

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY  
AND COMPLIANCE DIVISION  
Energy Branch

RESOLUTION E-3370  
March 9, 1994

R E S O L U T I O N

RESOLUTION E-3370. SOUTHERN CALIFORNIA EDISON COMPANY  
REQUESTS AUTHORITY TO ENTER INTO A SELF GENERATION  
DEFERRAL AGREEMENT WITH EISENHOWER MEDICAL CENTER.

BY ADVICE LETTER NO. 1038-E filed on January 5, 1994.

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SUMMARY

1. In this advice letter Southern California Edison Company (Edison) requests authority to enter into a Self-Generation Deferral Agreement (Agreement) which defers development of a 1000 kW self-generation facility by Eisenhower Medical Center (Eisenhower).
2. No protests were received to this filing.
3. This resolution authorizes Edison to enter into the Agreement with Eisenhower without making any findings regarding reasonableness.

BACKGROUND

1. Eisenhower is a full service hospital located in Rancho Mirage, California. Eisenhower began investigating self generation for all or part of its load in 1987. Various feasibility, engineering and economic studies were undertaken toward this objective. Eisenhower advised Edison that it was investigating the conversion of an existing 1000 kilowatt (kW) emergency generator to a cogeneration configuration along with other replacement work. The South Coast Air Quality Management District (SCAQMD) granted Eisenhower a permit for this conversion.
2. Edison has determined that Eisenhower's proposed self generation facility would result in uneconomic bypass of the Edison system. Edison offered a rate discount proposal to Eisenhower to defer the uneconomic bypass as well as a conservation option. Eisenhower has selected the conservation option, wherein Edison will reimburse Eisenhower for the implementation of certain energy efficiency improvement measures (EEIMs) and Edison will continue to supply power to Eisenhower at the published tariff rate. The amount of reimbursements available to Eisenhower is limited to \$600,000 which is the net present value of the total rate discount Eisenhower would obtain

from a self generation deferral rate over the ten year term of the Agreement. After payment for the conservation option, the net present worth of the contribution to margin retained for Edison's ratepayers over the life of the contract is estimated to be between \$500,000 and \$1,800,000. All EEIMs meet the relevant demand-side management (DSM) cost-effectiveness tests, and the Agreement satisfies the Ratepayer Impact Measure (RIM) test as required by Decision (D.) 93-11-017.

3. The California Public Utilities Commission (Commission) has defined the guidelines for development of special contracts in numerous decision (see D.87-05-071, D.88-03-008, D.88-07-058, D.90-05-030, D.90-08-068, D.91-12-076, and D.93-11-017). According to Edison, the terms and conditions in the Agreement between Edison and Eisenhower conform to the Commission's guidelines except in the term of the contract.

4. By signing the Agreement, Eisenhower certifies and declares that absent the Agreement they would develop the project and bypass the Edison system. Edison has reviewed the engineering, economic, and financial feasibility of Eisenhower's proposed project and has concluded that that the project is viable.

5. Pursuant to D.90-08-068, all conservation payments made by Edison to Eisenhower under the Agreement will be recovered in the Electric Revenue Adjustment Mechanism (ERAM) Account on a monthly basis and will be subject to review concurrently with the Commission's reasonableness review of the Agreement. Edison does not request a finding regarding contract reasonableness since reasonableness will be reviewed in Edison's first Energy Cost Adjustment Clause (ECAC) proceeding subsequent to Commission approval of the Agreement. Thereafter, Edison's administration of the Agreement is subject to Commission review in each subsequent ECAC proceeding until such payments cease upon reaching the \$600,000 limit or the expiration of 24 months following the date of Commission approval of this filing.

6. Edison believes a Resolution granting Edison permission to serve Eisenhower under the terms and conditions of the Agreement is required since it revises Edison's List of Contracts and Deviations and establishes that Edison's conservation payments to Eisenhower will be recorded in the ERAM Account.

7. Edison filed Advice Letter 1038-E on January 5, 1994.

#### NOTICE

The original Advice Letter was noticed in accordance with section III of General Order 96-A by publication in the Commission Calendar and distribution to Edison's advice filing service list.

