

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Promote Policy and Program Coordination and Integration in Electric Utility Resource Planning.

Rulemaking 04-04-003
(Filed April 1, 2004)
(QF Issues)

Order Instituting Rulemaking to Promote Consistency in Methodology and Input Assumptions in Commission Applications of Short-Run And Long-Run Avoided Costs, Including Pricing for Qualifying Facilities.

Rulemaking 04-04-025
(Filed April 22, 2004)
(QF Issues)

ORDER PROPOSING TO RECONSIDER ADMINISTRATIVE HEAT RATES FOR SOUTHERN CALIFORNIA EDISON COMPANY, PACIFIC GAS AND ELECTRIC COMPANY, AND SAN DIEGO GAS AND ELECTRIC COMPANY ADOPTED IN DECISION (D.) 07-09-040

In Opinion on Future Policy and Pricing for Qualifying Facilities [Decision (D.) 07-09-040] (2007) __ Cal.P.U.C.3d __, we adopted specific policies and pricing mechanisms applicable to the electric utilities' purchase of energy and capacity from qualifying facilities ("QFs") pursuant to the Public Utilities Regulatory Policy Act of 1978 ("PURPA") (16 U.S.C. § 824a-3). Among other things, D.07-09-040 adopted the Market Index Formula ("MIF"), which is an updated short-run avoided cost ("SRAC") formula for pricing SRAC energy. We determined that the incremental energy rate ("IER" or "heat rate") in the MIF should be calculated by averaging a market-based heat rate component and an administratively determined heat rate component.

In D.07-09-040, we adopted an administrative heat rate of 9,705 Btu/kWh for Southern California Edison Co. ("Edison"), which had been proposed by the California Cogeneration Council ("CCC") in its Comments dated September 10, 2007 to

the Alternate Proposed Decision of August 20, 2007. We adopted this heat rate because: “This value represents the average administrative heat in effect for [Edison] under the Transition Formula adopted in D.96-12-028 and modified in D.01-03-067.” (D.07-09-040, p. 66, emphasis added.)

In D.07-09-040, we adopted administrative heat rates of 9,794 Btu/kWh and 9,603 Btu/kWh for Pacific Gas and Electric Company (“PG&E”) and San Diego Gas and Electric Company (“SDG&E”), respectively. We stated that we were adopting these heat rates because they were the heat rates adopted in D.96-12-028. (D.07-09-040, p. 66.)

Upon further review, we realize that there may be an error regarding our reliance on CCC’s proposal in our adoption of Edison’s administrative heat rate. In *Interim Opinion Replacing the Index Methodology for Calculating Avoided Energy Costs* (“*Transition Formula Decision*”) [D.96-12-028] (1996) 69 Cal.P.U.C.2d 546, we stated that: “[The Transition Formula] was computed by using the 1995 averages for short-run avoided energy prices paid by [Edison].... The starting gas index price shall be computed as an average of the same period, as directed by [Public Utilities Code] § 390.” (*Id.* at p. 553.) We adopted an IER of 9,140 Btu/kWh for Edison for the 1994 and 1995 forecast periods. (*Re Southern California Edison Company* [D.94-01-040] (1994) 53 Cal.P.U.C.2d 63, 69.) Therefore, the IER embedded in Edison’s Transition Formula adopted in D.96-12-028 was 9,140 Btu/kWh. An IER of 9,140 Btu/kWh in Edison’s Transition Formula is consistent with our statement in D.01-03-067 that the starting energy price for each utility or Pbase in the Transition Formula was calculated using 1995 values for the IER. (*Order Modifying Decision 96-12-028* [D.01-03-067] (2001) ___ Cal.P.U.C.3d ___, p. 4 (slip op.).)

In adopting the Modified Transition Formula in D.01-03-067, we stated that we did not have a sufficient record to update Edison’s IER. (*Id.* at p. 25 [Finding of Fact 11] (slip op.).) We adopted an IER of 9,140 Btu/kWh for Edison under the Modified Transition Formula. (*Id.* at p. 28 [Ordering Paragraph 4] (slip op.).) In relying on CCC’s proposal for the administrative heat rate, we stated in D.07-09-040 that: “[the Modified Transition Formula] still contains an original 1996 IER.” (D.07-09-040, p. 45.)

However, the heat rate ultimately adopted in D.07-09-040 for Edison of 9,705 Btu/kWh is inconsistent with the 1996 IER and further review is warranted to clarify the grounds for the difference.

