PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-3062
July 21, 1993

R E S O L U T I O N

RESOLUTION G-3062. PACIFIC GAS AND ELECTRIC COMPANY, SAN DIEGO GAS AND ELECTRIC COMPANY, AND SOUTHERN CALIFORNIA GAS COMPANY SUBMIT PROPOSALS TO ACCOMPLISH CONTEMPORANEOUS RATE PARITY BETWEEN UTILITY ELECTRIC GENERATION RATES AND COGENERATION RATES UNDER CAPACITY BROKERING.

BY PACIFIC GAS AND ELECTRIC COMPANY ADVICE LETTER 1752-G, FILED ON JANUARY 29, 1993, SAN DIEGO GAS AND ELECTRIC COMPANY ADVICE LETTER 844-G FILED ON JANUARY 15, 1993, AND SOUTHERN CALIFORNIA GAS COMPANY ADVICE LETTER 2160 FILED ON JANUARY 29, 1993.

SUMMARY

1. Pursuant to Resolutions G-3021, G-3022, and G-3023 issued December 16, 1992, Pacific Gas and Electric Company (PG&E), San Diego Gas and Electric Company (SDG&E), and Southern California Gas Company (SoCalGas) filed Advice Letters 1752-G, 844-G, and 2160, respectively. Each of these advice letters proposes a methodology to provide for contemporaneous rate parity between utility electric generation (UEG) customers and cogeneration customers.

2. Two parties protested the advice letters, and one party filed comments.

3. This resolution modifies the proposals of the three utilities to set forth a single methodology to calculate contemporaneous rate parity between UEG and cogeneration customers. The following modifications are among those set forth in this Resolution:

a. Parity will be calculated on a service-level basis by equalizing the cogeneration default rate with the average UEG rate for the equivalent level of service.

b. Parity calculations will include discounts for firm service to UEG customers.

c. PG&E will not offer <u>contemporaneous</u> rate parity until full implementation of Capacity Brokering on the PG&E system.

d. The cogeneration default rate will be revised either up or down no more than once per month whenever a discounted UEG contract is executed, the nature of service under an existing contract changes, or a discounted contract expires.

e. The utilities will establish a memorandum account to record any shortfall resulting from contemporaneous rate parity between cost allocation proceedings.

BACKGROUND

1. Public Utilities Code Section 454.4 requires the Commission to establish rates for gas used in cogeneration projects not higher than rates established for gas used by UEG's. In accordance with this requirement, Commission Decision (D.) 91-11-025 required that any discounts given to UEG customers through interruptible rates be offered to cogeneration customers as well.

2. In Resolutions G-3021, G-3022, and G-3023, the Commission stated that any discounts given to UEG customers should be incorporated into rates for cogeneration customers on a contemporaneous basis. These resolutions ordered PG&E, SDG&E, and SoCalGas to file separate advice letters containing proposals for accomplishing contemporaneous rate parity between UEG rates and cogeneration rates.

3. On January 15, 1993, SDG&E filed its proposal for UEG and cogeneration contemporaneous rate parity in Advice Letter 844-G.

4. PG&E filed Advice Letter 1752-G with its proposal for contemporaneous rate parity on January 29, 1993.

5. SoCalGas filed its proposal for contemporaneous rate parity on January 29, 1993 in Advice Letter 2160.

NOTICE

In accordance with General Order 96-A, PG&E, SDG&E, and SoCalGas mailed copies of their respective advice letters to all parties of record in Rulemaking 88-08-018.

PROTESTS

1. On February 18, 1993, the California Cogeneration Council (CCC) protested PG&E's Advice Letter 1752-G. PG&E responded to this protest on March 1, 1993.

2. CCC protested SDG&E's Advice Letter 844-G on February 4, 1993. SDG&E responded to CCC's protest on February 24, 1993.

3. CCC and Southern California Edison Company (Edison) protested SoCalGas' Advice Letter 2160 on February 18, 1993. In addition, Carson Cogen, L.P. (Carson Cogen) submitted comments to the advice letter on February 17, 1993. SoCalGas responded to these protests and comments by letter dated March 5, 1993.

