

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND  
COMPLIANCE DIVISION  
Energy Branch

RESOLUTION G-3106  
January 19, 1994

R E S O L U T I O N

RESOLUTION G-3106. SOUTHERN CALIFORNIA GAS COMPANY  
REQUESTS APPROVAL OF A FUEL CELL INSTALLATION AND  
OPERATION AGREEMENT BETWEEN SOUTHERN CALIFORNIA GAS  
COMPANY AND THE COUNTY OF SANTA BARBARA.

BY ADVICE LETTER 2221-G, FILED ON OCTOBER 13, 1993.

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SUMMARY

1. By Advice Letter 2221-G, Southern California Gas Company (SoCalGas) submits for approval a service agreement between SoCalGas and the County of Santa Barbara for the installation and operation of a 200 kW fuel cell. SoCalGas requests approval of all the terms and conditions of the agreement, and specifically requests a finding that the agreement and the rates contained therein are just and reasonable.
2. No protests have been filed.
3. This Resolution approves the agreement as filed.

BACKGROUND

1. By Advice Letter 1856, SoCalGas requested to reallocate unspent and deferred marketing program funds to a proposed new Non-Residential Fuel Cell Program (Fuel Cell Program).
2. In Resolution G-2871, the Commission authorized the reallocation of funds but made them subject to refund pending approval of the Fuel Cell Program in SoCalGas' Test Year 1990 General Rate Case (GRC).
3. In its Test Year 1990 GRC application (A.88-12-047), SoCalGas requested Commission authority to purchase and install ten fuel cells in conjunction with its Fuel Cell Program.
4. In Decision (D.) 90-01-016, the Commission approved SoCalGas' proposed Fuel Cell Program and authorized SoCalGas to purchase, install and operate ten pre-commercial fuel cells for demonstration purposes.

5. By Advice Letter 2106-G and Advice Letter 2152-G, SoCalGas requested approval of two separate contracts between SoCalGas and a selected customer to install and operate a 200 kW fuel cell as part of its Fuel Cell Program.
6. The Commission approved Advice Letter 2106-G and Advice Letter 2152-G by Resolution G-3001 and Resolution G-3037, respectively.
7. By Advice Letter 2221-G, SoCalGas has submitted for approval a service agreement between SoCalGas and the County of Santa Barbara (the Agreement) for the installation and operation of a 200 kW fuel cell as part of SoCalGas' Fuel Cell Program. The fuel cell is to provide electricity and hot water to the County Jail operated by the County of Santa Barbara.

#### NOTICE

Advice Letter 2221-G was served on other utilities, government agencies, and to all interested parties who requested such notification, in accordance with the requirements of General Order 96-A.

#### PROTESTS

No protests have been received by the Commission Advisory and Compliance Division (CACD).

#### DISCUSSION

1. In Advice Letter 1856 (filed February 16, 1989), SoCalGas described its proposed Fuel Cell Program as follows:

SoCalGas intends to offer the fuel cell to its customers as a Partial Energy Service (PES). The customer will buy gas for the fuel cell, at the cogeneration rate, and use the thermal and electric outputs to displace the site requirements. SoCalGas will own and maintain the fuel cell at the customer's site. Company revenues for the fuel cell will be realized by charging the customer a facility fee to recover costs for owning and maintaining the equipment but structured so that the customer would still realize a savings on overall utility costs.
2. In Resolutions G-3001 and G-3037, the Commission approved two contracts to install, operate and maintain 200 kW fuel cells as part of the Fuel Cell Program described in Advice Letter 1856.
3. In Advice Letter 2221-G, SoCalGas is requesting Commission approval of another agreement regarding installation and operation of a fuel cell as part of its Fuel Cell Program.

4. With the exception of minor wording changes and a change to reflect the site specific need to be able to switch the destination of the electrical energy, the Agreement submitted in Advice Letter 2221-G is essentially the same as the contract approved by Resolution G-3037.

5. In Resolution G-3037, the Commission found that in order to approve the reasonableness of a fuel cell contract the Commission must consider the following items:

- 1) Did SoCalGas use the applicable tariffs in calculating contract terms?
- 2) Is the level of discount below the avoided costs of the customer reasonable?
- 3) Is SoCalGas ensuring an appropriate mix of customers in its fuel cell program?
- 4) Is the length of the terms of the contract reasonable?
- 5) Are the other terms and conditions of the contract reasonable?

6. Under the Agreement, SoCalGas will charge the County of Santa Barbara for the electrical energy generated by the fuel cell (at Southern California Edison's existing TOU-8 rate) plus the cost of gas (billed at SoCalGas' GN-10 commercial and industrial core rate) equivalent to the thermal load met by the fuel cell. The County of Santa Barbara will also pay SoCalGas for the gas used by the fuel cell (billed at GN-52 cogeneration rate). CACD has determined that SoCalGas used the appropriate tariffed rates to calculate the costs to the County of Santa Barbara for purposes of the Agreement.

