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Decision 92-09-088 September 16, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Investigation )  
 on the Commission's own motion to )  
 implement the Biennial Resource )  
 Plan Update following the )  
 California Energy Commission's )  
 Seventh Electricity Report. )

**ORIGINAL**

I.89-07-004  
(Filed July 6, 1989)

OPINION ON SOUTHERN CALIFORNIA EDISON COMPANY'S  
PETITION TO MODIFY DECISIONS 92-04-045 AND 91-06-022

1. Summary

Today we partially avail ourselves of the opportunity to advance the goal of all source bidding as a means to attain reliable, least cost and environmentally responsible answers to California's energy needs. The occasion is a ruling on the May 26, 1992, petition of Southern California Edison (Edison) to modify two decisions in our Biennial Resource Plan Update Proceeding (Update). Edison has sought our permission that all suppliers of generation resources be permitted to participate in the current Update cycle. With qualified support from the other investor owned electric utilities, Edison seeks to craft a plan for what we might term "all-supply-source bidding" as distinguished from a scheme in which both demand- and supply-side resources would participate. Such a reform would move us beyond the current competitive bid protocol in which only qualifying facilities (QFs) are eligible to bid in electric utilities' solicitations for new generating capacity under Final Standard Offer 4 (FSO4) long term contracts. Notwithstanding our recognition that the Edison petition invites progress toward a goal long espoused by the Commission, we have concluded that both procedural and substantive grounds counsel that we withhold our permission.

From a procedural perspective, the Edison petition is overly ambitious. Under Rule 43 of our Rules of Practice and Procedure petitions to modify may be used to seek minor changes in an order or decision. In the instant case, Edison asks that we undertake a significant departure from the terms of the bidding rules established for the current Update cycle. In the future, the affected utility should proceed by way of an application. Substantively, the step which Edison seeks is premature given the progress to date in meeting the conditions previously announced as precedent to any attempt to involve all-source bidding. As we shall explain, we do not envision satisfaction of these conditions in time to accommodate participants in the currently announced bid cycle. Disruption or delay of that cycle is an unacceptable price for progress which, in our view, is best attained under the terms which we shall announce.

The efforts of Edison, the comments of various interested parties, and the discussion which this petition had engendered within our staff have all been fruitful in advancing our agenda. Today we make incremental progress in efforts to replace a regulatory regime suitable but a short time ago to the evolving opportunity to utilize competitive forces in efforts to provide for California's energy future. We announce our intention to invoke a collaborative process and an en banc review so as to identify both the steps and a schedule to be followed in attaining all source bidding that is both fair and functional.

## 2. Background

The two decisions Edison seeks to modify constitute the culmination of many years of resource procurement policy development in the Update. The primary purposes of the Update are (1) to project long-run marginal costs for each of the utility respondents, and (2) to identify resource additions that, consistent with such cost projections and other prudent planning considerations, could be provided through competitive bidding.

In D.91-06-022, we added air quality considerations to our least-cost planning process. We also outlined the issues that had to be resolved before all-supply-source bidding could be implemented. Specifically, we identified nondiscriminatory transmission access for all suppliers and valuation of all major resource attributes in the planning and procurement process as prerequisites for a fully competitive generation market.

In D.92-04-045, we quantified resource need for each of the respondent utilities.<sup>1</sup> We also specified the portion of the total amount of utility resource additions that should be made available to QFs through competitive bidding. We also indicated that cost-effectiveness analysis of demand-side management (DSM) programs should be improved to ensure that DSM and supply-side resource programs are fairly and accurately evaluated. In neither of these two decisions have we definitely committed to adoption of all-source bidding, i.e., DSM and generation bidding in the same auction.<sup>2</sup>

### 3. Edison's Petition

Basic changes in the nature and structure of the electric utility industry, according to Edison, dictate that QFs no longer be the only eligible bidders for FS04 contracts. The impediments, or necessary preconditions, to a fully competitive generation resource procurement process Edison characterizes as either resolved or soon to be resolved. On that basis, Edison makes recommendations and commitments which, it believes, would satisfy

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1 Specifically, Pacific Gas and Electric Company (PG&E), Edison, and San Diego Gas & Electric Company (SDG&E).

