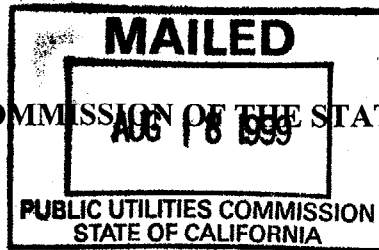


PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA  
ENERGY DIVISION



RESOLUTION E-3625  
AUGUST 5, 1999

## RESOLUTION

**RESOLUTION E-3625. PACIFIC GAS AND ELECTRIC COMPANY (PG&E) REQUESTS AUTHORIZATION FOR TWO NEW STANDARD FORM AGREEMENTS TO BE MADE AVAILABLE TO POWER PRODUCERS OPERATING QUALIFYING FACILITIES. APPROVED.**

**BY PG&E ADVICE LETTER 1870-E FILED MAY 3, 1999**

### Summary

In Advice Letter 1870-E, Pacific Gas and Electric Company (PG&E) proposes to offer two new standard form agreements: Standard Form 79-964 – *Enabling Agreement for "Surplus Sale" QF Suppliers* (Enabling Agreement) and Standard Form 79-965 – *Pro-Forma PPA Amendment and Enabling Agreement for "Net Sale" Interim Standard Offer 4 PPAs* (Pro-Forma Amendment). PG&E proposes to make these standard form agreements available to power producers operating Qualifying Facilities (QFs) who have standard offer power purchase agreements (PPAs) with PG&E and who meet certain eligibility criteria.

The Enabling Agreement and the Pro-Forma Amendment are intended to create opportunities for expanding the markets for energy and ancillary services in California. The agreements specify the terms and conditions pursuant to which QFs who have PPAs with PG&E may sell excess energy and ancillary services to third parties, including direct access customers, the Independent System Operator (ISO) and the Power Exchange (PX). PG&E maintains that such sales could put downward price pressure on the ancillary services markets and thereby potentially dampen price spikes similar to those experienced in these markets last summer. The agreements would also provide the QFs with the opportunity to become familiar with the evolving energy and ancillary services markets.

Because of the rapidly evolving nature of energy markets in California, the requested duration for both new agreements is two years, terminating on June 30, 2001, unless the parties decide to extend the term.

PG&E requests that the Commission, in approving this advice letter, determine that PG&E's actions in entering into these standard form agreements are reasonable, and ensure that PG&E would be able to recover in rates the payments

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PG&E makes as a result of these agreements. PG&E maintains that such ratemaking treatment is consistent with the Commission's treatment of this issue when it first promulgated standard offers of PPAs.

Full implementation of these agreements will require changes at the PX, but PG&E believes these changes can be effected expeditiously.

No protests were filed in response to this advice letter.

The advice letter is approved without modifications.

## Background

Late in the summer of 1998 the Independent Energy Producers (IEP) and PG&E agreed to work toward developing agreements to enable QFs that have standard offer PPAs with PG&E to sell "Excess Energy" to third parties. The negotiations developing these new agreements also have involved representatives from the ISO and the PX.

As noted above, one of the purposes of the Enabling Agreement and the Pro-Forma Amendments is to encourage wider QF participation in the energy and ancillary services markets, and thereby increase competition. Ratepayers should benefit from the increased competition in the form of reduced market prices. To facilitate wider QF participation, PG&E and IEP developed the Enabling Agreement and the Pro-Forma Amendment as standard form amendments in order to reduce the time and transaction costs associated with the negotiation of individual agreements.

PG&E requests in this advice letter that the payments it makes as a result of the proposed new agreements should be treated in the same manner as PG&E's purchases pursuant to standard offer PPAs, i.e., that they be considered reasonable *per se*.

PG&E has over 300 PPAs with cogenerators and small power production projects, the great majority of which are standard offer agreements. Among the standard terms common to these agreements are two "energy sale options". When signing the PPA, the QF chooses either the "surplus energy output" option, or the "net energy output" option.

Under the first option the QF opts to sell to the utility the surplus energy output, which is defined as the facility's gross output, less station use, *and any other use by the QF*, and transformation and transmission losses to the point of delivery into the PG&E system.

Under the second option the QF opts to sell to the utility the net energy output, which is defined as the facility's gross output, less station use, and transformation and transmission losses to the point of delivery into the PG&E system.

The difference between the agreements, thus, is that the "surplus sales" option allows for sales of energy or ancillary services to non-utility parties ("and any other use by the QF"), while under the "net sales" option the QF is restricted to utility sales. Accordingly, the Enabling Agreement specifies the terms and conditions pursuant to which a QF with a "surplus sales" option PPA may make sales to third parties. The Pro-Forma Amendment modifies the net sales PPAs' restriction against non-utility sales and describes the conditions under which these sales may occur.

The Enabling Agreement will be made available to QFs with PPAs wherein the surplus sales option is chosen, and in which the scheduling, curtailing, and dispatch provisions have not been amended from the standard provisions. Under this option as it currently exists, Excess Energy – energy or ancillary services of which the QF may make "any other use" – is sold to third parties. The Enabling Agreement specifies the terms under which the QF may sell a portion of the Excess Energy (but not ancillary services) to PG&E.

Under the Enabling Agreement the QF identifies the amount of energy committed to PG&E under the original terms of the contract. This is done by electing a "PPA Sales Level", which must at least equal any firm capacity commitment specified in the QF's PPA. Amounts above this PPA Sales Level are Excess Energy.

For a one year period the QF may sell Excess Energy to PG&E. The QF's ability to sell Excess Energy to PG&E ends on June 30, 2000, unless the QF is then being paid Commission-approved PX-based short run avoided cost energy prices rather than SRAC prices based on a border gas index. (PU Code Section 390) In this event, the QF will receive for Excess Energy the Commission-approved PX based SRAC price. In no event, however, will the QF receive the as-delivered capacity prices for Excess Energy sales after June 30, 2000.

