associated with the Agreement since Pacific's shareholders bear 100% of the revenue

shortfall associated with the Agreement through 1999 under its alternative form of regulation.

7. Also, Pacific's shareholders will be solely, financially responsible for any difference between its forecasted and actual marginal costs if the actual marginal costs to serve Roseburg are greater than the forecasted marginal costs contained in the advice letter filing.

THEREFORE, IT IS ORDERED that:

1. Pacific Power and Light Company is authorized to serve Roseburg Forest Products Company under the terms and conditions of the Energy Services Agreement submitted by Advice Letter No. 270-E, with the modification that subsequent approval by the Commission must be obtained before extending the Agreement beyond December 31, 1999.
2. Should Pacific Power and Light Company choose to implement the Agreement as modified, it shall file a Supplemental Advice Letter within 60 days, amending the Agreement, consistent with this resolution.
3. Pacific Power and Light Company's shareholders shall be responsible for 100% of the revenue shortfalls resulting from the Agreement through December 31, 1999.
4. Pacific Power and Light Company's shareholders shall be solely, financially responsible for the difference between its forecasted and actual marginal costs if its actual marginal costs to serve Roseburg Forest Products Company are greater than the forecasted marginal costs contained in the Advice Letter 270-E filing.

May 8, 1996

5. Upon satisfactory receipt of the modified Agreement, as ordered herein, Advice Letter 270-E shall be marked to show that it was approved by Commission Resolution B-3454.
6. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities commission at its regular meeting on May 8, 1996. The following Commissioners approved it:


WESLEY FRANKLIN
Executive Director

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