

Decision 14-07-019 July 10, 2014

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Edison Company (U338 E) for Approval of an Amendment to a Power Purchase Agreement Between the Utility and Chevron U.S.A., Inc. and for Authority to Recover the Costs of Any Purchases Under the Amendment in rates.

Application 13-07-021
(Filed July 30, 2013)

DECISION GRANTING AMENDMENT TO SOUTHERN CALIFORNIA EDISON COMPANY POWER PURCHASE AGREEMENT WITH CHEVRON U.S.A., INC.

1. Summary

This decision approves the proposed amendments to the power purchase agreement between Southern California Edison Company (SCE) and Chevron U.S.A., Inc. and authorizes SCE to recover in rates the costs of any purchases made pursuant to the amendments. This decision also authorizes SCE to count the 45.323 megawatts (MW) of capacity and 0.100883 million metric tonnes carbon dioxide equivalent of greenhouse gas emissions (GHG) reductions resulting from the approved amendments toward SCE's Combined Heat and Power Procurement (CHP) MW and GHG emissions reduction targets adopted in the CHP Settlement. Finally, the output reasonably attributable to the added capacity resulting from the approved amendments should be subject to the Cost Allocation Mechanism treatment as provided by the CHP Program Settlement (CHP Settlement or Settlement) adopted by the Commission in Decision 10-12-035.

This proceeding is closed.

2. Procedural Background

On July 30, 2013, Southern California Edison Company (SCE) filed Application (A.) 13-07-021 for approval of a power purchase agreement (PPA) between Chevron U.S.A., Inc. (Chevron) and SCE. In its application, SCE seeks approval of an amendment (the Amendment) to the Original Qualifying Facility (QF) PPA 2155 whereby the existing Train C and the new Train D would be included as part of the Chevron Facility selling energy and capacity to SCE, the term of the Original QF PPA 2155 would be reduced from evergreen to twelve years and the pricing for energy and capacity payments would be subject to the Annual Energy Delivery Threshold (AEDT).

SCE also seeks authority to recover the costs of any purchases made pursuant to the Amendment in rates. SCE also requests authorization to count the 46.6 megawatts (MW) of capacity of Train D and the greenhouse gas (GHG) emissions associated with that generating unity toward SCE's Combined Heat and Power (CHP) Procurement MW and GHG emissions reduction targets adopted in the CHP Program Settlement (Settlement).

Finally, SCE asks that the California Public Utilities Commission (Commission) to find that the output reasonably attributable to Train D should be subject to Cost Allocation Mechanism (CAM) treatment as provided by the Settlement. SCE contends that the Amendment provides commensurate ratepayer benefits and is consistent with Commission decisions concerning QF contracts.

On September 3, 2013, Office of Ratepayer Advocates (ORA)¹ timely filed its response in support of SCE's proposed Amendment. ORA reviewed SCE's application, supporting confidential testimony and confidential work papers, and concludes the Amendment will likely provide more value to ratepayers than the current QF contract. Specifically, ORA estimates that the reduced term from evergreen to 12 years should result in savings to ratepayers due to avoided contract payments and the fact that pricing and capacity payments in the Amendment are based on a declining AEDT.

ORA also agrees with SCE that under the CHP Settlement, SCE should be able to count the increased capacity and GHG savings derived from the addition of Train D towards SCE's MW and GHG targets, respectively. ORA did not oppose SCE's request to apply CAM treatment to the output reasonably attributable to Train D. ORA's response to SCE's application supported the proposed amendment. As a result, the Commission considers this application to be uncontested.

At the prehearing conference held on January 8, 2014, SCE moved to enter the public version of SCE's prepared testimony into evidence and to enter the confidential version of the prepared testimony into evidence under seal. Both motions were granted as discussed in section 7 below. On April 16, 2014, the assigned Commissioner issued a Scoping Ruling setting the scope of the proceeding, set the procedural schedule, designated the Presiding Officer and

¹ The Division of Ratepayer Advocates was renamed the Office of Ratepayer Advocates effective September 26, 2013, pursuant to Senate Bill No. 96 (Budget Act of 2013: public resources), which was approved by the Governor on September 26, 2013.

changed the preliminary determination on the need for hearing to no hearings necessary.

