

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

ID #14215
RESOLUTION E-4729
September 17, 2015

REDACTED

R E S O L U T I O N

Resolution E-4729. San Diego Gas and Electric Company requests approval of an amendment and restatement of its power purchase agreement with Yuma Cogeneration Associates.

PROPOSED OUTCOME:

- Approve without modification the amendment to the existing Power Purchase Agreement (PPA) between San Diego Gas and Electric Company (SDG&E) and Yuma Cogeneration Associates (YCA).
- The combined heat and power (CHP) facility will be converted to a dispatchable Utility Prescheduled Facility under the QF/CHP Settlement.
- SDG&E may count 52.89 megawatts of capacity and 14,114 metric tons of GHG reduction toward its respective CHP Settlement targets.
- Deny the requested shareholder incentive payment.

SAFETY CONSIDERATIONS:

- This Resolution approves amendments to a PPA for an existing CHP facility. Because facility operations will either remain unchanged or scale back, these amendments do not appear to result in any adverse safety impacts on the facilities or operations of SDG&E.

ESTIMATED COST:

- The amendments to this PPA will result in ratepayer savings of an estimated \$6,708,000 in net present value over the remainder of the PPA term.

By Advice Letter 2674-E Filed on November 21, 2014.

SUMMARY

This Resolution approves, without modification, the amended Power Purchase Agreement (PPA) executed between San Diego Gas and Electric Company (SDG&E) and Yuma Cogeneration Associates (YCA), a combined heat and power (CHP) facility with which the utility has had an existing PPA since 1990. The amended PPA, filed via Advice Letter (AL) 2674-E, was executed in August 2014 as a result of bilateral negotiations beginning in April 2013.

The YCA facility is currently under contract with SDG&E to deliver “must-take” power. Under the amended PPA approved herein, the facility will be converted to a dispatchable Utility Prescheduled Facility (UPF) under the QF/CHP Settlement. The amended PPA also provides energy and other cost savings. SDG&E also requests a shareholder incentive of \$670,800, equal to 10% of the amendment’s expected savings of \$6,708,000.

This Resolution finds that the costs of the amended PPA are reasonable, and SDG&E is authorized to recover these costs. The amended PPA will contribute 14,114 metric tons (MT) of greenhouse gas (GHG) reductions and 53 megawatts (MW) towards SDG&E’s respective targets in those areas. This Resolution rejects the requested shareholder incentive.

BACKGROUND

Relevant Terms of the CHP/QF Settlement

In Decision (D.) 10-12-035, the Commission adopted the Qualifying Facility and Combined Heat and Power Program Settlement Agreement (Settlement) with the issuance of D.10-12-035. The Settlement resolved a number of longstanding issues regarding the contractual obligations and procurement options for facilities operating under legacy and qualifying facility contracts. The Settlement was subsequently amended by the Commission in D.15-06-028.

The Settlement establishes MW procurement targets and GHG Emissions Reduction Targets the investor-owned utilities (IOUs) are required to meet by entering into contracts with eligible combined heat and power (CHP) Facilities, as defined in the Settlement. Pursuant to D.10-12-035 and D.15-06-028, the three large electric IOUs must procure a minimum of 3,000 MW of CHP by 2018 and reduce GHG emissions by the end of 2020. For the Initial Program Period, the

Settlement allocates to SDG&E 160 MW of the procurement target (and a total of 211 MW by 2018).

In addition, the Settlement provides several procurement options for the IOUs. One of these contracting options allows the IOUs to change the operations of an existing contracted CHP facility to a dispatchable utility prescheduled facility (UPF).¹ Per Section 4.8.1.1 of the Settlement, CHP Facilities that met certain efficiency standards and convert to UPFs are eligible to obtain a PPA through bilateral negotiations. This conversion to a UPF can provide significant operational flexibility to facilitate the integration of intermittent renewable resources, as well as provide other system benefits.