2 We are investigating in another proceeding issues regarding DSM bidding in general and "integrated bidding" (i.e., an auction in which both DSM bidders and generation bidders participate). The proceeding is Investigation (I.) 91-08-002 and Rulemaking 91-08-003.

the Commission's criteria for full competition, and thus justify the move to all-supply-source bidding in the current Update.

Edison states (Petition, p. 3) that D.91-06-022 "identified four issues to be resolved before [all-supply-source] bidding would be possible:

- o Open transmission access;
- o Guaranteed QF market share;
- o Self-dealing (cross-subsidization); and
- o Utility accountability."

Edison asserts that its commitment in our transmission access proceeding (I.90-09-050), i.e., to provide cost information and sufficient transmission capacity to accommodate new generation resulting from the auction, will remove any transmission bottlenecks and assure sufficient transmission access to proceed with all-supply-source bidding.

Edison believes the generation set aside for renewable QFs under D.91-06-022 will satisfy what Edison characterizes as a Commission policy that "QFs receive a significant share of the market for new generation." (Petition, p. 5.)

To protect ratepayers from possible cross-subsidies between regulated and unregulated utility activities, Edison says it will propose rules and procedures that would provide such protection. Edison notes that it has undertaken commitments to avoid cross-subsidization of Edison affiliates (referring to a proposed settlement with the Division of Ratepayer Advocates (DRA)),<sup>3</sup> and Edison believes that development of rules for utility participation in all-supply-source bidding (even a utility bidding in its own auction) should not be a significant hurdle.

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<sup>3</sup> Our consideration of that proposed settlement is now pending in Application 88-02-016.

Regarding utility accountability, Edison lists certain revised cost elements of its Huntington Beach Unit 3 repower. These revisions lower the benchmark price for that repower. In its petition, Edison states that it "will commit to build and provide customers these benefits, including its commitment that the total cost of the project will be limited to \$310 million, if the Huntington Beach 3 repower IDR prevails in the auction." (Petition, p. 4.)

Under Edison's plan for all-supply-source bidding, Edison would be allowed to bid and, if it wins, to provide power at its bid price under the terms and conditions of FS04. It also identifies certain changes to bidding protocol, such as having a neutral third party evaluate the bids, that could be implemented to avoid potential utility bias. In addition, it suggests methods to protect ratepayers in the event that utility assets are used by the bidding project. Finally, Edison seeks assurance that existing utility assets should remain in rates if they become "stranded" (basically, underutilized or no longer needed at all) as a result of the auction.

#### 4. Replies to the Petition

Five parties responded to Edison's petition. PG&E and SDG&E express qualified support for Edison's request to move to all-supply-source bidding within this Update; DRA, the Coalition for Energy Efficiency and Renewable Technologies (CEERT), and the Independent Energy Producers and Geothermal Resources Association (jointly, IEP/GRA) oppose Edison's request as premature.

##### 4.1 PG&E

PG&E recommends initiating a collaborative process wherein parties could address improvements in the resource procurement process in time to be used in this cycle. PG&E thinks the market structure issues of concern to the Commission will be substantially resolved with the adoption of the Phase 1 decision in I.90-09-050. In addition, PG&E recommends that the parties address

through the collaborative process certain related issues which PG&E specified in its March 23, 1992 statement for the Commission's en banc hearing in the Update.<sup>4</sup>

PG&E supports Edison's request to revise the costs of the Huntington Beach repower, but cautions that Edison's willingness to be accountable for building the repower at those costs should not set precedent for other deferrable resources or other utilities. Finally, PG&E agrees that if existing utility plant is stranded as a result of competitive procurement, such plant should nevertheless remain in rates.

#### 4.2 SDG&E

SDG&E supports Edison's petition and agrees that the Phase 1 decision in I.90-09-050 should eliminate transmission obstacles to fair competition. SDG&E also agrees with Edison regarding the revision of cost estimates used as a benchmark in the FS04 auction, but shares PG&E's unwillingness to be bound to SDG&E's own cost estimate in the event the utility's identified deferrable resource prevails in the auction. SDG&E seconds Edison's and PG&E's views on stranded investment.

