

Copy for:

RESOLUTION NO. E-1938

Orig. and Copy
to Executive DirectorR E S O L U T I O NUTILITIES DIVISION
BRANCH/SECTION: Electric
DATE: October 6, 1981DirectorNumerical FileAlphabetical FileAccounting Officer

SUBJECT: Southern California Edison's Request for Commission
Authorization of a Cogeneration Agreement With
Procter & Gamble Paper Products Company.

SOUTHERN CALIFORNIA EDISON COMPANY (Edison) by Advice Letter No. 560-E, filed May 21, 1981, requests authorization of an agreement with the Procter and Gamble Paper Products Company (Procter) for parallel operation, standby service, and the purchase of energy and capacity from Procter's generation facility at its Oxnard Plant. Procter will initially sell its surplus generation output of 9.9 MW of firm capacity to Edison. If federal fuel use regulations are modified, Procter may increase its sale to 19.886 MW. In the interim, Procter will utilize the remaining power and take standby service from SCE under Schedule No. SCG-1.

Edison requests authorization of its agreement with Procter under Section X, Paragraph A of General Order No. 96-A, which governs tariff schedules. Tariffs have proved to be a useful means of establishing the terms and conditions of services provided by a utility and its numerous customers, and General Order No. 96-A sets forth the Commission's rules concerning the filing and posting of tariffs. In its advice letter, Edison seeks to employ procedures designed to allow the Commission to review variations from tariffs governing services provided to customers to gain the Commission's approval of a contract which is essentially a contract for the purchase of power from a customer. Although the Commission may eventually establish tariffs applying to such purchases, we have not yet done so. Because G.O. 96-A was intended to apply to the providing of services to customers, rather than purchases of power generated by customers, several of the order's provisions are inappropriate in the context of Edison's request. Thus, the requirement of Section X of G.O. 96-A that all contracts are subject to modification as directed by the Commission would be inappropriate in an agreement such as the one presented here, involving a party which the legislature has exempted from our general jurisdiction. (See Public Utilities Code Section 216 (d), 2802). We therefore wish to make it clear that agreements which are primarily concerned with the purchase by utilities of power generated by cogenerators, private energy producers, and small power production facilities do not require the authorization of this Commission under Section X of General Order 96-A before becoming effective.

Edison's Advice Letter raises an additional issue. As presently constituted, Special Condition No. 2 of Edison's Schedule No. SCG-1, concerning the providing of standby service by Edison to cogenerators, states: "Service under this schedule shall not be initiated until the service contract is authorized by the Commission". As we pointed out in Resolution No. E-1907, the development of Edison's avoided cost-based price offer in response to Resolution No. E-1872 has eliminated the need for our authorization of such service contracts. In the agreement before us, the provision governing standby service merely mentions that such service will be provided under the terms of Schedule No. SCG-1. No

deviation from filed tariffs is indicated. For us to review the entire contract in these circumstances would greatly depart from the original intent of Special Condition No. 2. With the basic tariff on file, we therefore see no reason why approval of individual contracts is necessary. Contracts can become effective upon execution by the parties. Special Condition No. 2 should be deleted from Schedule No. SCG-1 and related tariffs.

Edison's apparent purpose for requesting prior Commission authorization of cogeneration contracts is to support its later requests for recovery of purchased power expenses in ECAC proceedings. Generally speaking, we do not think the resolution process is appropriate for this purpose at the present time. In order to verify that the prices of the agreements are based on Edison's avoided costs, the Commission would have to examine at an evidentiary hearing testimony concerning Edison's actual avoided costs. This cannot be done by examining an agreement as presented here.

Edison's concern with prior approval stems, in part, from the fact that the Commission has yet to hold hearings on and approve Edison's price offer made in response to Resolution No. E-1872 and Decision No. 91109. This concern will not be relieved by the issuance of resolutions in the absence of hearings. Even brief evidentiary hearings would not be sufficient to allow the Commission to develop the necessary evidence to determine that Edison's price offer was consistent with its actual avoided costs.