By motion filed on May 30, 2014, SCE moved to submit supplemental testimony including a Capacity Demonstration test for Train D and offer that testimony into evidence. SCE's motion is granted.

3. Background

The Chevron facility is a cogeneration facility located in El Segundo, California. Under the Chevron PPAs, the Point of Interconnection to SCE is the 66 kilovolt (kV) Chevgen Substation within Chevron's El Segundo refinery. The Delivery Point to the California Independent System Operator controlled grid is the 22kV bus at SCE's Chevmain Substation. Trains A and B within the Chevron Facility each consist of a combustion turbine generator and a heat recovery steam turbine generator. Trains C and D each consist of a combustion turbine generator, a heat recovery steam turbine generator, and steam turbine generator. Trains A and B commenced commercial operation on December 29, 1987. Train C began commercial operation on March 14, 1996. Train D completed commissioning on July 4, 2013 and is now in commercial operation. Trains A through D operate as an integrated system.

On January 6, 1986, Chevron and SCE entered into a Standard Offer 1 (SO1) contract,² QF PPA 2155, which provided for the purchase and sale of electric energy and capacity from Trains A and B. QF PPA 2155 was evergreen and would remain in effect until terminated by Chevron. Chevron was to be paid under the QF PPA 2155 for (i) electric energy delivered at SCE's Avoided

² Most QF contracts were "standard offer" contracts approved by the Commission including Standard Offer 1 (SO1), Standard Offer 2, Standard Offer 3, and Standard Offer 4.

Cost; and (ii) capacity at the Published Avoided Capacity Price from the As Available Schedule.

Chevron and SCE previously modified QF PPA 2155 numerous times as follows:

- Amendment 1: Increased the Nameplate of Trains A and B from 76 to 76.6 MW;
- Amendment 2: Redefined the delivery point to account for the location of Chevron's generation metering point; and
- Amendment 3: a Legacy Amendment that established energy pricing in accordance with the CHP Settlement.³

On March 4, 1996, Chevron and SCE entered into a bypass SO1 contract (Original QF PPA 2480) for Train C, which permitted Chevron to operate Train C to serve on-site electrical load and provide process steam but did not allow Chevron rights to sell energy or capacity to SCE.⁴

4. Issues before the Commission

The following issues are to be considered in this proceeding:

- A. Whether the Amendment proposed in the SCE application is reasonable and in the best interest of SCE's customers and should be approved by the Commission;
- B. Whether the SCE application is consistent with Commission decisions regarding QFs, their contracts, and subsequent amendments;
- C. Whether SCE may count the 46.6 MW of capacity of Train D and the GHG emissions associated with that generating unit toward SCE's CHP Procurement megawatt

³ SCE submitted the Legacy Amendment to the Commission for approval in SCE's Energy Resource Recovery Account A.13-04-001.

⁴ Original QF PPA 2480 was also amended to change termination days, extend the term of the agreement to the date the California Power Exchange opened for trading, and change the term of the agreement to require 60 days written notice of intent to terminate.

- and GHG emissions reduction targets adopted in the CHP Program Settlement;
- D. Whether the output reasonably attributable to Train D should be subject to CAM treatment as provided by the Settlement; and
 - E. Whether the application raises any concerns that would impede or prevent SCE from ensuring the safety of its patrons, employees or the public.

5. Discussion and Analysis

5.1 Reasonableness of the Amendment

SCE requests approval of an amendment to its PPA. The Commission finds that the amendment is reasonable as discussed below and concludes that it should be adopted.

ORA estimates that the Amendment will likely provide more value to ratepayers than the current QF contract. ORA concludes that the reduction of the contract term from evergreen to 12 years will result in savings to ratepayer due to avoided contract payments. ORA adds that pricing and capacity payments in the Amendment are based on a declining AEDT, which further benefits ratepayers.

We agree. The Amendment will result in a commensurate customer benefit, consistent with previous Commission decisions on amending QF contracts.⁵ These benefits shall be derived from shortening the contract term from evergreen to 12 years because of avoided contract payments. In addition, we agree that, because pricing and capacity payments in the Amendment are based on declining AEDT, ratepayers will benefit.