Finally, SDG&E suggests that workshops be held to examine alternative approaches to estimating offset costs.

#### 4.3 DRA

DRA supports the general direction of Edison's petition but believes it to be premature and incomplete. The contentions on which Edison bases its proposal are unsupported by the evidentiary record in this proceeding, according to DRA. Therefore, DRA recommends taking up the substance of Edison's petition, together with other methodological issues, in Phase 3 of the Update.

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<sup>4</sup> PG&E appears to be referring to its proposals for "multi-attribute" bidding.

DRA disagrees with Edison's assertion that its "commitments" in I.90-09-050 fully address the Commission's concerns regarding transmission access. DRA points out that the parties there agreed to limit the scope of the proceeding at this time to QF access and wheeling issues in order to accommodate a fall 1992 solicitation. DRA believes transmission access issues affecting non-QF entities (such as municipal utilities, out-of-state utilities, and independent power producers), as well as other types of transmission service, must be considered before implementing an all-source bidding program.

DRA also believes Edison's proposal does not presently comport with the Commission's demand-side programs and objectives. Edison's proposal limits bidding eligibility to generation resources, and the amount of capacity solicited to the generation need identified in D.92-04-045. These limitations preclude direct competition between demand- and supply-side resources.

In the view of DRA, utility bidding in the current FS04 auction should be prohibited because adequate ratepayer protections are not in place, and cannot be developed in time for this auction without stalling the entire process. Edison has not proposed concrete rules and procedures to ensure against utility self-dealing. Also, contrary to Edison's assertions, DRA believes that the Affiliate QF Settlement Agreement, prohibiting new contracts between Edison and its nonutility affiliate (Mission Energy), is a clear indication that the potential for cross-subsidization exists.

Regarding Edison's proposal on utility accountability, DRA supports reducing the benchmark price (excluding offsets) for Edison's Huntington Beach Unit 3 repower, on the condition that Edison be held to the reduced price should the repower prevail in the auction. DRA suggests that any utility requesting a last-minute reduction in a bidding benchmark be held accountable for supplying that capacity at the reduced price if competing bidders do not win. DRA agrees with Edison that a reduced nitrogen oxide

emission rate would reduce the amount of offsets needed; however, Edison has failed to quantify this savings in offset cost and has also failed to present specific offset cost data. Therefore, DRA does not support the use of offset costs lower than \$37 per kilowatt for this repower.

Finally, DRA supports the Commission's existing policies regarding rate recovery of stranded investment and sees no need to change or restate them.

#### 4.4 CEERT

CEERT finds Edison's petition to be too limited, in that it only addresses bidding by and for generation resources. In CEERT's view, all-source bidding means that all need (whether designated as a demand- or supply-side resource) should be made available to all bidders (regardless of whether the bidder proposes to meet the need through generating energy or saving energy): What Edison proposes is not true all-source bidding, first because only generation resources would be permitted to bid, and second because only a small fraction of the resource need identified by this Commission and by the California Energy Commission (CEC) would be made available to bidders.

According to CEERT, the progress to date in I.90-09-050 does not remove the structural impediments to true all-source bidding. CEERT views the petition as only an outline of the issues and notes that a further evidentiary record will be needed to adequately resolve many of them.

#### 4.5 IEP/GRA

IEP/GRA also regard Edison's petition as premature and incomplete. IEP/GRA agree with DRA that Edison's proposals should be addressed in Phase 3 of the Update, and that the progress made in I.90-09-050 is insufficient to support all-source bidding at this time. I.90-09-050 is presently considering only a portion of the many issues that must be resolved to ensure open, non-discriminatory transmission access.



IEP/GRA support increasing competition in both generation and demand-side markets, but they believe that orderly progress in that direction is necessary to achieve the full benefits of such competition. IEP/GRA question Edison's claim that its proposal will "allow customers to receive the maximum benefits of a fully competitive electricity generation market," when in fact its proposal is limited to a fraction of total resource need and precludes competition from demand-side resources. IEP/GRA also doubt that adequate procedures protecting ratepayers against utility cross-subsidization could be developed in time for use in this auction.