DISCUSSION

PG&E's Proposed Methodology

PG&E proposes to maintain contemporaneous parity of UEG and cogeneration rates in the event that the Commission approves a discounted UEG contract under the Expedited Application Docket (EAD). UEG and cogeneration rates would be equalized as follows:

Step 1: Calculate forecasted revenues to be collected for the remainder of the biennial cost allocation proceeding (BCAP) period. These revenues are the sum of a) UEG discounted rates multiplied by contract volumes; b) discounted cogeneration rates multiplied by contract volumes; and c) standard UEG and cogeneration rates multiplied by the remainder of the adopted BCAP monthly forecasted volumes.

Step 2: Subtract the adopted winter "adder" multiplied by the remaining UEG and cogeneration winter monthly volumes from the total in Step 1.

Step 3: Divide the total UEG and cogeneration revenue requirement in Step 2 by the total remaining UEG and cogeneration volumes of the adopted BCAP monthly forecast. This will be the new summer average rate.

Step 4: Add the adopted winter "adder" to the summer rate from Step 3 to determine the new average winter rate.

Protests to PG&E's Proposal

1. **Default Rate versus Average Rate**

CCC objects to PG&E's proposed parity methodology because it incorporates discounted cogenerator contracts in the default cogenerator rate calculation. CCC contends that PG&E appears to equalize the average rate paid by all cogenerators, rather than the cogeneration default rate, to the average UEG rate. CCC states that under PG&E's proposed methodology, only cogenerators that have negotiated discounts will pay no more than the average UEG rate. Cogenerators served under the default rate will pay more than the average UEG rate. CCC states that this violates Public Utilities Code Section 454.4 and Commission policy.

PG&E responds that it does not object to revising its methodology to equalize the UEG average rate with the cogeneration default rate, exclusive of cogeneration discounts.

2. Timing of Methodology for Rate Parity

CCC objects to PG&E's proposal that the Commission defer any decision regarding a parity methodology until the implementation of the Commission's Investigation and Rulemaking I.92-12-017/R.92-12-016. Because there is no certainty as to when the rulemaking will be implemented, CCC feels it is inappropriate to force cogeneration customers to make decisions without understanding how rate parity will be calculated.

CCC also objects to PG&E's proposal to defer implementation of a rate parity methodology until after the full implementation of capacity brokering. According to CCC, PG&E does not provide any rationale for deferring implementation of the methodology.

PG&E responds that the methodology was developed specifically for full implementation wherein service-levels are eliminated and interstate charges are not allocated to UEG and cogeneration rates. PG&E asserts that its methodology for rate parity under partial implementation will differ from the full implementation methodology because of rate design complexities and the continuing mandate until full implementation to equalize rates on a service-level basis.

Furthermore, PG&E states that establishing a single methodology for parity for all three utilities is difficult given the numerous changes in services and rates occurring at this time. PG&E urges the Commission to consider contemporaneous parity in the context of a broader proceeding involving all three utilities, such as the I.92-12-017/R.92-12-16.

3. Discounts under the EAD Procedure

According to CCC, PG&E's methodology offers a revision of cogeneration rates only upon approval of a discounted UEG contract under the EAD process. CCC is concerned that PG&E's methodology may ignore contracts submitted by application or advice letter, short term contracts, and rate recalculations necessary based on changes in the nature of service under an existing contract.

PG&E responds that its reference to the EAD procedure only reflects the means by which PG&E would potentially file a UEG discounted contract. PG&E intends to apply any adopted parity methodology to all approved UEG discounted contracts. However, PG&E does not agree with CCC's recommendation that parity be recalculated based on changes in the nature of service under an existing contract.

4. **CCC's Proposed Methodology**

In its protest, CCC proposes that cogeneration rates be calculated as follows:[1]

1. Cogeneration default rates for both firm and interruptible service in BCAPs will be set equal to the forecasted weighted average UEG rate, including forecasts of any UEG discounts for firm and interruptible service.

2. The weighted average UEG rate shall be determined by (a) multiplying each volumetric rate, including discounted rates, by the forecasted volumes served at the respective rates; (b) summing the resulting products; (c) adding to the resulting sum all non-volumetric charges assessed to the UEG class; (d) clarify customer charges, and (e) dividing the new sum by the total forecasted UEG throughput adopted in the BCAP.

