

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3364
February 16, 1994

R E S O L U T I O N

RESOLUTION E-3364. SOUTHERN CALIFORNIA EDISON COMPANY REQUESTS AUTHORITY TO SERVE THE DOW CHEMICAL COMPANY UNDER THE TERMS AND CONDITIONS OF A SELF GENERATION DEFERRAL CONTRACT AMENDMENT.

BY ADVICE LETTER NO. 1037-E filed on December 27, 1993.

SUMMARY

1. In this advice letter Southern California Edison Company (Edison) requests authority to serve The Dow Chemical Company (Dow) under the terms and conditions of a Self Generation Deferral Contract Amendment (Amendment) through January 3, 1999.
2. This resolution authorizes Edison to serve Dow under the Amendment without making any findings regarding contract reasonableness.

BACKGROUND

1. The Amendment modifies an original Self Generation Deferral Contract which was filed with the California Public Utilities Commission (Commission) pursuant to Decision (D.) 88-12-097, authorized to become effective January 4, 1989, and found reasonable in D.92-06-059. The original contract was designed to maximize Dow's contribution to Edison's fixed costs while keeping Dow economically indifferent to the alternative of self-generating. The original contract contributed approximately \$493,000 per year towards Edison's fixed costs.
2. The Amendment extends the original contract five years such that it now terminates at midnight on January 3, 1999. In addition, certain provisions to the original contract are modified to maintain Dow's economic indifference to self-generating. The net revenue effect of the changes is to reduce the contribution of the contract to Edison's fixed costs by \$31,000 per year. Edison is also required by D.88-03-008 to offer energy efficiency improvement payment options as an alternative to, or in combination with, self-generation deferral rates. Edison's report supporting the Amendment provides the details of the offer and documentation of Dow's election to decline the offer.

3. The Amendment includes the following changes: (1) the ceiling, or Maximum Monthly Price, has been modified from otherwise applicable tariff charges only, to include the Facilities Charge in addition to the metered electric consumption at the otherwise applicable tariff, Schedule TOU-8; (2) the Maximum Eligible Purchase Amounts now vary by Edison time-of-use period; (3) Edison has incorporated the Commission recommended on-peak outage probability factor of 25%; (4) the Facility Capital Cost of the project has been adjusted to account for expenditures Dow incurred to modify the Alternative Thermal Supply System to meet environmental regulations that would not have been required had Dow bypassed Edison's system; (5) the Fixed Charge Factor has been adjusted to capture the effect of adjusting the Facilities Capital Cost; (6) the contract escalation factor was changed to more correctly reflect average annual escalation; and (7) the Contract Floor Price was changed to allow all of Edison's marginal capacity costs to be recovered in Edison's Floor Demand Charge instead of being recovered in Edison's Floor Energy Charge.

4. Dow has provided an affidavit which indicates its intent to pursue a cogeneration project and bypass the Edison system if the extension is not granted. Edison has reviewed the technical and economic aspects of Dow's proposed project and has concluded that the project continues to be viable.

5. The economics of this project pass the Ratepayer Impact Measure (RIM) test as required of bypass deferral activities in D.93-11-017. In addition, the Amendment states "Dow will reimburse Edison for any disallowance mandated by the California Public Utilities Commission resulting from Edison's implementation of this Amendment."

6. This filing results in an estimated \$31,000 per year of additional reduction in revenues to be recovered through the Electric Revenue Adjustment Mechanism (ERAM) from other ratepayers (bringing the total reduction from tariff to about \$241,000 per year). The filing also represents a continued deviation from Edison's approved tariffs. For these reasons, Edison believes a Resolution granting Edison permission to serve Dow under the terms and conditions of the Amendment through January 3, 1999 is required.

7. 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 Amendment in accordance with D.89-05-067.

NOTICE

The original Advice Letter were 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 Dow under the terms and conditions of the Amendment, 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 expedited review through the Advice Letter process, though not preferable, is acceptable.

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 Dow's proposed cogeneration project and the affidavit of Dow that it would pursue the project absent this amendment, CACD believes that the project planned by Dow meets the threshold test of posing a credible and imminent threat to leave Edison's system.

3. Next, CACD must be satisfied that the self generation deferral rate that Dow will pay to Edison under the Amendment will cover at least Edison's cost to produce the power being sold to Dow. Edison has provided information on the development of the rate and the cost effectiveness of the contract. After reviewing the submitted information, CACD has concluded that the Amendment's prices ensure that other ratepayers are not unfairly subsidizing Dow and that the rate under the special contract covers at least the costs of producing the power sold under the contract.

4. CACD recommends that Edison be allowed to serve Dow under the terms and conditions of the Amendment through January 3,

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1999. No findings of reasonableness are associated with this recommendation.

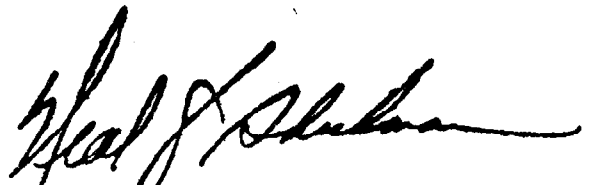
FINDINGS

1. Edison filed Advice Letter 1037-E on December 27, 1993 to request authority to serve Dow under the terms and conditions of the Self Generation Deferral Contract Amendment through January 3, 1999.
2. The Amendment meets the criteria of not unfairly subsidizing Dow at the expense of other ratepayers and of project viability.
3. The reasonableness of the Amendment will be reviewed in Edison's first ECAC reasonableness review subsequent to Commission approval of the Amendment.

THEREFORE, IT IS ORDERED that:

1. Southern California Edison Company is authorized to serve The Dow Chemical Company under the terms and conditions of the Self Generation Deferral Contract Amendment through January 3, 1999.
2. Approval of the Amendment does not include a determination of the reasonableness of its terms.
3. Advice Letter 1037-E and the accompanying tariff sheets shall be marked to show that they were approved by Commission Resolution E-3364.
4. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities commission at its regular meeting on February 16, 1994. The following Commissioners approved it:



NEAL J. SHULMAN
Executive Director

DANIEL Wm. FESSLER
President
NORMAN D. SHUMWAY
P. GREGORY CONLON
JESSIE J. KNIGHT JR.
Commissioners

I abstain.
/s/ PATRICIA M. ECKERT
Commissioner