Regarding utility accountability for benchmark prices used in the auction, IEP/GRA have long argued for such accountability. They suggest that Edison's revised cost estimates for the Huntington Beach repower be considered in workshops.

On August 17, 1992, IEP/GRA filed a "Motion to Establish Procedural Schedule." As relevant here, the motion states that the Commission's efforts in three parallel proceedings (transmission access, DSM bidding, and the current Update) are approaching the stage where consideration of all-source bidding may be possible in the solicitation following the CEC's adoption of its 1992 Electricity Report (i.e., the solicitation in the Update cycle following the current Update). IEP/GRA urge that, "[i]n order to timely implement the [ER-92] bid solicitation, it is important that this Commission commence the process of integrating these various proceedings, as well as solving... other discrete issues which must be resolved before all-source bidding may be implemented." (IEP/GRA Motion, pp. 2-3, emphasis in original.)

##### 5. Discussion

Although we believe that it is time to take stock of our policies and review our course toward fully competitive resource procurement, we will not expand participation in the current Update cycle. Edison's four primary arguments regarding transmission

access, QF market niche, utility self-dealing, and utility accountability, are unpersuasive and in one instance off-point. We take up these arguments in turn.

### 5.1 Transmission Access

Our interim transmission access policies are too limited to accommodate all-supply-source bidding. In D.91-06-022 and D.91-10-039, we identified nondiscriminatory transmission access to all suppliers as a fundamental element of competition. The interim transmission access program currently being developed in I.90-09-050 will apply (1) only to QF power, (2) only to transmission by or between PG&E, SDG&E, and Edison, and (3) only for use in the current solicitation. This limited scope was agreed upon virtually without objection, in recognition that, given the short time-frame and the technical and jurisdictional complexities, implementing even such a limited transmission service would require enormous effort.<sup>5</sup>

The interim program is an admirable first step, but it falls well short of the assured nondiscriminatory access, for all potential users of transmission service, that we believe is critical to a fully competitive market. We agree with DRA's observation that transmission access issues affecting non-QF entities (such as municipal utilities, out-of-state utilities and independent power producers), as well as other transmission service, must be considered before implementing all-source bidding.

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<sup>5</sup> We expect the enhanced transmission access service, which we will work on after this bidding cycle, will likely carry forward many features of the interim program. But the parties are free, in Phase 2 of I.90-09-050, to propose alternative approaches to improve the interim program, or to accommodate additional bidders or transmission service providers, or for other reasons. Thus, the final program may require more than incremental adjustments to the interim program, and we cannot fairly conclude from the existence of a yet-to-be-tested interim program that achievement of all our transmission goals is an accomplished fact, as Edison suggests.

## 5.2 Market Share

Edison mischaracterizes our policies on the role of QFs in the supply of electricity. Our current resource procurement policies allow QFs only the opportunity to compete through bidding to provide part of new capacity. Contrary to what Edison states, our policy is not to guarantee a market share for QFs but rather to ensure that utilities do not effectively reserve the whole of the generation market to themselves. Even the interim set-aside policy for renewable QFs is not a guarantee; it simply delineates a class of QFs that, pursuant to Public Utilities (PU) Code § 701.3, can bid on specific portions of future needed capacity. Our implementation of PU Code § 701.3 simply has no bearing on the suitability of all-supply-source bidding at this time.

## 5.3 Ensuring Fair Competition

The Edison petition advances no proposed rules to ensure that utilities are not accorded unfair advantages in an auction in which they participate. Instead, petitioner simply expresses the view that such rules can be easily formulated. While we welcome what we deem a good faith effort to cooperate in the formulation of solutions, we are not convinced that progress will be easy. Though doubtless tractable, our duty to protect ratepayers will require that we assure ourselves that any program contain adequate measures to preclude utility self-dealing and cross-subsidization.