3. In the event that: (a) a UEG receives a discounted rate between BCAP cycles that was not included in the BCAP forecast; or (b) the nature of service under an existing discounted contract changes; the forecasted weighted average UEG rate and cogeneration default rates shall be updated to include: (i) the newly discounted rate; or (ii) the revised service.

PG&E responds that it opposes CCC's methodology because it deviates from the established principle of equalizing the allocated costs for UEG and cogeneration customers and dividing by the combined throughput. CCC's methodology calculates only the UEG rate and then assigns this rate to cogeneration customers, ignoring the original cogeneration default rate. PG&E also clarifies that UEG customer charges are currently included in parity calculations.

<u>SDG&E's Proposed Methodology</u>

SDG&E proposes to maintain parity in accordance with the rate parity methodologies adopted in the utility's latest gas cost allocation proceeding. Whenever the Commission approves a rate discount to the UEG customer class effective between BCAP cycles, cogeneration rates shall be calculated as follows:

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1 CCC proposes the same methodology in its protests to SDG&E's and SoCalGas' advice letters. However, item 2(d) is not contained in the methodologies set forth in CCC's other protests.

Step 1: Multiply the adopted average UEG rate by the adopted UEG throughput forecast, multiplied by the number of days during the BCAP cycle that this rate is effective, divided by the total number of days in the BCAP cycle.

Step 2: Multiply the discounted average UEG rate by the adopted UEG throughput forecast, multiplied by the number of days during the BCAP cycle that this rate is effective, divided by the total number of days in the BCAP cycle.

Step 3: Add the amounts in Step 1 and Step 2 to determine the UEG revenue requirement expected to be collected during the BCAP cycle.

Step 4: Add the revenue requirement from Step 3 to the adopted revenue requirement for cogenerators to derive a combined parity class revenue requirement.

Step 5: Divide the combined revenue requirement from Step 4 by the combined UEG and cogeneration throughput forecasts to determine a contemporaneous transmission parity rate.

Step 6: Multiply the parity rate from Step 5 by the adopted cogeneration throughput forecast to determine revenue requirements to be collected from the cogeneration class, and design cogenerator rates from this total.

<u>Protests to SDG&E's Proposal</u>

1. **Protest by CCC**

CCC objects that SDG&E's proposed methodology weights the default and discounted UEG rates by the amount of time each rate is applicable to UEG service in the BCAP cycle. The cogenerator default rate is developed from an average of the revenues collected at these weighted UEG rates. Thus, the rate cogenerators would pay after the UEG receives a discount is higher than the rate the UEG would pay after it receives a discount. CCC contends that this violates Public Utilities Code Section 454.4 because the cogeneration rate would be higher than the UEG rate.

CCC is also concerned that SDG&E's methodology will only revise cogenerator rates upon the approval of a newly discounted UEG contract. CCC believes that other events may require the recalculation of cogenerator rates, as discussed above in CCC's protest to PG&E's methodology.

CCC proposes its own methodology for contemporaneous rate parity, identical to the methodology contained in CCC's protest to PG&E's Advice Letter 1752-G.

In response, SDG&E offers to revise its proposal to clarify how cogenerator rates will be developed. Under SDG&E's revision, discounts are only offered to interruptible volumes and the terms of UEG discounting would also apply to discounts applied to cogenerators. Furthermore, discounting applicable to cogenerators would be limited to the same terms as those offered to UEG's. For example, if rate discounting applies to 30% of UEG volumes, then rate discounting to cogenerators is limited to no more than 30% of cogenerator volumes.

SoCalGas' Proposed Methodologies

SoCalGas has proposed two methodologies for contemporaneous rate parity. Proposal A establishes rate parity on the basis of class average rates, and Proposal B establishes parity on a service-level basis.

Proposal A

1. Any discount provided to a UEG customer for interruptible service shall be reflected, on a weighted average basis, in the default tariff rate for the cogeneration class beginning on the date when the UEG discount becomes effective. The weighted average UEG rate shall be determined on a forecast basis. SoCalGas proposes to file an advice letter, after the execution of a discounted UEG contract, setting forth an "interim discount forecast" defined as a forecast of the discounted UEG contract rates and quantities for the remainder of the cost allocation cycle.