⁵ See Decision (D.) 88-10-032 at Conclusion of Law 3 and D.99-02-085 at 15-16 and Conclusions of Law 2-3.

After reviewing the Application and Testimony, we find that approval of the Amendment does not hinder SCE's ability to meet its obligations under Pub. Util. Code §451 to offer safe and reliable service.

5.2 Compliance with Prior Commission Decisions

The Commission must ensure that SCE has complied with laws and prior decisions relative to this application. Our review of the application, Amendment and testimony indicates that SCE has complied with the appropriate law and Commission decisions, as discussed below.

The Commission requires applications for contracts with a term greater than five years.⁶ Because the energy deliveries under the Amendment take place over a 12 year period, it is appropriate that SCE filed the instant application seeking Commission authorization. SCE's Application is consistent with Commission decisions regarding contracting with QFs and amendments to existing QF contracts.⁷ The Commission previously permitted amendments to QF contracts where commensurate concessions are made by the QF to the benefit of ratepayers.⁸

The Commission adopted the Emissions Performance Standard (EPS) for baseload generation in D.07-01-039. The EPS is applicable to any long-term financial commitment for baseload generation, as defined by D.07-01-039. The proposed Amendment meets the Commission's EPS requirements. Train D is expected to operate at a capacity factor in excess of 60%, and therefore is

⁶ D.04-12-048.

⁷ See D.07-09-040.

⁸ D.99-02-085 at 15-16.

expected to be baseload generation.⁹ Train D is EPS compliant because its net emissions do not exceed 1,100 pounds of carbon dioxide per megawatt hours.¹⁰

The Commission finds that SCE has provided adequate support in its Application and Testimony to substantiate the claim that it has complied with the appropriate law and Commission decisions.

5.3 CHP Settlement MW and GHG Targets

5.3.1 MW Targets

The CHP Settlement established certain MW and GHG targets for SCE. Under the terms of the CHP Settlement SCE must procure at least 1,402 MW (MW Target) by the end of the Initial Program Period, as defined by the CHP Settlement. Section 5.2.5 of the CHP Settlement Term Sheet states that for purposes of calculating a contract's impact on SCE's MW Target:

A new CHP Facility...means gas-fired Topping Cycle CHP Facilities and Bottoming Cycle CHP Facilities using waste heat. The capacity of a New CHP Facility to be used to count progress towards the MW Targets shall be established by a Capacity Demonstration Test. The CHP Facility's capacity, as demonstrated by this test shall exclude auxiliary/station power load. The MWs of capacity for behind the meter CHP Facilities other than SGIP will be the capacity reported to the CEC by the Generating Facility owner and other power plants.¹¹

Under the Amendment, the new Train D generating facility will increase the generating capacity at the El Segundo refinery from 124.2 MW to 170.8 MW. As a result, Chevron will have a new facility (Train D) for the purposes of MW

⁹ D.07-01-039 at 4.

¹⁰ Confidential Testimony Exhibit E.

¹¹ See CHP Settlement Term Sheet, Section 5.2.5.

Target accounting purposes. SCE estimated in its application that the Amendment contributes 46.6 MW towards SCE's MW target.¹²

SCE requests Commission approval to count its purchase of new CHP generation from Train D towards the MW and GHG targets in the CHP Settlement. Under the terms of the CHP Settlement, SCE must verify the capacity of a new CHP Facility to be used to count progress towards the MW targets by a Capacity Demonstration Test.¹³ On May 30, 2014, SCE submitted the requisite Capacity Demonstration Test for Train D to the Commission. The Capacity Demonstration Test establishes the capacity for Train D at 45.323 MW, which is slightly less than the capacity anticipated by SCE.¹⁴ As a result, we find that SCE may count 45.323 MW towards its MW target.