### 5.3.1 Potential Cross-Subsidization and Self-Dealing Problems

There are a multitude of ways in which ratepayers could inappropriately bear costs of utility participation in the auction. For example, the utilities' expenses in preparing their resource plans, here and at the CEC, are currently recovered in rates. The nonutility competitors have no such ability to underwrite their costs of participation in regulatory proceedings. They recover such costs, if at all, only by winning the auction. If utilities are truly to bid competitively, and be permitted to achieve

unregulated profits, they must bear risks comparable to those faced by their competitors. Failure to correctly match risks and rewards could result in actual low-cost bidders losing in the auction.<sup>6</sup>

### 5.3.2 Utility Structure: Problems of Transitional Regulation

Moreover, all-source bidding goes well beyond accounting issues, as difficult and important as those are. All-source bidding raises fundamental questions about the structure and regulation of the electric utility industry. How should utilities be regulated when new generation is partially or wholly deregulated? How should regulation of existing utility investment be affected by these changes? How should transmission be regulated in the new generation environment? We are not certain that these questions all have to be answered definitively before we begin to expand bidding eligibility, but now is the time to start addressing them systematically.

A hybrid utility structure could develop. Utilities' revenues from new investments in generation would be set as a result of competitive bidding. At the same time, their revenues from existing investments would presumably remain subject to regulation. Edison, supported by PG&E and SDG&E, seeks certain

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<sup>6</sup> The proposed settlement between Edison and DRA regarding affiliated QFs is not precisely on point, since Edison's petition seeks authority for the utility to participate directly in its own auction. If anything, arguments supporting the settlement's ban on participation by affiliates would apply even more strongly to direct participation by the utility, since cross-subsidization and self-dealing would be even harder to weed out. Conceivably, the utility would have to create internal divisions in its work force, with strict accounting between regulated and unregulated activities. At any rate, the scope of issues raised by all-source bidding, compared to those in the settlement, is necessarily much broader and requires careful review.

assurances regarding the latter, specifically in relation to "stranded" investment.

We decline to make any statement at this time regarding existing utility investment that the utilities fear may be stranded as a direct or indirect result of the auction. Commission policies on stranded investment are articulated in many decisions over the years. Those policies should stand on their own unless and until we determine they should be modified, possibly in response to the structural changes we discuss above. It is premature to speculate on what changes, if any, might be appropriate.

#### 5.4 Utility Accountability

In the past, we have declined to treat the benchmark price as a binding estimate. We found that while accurate estimates of the deferrable resource costs are critical, the ER/Update cycle contains safeguards that may be adequate to ensure the credibility of the benchmark price. Further, we concluded that if the utility could do better than the deferrable resource costs, ratepayers are entitled to have that superior resource set the benchmark price. (see D.91-06-022, slip op., pp. 72, 109, and 121.)

By its petition, Edison contends it can do better than the benchmark price and thereby reduce the costs imposed on its ratepayers. We agree that the ratepayers should have the benefit of these reduced costs. We acknowledge that Edison's revised cost estimates have not been subjected to the scrutiny of the ER/Update cycle, but do not think it prudent at this late hour before the solicitation to order such scrutiny. Therefore we accept Edison's offer to commit to the restated total costs of the Huntington Beach 3 repower, and to build the repower if it prevails in the auction.

We note that commitment on a "total cost" basis includes both capital costs (Edison's \$310 million) and operating costs which are expressed as a heat rate. Bidders compete with deferrable resources on capital and operating costs. In its

petition, Edison characterizes its commitment as "total cost" but omits the operating cost component of total cost. (Petition, p. 4, quoted in Section 3 above). A total cost commitment by Edison would require that, if the repower prevails in the auction, the fixed and variable payments Edison recovers for the repower depend on the capital cost (\$310 million) and the heat rate specified in the bidding benchmark.

We also note that neither PG&E nor SDG&E accept similar accountability for any of their deferrable resources, nor does Edison accept it for any of its deferrable resources other than the repower. We agree with PG&E and SDG&E that Edison's commitment should not establish a precedent for the treatment of other deferrable resource costs. Absent utility accountability, deferrable resource cost revisions after need determination has occurred are highly suspect. We believe the tradeoff between timely cost estimate revisions and credibility of cost estimates are well balanced under Edison's proposal to commit to build the facility using the revised cost as a cap.