2. The interim discount forecast, along with the forecast of total UEG throughput, will be used to determine the class average UEG rate for the remaining cost allocation cycle.

3. At the next cost allocation proceeding, current discounted UEG contracts shall be incorporated into UEG and cogeneration rates on a forecast basis.

4. If a new discounted UEG contract is executed, if the nature of service under an existing discounted contract changes, or if a discounted UEG contract expires, SoCalGas shall file an advice letter to revise cogeneration rates accordingly.

5. As an alternative, SoCalGas also proposes that the weighted average UEG rate could be calculated on an actual rather than a forecast basis using a 60-day lag process. However, SoCalGas notes that cogeneration customers prefer to establish the weighted average UEG rate on a forecast basis because qualifying facility avoided cost payments are currently determined on a forecast basis.

Proposal B

Under this alternate methodology, cogenerators would be charged a rate equal to the weighted average interruptible rate paid by all UEG customers, but only for that amount of the cogeneration customer's interruptible service that is commensurate with the level of total UEG interruptible service quantities.

The percentage of UEG interruptible service to total UEG service will be forecasted based on the UEG quantities elected in SoCalGas' intrastate open season prior to the implementation of Capacity Brokering. Once calculated, this percentage will be applied to cogeneration customer's total service quantities to determine the quantities for which the cogeneration customer would receive a parity rate.

Memorandum Account

In addition to these two proposals, SoCalGas requests authorization to record the revenue shortfall resulting from establishing rate parity on a contemporaneous basis into a memorandum account. The balance in this account would be addressed in SoCalGas' cost allocation proceedings.

Protests to SoCalGas' Proposal

1. **Parity for Firm Discounts**

CCC requests clarification that discounts to firm UEG service will be treated in the same manner as discounts to interruptible service. However, Edison opposes SoCalGas' effort to extend parity to cogenerators based on long-term firm intrastate service contracts. SoCalGas responds that in the event the Commission decides to extend parity treatment based on firm service discounts, SoCalGas supports the methodologies outlined in its advice letter.

2. **Class Average Rate Parity versus Service-Level Parity**

After evaluating both of SoCalGas' proposed methodologies, CCC states that it favors Proposal A, but requests that the proposal be clarified to include discounts for firm service. CCC also requests the Commission to clarify that the cogenerator default rate will be set at the weighted average UEG rate, as opposed to setting the average cogenerator rate equal to the average UEG rate.

With regard to Proposal B, CCC states that service-level parity is not applicable now that discounts to firm service are permissible. CCC continues to assert that parity should be based upon weighted average UEG rates and not on a service-level specific basis. In addition, CCC states that the main problem with Proposal B is that it limits the amount of service that a cogenerator may receive at this parity rate.

Carson Cogen supports SoCalGas' Proposal A because it believes that true rate parity is more likely to be achieved by implementing a class average methodology. Under Proposal A, a discount given to a UEG customers is automatically reflected in the default rate paid by cogenerator customers, irrespective of the type of service received by the cogeneration customer. However, under Proposal B, customers must take the same percentage of interruptible service throughput as that taken by UEG customers. Carson Cogen feels that this requirement is burdensome and operationally unrealistic for cogeneration customers.

SoCalGas responds by stating that it concurs with the parties remarks that the Commission should accomplish rate parity on a class average basis as opposed to a service-level basis. However, in the event that the Commission determines that parity should be set on a service-level basis, SoCalGas believes that its Proposal B is legitimate to achieve rate parity. SoCalGas also notes that the restrictions included in Proposal B are necessary to minimize any "parity shortfall" resulting from UEG discounts.

3. **Other Protest Issues Raised by Edison**

Edison protests that cogenerators receive the benefit of a UEG discount without having to show that the discount is warranted based on bypass opportunities. Edison believes this could make it more difficult for SoCalGas to offer rate discounts to utility customers. In addition, Edison believes that UEGs should obtain the benefit of discounts provided to cogenerators.

Edison objects to Proposal B because it will allow cogenerators to obtain parity even if they do not match the firm and interruptible service mix of UEG customers. Edison states that to receive rate parity, a cogenerator should agree to take a forecasted mix of interruptible and firm service. Finally, Edison states that under SoCalGas' Proposal B, cogenerators should bear whatever take-or-pay charges result from their election to take interruptible volumes.

