



## Long Term Procurement Plans: What, Why, How...

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## Overview



- Implementing EAP
- Key Developments
- Link with Resource Adequacy
- Goals
- Resource Need Determination and Authority
- Regulatory Review
- Impact of State policies
- Next Steps
- More on Resource Adequacy

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## Key Developments in CPUC Procurement Policy



- AB57 (PU Code 454.5)
  - Put IOUs back into the procurement business as of Jan. 1, 2003
  - Ensured that CPUC would establish policies and cost recovery mechanisms for procurement
  - Ensured IOUs cost recovery if procurement done in accordance with a pre-approved procurement plan
- PUC Implementation of AB57 began in 2002
  - 2002-2003 – Numerous decisions authorized PG&E, SCE, SDG&E to resume procurement
  - Jan-2004 Adopted procurement policy framework, including biennial LTPP Proceedings that follow the biennial IEPR proceeding schedule
  - Dec-2004 Approved first cycle 10-year of Long-Term Plans (D.04-12-048)
  - Feb-2006 Start second cycle 10-year of Long-Term Plans
  - Dec-2007 Approved second cycle 10-year of Long-Term Plans (D.07-12-052)

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## Implementing The Energy Action Plan



- The Energy Action Plan adopted by CPUC and CEC is a roadmap for specific action items California investment is guided by the loading order:
  - Energy efficiency
    - Public education and outreach; new building and appliance standards; next funding cycle of IOU programs; focus on peak demand savings
  - Demand response
    - Consideration of advanced meter rollout for all IOU customers; consideration of new tariffs; integration with energy efficiency efforts
  - Renewables
    - 20% Renewable energy by 2010 and application of RPS to all LSEs; new transmission to access new projects; examining ability and impacts of moving to 33% by 2020 requirement
  - California Solar Initiative
    - Provides \$2.9 billion in incentives between 2007 and 2017
  - Electricity adequacy and infrastructure
    - New generation; planning reserve margin for resource adequacy; streamlined transmission planning and expedited permitting; development of transmission corridors; continued distribution investment

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## Long Term Procurement and Resource Adequacy



- State focus on Load Serving Entities (LSE)
- Two Pronged approach:
  - IOUs develop and follow procurement plans
  - LSEs make Resource Adequacy (RA) showings
- CPUC gets Resource Adequacy in the short term through the 1 year RA requirement/RA program
- Longer term, RA comes through procurement pursuant to Long Term Procurement Plans
- The two proceedings work in tandem to achieve the big picture goal of statewide Resource Adequacy over the long term

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## Long Term Procurement Plans and Resource Adequacy



- Long Term Procurement Plans ("LTPP"): Utilities procure against 10 year plans, filed bi-annually
  - LTPPs are a form of integrated resource plans
  - LTPP proceeding is the "umbrella" proceeding in which we consider, in an integrated fashion, all of the Commission's electric resource procurement policies and programs
  - Procurement plans incorporate EAP loading order: EE, DR, Renewables, Solar, plus new, existing, and/or repowered conventional generation
  - Opportunity for the Commission and parties to examine procurement policy on an overall integrated basis.
  - IOUs forecast demand and identify how they will meet needs
- Resource Adequacy ("RA"):
  - Utilities and other LSEs must acquire sufficient generating capacity to serve customers needs, plus a 15-17% reserve margin
  - Based on CEC demand forecast
  - Rules are coordinated with ISO market and operations

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## Long Term Procurement Goals



- Integrate EAP II Goals into LTPP
  - Are the IOUs following the Loading Order
  - How do the IOUs assess resource trade offs
  - Put the focus on Integrated Resource Planning
- Review Selected procurement practices & procedures; e.g., credit & collateral, independent evaluator, competitive solicitations, etc.
- Review 10-year Resource Plans
- Identify need for new resources
  - Assessment performed well in advance of need to avoid "just-in-time procurement"

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## Resource Need Determination



- Plans will identify the need for new resources (2007-2016)
- Establish the specifics of any need determination
  - Range of Need (e.g. 500-700 MW)
  - Timeframe (e.g. 2010-2012)
  - Location (e.g. x % in Local Areas)
  - Type of resource needed (Blackstart, quickstart, VAR support, wind integration, baseload/shaping/peaking)
  - Timeframe of RFO
- Establish the need on a system need and bundled customer basis
  - The Commission established a cost allocation mechanism that stays in place until it is replaced by subsequent Commission directives, therefore, LTPPs must look at both bundled and system need (aka Energy Auction)

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## Procurement Authority



- Most recent decision authorizes new procurement through 2015:
- PG&E – 800 – 1200 MWs
- SCE – 1200-1700 MWs
- SDG&E – 530 MWs (local reliability)

