

Decision 05-01-049 January 27, 2005

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of NRG Energy Center San Francisco LLC (CIS ID. U-909-H) for Authority to Create a Rate Schedule for Partial Load Requirements and Standby Service.

Application 04-08-040
(Filed August 31, 2004)

OPINION AUTHORIZING PARTIAL LOAD AND STANDBY RATES

Summary

NRG Energy Center San Francisco LLC (NRG) is authorized to establish a new rate schedule for partial load requirements and standby customers. This proceeding is closed.

Background

NRG provides steam service to approximately 180 customers in San Francisco's downtown and financial district. NRG is the last remaining steam utility in California regulated by the Commission as a heat corporation under Pub. Util. Code § 224. NRG's steam service and facilities were originally part of the Pacific Gas and Electric Company's (PG&E) system until 1993 when the Commission approved the sale of PG&E's steam generation and distribution business to NRG's predecessor, San Francisco Thermal, Limited Partnership.

According to NRG, today's application has its roots in the rise of distributed generation.¹ In 1999, the Commission opened R.99-10-025 to explore alternative rate structure and interconnection options for distributed generation, with the objective of developing policies and rules regarding distributed generation deployment. After the electricity price spikes associated with the California energy crisis in 2000 and early 2001, commercial customers became more interested in options available to provide electricity without dependence on the investor-owned utilities. The Commission, recognizing the value of distributed generation resources in supporting electric supply reliability, has encouraged them through incentives and special interconnection allowances for installing distributed, net-metering generation resources at customer sites. More recently, the Commission has stated that it has made "a substantial effort to stimulate distributed generation installations by providing multiple technologies with financial incentives and exemption from [electricity] standby rates and DWR (Department of Water Resources) cost responsibility surcharges."²

As a result, NRG's customers have begun to consider on-site distributed cogeneration to provide electricity for their commercial buildings, and for those who will make the switch, NRG expects to feel the impacts. As cost-effective equipment to provide electricity is installed and used, a byproduct of that electricity production may be steam. That steam may allow customers to depart from NRG's steam system, creating the same economic burden on NRG's

¹ Distributed generation is defined by the Commission as involving, "...the use of small scale electric generating technologies installed at, or in close proximity to, the end-user's location." (Order Instituting Rulemaking (R.) 99-10-025, at page 1, quoting R.98-12-015.)

² R.04-03-017, page 2.

remaining customers as the Commission has found electric departing customers cause for the electric utilities.

Potential distributed generation customers have approached NRG seeking to procure steam to support partial loads rather than the full loads they currently support, or to utilize NRG's steam supply for standby and back-up service in the event their newly-installed equipment is not available to produce sufficient steam to meet their non-generation needs. NRG's Steam Tariff Schedule S-1 (General Service) provides for a \$50 monthly customer charge and a commodity charge consisting of a base rate to cover fixed costs, a fuel cost component, and the CPUC-ordered reimbursement fee. Under NRG's Steam Rule No. 2.C (Availability), all of each customer's thermal load must be supplied by NRG unless the customer enters into a special contract which covers, at a minimum, the marginal cost of providing the service to protect the economic interests of NRG's remaining, full load customers.

With the prospect of more and more of its customers needing standby and partial load service that is today only available through contracts, NRG has filed this application seeking to establish a new tariff to provide those services on a uniform basis to all.

Discussion

In Resolution G-3227 (1997), we recognized that NRG faces competition from alternative heating sources and we granted it pricing flexibility, subject to certain restrictions. NRG's charges were separated into a fuel cost component and a fixed cost, base rate charge so that NRG could flow through fuel cost fluctuations to its customers without changing the base rate. At the same time, we permitted NRG to file new commodity charges that go into effect automatically 40 days after filing, subject to a 10% annual cap on commodity

charge increases not related to fuel and regulatory costs. Increases exceeding the 10% cap in any given year may be authorized by Commission resolution.