#### PROTESTS

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

DISCUSSION

1. In order to approve Edison's request for authority to serve Eisenhower under the terms and conditions of the Agreement, CACD must be satisfied that several conditions are met. The level of review for this special contract will be similar to that received by special contracts in the Expedited Application Docket (EAD). In the EAD, the purpose of the review was to ensure that other ratepayers were not unfairly subsidizing special contract customers and that the rate under the special contract covered at least the costs of producing the power sold under the contract. The viability of the bypass project was subject to scrutiny. In addition, reasonableness was not an issue in the EAD:

"the nature of the review of a special contract...is not one that results in a finding that the level of prices is reasonable and prudent. Rather, approval merely indicates that the contract's prices are high enough so that other classes of ratepayers are not unreasonably harmed." (D.88-03-008, mimeo. p.40)

Because the EAD expired for electric utilities in 1990, Edison has chosen to seek expedited review of this contract through an Advice Letter. Because no findings of reasonableness are requested, CACD believes that review through the Advice Letter process, though not preferable, is acceptable. CACD encourages Edison to pursue establishment of a more appropriate forum for review if it expects to bring more special contracts before the Commission.

2. The threshold question in a bypass threat 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 Edison's feasibility review of Eisenhower's proposed cogeneration project and the affidavit of Eisenhower that it would pursue the project absent this amendment, CACD believes that the project planned by Eisenhower meets the threshold test of posing a credible and imminent threat to leave Edison's system.

3. Next, CACD must be satisfied that the cost to the utility of the EEIMs will not exceed the present value of the discount from tariff rates that the utility and customer would agree to in the absence of the conservation option. The rate upon which the Eisenhower and Edison would have agreed upon must cover at least the cost to supply power to Eisenhower. Edison has provided information on the development of the rate it offered to Eisenhower which defined the conservation option funding amount. Edison has also provided information on the cost effectiveness of the contract. After reviewing the submitted information, CACD has concluded that the Agreement ensures that other ratepayers are not unfairly subsidizing Eisenhower and that the rate used to define the conservation option funding amount covers at least the costs of producing the power sold to Eisenhower.

4. The Agreement conforms to the guidelines the Commission has established for special contracts except in the ten year term of the contract. The special contract guidelines indicate that the term of special contracts should be limited to five years. Edison's analysis demonstrates that extending the term of the contract to ten years provides a benefit of \$1.5 million to other ratepayers. This additional benefit occurs because the increased term of the contract precludes Eisenhower from bypassing Edison's system in years six through ten while Eisenhower continues to pay the full tariffed rate. Edison has shown good reason to extend the contract term and CACD recommends this deviation from the special contract guidelines be allowed.

5. CACD recommends that Edison be allowed to serve Eisenhower under the terms and conditions of the Agreement for a ten year term. No findings of reasonableness are associated with this recommendation.

#### FINDINGS

1. Edison filed Advice Letter 1038-E on January 5, 1994 to request authority to serve Eisenhower under the terms and conditions of a Self Generation Deferral Agreement.

2. The Amendment meets the criteria of not unfairly subsidizing Eisenhower at the expense of other ratepayers and meets the project viability guidelines.

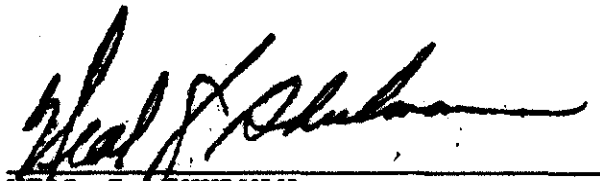
3. Approval of the Agreement does not include a determination of the reasonableness of its terms.

March 9, 1994

**THEREFORE, IT IS ORDERED that:**

1. Southern California Edison Company is authorized to serve Eisenhower Medical Center under the terms and conditions of the Self Generation Deferral Agreement for a ten year term.
2. The reasonableness of the Agreement shall be reviewed in Edison's first ECAC reasonableness review subsequent to Commission approval of the Agreement.
3. Advice Letter 1038-E and the accompanying tariff sheets shall be marked to show that they were approved by Commission Resolution E-3370.
4. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on March 9, 1994. The following Commissioners approved it:

  
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NEAL J. SHULMAN  
Executive Director

DANIEL Wm. FESSLER  
President  
PATRICIA M. ECKERT  
NORMAN D. SHUMWAY  
P. GREGORY CONLON  
JESSIE J. KNIGHT, Jr.  
Commissioners