

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-3107
January 19, 1994

R E S O L U T I O N

RESOLUTION G-3107. SOUTHERN CALIFORNIA GAS COMPANY
REQUESTS APPROVAL OF THREE SEPARATE FUEL CELL
INSTALLATION AND OPERATION AGREEMENTS BETWEEN SOUTHERN
CALIFORNIA GAS COMPANY AND KAISER FOUNDATION HOSPITALS.

BY ADVICE LETTER 2224-G, FILED ON OCTOBER 14, 1993.

SUMMARY

1. By Advice Letter 2224-G, Southern California Gas Company (SoCalGas) submits for approval separate service agreements between SoCalGas and Kaiser Foundation Hospitals (Kaiser) for the installation and operation of three 200 kW fuel cells. Two of the fuel cells will be located at Kaiser's medical care facility in Riverside and one will be located at its Anaheim medical care facility. SoCalGas requests approval of all the terms and conditions of the agreements, and specifically requests a finding that the agreements and the rates contained therein are just and reasonable.
2. No protests have been filed.
3. This Resolution approves the agreements 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 2224-G, SoCalGas has submitted for approval service agreements between SoCalGas and Kaiser (the Agreements) for the installation and operation of three 200 kW fuel cells as part of SoCalGas' Fuel Cell Program. The fuel cells are to provide electricity and hot water to medical care facilities operated by Kaiser.

NOTICE

Advice Letter 2224-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 2224-G, SoCalGas is requesting Commission approval of three additional agreements regarding installation and operation of fuel cells as part of its Fuel Cell Program.

4. With the exception of minor wording changes and an addendum which makes changes necessary to reflect the nature of the medical care business and the regulatory requirements imposed upon vendors to medical facilities, the Agreements submitted in Advice Letter 2224-G are essentially the same as the contract which was 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 Agreements, SoCalGas will charge Kaiser for the electrical energy generated by the fuel cells (at Southern California Edison's existing TOU-8 rate) plus the cost of gas (billed at SoCalGas' GN-10 small commercial and industrial core rate) equivalent to the thermal load met by the fuel cells. Kaiser will also pay SoCalGas for the gas used by the fuel cells (billed at GN-52 cogeneration rate). CACD has determined that SoCalGas used the appropriate tariffed rates to calculate the costs to Kaiser for purposes of the Agreements.

7. In order to ensure that Kaiser has guaranteed savings from the fuel cells, SoCalGas will provide a discount. A 15% discount was negotiated and provided for in the Agreements. This discount is deducted from the price Kaiser pays for the value of the electrical and thermal energy produced by the fuel cells less the cost of gas used by the fuel cells. 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 Agreements. The Agreements were 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 2224-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 Kaiser in the Agreements is reasonable considering the specific conditions which applied at the time they were 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 Agreements provide for the installation and use of fuel cells at medical care facilities. Providing electrical and thermal energy with fuel cell installations at medical care facilities affords a unique opportunity to further demonstrate the operation of fuel cells 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 each of the Agreements is 20 years. In Resolution G-3037, the Commission determined 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 Agreements provide assurance that future Commission action may modify the terms. Therefore, CACD believes that the 20-year terms of the Agreements are reasonable.

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

FINDINGS

1. The Agreements submitted in Advice Letter 2224-G are substantially similar to the contract approved by Resolution G-3037.

2. SoCalGas' method for charging Kaiser for the fuel cells 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 Kaiser for purposes of the Agreements.

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

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5. The 15% negotiated discount between SoCalGas and Kaiser is reasonable and the level of documentation provided by SoCalGas for these contracts is sufficient considering the dates of the negotiations.

6. The installation and use of fuel cells at medical care facilities expands upon the diversification of customers intended for SoCalGas' Fuel Cell Program.

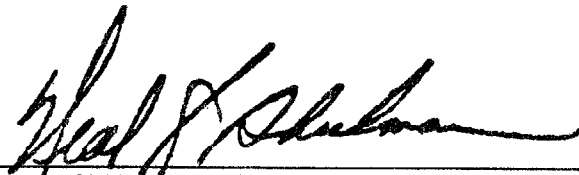
7. The 20-year terms of the Agreements are reasonable since they are subject to Commission modification through General Order 96-A.

8. The terms and conditions of the Agreements, and the rates contained therein, are reasonable given the specific situations as they apply at the time the contracts were negotiated.

THEREFORE, IT IS ORDERED that:

- (1) Southern California Gas Company's fuel cell service agreements with Kaiser as submitted in Advice Letter 2224-G shall be approved with an effective date of January 19, 1994.
- (2) Advice Letter 2224-G shall be marked to show that it was approved by Commission Resolution G-3107.
- (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:


NEAL J. SHULMAN
Executive Director

DANIEL Wm. FESSLER
President
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
P. GREGORY CONLON
JESSIE J. KNIGHT, Jr.
Commissioners