State of California | The Resources Agency

# Memorandum

Date: December 3, 2002

To: Honorable Loretta Lynch, President
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

From: **Department of Water Resources**

Subject: Rulemaking 01-10-024 – Allocation of Product D of the Williams Energy Marketing and Trading Company Power Purchase Contract to Southern California Edison Company

This memorandum requests that the California Public Utilities Commission ("CPUC" or "Commission") modify Decision 02-09-053, which among other things allocated energy and capacity products delivered under the long-term power purchase contracts of the California Department of Water Resources ("DWR") amongst the investor owned utilities. In Decision 02-09-053, the Commission allocated the contact between DWR and Williams Energy Marketing and Trading Company ("Williams") to San Diego Gas and Electric Company (SDG&E). DWR recommends that the Commission consider allocating Product D of the Williams contract to Southern California Edison Company ("SCE").

Product D is a capacity product. Recently, renegotiations of the Williams contract were completed. Given the current allocation of the Williams contract to SDG&E, the economic and system reliability benefits achieved through the renegotiations may be diminished. DWR recommends that the Commission consider modifying Table 1 of Decision 02-09-053 to allocate Product D of the Williams contract to SCE.

## I. Background

On February 16, 2001, DWR entered into a contract with Williams. On September 19, 2002, the Williams contract was allocated to SDG&E by CPUC Decision 02-09-053, which issued as part of the Commission's generation procurement proceeding (Rulemaking 01-10-024). On November 11, 2002, the Williams contract was amended as a result of renegotiations, which occurred over a period of time spanning the Commission's generation procurement proceeding. The original contract delivered up to 1,400 MW of must take energy products to SP15. The amended contract delivers 60% less must take energy and up to 1,175 MW of dispatchable capacity. While the must take energy continues to be delivered to SP15, the dispatchable capacity is delivered to the bus bar of the Designated Units. The Designated Units are located in local reliability areas within SCE's service territory.

## II. Re-Allocation of the Williams Contract Product D Will Likely Result In Increased System Reliability and Economic Benefits for Ratepayers

DWR has identified several advantages to allocating Product D of the Williams Contract to SCE. These include the following:

Economic and Reliability Benefits: One purpose of the amendment of the Williams contract was to secure dispatch control of reliability generation within the SCE service territory. The expectation was that SCE, with its large ancillary services requirements, would be allocated the Williams dispatchable capacity. Allocation of Product D to SCE will allow it to avoid other capacity purchases and ensure economic and system reliability benefits to the end use customers.

Demand for Reserves: The ancillary services that the Designated Units are capable of providing include spinning and non-spinning reserves. In addition the Designated Units provide a hedge against price spikes. SDG&E has a projected demand for spinning and non-spinning reserves of about 230 MW. SCE has a projected demand for reserves in excess of 1,000 MW. The dispatchable capacity of the Williams contract exceeds the SDG&E demand for reserves by up to four times. However, it meets a portion of the SCE demand for reserves.

Delivery Point: The original contract delivered must take energy from the market to SP15. Williams had the right to deliver energy from any market source. Product D dispatchable capacity is located within the SCE service territory. Under the contract, Williams has no substitution rights. The delivery point is the bus bar of the facilities that is adjacent to SCE load in constrained areas.

Familiarity with Designated Units: The Designated Units were designed, constructed, and operated for SCE. SCE is the former owner and is familiar with the operating characteristics of the Units. Such familiarity with the Designated Units will ease the integration into SCE's resource portfolio.

Price Hedge: The dispatchable capacity is a hedge against energy price spikes. The primary function of the Designated Units is to provide dispatchable capacity. However, the ability to call on the resources will be a hedge against local price spikes in demand zones with limited generation and transmission constraints.

Energy Needs: The original contract delivered about 65,000 GWh of must take energy. The amendment reduced the must take energy to about 25,000 GWh. DWR recommends that the must take energy continue to be allocated to SDG&E. However, Product D is a capacity product and will provide relatively small amounts of energy. A re-allocation of Product D to SCE will not result in a significant reduction in energy supplied to SDG&E under the Williams contact.

## III. Alternatives and Possible Concerns Associated with Re-allocating Product D of the Williams Contract to SCE

Bilateral Sale by SDG&E: An alternative to re-allocation of Product D to SCE is a bilateral sale of dispatchable capacity and associated energy between SDG&E and SCE. This solution might avoid re-opening the allocation proceedings. However, that benefit is likely to be more than offset by the complex administration of the contracts for the next eight years.

SDG&E Energy Needs: It is possible that the re-allocation of Product D to SCE will unsettle the balance the CPUC achieved in Decision 02-098-053. However, the nature of Product D should mitigate any possibility of this outcome. Product D provides significant capacity but a relatively small amount of energy. In all likelihood the re-allocation of Product D will not alter the SDG&E need to purchase energy.

Interim Procurement: The IOUs are contracting for energy and capacity under the CPUC Interim Procurement proceeding. It is likely that re-allocation of Product D to SCE is consistent with the utilities procurement needs. Further, SDG&E is unlikely to procure significant amounts of dispatchable capacity in its interim procurement.

Broader Allocation: The CPUC may find that a re-allocation of the entire Williams contract and subsequent re-allocation of a contract from SCE to SDG&E is necessary to restore the parity the CPUC sought in the Decision 02-09-053.

For all of the above reasons, DWR recommends that the Commission consider the re-allocation of Product D of the Williams contract to SCE. DWR expects that a re-allocation to SCE will result in significant economic and reliability benefits to the customers of the investor owned utilities. If you have any questions or need additional information, please contact me at (916) 574-2733.

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cc: (See attached list.)

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Service List Rulemaking 01-10-024 (via electronic mail)