5.3.2 GHG Emissions Reduction Target

SCE asks that this new CHP generation count toward the GHG emissions reduction targets in the CHP Settlement. SCE and Chevron executed the Amendment on May 1, 2013. SCE calculated Chevron's GHG emissions reduction contributions on that date and determined that, because the project involves the addition of a new generating facility, the GHG Credit or Debit should be calculated by measuring the "Double Benchmark" in place at time of PPA execution compared to the anticipated operations reflected in the

¹² At the time SCE submitted its Application to the Commission, the Capacity Demonstration Test had not been completed.

¹³ See CHP Settlement Term Sheet, Section 5.2.5.

¹⁴ The demonstrated capacity is the average of 8 tests measuring output power, summed for both the combustion turbine and the steam turbine. The Capacity Demonstration Test submitted was reviewed by Energy Division staff.

Amendment.¹⁵ SCE requests authorization to count the GHG credit of 0.100883 million metric tons carbon dioxide equivalent (CO₂e) towards its GHG emissions reduction target.¹⁶

We agree and grant SCE's request.

5.3.3. Cost Recovery Mechanism

SCE requests Commission authorization to recover costs incurred pursuant to the Amendment through rates, subject only to further review with respect to the reasonableness of SCE's administration of the Amendment. We find the request by SCE to recover the costs of the amendment through rates is reasonable.

5.3.4. 5.3.4 Cost Allocation Mechanism Treatment

SCE requests that the output capacity reasonably attributable to Train D be subject to CAM treatment. SCE notes that Conclusion of Law 9 in D.10-12-035 provides, in relevant part that, "...[b]y approving the Proposed Settlement and directing the IOUs to meet the CHP procurement targets included on behalf of all retail customers in their service territories, the Commission...requires the ...allocat[ion] [of] the *net capacity costs* (emphasis added) and resource adequacy benefits to all customers, including ESP and CCA customers." SCE contends that the use of the term "net capacity costs" means that CAM treatment is required for new CHP procurement under Section 13.1.2.2 of the CHP Settlement Term Sheet. SCE states that it presented the Amendment to its CAM advisory group on March 29, 2013 and provided additional information to them in response to

¹⁵ See SCE Testimony at 18-19.

¹⁶ SCE provided detailed information to validate the amount of GHG reductions in Testimony and Confidential Exhibit E.

questions where requested. ORA does not oppose CAM treatment to the output reasonably attributable to Train D.

We authorize the output reasonably attributable to incremental capacity (Train D) added to the Chevron Facility from the Amendment to be subject to CAM treatment and grant SCE's request.

6. Conclusion

SCE has complied with the required laws and decisions. The Commission concludes that the requested amendment is reasonable and should be approved. We also find the request to recover the costs of the Amendment through rates is reasonable and should be approved. The Application raises no concerns that the changes authorized herein would impede or prevent SCE from ensuring the safety of its patrons, employees or the public.

7. Request for Confidential Treatment

On May 30, 2014, SCE filed a Motion for Leave to submit Supplementary Testimony and move to seal the evidentiary record to protect from public disclosure confidential market-sensitive information, as defined by Rulemaking 05-06-040, and other proprietary business information contained in certain appendices to this application. In accordance with D.08-04-023, SCE requests the Commission to preserve the continued confidentiality of the Amendment and all other contractual information not required to be made public by D.06-06-066. No opposition was made to SCE's January 1, 2014 motion to enter the confidential testimony into evidence under seal nor to the Supplemental May 30, 2014 motion. There is no opposition to these motions. The motions are granted.

The confidential, un-redacted version of this information shall remain under seal for three years following the date of initial deliveries under the PPA,

and shall not be made accessible or disclosed to anyone other than the Commission and its staff except on the further order or ruling of the Commission, the assigned Commissioner or the assigned Administrative Law Judge (ALJ).

Waiver of Comment Period

As discussed above, this is to be an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Pub. Util. Code and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

Assignment of Proceeding

Michael Picker is the assigned Commissioner and Katherine Kwan MacDonald is the assigned ALJ in this proceeding.

