Decision **PROPOSED DECISION OF COMMISSIONER PEEVEY**
(Mailed 4/20/2009)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking into implementation of Public Utilities Code Section 390.	Rulemaking 99-11-022 (Filed November 18, 1999)

DECISION GRANTING PACIFIC GAS AND ELECTRIC COMPANY'S PETITION TO MODIFY DECISION 01-01-007

1. Summary

This decision grants Pacific Gas and Electric Company's Petition for Modification of Decision 01-01-007, to address on an interim basis, calculation of the transmission line loss factors used to determine payments to certain Qualifying Facilities (QF) following implementation of California Independent System Operator's new market structure, referred to as the Market Redesign and Technology Upgrade (MRTU). This modification will continue the calculation of Generation Meter Multiplier (GMM) factors based on appropriate historical GMM-based factors. The calculation of transmission line loss factors will continue until the Commission determines it should be changed.

2. Procedural Background

Decision (D.) 01-01-007 (January 4, 2001), adopted a GMM-based formula for the transmission line loss factor in calculating QF payments.[1] The adopted GMM-based energy line loss factor equals the QFs' project GMM divided by the system average GMM (GMMqf/GMMsys). "Line losses" refers to power losses that occur when electricity is transmitted over power lines. The Public Utilities Regulatory Policy Act of 1978 (PURPA) established that costs or savings from line losses should be incorporated into the avoided cost payments made to QFs.[2] Prior to the implementation of MRTU, the California Independent System Operator (CAISO) calculated GMM in order to calculate line losses to determine payments to QFs under Public Utilities Code Section 390(b). However, the CAISO no longer makes these calculations.

In a settlement agreement[3] (PG&E)/IEP Settlement) adopted by D.06-07-032 (July 20, 2006), the parties recognized that CAISO might discontinue GMM calculations, but that it was necessary to continue GMM calculations until

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1 Although QFs also receive capacity payments, the formula only applies to energy line losses.

2 PURPA established that, to the extent practicable, "the costs of savings resulting from variations in line losses from those that would have existed in the absence of purchases from a QF, if the purchasing electric utility generated an equivalent amount of energy itself or purchased an equivalent amount of electric energy or capacity" (18 CFR 292.304(E)(4)) should be incorporated into avoided cost payments. D.01-01-007, at 4-5.

3 The settlement is between Pacific Gas and Electric Company (PG&E) and many QFs, the majority of whom are represented by the Independent Energy Producer's Association (IEP).

there was a transition to an electricity market-based Short Run Avoided Cost (SRAC) mechanism that reflects line losses in the energy price.[4]

In D.07-09-040,[5] "An Opinion on Future Policy and Pricing For QFs," the Commission acknowledged the Federal Energy Regulatory Commission's regulations to include line loss factors, but declined to modify the GMM calculation as part of that decision.[6] Later, in D.08-07-048, "An Order Modifying D.07-09-040 … ," the Commission addressed, among other issues, determination of whether the MRTU day-ahead market was properly functioning.[7]

On January 16, 2008, PG&E filed a Petition to Modify D.01-01-007 (Petition). PG&E's Petition requests that D.01-01-007 be modified to address, on an interim basis, calculation of the transmission line loss factors used to determine payments to certain QFs[8] once the CAISO implements its MRTU.[9] PG&E proposes an interim method for use until the appropriate QF energy line loss factors under the MRTU are determined by the Commission. On February 15, 2008, IEP responded to PG&E's Petition (IEP Response), and on March 10, 2008, PG&E replied to IEP.

No party has requested a hearing.

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[4] *See*, Settlement Agreement between PG&E and IEP adopted by D.06-07-032, at 14-15.

[5] D.07-09-040 was adopted September 20, 2007 in R.04-04-003 and R.04-04-025.

[6] D.07-09-040 at 73.

[7] A properly functioning MRTU day-ahead market would include the line losses currently considered through calculation of GMMs.

[8] As discussed below, since the continued calculation of GMMs is a provision in the PG&E/IEP Settlement, PG&E's Petition only applies to those QFs which are not subject to the PG&E/IEP Settlement (Non-Settling QF).

[9] The MRTU day-ahead market began operating on March 31, 2009.

3. Discussion

3.1. Line Losses in QF Energy Payments

Although development of appropriate line loss factors as a component of MRTU implementation has been delayed, PG&E correctly identifies a need to continue the calculation of line losses in determining payments to QFs. The Commission did not and has not addressed the matter of line losses in its development of correct QF payments under MRTU. As discussed in D.07-09-040, the Market Index Formula (MIF) is based on the Transition Formula (SRAC), and on that basis the Commission concluded it was unnecessary to modify the GMM calculation at that time.[10] Furthermore, it is apparent that line loss considerations in QF payments are a concern since the PG&E/IEP Settlement includes a provision to continue the calculation of GMMs in the absence of these calculations by the CAISO. Finally, PURPA requires that line losses be a component of the price paid QFs , and until such line losses are included in MRTU QF prices it is reasonable that line loss effects be included in QF prices.