After June 30, 2000, the QF may change its PPA Sales Level for a one-year period, thereby increasing or decreasing the amount of Excess Energy available for sale to the market.

During the one-year period ending June 30, 2000, PG&E will pay the QF for Excess Energy sold to PG&E using the PX Day-Ahead Zonal Market Price for the zone in which the QF's generating unit is located. During this initial period, PG&E will pay the PPA's as-delivered capacity price for Excess Energy scheduled and delivered to PG&E.

The Enabling Agreement will expire on June 30, 2001, although it may terminate sooner if the QF's PPA terminates before that date or if the QF elects to terminate the Enabling Agreement on June 30, 2000. However, parties are permitted to extend the Enabling Agreement after June 30, 2001, upon mutual written agreement.

The Pro-Forma Amendment gives QFs with "net sales" PPAs the opportunity to participate in the market. Under existing PPAs with the "net sales" option, QFs have committed to sell their entire energy output to PG&E. The Pro-Forma Amendment is intended to enable such QFs to make market sales in a manner similar to QFs with "surplus sales" contracts. Since the terms of Standard Offer Nos.1 and 2 and Uniform Standard Offer No.1 permit QFs to change their energy sales option elections annually, the Pro-Forma Amendment is necessary only for QFs with Interim Standard Offer No.4 PPAs.

Most of the commercial terms of the Pro-Forma Amendment are similar to those in the Enabling Agreement, e.g., indemnity, dispute resolution, term of agreement, scheduling, and settlements.

As with the Enabling Agreement, the Pro-Forma Amendment defines Excess Energy as generation in excess of the "PG&E Sales Level". Similarly, this level may be altered annually upon notice to PG&E. Unlike the Enabling Agreement, however, the Pro-Forma Amendment contains no provision for sales of Excess Energy to PG&E. Thus, QFs who execute these amendments dedicate their Excess Energy entirely to market sales for 12-month periods during the term of the agreement.

The new agreements will require the PX to make changes to its systems or develop specific procedures to permit Excess Energy sales. The PX will need to process two separate hourly schedules for the same generator and to effect settlements of energy sales separately. However, the effectiveness of the two new agreements is not conditioned on the ability of the PX to process two separate schedules. IEP and PG&E are working with representatives from the PX to reach a mutually acceptable resolution of this important issue.

## Notice

Notice of PG&E's Advice Letter 1870-E was made by publication in the Commission Daily Calendar and by mailing copies to interested parties.

## Protests

No protests were filed in response to this advice letter.

## Discussion

One advantage which the two new agreements confer is with regard to scheduling management. Currently, PG&E estimates, for scheduling purposes, the amount of regulatory must-take generation it expects to receive pursuant to the PPA. Under the new agreements, QFs are obligated to deliver schedules to PG&E identifying regulatory must-take generation the QF proposes to deliver to PG&E for sale the upcoming delivery day.

The main purpose for which these agreements are being proposed is to give QFs greater opportunity to participate in energy and ancillary services markets. This should exert downward pressure on prices and help to stabilize some of the price volatility that has been seen in these markets. Therefore, the Enabling Agreement and the Pro-Forma Amendment are reasonable and should be approved.

Furthermore, PG&E's actions in entering into any such agreements are reasonable, and PG&E should be allowed to recover in rates any payments resulting from these agreements, provided PG&E's prudent administration of the agreements, which is the same standard required for recovery of any costs associated with QF payments.

## Comments

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code Section 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

## Findings

1. In Advice Letter 1870-E filed on May 3, 1999, PG&E proposes to offer two new standard form agreements: Standard Form 79-964 – *Enabling Agreement for "Surplus Sale" QF Suppliers* (Enabling Agreement) and Standard Form 79-965 – *Pro-Forma PPA Amendment and Enabling Agreement for "Net Sale" Interim Standard Offer 4 PPAs* (Pro-Forma Amendment). PG&E proposes to make these standard form agreements available to power producers operating Qualifying Facilities (QFs) who have

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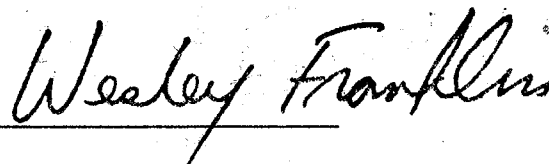
- standard offer power purchase agreements (PPAs) with PG&E and who meet certain eligibility criteria.
2. No protests were filed against this advice letter.
  3. The contract changes as proposed in the advice letter appear to promote the strength of the energy and ancillary services markets in California, and could help stabilize price volatility.
  4. PG&E Advice Letter 1870-E is reasonable; the Enabling Agreement and the Pro-Forma Amendment are reasonable; PG&E's actions, in entering into any such agreements, are reasonable; and PG&E may recover in rates all payments made as a result of these agreements through the Annual Transition Cost Proceeding or any other mechanism authorized by the Commission, to the same extent as any other costs associated with a QF are recoverable, subject only to PG&E's prudent administration of the agreements.

**Therefore it is ordered that:**

1. PG&E Advice Letter 1870-E be approved.
2. PG&E shall revise its list of Contracts and Deviations to include the Agreement ordered above and shall file such revised tariff sheets with the Commission within sixty (60) days of the effective date of this Resolution.
3. This resolution be made effective today.

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I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on August 5, 1999; the following Commissioners voting favorably thereon:



WESLEY M. FRANKLIN  
Executive Director

RICHARD A. BILAS  
President

HENRY M. DUQUE  
JOSIAH L. NEEPER  
JOEL Z. HYATT  
CARL W. WOOD  
Commissioners