We also have similar concerns regarding our adoption of PG&E and SDG&E's administrative heat rates. In D.07-09-040, we stated that we were adopting a heat rate of 9,794 Btu/kWh for PG&E because it was the heat rate adopted in D.96-12-028. In D.96-12-028, we stated that the Transition Formula was computed using 1994 and 1995 average short-run energy prices paid by PG&E. (*Transition Formula Decision* [D.96-12-028], *supra*, at p. 553.) We adopted an IER of 9,303 Btu/kWh for PG&E for 1994. (*Re Pacific Gas and Electric Company* [D.93-12-044] 52 Cal.P.U.C.2d 607, 631 [Ordering Paragraph 3] & 640 [p. 8 of Appendix B].) We adopted an IER of 9,627 Btu/kWh for PG&E for 1995. (*Re Pacific Gas and Electric Company* [D.94-12-047] 58 Cal.P.U.C.2d 188, 210 [Conclusion of Law 12].) Therefore, contrary to our statement in D.07-09-040, we did not adopt an IER of 9,794 Btu/kWh for PG&E in D.96-12-028.

In D.07-09-040, we stated that we were adopting a heat rate of 9,603 Btu/kWh for SDG&E because it was the heat rate adopted in D.96-12-028. In D.96-12-028, we stated that the Transition Formula was computed using 1995 average SRAC prices paid by SDG&E. (*Transition Formula Decision* [D.96-12-028], *supra*, at p. 553.) We adopted an IER of 9,350 Btu/kWh for SDG&E for the period from May 1, 1994 to April 30, 1995. (*Re San Diego Gas and Electric Company* [D.94-04-078] 54 Cal.P.U.C.2d 167, 178 [Ordering Paragraph 7].) We adopted an IER of 9,325 Btu/kWh for SDG&E for the period from May 1, 1995 to April 30, 1996. (*Re San Diego Gas and Electric Company* [D.95-04-076] 59 Cal.P.U.C.2d 455, 462-463 [Ordering Paragraph 3].) Therefore, contrary to our statement in D.07-09-040, we did not adopt an IER of 9,603 Btu/kWh for SDG&E in D.96-12-028.

In order to correct any error regarding our determination of Edison, PG&E and SDG&E's administrative heat rates, we will reconsider this issue on our own motion. Parties will have an opportunity to comment on the following issues: (1) the rationale for the administrative heat rates adopted in D.07-09-040; (2) whether the administrative heat

rates adopted in D.07-09-040 should be modified to be consistent with the rationale given in D.07-09-040; or (3) what other aspects, if any, parties propose the Commission should consider in adopting the administrative heat rates. Until we complete our reconsideration of the administrative heat rates, the administrative heat rates adopted in D.07-09-040 shall remain in place subject to adjustment pending the outcome of our reconsideration of this issue.

FINDINGS OF FACT

1. The average administrative heat rate in effect for Edison under D.96-12-028 and D.01-03-067 was 9,140 Btu/kWh, and not 9,705 Btu/kWh as stated in D.07-09-040.
2. Contrary to the statement in D.07-09-040, the Commission did not adopt an IER of 9,794 Btu/kWh for PG&E in D.96-12-028.
3. Contrary to the statement in D.07-09-040, the Commission did not adopt an IER of 9,603 Btu/kWh for SDG&E in D.96-12-028.

CONCLUSIONS OF LAW

1. D.07-09-040 erred when it adopted an administrative heat rate of 9,705 Btu/kWh for Edison based on the rationale that it was the average administrative heat rate in effect for Edison under D.96-12-028 and D.01-03-067.
2. D.07-09-040 erred when it adopted an administrative heat rate of 9,794 Btu/kWh for PG&E based on the rationale that it was the heat rate adopted for PG&E in D.96-12-028.
3. D.07-09-040 erred when it adopted an administrative heat rate of 9,603 Btu/kWh for SDG&E based on the rationale that it was the heat rate adopted for SDG&E in D.96-12-028.
4. It is reasonable for the Commission on its own motion to reconsider its determination of the administrative heat rates adopted in D.07-09-040.

Therefore, IT IS ORDERED that:

1. The Commission shall reconsider Edison, PG&E and SDG&E's administrative heat rates on its own motion. Parties shall have an opportunity to

comment on the following issues: (1) the rationale for the administrative heat rates adopted in D.07-09-040; (2) whether the administrative heat rates adopted in D.07-09-040 should be modified to be consistent with the rationale given in D.07-09-040; or (3) what other aspects, if any, parties propose the Commission should consider in adopting the administrative heat rates.

2. On an interim basis, the administrative heat rates adopted in D.07-09-040 shall remain in place subject to adjustment pending the outcome of the Commission's reconsideration of the administrative heat rates.

3. The Executive Director shall serve this decision on all parties in Rulemaking 04-04-003 and Rulemaking 04-04-025.

This order is effective today.

Dated November 21, 2008, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY A. SIMON
Commissioners