Amended Power Purchase Agreement

SDG&E and YCA currently have an in-effect agreement based on the Standard Offer 2 (SO2) that expires May 27, 2024.² Negotiations leading to the currently proposed amended PPA began in April 2013 and the parties finalized the terms and conditions between January 2014 and August 2014. SDG&E provided reports on the status of the negotiations as part of its regular CHP program updates to the Procurement Review Group (PRG) at the Commission. The amended PPA was executed by SDG&E on August 14, 2014 and by YCA on August 18, 2014. The amended PPA does not change the existing expiration date. In addition to changing the facility to a UPF, the amended PPA changes fuel terms, contract pricing, and other terms.

YCA is located in Yuma, AZ and has operated as a Qualifying Facility³ (QF) supplying electricity to SDG&E (and steam to its host, Shaw Industries Yarn

¹ D.10-12-035 at 45-46.

² The SO2 is a standard contract template used by QFs under PURPA. They are available for QFs who can make a firm commitment and maintain an 80% capacity factor during summer peak. Maximum contract term is 30 years.

³ Per Section 17 of the Settlement, a Qualifying Facility is an electric energy generating facility that complies with the qualifying facility definition established by PURPA and any FERC rules as amended from time to time implementing PURPA and has filed with FERC (i) an application for FERC certification, pursuant to 18 CFR Part 292,

Footnote continued on next page

Mill) since the 1990s. The facility consists of a natural gas-fired combustion turbine and a heat recovery steam generator (HRSG). HRSG-generated steam powers a 20.6 MW steam turbine generator, used by the host for manufacturing and maintenance. An auxiliary boiler provides steam when the cogenerator is not dispatched or operating.

NOTICE

San Diego Gas and Electric Company states that AL 2674-E was mailed and distributed in accordance with Section 4 of General Order 96-B.

PROTESTS

Advice Letter 2674-E was timely protested by the Office of Ratepayer Advocates (ORA) on December 12, 2014. The protest recommends that the Commission approve the amended PPA but reject the shareholder incentive.

ORA states, "SDG&E did not receive a Qualifying Facility Restructuring Reasonableness Letter (QFRRL),"⁴ where the QFRRL is part of the Restructuring Advice Letter Filing (RALF) process,⁵ and as a result the RALF process cannot be applied to AL 2674-E.

Under RALF, a utility provides ORA with a draft advice letter, and if ORA agrees the letter is reasonable, it provides the utility a QFRRL. ORA did not provide SDG&E a QFRRL for this AL because ORA disagreed with SDG&E's request for a shareholder incentive. Thus, ORA states that the RALF process cannot be used in this case. Additionally, ORA states that shareholder incentives for restructuring QF contracts should not be necessary in the context of the

Section 292.207(b)(1), which FERC has granted, or (ii) a notice of self-certification pursuant to 18 CFR Part 292, Section 292.207(a).

⁴ ORA December 12, 2014 protest of AL 2674-E, page 1.

⁵ The Commission in D.98-12-066 created the RALF process, by which a shareholder incentive may have been permitted.

Settlement, because “the settlement targets should provide SDG&E with enough incentive to restructure its QF contracts.”⁶

ORA also objects to inconsistencies between the total savings figure in the AL and in the AL’s confidential appendices, stating that SDG&E should submit “consistent and accurate information to the Commission for review.”⁷

SDG&E’s reply states that ORA’s skepticism towards the continuing validity of the RALF/incentive process is unsupported, that Commission Resolutions E-4389 and E-4627 approving RALF ALs demonstrate the RALF process is still valid, and that the Commission should still be able to approve the incentive regardless of whether ORA issues a QFRRL. SDG&E additionally states that on December 18, 2014 it filed a substitution sheet correcting the savings figure that appeared in AL 2674-E.

DISCUSSION

In AL 2674-E, SDG&E proposed amending its PPA with YCA, which converts the CHP facility to a dispatchable UPF under the QF/CHP Settlement.