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## CPUC Long-Term Planning Efforts Lead to New CA Capacity Additions



- **PG&E**
  - Commission approved contracts for **2,250 MW**, online 2009-2010 (2004 LTPP)
  - Contra Costa 8 - **500 MW**, online 2009
- **SCE**
  - Launched RFO in July 2006 for **1500 MW** of new capacity, online 2007-2009 (2006 LTPP)
  - Announced intention to seek **500 MW** more through current RFO (2006 LTPP)
    - Long Beach Generation (**260 MW**) – Summer 2007 Track RFO (2006 LTPP)
    - SCE filed an Application seeking approval of **945 MW** from Fast Track RFO (2006 LTPP)
  - Peakload for 2007 – **245 MW**, online 2007 (4 of 5 units scheduled for operation by August 1)
- **SDG&E**
  - Announced new RFO for **~250 MW** in 2008 (2006 LTPP)
  - RFO released March 9, 2007 for later online dates (2006 LTPP)
  - Otay Mesa approved for completion - **583 MW**, online 2009
- **Renewables (all 3 IOUs)**
  - Since 2002, CPUC has approved a minimum of **2,760 MW** from RPS eligible resources
  - More MW coming as a result of ongoing 2005 and 2006 RPS solicitations

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## Procurement Plans and Regulatory Review



- Pursuant to AB 57, CPUC established upfront standards for review
- Goal of AB 57: allow IOUs to procure energy and serve customers at just and reasonable rates
- AB 57 also provided certainty to a rocky market by setting forth achievable standards and establishing criteria for rate recovery

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## CPUC Upfront Standards



- Each utility must conduct procurement through competitive process using arms-length transactions
- Each utility must adopt, monitor and enforce compliance with code of conduct for employees that identifies confidential information and protects such information
- No misrepresentation of material facts
- IOUs must prudently administer all contracts and generation resources and dispatch energy in a least-cost manner, utilizing most cost-effective mix of total resources
- No fraud, abuse, negligence, or gross incompetence in negotiating procurement transactions or administering contracts and generation resources
- Staff review at all levels

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## Required Elements of an AB 57 Procurement Plan



- IOUs must include:
  - Upfront standards and criteria prior to transaction execution
  - Assessment of price risk associated with the supply portfolio
  - Defined procurement products and justification for their use
  - Duration, timing, and range of products to be procured
  - Format and criteria for competitive processes
  - Showing that additional 1% per year of supplies obtained from renewable resources
  - Showing that supply portfolio, ownership, and fuel supplies are sufficiently diverse
  - CPUC emphasis that IOUs optimize electric resource portfolio according to uniformly established reliability, cost/risk, and environmental criteria

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## Coordination among Many Proceedings



- Important to establish procurement rules for cost recovery and proper market function
- Coordinate among policy proceedings to ensure consistency and coherence
- Overall procurement policies can have implications in other proceedings
- Inaccuracies result in:
  - Overprocurement (waste of ratepayer money) or
  - Underprocurement (reliability problems which can lead to waste of money and can result in inefficient use of resources)

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## Regulatory Review Groups



- Procurement Review Groups (PRGs) are authorized as advisors for utility solicitations
- Include representatives of CPUC staff, DRA, consumer groups, and other non-market participants
- Information must be kept confidential and non-disclosure agreements are required
- If meet other requirements, consumer groups may be compensated for participation in PRGs

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## Independent Evaluators



- Independent Evaluators used for long-term solicitations that involve affiliate transactions, utility-owned generation, or competitive solicitations for products lasting longer than 3 months
- Strict conflict of interest requirements apply
- IOUs must review RFOs with PRGs and Independent Evaluators before drafting bid documents
- No RFOs for fossil fuels without explicit approval by CPUC, unless strong showing that extreme circumstances apply

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## Utility Owned Generation



- 2007 Decision preserves “head-to-head” competition between private ownership and utility ownership projects in IOU RFOs, provided that private developer builds facility and turns it over to IOU (construction and permitting risk still borne by private entity)
- Prohibits direct “utility build” bids into their own RFOs until risk issues are addressed
- Certain exclusion for Renewable UOG

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## Impact of AB 32 (Greenhouse Gas Emissions)



- IOUs did not adequately address GHG uncertainty in procurement plans.
- IOU concerns:
  - Request flexibility for compliance
  - Impact of electricity sector responsibility
- 2008 implications:
  - CPUC will provide direction concerning the development of a consistent evaluation of the costs and risks of GHG emissions reduction, to be included in subsequent procurement plans.