**5.4.1 With Accountability, An Opportunity for Additional Cost Reductions Could Be Considered**

In our April Resource Plan decision (D.92-04-045, slip op., pp. 91 - 92), we considered Edison's preference, stated in its comments on the Proposed Decision, that we designate the San Bernardino repower the deferrable resource. At that time we affirmed the proposed designation of Huntington Beach 3 as the deferrable resource. We noted that the Energy Commission's 1990 Electricity Report did not mention the San Bernardino repower. Further, we relied upon the economic rationale that more costly resources be deferred first through bidding the more costly of the projects under consideration.

Clearly, we are motivated to accept Edison's offer to commit to build the Huntington Beach 3 repower at the restated total cost in order to reduce the costs imposed on Edison's

ratepayers. In reviewing the record to assess Edison's request, we are reminded that the proposed repower of San Bernardino 1 and 2 (a net addition of 274 MW) would require \$185 million in capital costs and is therefore the lower cost addition. Were Edison to revise the San Bernardino 1 and 2 repower costs, we anticipate that revision would result in still lower costs to the ratepayer, and an increase in the net capacity addition above the currently stated 274 MW. If presented within fourteen days of the effective date of this order with revised total costs and net MW additions for the San Bernardino 1 and 2 repower at the level of detail described above, coupled with the commitment to build the repower at the restated cost if it prevails in the auction, the Commission, after hearing from other interested parties, will consider modifying its Resource Plan Decision 92-04-045 to require Edison prepare its bid solicitation with revised San Bernardino 1 and 2 repower costs in the place of the revised Huntington Beach 3 repower costs as the deferrable resource. In the event Edison submits a compliance filing with the Docket Office in conformance with the above, parties are invited to address both the merits of the potential modification and any aspect of the proposed cost revisions.

5.5 Additional Implementation Issues for All-Source Bidding

As noted in several parties' responses to the petition, Edison disregards two additional and essential implementation questions for fully competitive resource procurement. First, the petition envisions all-source bidding as limited to the amount of capacity additions that are open to QF bidding. Edison does not address competition for providing any of the rest of the resource

need identified in D.92-04-045.<sup>7</sup> Second, the petition ignores the question of whether bidding by providers of demand-side services should be permitted in direct competition against energy suppliers.

Our current policies regarding the electric generation market focus on QF competition with the utilities. These policies serve as a transitional step toward full competition, but they are not geared to address the many issues surrounding all-source bidding. We agree with IEP/GRA that all-source bidding will draw together many regulatory initiatives and require coordination of many proceedings. We next consider how this may be accomplished.

#### 6. Next Steps

We have clearly stated an intention to eventually expand bidding eligibility, at a minimum, to non-QF suppliers of electricity. Such expansion is "a necessary component of a fully competitive resource procurement process." (D.91-06-022, slip op., p. 12.)

Parties differ on how much expansion of bidding eligibility is appropriate now, but they all agree that all-source bidding is no longer a remote theoretical construct. The time is ripe to plan and begin the steps leading to all-source bidding.

We believe that all-source bidding has the potential to lower the cost of electricity, without loss of reliability or compromising environmental goals. Nevertheless, the transition to all-source bidding requires careful planning, as experience has

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<sup>7</sup> Only a fraction of utility resource additions through 1999 (as projected in D.92-04-045) are subject to QF bidding. Thus, the great majority of resource additions currently would not have to be acquired through a competitive procurement process. The percentage of resource additions NOT subject to QF bidding are 71.5% for SDG&E, 84% for Edison, and 93% for PG&E. (See *id.*, slip op., figure 7.) Under Edison's version of all-source bidding, these resource additions would still not be made available to bidders.



shown that transitional regulation is the most difficult regulation.

Several parties have called for a collaborative process to map out and advise on the transition. In some cases, issues recommended by the parties for consideration under a collaborative approach reach beyond the scope of the instant petition, encompassing broader industry structure and resource procurement process issues.

We recognize that the electric industry faces a set of dynamic, and in some cases novel, challenges. We have consistently acknowledged our goal of ensuring continued compatibility among our regulatory programs and the industries those programs govern. Thus, while we are interested in the benefits offered by a collaborative approach, we believe that process must begin with policy direction from the Commission. Such direction is necessary to ensure that parties' time and effort leads to a solution that is compatible with Commission goals.