SDG&E requests the Commission:

- 1) Approves the Amendment, without modification as just and reasonable;
- 2) Authorizes continued recovery of costs associated with the Amendment through SDG&E’s ERRAs;
- 3) Authorizes continued recovery of above-market costs through the Competition Transition Charge consistent with D.02-12-074 and D.02-11-022;
- 4) Determines that any GHG reductions associated with the Amendment count toward SDG&E’s GHG Emissions Reduction target included in the QF/CHP Settlement;

⁶ ORA December 12, 2014 protest of AL 2674-E, page 3.

⁷ ORA December 12, 2014 protest of AL 2674-E, page 2.

- 5) Finds that because the expected annualized capacity factor of the Facility under the Amendment is below 60 percent, the Amendment is not a covered procurement subject to the EPS adopted in D.07-01-039;
- 6) Finds that YCA's capacity counts at least 51 MW toward SDG&E's CHP MW Target per 4.8.1.2 of the CHP/QF Settlement; and
- 7) Allocate SDG&E shareholders 10% of the projected cost savings from the Amendment in accordance with the Restructuring Advice Letter Filing process and D.98-12-066.

The Commission evaluated the amended YCA PPA based on the following criteria:

- Consistency with D.10-12-035 and D.15-06-028, which approved and subsequently amended the QF/CHP Program Settlement, including:
 - Consistency with Eligibility Requirements for Bilaterally Negotiated PPAs
 - Consistency with MW Counting Rules
 - Consistency with GHG Accounting Methodology
 - Consistency with Cost Recovery Requirements
- Need for Procurement
- Cost Reasonableness
- Public Safety
- Project Viability
- Consistency with the Emissions Performance Standard
- Consistency with D.02-08-071 and D.07-12-052, which require Procurement Review Group participation

Consistency with D.10-12-035, which approved the QF/CHP Program Settlement

The Settlement Term Sheet, adopted in D.10-12-035, establishes criteria for contracts with Facilities including:

Consistency with Eligibility Requirements for Bilaterally Negotiated PPAs

Per Section 4.3 of the Settlement Term Sheet, bilaterally negotiated and executed CHP PPAs are a procurement option for the CHP Program. Per Section 4.8.1.1 of the Settlement, CHP Facilities that met the Public Utility Regulatory Policies Act of 1978 (PURPA) efficiency requirements as of September 20, are eligible to obtain a PPA through bilateral negotiations. A CHP Facility that converts to a Utility Prescheduled Facility is eligible to participate in the CHP RFOs.

As detailed in the confidential appendix, the YCA Facility met PURPA efficiency requirements as of September 2007. As a CHP facility converting to a Utility Prescheduled Facility, the YCA Facility was eligible to bilaterally negotiate the amended PPA.

Consistency with Settlement Megawatt Counting Rules

Per Term Sheet Section 4.8.1.2, SDG&E procurement of any UPF counts toward its MW targets regardless of the expiration date of the existing PPA. YCA is currently selling to SDG&E under an existing SO2 agreement. The amended PPA changes YCA's operations into a UPF. Per Section 5.2.3.1 of the Settlement, "MWs counted for New PPAs executed with Existing CHP Facilities will be the published Contract Nameplate value..." The contracted capacity for YCA is 52.89 MW.

Per the Settlement, the YCA Facility is eligible to count towards the MW target, and the total nameplate capacity of the facility shall count towards the target. The amended PPA will contribute 52.89 MW to SDG&E's target.

Consistency with Greenhouse Gas Accounting Methodology

Per Term Sheet Section 7.3.1.3, a CHP Facility that converts to a Utility Prescheduled Facility counts as a GHG credit for the IOUs' GHG Emissions Reduction Targets. Measurement is based on the baseline year emissions⁸ minus the projected PPA emissions and emissions associated with replacing 100% of the decreased electric generation at a time differentiated heat rate.

⁸ The baseline year emissions are the average of the previous two years of operational data.