Findings of Fact

1. SCE July 30, 2013 application for approval of an amendment (Amendment) to a power purchase agreement with Chevron U.S.A was uncontested.
2. On April 16, 2014, the assigned Commissioner issued a Scoping Ruling, which set the scope of the proceeding, set the procedural schedule, designated the Presiding Officer and changed the preliminary determination on the need for hearing to no hearings necessary.
3. SCE provides several examples of value-added benefits to customers.
4. The Amendment to Original QF PPA 2155 adds existing Train C and the new Train D to be included as part of the Chevron Facility selling energy and capacity to SCE.

5. The Amendment reduces the term of the Original QF PPA 2155 from evergreen to 12 years and provides for the pricing for energy and capacity payments to be subject to a declining Annual Energy Delivery Threshold.

6. The reduced term from evergreen to 12 years results in savings to ratepayers due to avoided contract payments.

7. The pricing and capacity payments in the Amendment are based on declining AEDT that will benefit ratepayers.

8. SCE's application is consistent with the Commission requirement that applications be filed for contracts with a term greater than five years. Energy deliveries under the Amendment take place over a 12 year period.

9. D.07-01-039 adopted the EPS for baseload generation.

10. D.88-10-032 states that such amendments are allowable only when commensurate concessions are made to the benefit of ratepayers.

11. SCE has provided adequate support in its application and testimony to substantiate the claim that it has complied with the appropriate law and Commission decisions.

12. SCE submitted a Capacity Demonstration Test of Train D verifying a capacity of 45.323 MW.

13. The application raises no concerns that the changes authorized herein would impede or prevent SCE from ensuring the safety of its patrons, employees or the public.

14. SCE requested that the confidential testimony submitted in support of its application be sealed.

15. The Commission has granted similar requests for confidential treatment in the past.

Conclusions of Law

1. The Amendment is reasonable and beneficial to ratepayers.
2. The request by SCE to recover the costs of the amendment through rates is reasonable and should be adopted.
3. SCE should be authorized to count its purchase of CHP generation from Train D toward its MW targets under the CHP Settlement.
4. SCE should be authorized to count the new CHP generation from Train D towards its emissions reduction targets in the CHP Settlement.
5. The request by SCE for authorization to subject the output capacity reasonably attributable to Train D to the CAM treatment adopted by the Commission in D.10-12-035 is reasonable and should be adopted.
6. The Amendment should allow SCE to continue to meet its obligations under Pub. Util. Code § 451 to offer safe and reliable service.
7. SCE's motions to move its testimony and supplemental testimony, along with supporting exhibits, into the record should be granted.
8. The motions to seal the confidential version of SCE's testimony under seal pursuant to D.06-06-006 should be granted.
9. This order should be effective immediately.
10. A.13-07-021 should be closed.

ORDER

IT IS ORDERED that:

1. The request by Southern California Edison Company to approve its Amendment to its Power Purchase Agreement with Chevron U.S.A., Inc. is approved in its entirety.

2. Southern California Edison Company may recover the costs of the approved Amendment to its Power Purchase Agreement with Chevron, U.S.A., Inc. in rates.

3. Southern California Edison Company is authorized to apply 45.323 megawatts associated with the new facility, Train D, toward its Combined Heat and Power Program Settlement procurement target.

4. Southern California Edison (SCE) is authorized to count 0.100883 MMT associated with the new facility as a credit toward SCE's Combined Heat and Power Program Settlement greenhouse gas emissions target.

5. The output reasonably attributable to incremental capacity (Train D) added to the Chevron Facility from Southern California Edison Company's Amendment to its Power Purchase Agreement with Chevron U.S.A., Inc. shall be subject to Cost Allocation Mechanism treatment.

6. The confidential, un-redacted version of the material placed under seal shall remain under seal for three years from the initial deliveries under the amended Power Purchase Agreement, and shall not be made accessible or disclosed to anyone other than the Commission and its staff, except on the further order or ruling of the Commission, the assigned Commissioner or the assigned Administrative Law Judge.

7. Application 13-07-021 is closed.

This order is effective today.

Dated July 10, 2014, at San Francisco, California.

MICHAEL R. PEEVEY

President

CATHERINE J.K. SANDOVAL

MARK FERRON

CARLA J. PETERMAN

Commissioners

Commissioner Michel Peter Florio, being necessarily absent, did not participate.