Thus, at the present time, Edison has made a price offer to cogenerators and small power producers in response to the direction of Resolution No. E-1872. Edison submitted the price offer to our staff for review and did make modifications in response to staff suggestions. The Commission has not yet approved the specific provisions of Edison's offer. However, in Decision No. 91109 we stated:

"Reasonable purchased power expenses incurred pursuant to cogeneration and auxiliary programs are appropriately recovered in ECAC rates."
(D. 91109, mimeo, p. 42.)

Although this language was initially directed to Pacific Gas & Electric Company, the same principle is applicable to purchased power expenses incurred pursuant to Edison's current price offer.

As previously mentioned, the precise determination of Edison's avoided costs is a complex question that would likely require extensive evidentiary hearings. The elements to be included in the calculation of avoided costs are currently under consideration in the OIR No. 2 proceeding. In acknowledgment of the current uncertainty concerning the proper calculation of avoided cost, an uncertainty that will not be resolved until our final Decision in OIR No. 2 is issued, we will

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assume, unless and until it is otherwise demonstrated, that Edison has made a good faith effort to calculate its avoided cost with reasonable accuracy in preparing its current price offers to cogenerators and small power producers. The statements in the following order are based on this assumption.

Findings of Fact:

1. Southern California Edison has entered into an agreement with Procter and Gamble Paper Products Company for the purchase by Edison of electricity produced by a cogeneration facility connected with Procter's operations in Oxnard, California.
2. The agreement states that it does not become effective until authorized by this Commission.
3. Edison has requested the Commission to authorize Edison's agreement with Procter pursuant to General Order 96-A.
4. Edison has issued price offers in response to Resolution E-1872.
5. The Commission has not approved the prices contained in Edison's price offers.
6. Edison's agreement with Procter resulted from Procter's acceptance of one of the price offers issued by Edison in response to Resolution No. E-1872.
7. The agreement provides that Edison will supply standby service to Procter pursuant to Edison's Schedule No. SCG-1.
8. Edison's Schedule Nos. SCE-1, SCE-2, and SCE-3 contain provisions that delay initiation of the appropriate service until the service contract has been authorized by the Commission.

Conclusions of Law:

1. General Order 96-A does not apply to contracts for the purchase by a utility of electric power.
2. Edison's agreement with Procter does not require the Commission's authorization to become effective.

L/jsn*

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3. Special Condition No. 2 of Edison's Schedule Nos. SCF-1, SCG-2, and SCG-3 is no longer necessary and should be deleted.

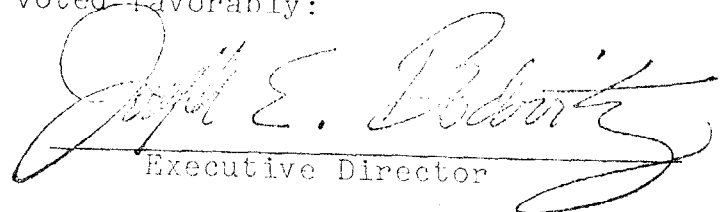
4. Reasonable purchased power expenses incurred by Edison pursuant to contracts based on its price offers issued in response to Resolution No. E-1872 are appropriately recoverable in ECAC rates.

IT IS ORDERED that Southern California Edison Company's agreement with Procter & Gamble Paper Products Company does not require authorization by this Commission to become effective. Therefore, the authorization requested in Advice Letter No. 560-E is denied.

Special Condition No. 2 of Schedule Nos. SCG-1, SCG-2, and SCG-3 shall be deleted from those schedules by revised tariff filings to be made within thirty days. Reasonable purchased power expenses incurred by Edison, pursuant to this agreement and other agreements resulting from acceptance, during the interim period prior to a final decision in the OIR No. 2 proceedings, of Edison's avoided cost-based price offers to cogenerators and small power producers, are appropriately recoverable in ECAC rates.

I certify that this Resolution was introduced, approved and adopted at a regular conference of the Public Utilities Commission of the State of California on OCT 6 1981.
The following Commissioners voted favorably:

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
Commissioners


Executive Director

Commissioner PRISCILLA C. GREW abstained.