Additional information about the GHG emissions accounting is included in Confidential Appendix A. The facility's operations under the amended PPA as a UPF will be reduced compared to the current operations, yielding 14,114 MT of greenhouse gas emissions reductions that will be credited toward SDG&E's GHG Emissions Reduction Target as amended by D.15-06-028.

Consistency with Cost Recovery Requirements

Section 13.1.5 of the Settlement states, "In recognition of the new cost recovery mechanisms contemplated by this Settlement, the Parties agree to advocate exclusion from the Competition Transition Charge (CTC) of any above-market costs associated with purchases of power from a CHP Facility via a PPA entered into pursuant to this Settlement. However, the above-market costs of QF procurement via Legacy PPAs may continue to be recovered through CTC for the life of those contracts."

As an amendment to an existing Legacy PPA that does not increase capacity, the associated costs may continue to be recovered through the CTC. Above-market costs shall be recovered appropriately from all benefiting customers in the CTC.

Need for Procurement

SDG&E's total MW procurement target for the CHP Program is 211 MW, and SDG&E's estimated 2020 GHG Emissions Reduction Target is 280,000 MT. The amended PPA will contribute 52.89 MW and 14,114 MT GHG reductions towards these targets. SDG&E will still need an additional 108.21 MW and 260,000 MT additional GHG reductions to meet its goals. The YCA Facility's contributions to SDG&E's MW and GHG reductions targets justify this procurement.

Cost Reasonableness

A detailed analysis of the reasonableness of contract costs is included in Confidential Appendix A. The costs associated with the YCA PPA are just and reasonable.

Public Safety

California Public Utilities Code Section 451 requires that every public utility maintain adequate, efficient, just, and reasonable service, instrumentalities, equipment and facilities to ensure the safety, health, and comfort of the public.

Under the terms of this PPA, the YCA Facility will decrease its on-site generation and will not add any new capacity. Based on the information before us, these amendments do not appear to result in any adverse safety impacts on the facilities or operations of SDG&E.

Project Viability

The YCA Facility is currently operating under a PPA with SDG&E. The YCA Facility is an existing CHP facility and therefore is a viable project.

Consistency with the Emissions Performance Standard

California Public Utilities Code Sections 8340 and 8341 require that the Commission consider emissions costs associated with new long-term (five years or greater) power contracts procured on behalf of California ratepayers.

D.07-01-039 adopted an interim Emissions Performance Standard (EPS) that establishes an emissions rate for obligated facilities to levels no greater than the greenhouse gas emissions of a combined-cycle gas turbine power plant. Pursuant to Section 4.10.4.1 of the CHP Program Settlement Term Sheet, for PPAs greater than five years that are submitted to the Commission in a Tier 2 or Tier 3 advice letter, the Commission must make a specific finding that the PPA is compliant with the EPS.

The EPS applies to all energy contracts that are at least five years in duration for baseload generation, which is defined as a power plant that is designed and intended to provide electricity at an annualized plant capacity factor greater than 60 percent. The annualized plant capacity factor for YCA is expected to be significantly below the 60 percent baseload threshold. Therefore, the EPS does not apply to the YCA Facility.

Consistency with D.02-08-071 and D.07-12-052, which respectively require Procurement Review Group participation

SDG&E consulted with its Cost Allocation Mechanism (CAM) Group, which consists of its Procurement Review Group (PRG) participants, plus one member representing community choice aggregator customers and one member representing direct access customers. SDG&E has complied with the Commission's rules for involving the PRG.

The Commission also evaluated SDG&E's request for a shareholder incentive of \$670,800 (10 percent of the expected savings from the amended PPA).

Because SDG&E requested this incentive under the RALF Process, we first note the following: 1) The purpose of the RALF process is to expedite the Commission's review of filings that ORA does not oppose⁹ and the completion of the RALF process requires a QFRRL from ORA. 2) In this filing, SDG&E attempted to follow the RALF process but was denied a QFRRL from ORA because ORA opposes the requested shareholder incentive. 3) Because no QFRRL was provided for the instant filing, the RALF process was not completed. Therefore, our independent review of this request was based on other considerations, not those provided for under RALF, and our decision was based on the following considerations, not the fact that the RALF process was not completed.

