







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 preapproved procurement plan

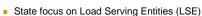
 PUC Implementation of AB57 began in 2002

 - 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)



- 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
- Provides acts diminist in inclusives between 2007 and 2017
 Electricity advances and infrastructure
 New generation; planning reserve margin for resource adequacy; streamlined
 transmission planning and expedited permitting; development of transmission corridors;
 continued distribution investment

Long Term Procurement and Resource Adequacy



- 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

Long Term Procurement Plans and Resource Adequacy

- Long Term Procurement Plans ("LTPP"): Utilities procure against 10 year plans, filed bi-annually
 - Part plants, lined Di-antruality 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 Conservative for the Commission gene particle actions to exprise 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

Long Term Procurement Goals **Resource Need Determination** Plans will identify the need for new resources (2007-2016) Integrate EAP II Goals into LTPP Establish the specifics of any need determination Are the IOUs following the Loading Order • Range of Need (e.g. 500-700 MW) How do the IOUs assess resource trade offs Timeframe (e.g. 2010-2012) Put the focus on Integrated Resource Planning Location (e.g. x % in Local Areas) Review Selected procurement practices & Type of resource needed (Blackstart, quickstart, VAR support, wind integration, baseload/shaping/peaking) procedures; e.g., credit & collateral, independent Timeframe of RFO evaluator, competitive solicitations, etc. Establish the need on a system need and bundled customer Review 10-year Resource Plans basis Identify need for new resources 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 Assessment performed well in advance of need to avoid "just-in-time procurement" system need (aka Energy Auction)

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)

Procurement Plans and Regulatory Review



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- 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

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

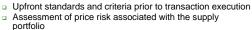
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Required Elements of an AB 57 Procurement Plan



IOUs must include:



- 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



Regulatory Review Groups



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- 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
- 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



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- 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

Impact of AB 32 (Greenhouse Gas Emissions0) 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.

33% Renewables by 2020



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









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- 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
- 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

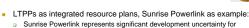
Local Resource Adequacy Requirement Decision 06-06-064 adopted Local RAR Local generation must be subject to CAISO Must Offer Obligation LSEs Local RAR based on load shares in the IOUs service territories Reliability level for 2007 set at Category C (N-1-1/N-2) level recommended by CAISO Implementation coordinated with CAISO RMR selection

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- 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

Long Term Procurement Plans and Resource Adequacy



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- 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
- Developing two uniferent need determinations based on scientary 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 Sunise, generation retirements in the SDG&E service territory may be limited

Acronym List

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

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