SoCalGas responds that it is not aware that the Commission requires cogeneration customers to demonstrate bypass opportunities to obtain rate parity.

Discussion

In the following section, each utility's proposal for contemporaneous rate parity is discussed separately along with the protests to the respective methodology. Following that discussion, CACD proposes modifications to the various methodologies so that one uniform methodology for use by all three utilities can be recommended for Commission adoption.

PG&E

In D.91-11-025, the Commission adopted rules for Capacity Brokering which state that qualifying facilities (which include cogenerators) shall be eligible for firm and interruptible transportation service, and core subscription service, at the UEG rates for <u>equivalent levels of service</u> (See D.91-11-025, Appendix B, p. 18, emphasis added). Furthermore, the Commission orders in D.92-07-025 that utility rates for cogenerators shall be equal to UEG rates <u>on a service-level basis</u> (See D.92-07-025, p. 55, emphasis added). CACD notes that PG&E's proposed methodology does not specify that rate parity will be calculated on a service-level basis. Specifically, PG&E does not explain whether it will calculate a default rate for interruptible cogeneration transportation based on UEG interruptible discounts separately from a default rate for firm interruptible transportation. CACD cannot recommend adoption of PG&E's proposed methodology because it does not appear to calculate rate parity on a service-level basis.

In addition, CACD agrees with CCC that cogenerator discounts should not be included in the calculation of the default cogeneration rate, as PG&E suggests in its methodology. In keeping with established practice and Commission policy on rate parity in D.90-09-089 and D.87-12-039, the default rate for cogeneration customers should be set equal to the average UEG rate. Language concerning parity in Resolutions G-3021, G-3022, and G-3023 should not be interpreted to change existing policy concerning rate parity other than to mandate that parity be adjusted on a contemporaneous basis.

Because of the rate design complexities surrounding partial implementation of Capacity Brokering, CACD agrees with PG&E that the calculation of contemporaneous rate parity should not begin until full implementation of Capacity Brokering for PG&E. However, CACD does not agree with PG&E that this issue should be deferred until the implementation of I.92-12-017/R.92-12-016. CACD agrees with CCC that it would be inappropriate to delay a decision on a parity calculation to a proceeding with an uncertain implementation date.

CACD agrees with CCC and recommends that PG&E should apply the parity methodology adopted in this Resolution to all discounted contracts whether they are filed by application or advice letter, or whether they are short or long term. Furthermore, PG&E should recalculate parity if the nature of service changes under an existing contract.

After reviewing CCC's proposed methodology, CACD agrees with PG&E that the proposal deviates from the current practice of including cogeneration revenues and throughput forecasts in the parity calculation. Therefore, CACD recommends that the proposed methodology contained in CCC's protest be rejected.

SDG&E

SDG&E's methodology is similar to PG&E's in that it does not specify whether rate parity will be calculated on a service-level basis. The proposed methodology appears to calculate one parity rate for cogenerator firm and interruptible service based on the average UEG rate. Again, CACD believes this does not comply with the Capacity Brokering decisions.

CACD agrees with CCC that SDG&E's proposed weighting methodology would not provide rate parity between UEG and cogeneration rates because the rate cogenerators would pay after the UEG receives a discount would be higher than the average rate the UEG would pay after the discount. In addition, CACD agrees that SDG&E should revise cogenerator rates not only upon approval of a newly discounted UEG contract, but also when the nature of service under an existing contract changes. This requirement is discussed in further detail below under CACD's proposed methodology.

Furthermore, CACD notes that the revisions in SDG&E's protest response limit the volumes at which cogenerators would receive the parity rate to the percent of UEG volumes receiving a discount. In general, CACD believes that limiting the volume for which cogenerators receive parity is not acceptable. The Commission has established in prior decisions that for rate parity to be achieved, a cogenerator's default rate is set equal to the UEG average rate on a service-level basis. Neither the Commission nor Public Utilities Code Section 454.4 has limited the volumes to which the parity rate would apply.