We have taken preliminary steps toward such policy development by directing our Division of Strategic Planning to prepare a report for Commission consideration. The Division's report will examine conditions the electric industry currently confronts, as well as future trends likely to influence the industry. The report will also examine the Commission's comprehensive set of regulatory programs, and will explore alternatives to the current regulatory approach in light of the conditions and trends identified. We anticipate publishing the report for comment by the end of this year.

Based on the Division's report and the comments of interested parties, we will assess what, if any, modifications to our programs merit consideration and identify the appropriate forum in which to address any such modifications. This effort will help prepare the Commission to address the broader questions about the

structure and regulation of the electric utility industry posed above.

While this report is under development we will convene an en banc hearing, tentatively scheduled for October 21, 1992, to address the specific implementation issues. We will use the oral and written submissions of interested persons, together with the content of our Division's report to formulate policy directions for a collaborative approach. Our goal is to confront the all-source bidding issues in the broader context of industry conditions, structure and regulation.

The topics, format, and schedule for the all-source bidding en banc hearing will be further delineated by ruling of the Assigned Commissioner or Administrative Law Judges. As preliminary preparation, the appendix to today's decision outlines several key issues that will need to be addressed in managing the transition to all-source bidding.

We emphasize that this planning effort must not interfere with this fall's auction in the current Update cycle. Indeed, experience with that auction is critical; without such practical experience, we would not commit ourselves to a process that may ultimately involve all future electric needs of California's investor-owned utilities, and all potential sources for satisfying those needs. Once the Requests For Bid have been released, we will take up the broader issues surrounding the structure and regulation of the electric utility industry.

Findings of Fact

1. The necessary conditions for all-source bidding, as discussed in D.91-06-022 and D.92-04-045, have not been satisfied. However, there has been significant progress to meeting those conditions, such that the Commission should now lay out further policy direction for managing the possible transition to all-source bidding. The solicitation planned for fall of 1992 should take place as scheduled. Experience from conducting this solicitation is necessary before expanding eligibility to bid.

2. The ratepayers stand to benefit from revision of the cost estimates and heat rate for the Edison Huntington Beach 3 repower deferrable resource. Edison's commitment to build and operate the repower as stated in its revised bidding benchmark is adequate assurance of the credibility of the cost estimate.

Conclusions of Law

1. Edison's petition to modify D.92-04-045 and D.91-06-022 by revising the cost estimate for the Huntington Beach 3 repower and committing to build and operate the repower at the revised cost and heat rate should be granted.

2. The remainder of Edison's petition to modify D.92-04-045 and D.91-06-022 should be denied.

3. This order should be made effective immediately.

O R D E R

IT IS ORDERED that the petition of Southern California Edison Company to modify Decisions (D.) 92-04-045 and D.91-06-022 is granted in part and denied in part as described above. The Assigned Commissioner or Administrative Law Judges shall shortly issue a ruling setting an en banc hearing on all-source bidding. The ruling shall specify the topics, format, and schedule for the en banc hearing. Topics shall include, but are not limited to, those shown in the appendix to today's decision.

This order is effective today.

Dated September 16, 1992, at San Francisco, California.

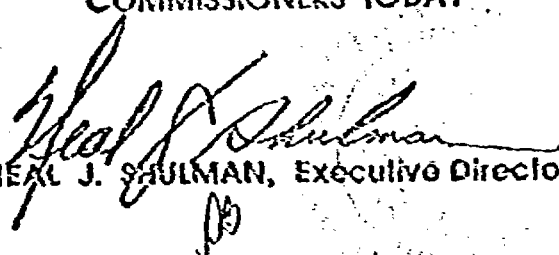
DANIEL Wm. FESSLER  
President

JOHN B. OHANIAN  
PATRICIA M. ECKERT  
NORMAN D. SHUMWAY  
Commissioners

I will file a written concurrence.