The Commission considered various factors in its decision not to approve the requested incentive. First, the amended PPA provides a range of benefits to SDG&E, including the conversion of the facility to a UPF and the amendment's contribution towards SDG&E's mandated (and not yet reached) MW and GHG targets. Second, the Settlement under which the amendment was filed to achieve these benefits contains no provisions for shareholder incentives; in fact, directing savings away from ratepayers to shareholders would contravene the goals of the Settlement, which chiefly include cost reductions. SDG&E did not present any other justification for the requested incentive. Moreover, the Commission explicitly found in D.15-05-033, which denied SDG&E's application for rehearing of E-4698, that a shareholder incentive for amendments is not provided under the Settlement and that "shareholder incentives are not justified under the Settlement regime."¹⁰ The Commission finds no reasonable justification for SDG&E to direct any portion of its savings here to its shareholders.

Therefore, the request for a shareholder incentive is denied. SDG&E shall not pay any portion of the savings from this agreement to its shareholders as an incentive.

⁹ D.98-12-066, pages 16-17

¹⁰ D.15-05-033, page 14

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this Resolution was neither waived nor reduced. Accordingly, this draft Resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

FINDINGS

1. Pursuant to the QF/CHP Settlement, SDG&E is permitted to amend its Power Purchase Agreements with the Yuma Cogeneration Associates Facility through bilateral negotiations because the facility met the efficiency requirements under PURPA.
2. Pursuant to the QF/CHP Settlement, the total contract nameplate capacity of the facility (52.89 MW) counts towards SDG&E's MW target, and the 14,114 MT GHG reductions count towards SDG&E's GHG target.
3. SDG&E's request to recover costs in accordance with Section 13.1.5 of the QF/CHP Settlement Term Sheet is consistent with the directives of the Settlement.
4. Per Commission Decisions 10-12-035 and 15-06-028, SDG&E has an obligation to procure 211 MW of CHP capacity by November 2015 and 0.28 MMT of GHG reductions from CHP contracts by 2020. The amended PPA helps SDG&E meet both of these goals, justifying the need for the amended PPA.
5. The costs of the amended PPA are just and reasonable.
6. The change in operations to a Utility Prescheduled Facility will not result in any foreseeable new safety risks.
7. The Yuma Cogeneration Associates facility is an existing CHP facility and therefore a viable project.

8. The amended PPA is not subject to the EPS under D.07-01-039 because the facility will be operating with an annualized plant capacity factor of less than 60 percent.
9. SDG&E has complied with the Commission's rules for involving the Procurement Review Group.
10. Because the amended PPA is executed as part of SDG&E's obligation to comply with the CHP/QF Settlement Agreement, which contains no justification or provisions for a shareholder incentive, the requested shareholder incentive is denied and shall not be paid.

THEREFORE IT IS ORDERED THAT:

1. The request of San Diego Gas & Electric Company in Advice Letter 2674-E for the Commission to approve without modification the amended PPA with Yuma Cogeneration Associates is approved.
2. SDG&E may count 52.89 MW of capacity and 14,114 MT of GHG reduction toward its respective CHP Settlement targets.
3. The request of SDG&E in Advice Letter 2674-E for the Commission to approve a shareholder incentive of a portion of the savings from this amendment is denied.
4. SDG&E is authorized to recover the costs associated with the amended PPA through the cost recovery mechanisms set forth in D.10-12-035 (as modified by D.11-07-010), in Section 13.1.5 of the QF/CHP Settlement Term Sheet.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on September 17, 2015; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director

Confidential Appendix A

Summary and Analysis of the Yuma Amended PPA

APPENDIX REDACTED

End Appendix A