SoCalGas

Under its Proposal A, SoCalGas would calculate one cogenerator default rate for both firm and interruptible service based on the average rate paid by UEG customers under both firm and interruptible discounted contracts, as well as non-discounted UEG contracts. Consequently, cogenerators taking firm service would pay a rate based on discounts to the UEG for interruptible service. Thus, cogenerators would pay a rate in parity with UEG customers while receiving a higher level of service. CACD recommends that this proposal be rejected because it does not provide for service-level parity as established in the Capacity Brokering decisions. In addition, CACD regards the protests of CCC and comments of Carson Cogen regarding Proposal A as moot because the proposal should be rejected.

SoCalGas' Proposal B does provide for service-level parity as required by the Capacity Brokering decisions. However, as both CCC and Carson Cogen point out, Proposal B limits the amount of service that a cogenerator may receive at the parity rate, similar to the limitation proposed by SDG&E in its revised methodology. CACD agrees with the protests of CCC and Carson Cogen that this limitation is not acceptable based on the Commission's rate parity policy and Public Utilities Code Section 454.4. CACD does not agree with SoCalGas' estimates of the parity shortfall resulting from unrestricted rate parity. Although a shortfall will result from contemporaneous parity when a UEG discount is incorporated into cogeneration rates, CACD believes that SoCalGas has overstated the size of this shortfall. CACD recommends that SoCalGas' Proposal B be modified to remove this limitation. A complete discussion of CACD's recommendation for the rate parity methodology is found below.

CACD agrees with SoCalGas that discounts to firm UEG service should be treated in the same manner as discounts to interruptible service. In Resolution G-3043 issued on March 10, 1993, the Commission noted that D.92-11-052 allowed for discounts to firm intrastate transportation service under the EAD procedure for long-term contracts. The Resolution further specifies that SoCalGas should state in its tariffs that any discounts of firm transportation service offered to UEG customers should be offered contemporaneously to cogeneration customers. Therefore, SoCalGas should offer parity to cogeneration customers that includes any discounts to firm service offered to UEG customers. CACD recommends that Edison's protest on this issue be denied.

CACD accepts SoCalGas' proposal that a memorandum account should be established to record the shortfall resulting from offering contemporaneous rate parity. The balance in this account would be addressed in the utility's next cost allocation proceeding. CACD incorporates this memorandum account into its proposed methodology for all three utilities below.

With regard to the other protest issues raised by Edison, CACD recommends that these protests be denied. Cogeneration customers currently receive the benefit of UEG discounts without having to show that the discount is warranted based on bypass opportunities. Also, Public Utilities Code Section 454.4 does not provide that UEG's should obtain the benefit of discounts provided to cogenerators. In addition, the Commission has never required cogenerators to match the firm and interruptible service mix of UEG customers to obtain rate parity as Edison requests. Last, CACD believes Edison's objection to Proposal B regarding take-or-pay charges is moot because CACD recommends that the limitations on rate parity in SoCalGas' Proposal B be rejected.

<u>CACD's Recommended Methodology</u>

Because of the numerous proposals for rate parity and the equally numerous protests to these proposals, CACD's recommendations for a contemporaneous rate parity methodology are summarized below. CACD points out that the proposed parity methodology contains elements of all of the proposals and is intended to be similar to the methodology currently used in cost allocation proceedings to set service-level rate parity.

1. CACD recommends that rate parity be calculated on a service-level basis. This means that the cogeneration

default rate for interruptible service will be equalized with the average UEG rate for interruptible service and that the cogeneration default rate for firm service will be equalized with the average UEG rate for firm service.

2. The steps to calculate parity should be as follows:

   (a) Calculate UEG and cogeneration forecasted revenues for firm transportation for the cost allocation period. These revenues are the sum of 1) UEG firm discounted rates multiplied by contract volumes 2) standard UEG rates for firm transportation multiplied by remaining non-discounted contract volumes, and 3) standard cogeneration rates for firm transportation multiplied by contract volumes.

   (b) Divide the total UEG and cogeneration forecasted revenue for firm transportation from step (a) by UEG and cogeneration forecasted firm transportation volumes. Discounted cogeneration volumes should not be included in this calculation. The result will be the firm transportation parity rate. Utilities may adjust for winter and summer rates as appropriate in compliance with current Commission policy.

   (c) Repeat steps (a) and (b) substituting rates, forecasted revenues and forecasted volumes for <u>interruptible</u> rather than firm transportation where appropriate. The result will be the interruptible transportation parity rate.