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## 33% Renewables by 2020



- CPUC requires additional information
- 2008 Implications
  - 33% scenario assessment in 2008 procurement proceeding or RPS proceeding

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## What Does the Future Hold for CPUC Procurement?



- Number 1 goal: Move the procurement decisions/actions further out in the future to avoid just in time procurement activity
- Create a "Procurement Rulebook"
- 2006 LTPPs will include greenhouse gas forecasts for its ten-year resource plan and a discussion of compliance with the Commission's GHG policies – both current and potential
  - How this impacts procurement decisions
- Expect to see a merging of LTPP as it exists today with the increasing carbon constraints – AB32 cap
- Longer term Resource Adequacy requirement – Possibly a capacity market mechanism
- Further integration of planning tools – LTPP, multi year RA requirements
- Continually looking to increase the effectiveness of Commission procurement policies and procedures
- Continued cooperation between the CEC and the CPUC
- Simplify, simplify, simplify...

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## LTPP Cycle 2008-2010



- No new plans in 2008
  - Most recent forecast adopted
  - Procurement authority granted to 2015
  - New plans to be filed in 2009
- New policy rulemaking
  - Standardized resource planning practices
  - Interim GHG uncertainty assessment
  - Customer risk preference study
  - Collaboration with CEC

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## Resource Adequacy



- Resource Adequacy objectives:
  - Facilitate development of new generating capacity and retention of existing generating capacity that is economic and needed
  - Equitably allocate the cost of generating capacity and prevent the shifting of costs between customer classes
  - Minimize enforcement requirements and costs.
  - Legislature adopted AB 380 to codify resource adequacy

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## What counts toward Resource Adequacy Requirement



- LSE must procure qualifying resources to meet their RAR
- RAR is calculated using an LSE's forecast load by month, plus a reserve margin of 15-18%, for a total of 115% of forecast load
- LSE forecast load is based on a 1 in 2 year and is baselined against the CEC forecast
- LSEs file their forecast load and the CEC performs a plausibility adjustment
- RAR is a capacity requirement, not energy. Units must be in CAISO database and are subject to a must offer obligation
- Imports based on an allocation of import capacity
- Dispatchable Demand Response programs, if paid by the public use charge are allocated to all LSEs
- Intermittent (e.g. Wind) and energy limited resources using PUC adopted counting rules

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## Local Resource Adequacy Requirement



- Decision 06-06-064 adopted Local RAR
- Local generation must be subject to CAISO Must Offer Obligation
- LSEs Local RAR based on load shares in the IOUs service territories
- Reliability level for 2007 set at Category C (N-1-1/N-2) level recommended by CAISO
- Implementation coordinated with CAISO RMR selection
  - Initial LRAR filings due September 22 to inform (minimize) CAISO RMR procurement
  - Final filings due October 31
- Challenge: LRAR procurement of (former?) RMR units
- ISO backstop procurement follows, if necessary

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## Long Term Procurement Plans and Resource Adequacy



- LTPPs as integrated resource plans, Sunrise Powerlink as example:
  - Sunrise Powerlink represents significant development uncertainty for SDG&E
  - SDG&E reflects this uncertainty in 2006 LTPP by:
    - Performing multiple analyses based on "Sunrise in" and "Sunrise out"
    - Developing two different need determinations based on scenario
  - This integrated approach allows the Commission to examine potential outcomes given multiple moving pieces of an IOU's long term plan
    - For example, without the addition on Sunrise, generation retirements in the SDG&E service territory may be limited

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## Acronym List

- |   |   |
|---|---|
| ■ CPUC – California Public Utilities Commission | ■ PG&E – Pacific Gas and Electric       |
| ■ EAP – Energy Action Plan                      | ■ SCE – Southern California Edison      |
| ■ CEC – California Energy Commission            | ■ SDG&E – San Diego Gas and Electric    |
| ■ IOU – Investor Owned Utility                  | ■ SB – Senate Bill                      |
| ■ LSE – Load Serving Entity                     | ■ AB – Assembly Bill                    |
| ■ CSI – California Solar Initiative             | ■ IEPR – Integrate Energy Policy Report |
| ■ RPS – Renewable Portfolio Standard            | ■ ISO – Independent System Operator     |
| ■ RFO – Request for Offers                      | ■ GHG – Green House Gas                 |
| ■ RA – Resource Adequacy                        | ■ CAT – Climate Action Team             |
| ■ LTPP – Long Term Procurement Plan             | ■ EO – Executive Order                  |
| ■ STPP – Short Term Procurement Plan            | ■ PRG – Procurement Review Group        |
|   | ■ IE – Independent Evaluator            |

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