7. In order to ensure that the County of Santa Barbara has a guaranteed savings from the fuel cell, SoCalGas will provide a discount. A 15% discount was negotiated and provided for in the Agreement. This discount is deducted from the price the County of Santa Barbara pays for the value of the electrical and thermal energy produced by the fuel cell less the cost of gas used by the fuel cell. This discounting method is consistent with methods used in similar business contracts for conventional third party owned cogeneration facilities.

8. The fuel cell contract that was approved by Resolution G-3037 also contained a 15% customer discount provision. In this same Resolution, however, the Commission ordered that SoCalGas should provide a greater level of documentation of the negotiating history and the level of discounts offered by competing vendors of cogeneration technology for all additional fuel cell program contracts with discounts greater than 10%.

9. SoCalGas claims that there is no written history of the negotiations that led up to the Agreement. The Agreement was negotiated and signed in late 1991, around the same time the contract that was approved by Resolution G-3037 was signed. Resolution G-3037 was not issued until early 1993. Therefore, the negotiations preceded the documentation requirement.

10. In workpapers to Advice Letter 2221-G, SoCalGas provided documentation regarding the level of discounts offered by competing cogeneration vendors. CACD verified that a 15% discount was not the largest, but actually more in the mid range of discount rates offered by competing cogeneration suppliers. SoCalGas stated that 15% is the maximum it would consider. CACD believes the 15% discount offered to the County of Santa Barbara in the Agreement is reasonable considering the specific conditions which applied at the time it was negotiated.

11. By Resolution G-3001 and Resolution G-3037, the Commission approved contracts for fuel cell installations at an air quality management district headquarters and at a hotel, respectively. The Agreement provides for the installation and use of a fuel cell at a county jail. Providing electrical and thermal energy with a fuel cell installation at a jail facility affords a unique opportunity to further demonstrate the operation of a fuel cell under diverse conditions and thus expands upon the diversification intended for SoCalGas' fuel cell demonstration program. CACD believes that SoCalGas is ensuring an appropriate mix of customers in its Fuel Cell Program.

12. The term of the Agreement is 20 years. In Resolution G-3037, the Commission found that a 20-year fuel cell contract was reasonable as long as it was subject to modification through the Commission's General Order 96-A. Similarly, the Agreement provides assurance that future Commission action may modify the terms. Therefore, CACD believes that the term of the Agreement is reasonable.

13. CACD reviewed and considered all other terms and conditions of the Agreement and determined that they are reasonable.

#### FINDINGS

1. The Agreement submitted in Advice Letter 2221-G is substantially similar to the contract approved by Resolution G-3037.

2. SoCalGas' method for charging the County of Santa Barbara for the fuel cell is consistent with the Fuel Cell Program as described in Advice Letter 1856.

3. SoCalGas used the appropriate tariffed rates to calculate the costs to the County of Santa Barbara for purposes of the Agreement.

4. The discount method used by SoCalGas in order to ensure that the County of Santa Barbara has a guaranteed savings from the fuel cell, is consistent with discounting methods used in similar business contracts for conventional third party owned cogeneration facilities.

5. The 15% negotiated discount between SoCalGas and the County of Santa Barbara is reasonable.

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6. The installation and use of a fuel cell at a county jail facility expands upon the diversification of customers intended for SoCalGas' Fuel Cell Program.

7. The 20-year term of the Agreement is reasonable since it is subject to Commission modification through General Order 96-A.

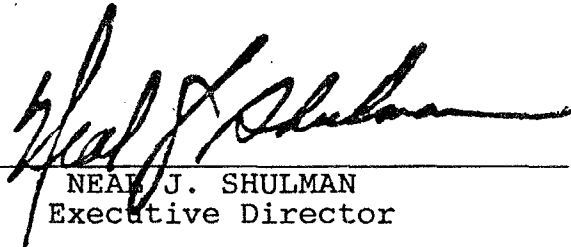
8. The terms and conditions of the Agreement, and the rates contained therein, are reasonable given the specific situations as they apply at the time the contract was negotiated.

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**THEREFORE, IT IS ORDERED that:**

- (1) Southern California Gas Company's fuel cell service agreement with the County of Santa Barbara as submitted in Advice Letter 2221-G shall be approved with an effective date of January 19, 1994.
- (2) Advice Letter 2221-G shall be marked to show that it was approved by Commission Resolution G-3106.
- (3) This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on January 19, 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