3.2. Line Loss Methodology

PG&E proposes that a modification to D.01-01-007 that continues the inclusion of line losses in QF prices apply to Non-Settling QFs. PG&E's proposal would replace the current GMM-based energy line loss formula by the appropriate historical GMM-based factors. PG&E argues that different categories of QFs have somewhat different GMM formulas, and thus each QF would have a particular GMM formula. The GMM-based energy line loss factors

[10] D.07-09-040 at 73.

would be determined on a monthly basis which reflects monthly variations in GMMs.

Although IEP opposes PG&E's Petition, IEP does not propose an alternative mechanism to account for line losses. IEP also states that it while it does not necessarily disagree with the need to account for line loss calculations, IEP believes that an interim protocol such as PG&E proposes should last only until MRTU becomes the basis for SRAC and should only apply to the formula component of the MIF.

PG&E's proposed GMM methodology recognizes that such GMM based energy line loss factors vary during the year. Using this GMM-based energy line loss factor methodology is different from the methodology included as a provision in the PG&E/IEP Settlement. However, adoption of a method different than the method included in the PG&E/IEP Settlement is reasonable as it reflects historical factors, and any single provision of a settlement may not be the only reasonable outcome, since a settlement resolves many issues simultaneously through tradeoffs among the parties.

3.3. What is the Interim Period for the Line Loss Methodology?

PG&E proposes that the GMM-based line loss calculation continue in effect until the appropriate QF energy line loss factors in the MRTU market environment are determined to be properly functioning by the Commission. Similarly, IEP would only include these interim measures until the MRTU becomes the basis for SRAC. In D.08-07-048 at 15-16, the Commission indicated that it would determine the proper functioning of the MRTU market, by an Assigned Commissioner Ruling in R.04-04-003/R.04-04-025. We agree that the transitional line loss methodology should continue until the Commission determines that it should be changed. Our modification of D.01-01-007 will reflect that determination.

In the event the Commission has not made this determination within a year of the effective date of this decision, we will revisit our adopted transitional line loss mechanism.

4. Compliance with Rule 16.4(d)

Rule 16.4(d) provides in part that "If more than one year has elapsed [since the effective date of the decision proposed to be modified], the petition must also explain why the petition could not have been presented within one year of the effective date of the decision." PG&E explains that it was uncertain that the CAISO would discontinue calculation of GMMs early in 2002. Consequently, a petition to modify would not have been justified within a year after the issuance of D.01-01-007. As it is now known that the CAISO will no longer calculate GMMs, PG&E filed the Petition. Although more than one year has passed since the issuance of D.01-01-007, given these circumstances PG&E's Petition is timely.

5. Conclusion

For all of the foregoing reasons, PG&E's Petition to modify D.01-01-007 should be granted as set forth in the order below.

6. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and Rule 14.3 of the Commission's Rules of Practice and Procedure. Joint comments were filed on May 11, 2009 by PG&E and Southern California Edison Company. Comments were also filed on May 11, 2009, by IEP. We make no substantive changes to the proposed decision in response to the comments, but make minor changes to clarify application and duration of the transitional line loss factor mechanism.

7. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Bruce DeBerry is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. The CAISO no longer calculates GMM-based energy line loss factors.
2. GMM-based energy line loss factors should be included in the energy prices paid to QFs.
3. PURPA requires that costs or savings from line losses should be incorporated into QF avoided cost payments.
4. A settlement agreement adopted by D.06-07-032 includes a provision that GMM calculations that reflect energy line losses would continue until there was a transition to an electricity market-based SRAC mechanism that reflects line losses in the energy price, in the event that the CAISO discontinued its GMM calculations.
5. In D.07-09-040, the Commission declined to modify GMM.
6. In D.08-07-048, the Commission indicated that an assigned Commission's ruling in R.04-04-003/R.04-04-025 would determine the proper functioning of the MRTU market.
7. It is reasonable to calculate GMM-based energy line losses on a monthly basis which reflect monthly variations in GMMs for different categories of QFs.
8. The GMM-based energy line loss methodology included in the PG&E/IEP settlement is one of many issues resolved through that settlement, and reflects the reasonable outcome of settlement negotiations.
9. GMM-based energy line loss calculations should continue until the appropriate QF energy line loss factors in the MRTU market are determined to be properly functioning by the Commission.

10. No party has requested a hearing.

Conclusions of Law

1. PG&E has complied with Rule 16.4(d).
2. D.01-01-007 should be modified as set forth in the Order below.
3. It is reasonable to use the GMM-based energy line loss calculations adopted herein beginning on April 1, 2009, when the CAISO discontinued calculating GMMs on an ongoing basis.

O R D E R

IT IS ORDERED that:

Pacific Gas and Electric Company's Petition to Modify Decision (D.) 01-01-007 is granted and D.01-01-007 is modified to add the following language:

> After Generation Meter Multipliers (GMM) are discontinued by the California Independent System Operator (CAISO), then for those Qualifying Facilities (QF) subject to the provisions of D.01-01-007, and which are QFs not addressed in the Settlement adopted by the Commission in D. 06-07-032, the line loss factor to be used to calculate QF payments will be derived for each month using the average of the hourly GMM-based loss factors for each QF for the same month from the last year for which GMMs were calculated by the CAISO. This interim method shall continue in effect until the Commission determines that it should be changed. In the event the Commission has not made the determination within a year of the effective date of this decision, we will revisit our adopted transitional line loss mechanism.

This order is effective today.

Dated _____________________________, at San Francisco, California.