/s/ John B. Ohanian  
Commissioner

I CERTIFY THAT THIS DECISION  
WAS APPROVED BY THE ABOVE  
COMMISSIONERS TODAY

  
NEAL J. SHULMAN, Executive Director

APPENDIX  
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ALL-SOURCE BIDDING ISSUES

1. What kinds of utility resource need can be filled through competitive bidding?
  - 1.1 Peaking? Intermediate? Baseload? All of these?
  - 1.2 Distinguish between resources needed to ensure reliability vs. resources needed to lower costs?
  - 1.3 Does it matter whether the resource to be bid against is generation or DSM?
2. What kinds of resources are eligible to compete?
  - 2.1 Generation?
  - 2.2 DSM?
    - 2.2.1 Short-term load reductions (various types of interruptible service)?
    - 2.2.2 Long-term load reductions (self-generation; programs to improve efficiency of energy consumption)?
3. How closely, if at all, must the competing resource follow the purchasing utility's load pattern?
  - 3.1 Under FS04, the QF must curtail output or accept an alternate energy price during many, possibly all, hours of the year. How, if at all, would economic curtailment be applied to utility payments to successful DSM bidders?
4. Quality of transmission service needed for competitors in all-source bidding?
  - 4.1 Long-term service?
  - 4.2 Short-term service?
  - 4.3 What kinds of monitoring/assurance of access are necessary (if any)?

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5. Who may own competing resources?
  - 5.1 Nonutility owners (QFs, IPPs, customers of the purchasing utility, energy service companies)?
    - Any restriction on utility purchasing from nonutility entity in which utility has an equity interest?
  - 5.2 Utility owners (munis (including special districts, rural elec. cooperatives, etc.), IOUs)?
    - Any restriction on utility bidding in own auction?
    - Any restriction on "daisy-chaining" (Util. A sells to Util. B, Util. B sells to Util. A)?
6. Nature of commitment by bidder to purchasing utility?
  - 6.1 May a single facility be obligated to serve more than one purchasing utility?
  - 6.2 May a single facility sell to a single utility under more than one contract?
  - 6.3 May a single bidder use more than one facility to meet its sale obligation under a given contract (i.e., are "system sales" permitted)?
  - 6.4 May a bidder sell energy in excess of the contract amount to the purchasing utility?

**NOTE:** Many of the issues shown in § 6 are under consideration in the pending FS04 contract modification decision in the Update.
7. What costs/benefits associated with competing resource options should/must be recognized?
  - 7.1 Operational characteristics?
  - 7.2 Air quality? Other environmental effects (water, biota, land use, noise, visual impact)?
  - 7.3 Diversification of resource mix (e.g., fuel diversity, technological diversity, varying useful lives, geographic dispersion, possibly others).

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8. What adjustments must be made to our regulation of electric utilities, some of whose generating assets are in rate base and some of which are not?
  - 8.1 Separation/allocation of utility resources between regulated and unregulated activity?
  - 8.2 Relation of competitive resource procurement to existing incentive programs?

(END OF APPENDIX)

I.89-07-004  
D.92-09-088

John B. Ohanian, Commissioner, Concurring.

Today's order denies that portion of Edison's petition which requests that all suppliers of generation resources be allowed to participate in bidding in the current Update cycle. However, this decision recognizes, and I strongly support the notion, that increased competition through expanded bidding eligibility is the desired policy by which the Commission will ensure that California's electricity needs may be fulfilled in the least cost and most environmentally benign manner to the benefit of California's ratepayers.

Today's order delays the implementation of all supply-source bidding, but this delay is necessary to ensure that essential implementation issues are resolved. I regret that we cannot expand the bidding eligibility beyond the existing limitations for the auction to be held this fall. However, I am confident that the Commission will move toward establishing a policy direction which allows all suppliers to compete in the provision of generation resources within the context of our examination of broader industry structural and regulatory issues.

Today's order anticipates the timely release of a report by the Division of Strategic Planning and an en banc hearing to address specific implementation issues. It is my desire that the information provided will enable the Commission to take the steps necessary to identify and resolve all issues that prevent current implementation of all supply-source bidding.

/s/ John B. Ohanian

JOHN B. OHANIAN

San Francisco, California

September 16, 1992