3. Cogeneration default rates to reflect this new parity rate should be refiled whenever 1) a UEG customer receives a discounted rate for either firm or interruptible service that was not included in the BCAP forecast, 2) the nature of service under an existing discounted contract changes, or 3) a discounted UEG contract expires. Thus, cogeneration default rates may be revised either up or down, but should not rise over the tariffed rate set in the utilities' last ratemaking proceeding.

4. Changes to cogeneration default rates should be filed by advice letter as necessary based on the conditions set forth in item 3, but no more than once per month. These advice letter filings should be handled as compliance filings and will be effective on filing. Utilities should note that a monthly filing is not necessary if there has been no change to the cogeneration default rate.

5. CACD recommends that the utilities establish a memorandum account to record the shortfall resulting

from establishing rate parity on a contemporaneous basis between cost allocation proceedings. The allocation of any balance in this account should be addressed in the utilities' next cost allocation proceeding.

FINDINGS

1. Public Utilities Code Section 454.4 requires the Commission to establish rates for gas used in cogeneration projects not higher than rates established for gas used by UEG's.

2. The Commission stated that any discounts given to UEG customers should be incorporated into rates for cogeneration customers on a contemporaneous basis.

3. In D.91-11-025, the Commission adopted rules for Capacity Brokering which state that qualifying facilities shall be eligible for firm and interruptible transportation service, and core subscription service, at the UEG rates for equivalent levels of service.

4. In D.92-07-025, the Commission orders that utility rates for cogenerators shall be equal to UEG rates on a service-level basis.

5. PG&E's proposed rate parity methodology should not be adopted because it does not appear to calculate rate parity on a service-level basis.

6. Cogenerator discounts should not be included in the calculation of the default cogeneration rate.

7. The default rate for cogeneration customers should be equalized with the average UEG rate.

8. The calculation of contemporaneous rate parity should not begin until full implementation of Capacity Brokering for PG&E.

9. PG&E should apply the parity methodology adopted in this Resolution to all discounted contracts whether they are filed by application or advice letter, or whether they are short or long term.

10. PG&E should recalculate parity if the nature of service changes under an existing contract.

11. CCC's proposed methodology for rate parity should be rejected because it does not include cogeneration revenues and throughput forecasts in the parity calculation.

12. SDG&E's methodology should be rejected because it does not specify whether rate parity will be calculated on a service-level basis.

13. SDG&E's proposed weighting methodology would not provide rate parity between UEG and cogeneration rates because the rate cogenerators would pay after the UEG receives a discount would be higher than the average rate the UEG would pay after the discount.

14. SDG&E should revise cogenerator rates not only upon approval of a newly discounted UEG contract, but also when the nature of service under an existing contract changes.

15. It is not acceptable to limit the volumes for which cogenerators receive parity because neither the Commission nor Public Utilities Code Section 454.4 has limited the volumes to which the parity rate would apply.

16. SoCalGas' Proposal A should be rejected because it does not provide for service-level parity as established in the Capacity Brokering decisions.

17. SoCalGas' Proposal B limits the amount of service that a cogenerator may receive at the parity rate.

18. SoCalGas' Proposal B should be modified to remove this limitation.

19. SoCalGas should offer parity to cogeneration customers that includes any discounts to firm service offered to UEG customers.

20. Cogenerator rate parity should be calculated on a service-level basis. This means that the cogeneration default rate for interruptible service will be equalized with the average UEG rate for interruptible service and that the cogeneration default rate for firm service will be equalized with the average UEG rate for firm service.

21. The steps to calculate parity should be as follows:

(a) Calculate UEG and cogeneration forecasted revenues for firm transportation for the cost allocation period. These revenues are the sum of 1) UEG firm discounted rates multiplied by contract volumes 2) standard UEG rates for firm transportation multiplied by remaining non-discounted contract volumes, and 3) standard cogeneration rates for firm transportation multiplied by contract volumes.

(b) Divide the total UEG and cogeneration forecasted revenue for firm transportation from step (a) by UEG and cogeneration forecasted firm transportation volumes. Discounted cogeneration volumes should not be included in this calculation. The result will be the firm transportation parity rate. Utilities may adjust for winter and summer rates as appropriate in compliance with current Commission policy.