Additionally, in Resolution G-3227 we allowed special contracts, to become effective automatically upon filing with the Commission, for customers who may need other than full requirements steam service. In doing so, we also recognized that there were steam customers who could not easily convert to an alternate, competitive fuel sources, and that their interests needed protection:

Although SF Thermal has successfully demonstrated that competition is a factor in steam pricing, there are still cases where substantial barriers to heat source substitutes exist. Regulatory oversight is necessary to protect the substantial numbers of customers with no realistic substitute to steam service from SF Thermal. In granting SF Thermal the right to negotiate special contracts, we are most concerned that the captive steam customer not be harmed. In theory, pricing flexibility can improve a company's ability to maximize revenues without harming other customers as long as rates offered in special contracts at least cover the marginal cost of the services they include. (Resolution G-3227, page 5.)

It is this continuing regulatory oversight and protection of captive steam customers that NRG Energy Center seeks to invoke in its application.

Our Office of Ratepayer Advocates initially filed a protest pending an opportunity to review NRG's detailed supporting workpapers and determine whether the application presented issues that would need to be pursued in evidentiary hearings. As NRG pointed out in its application and its reply to ORA, the significant differences between proposed new Tariff Schedule S-2 for standby and partial load customers and today's full service Schedule S-1 are (a) a \$50.00 per month reservation charge intended to recover additional billing costs, inspections, and heat loss as a percentage of usage, and (2) an estimated monthly

usage based on the customer's full load, rather than actual monthly usage, for the base rate to cover fixed costs. As future changes are made to the Schedule S-1 fuel cost component, those same changes will be reflected in Schedule S-2. After reviewing NRG's workpapers, ORA formally withdrew its protest and now agrees the application can be handled on an ex parte basis.

Standby and partial load steam services are today available only through customer-specific contracts. We believe that it is appropriate to establish a uniform basis for providing those services without creating economic burdens on other, full steam requirements customers. Doing so will reduce the potential for cross-subsidization and discriminatory service. NRG's proposed new Schedule S-2, Appendix A to this order, serves that purpose. We will approve NRG's application.

Procedural Considerations

The Commission in Resolution ALJ 176-3138 dated September 2, 2004 preliminarily categorized this as a ratesetting proceeding not expected to require hearings. There are no material facts in dispute, and there is no known opposition to granting the relief requested. We conclude that it is not necessary to disturb our preliminary determinations.

This is an uncontested matter in which the decision grants the relief requested. Accordingly, the requirement for a 30-day period for public review and comment is waived as permitted by Pub. Util. Code § 311(g)(2).

Assignment of Proceeding

Michael R. Peevey is the Assigned Commissioner and James C. McVicar is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Some of NRG's existing steam customers, and some potential new customers, may install and use distributed generation technology that produces steam as a byproduct, and may use that steam to displace steam they would otherwise obtain from NRG. To the extent they do so, those customers may seek standby or partial load service from NRG, or they may depart from NRG's system entirely.

2. Departing customers result in lower contributions to offset NRG's fixed costs.

3. Lower contributions to fixed costs from departing and partial load customers tend to require increased contributions from remaining customers.

4. Under its current tariffs, NRG must use customer-specific contracts to ensure that full service customers who reduce their usage by switching to standby or partial service continue to contribute their fair share to offset NRG's fixed costs.

5. Both NRG and its customers would benefit from a uniform pricing approach to serving standby and partial load customers.

6. NRG's proposed new Schedule S-2 attached to this order as Appendix A ensures that standby and partial load customers contribute their fair share to offset NRG's fixed costs.

7. There are no material facts in dispute and no known opposition to granting the relief NRG requests. No hearing is required.

Conclusions of Law

1. A.04-08-040 should be granted. NRG should be authorized to file new Tariff Schedule S-2.

2. The new tariff and rates authorized in this order are reasonable.

3. For administrative efficiency, this decision should be made effective immediately.

O R D E R

IT IS ORDERED that:

1. NRG Energy Center San Francisco LLC is authorized to file in accordance with General Order 96 and make effective five days after filing new Tariff Schedule S-2 included as Appendix A to this order. Schedule S-2 shall apply to service rendered on and after its effective date. To the extent that changes have been made, and in the future are made, to the base rate and fuel cost components in Schedule S-1, those changes shall also be reflected in Schedule S-2.

2. Application 04-08-040 is closed.

This order is effective today.

Dated January 27, 2005, at San Francisco, California.

MICHAEL R. PEEVEY
President
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners

Comr. Grueneich recused herself from this agenda item and was not part of the quorum in its consideration.

APPENDIX A