

# Electric Procurement Incentives



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# Introduction

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- Present the objectives of an EPIM
- Describe the conditions for a successful EPIM
- Evaluating EPIM Options
- Demand Response

# Objectives of an EPIM

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- CPUC Objectives
  - To create an overall procurement incentive framework aligning the interests of utility investors, management and ratepayers such that the proper balancing of these preferred resources occurs in the procurement of power from existing and new resources.
  - To be consistent with the goals of the EAP preferred loading order.
  - Be cognizant of impacts on climate change.

# Objectives of EPIM cont'd

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- PG&E Objectives
  - To be consistent with AB 57
  - To be sustainable, fair, within our control
  - To simplify the current regulation
- Market Objectives
  - Discourage gaming
  - Avoid ratepayer payouts

# Necessary conditions for an incentive

Conditions	Current situation
<ul style="list-style-type: none"> <li>• There is need for an incentive (i.e., something needs to be fixed or improved)</li> </ul>	<ul style="list-style-type: none"> <li>• Customer rates are high, but there is little that the utility can do to lower prices and price incentives will conflict with other goals</li> <li>• Current priorities and mandates limit flexibility needed in an overarching incentive mechanism (Resource adequacy, increased renewables, CEE and DR)</li> <li>• AB57 and recent procurement decisions provide for cost-recovery and eliminate after-the-fact reasonableness review</li> </ul>
<ul style="list-style-type: none"> <li>• Parties agree on the desired utility behavior</li> </ul>	<ul style="list-style-type: none"> <li>• Regulators first priority is resource adequacy to ensure generation reliability</li> <li>• CPUC is also interested in reducing emissions (cap and trade system), and preferred resources targets (renewables, CEE, DR)</li> <li>• Regulators agenda (i.e., the Energy Action Plan) and California law (i.e., RPS) include a number of mandated targets that limit most of the choice available to the utility in the near future</li> <li>• There are multiple choices and flexibility for the utility to achieve the goal</li> </ul>
<ul style="list-style-type: none"> <li>• There is agreement on appropriate benchmarks</li> </ul>	<ul style="list-style-type: none"> <li>• A benchmark is difficult to design for electric procurement given the variety of resources available to meet load, along with various terms of power purchase agreements and utility ownership of supply side resources</li> </ul>

# EPIM Options

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- Encompass the electric procurement function similar to the core gas incentive mechanism.
- Focus on key portfolio performance attributes like the electric distribution performance incentive mechanism.
- Focus on resource acquisition consistent with the EAP's preferred loading order, without resource set-asides
- Sky Trust or alternative GHG mechanism
- Encourage achievement of selected resource targets or set-asides.

# Current Regulation & Incentives

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- Energy efficiency – CPUC reviews and approves individual CEE programs
- Demand Side Programs (other than AMI) – CPUC reviews and approves individual DSM programs
- AMI – under development
- DG – various legislated and regulatory subsidies; cost/benefit analysis is underway
- Renewables – RPS legislated target with penalties (no rewards) for non-compliance
- GHG – New CO<sub>2</sub> adder for resource evaluation; CEE/DSM/renewables programs provide indirect incentives

# Regulation & Incentives cont'd

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- Existing procurement contract administration – AB 57 and DWR contract administration risk limited
- New power purchases: spot, mid-term, long
- Existing generation maintenance, operations and dispatch
- New generation acquisition – traditional ratemaking, except as modified by 12/04 resource plan decision
- Procures fuel for generation
- Total portfolio – AB 57



# Opening Pre-Workshop Comment Summary

	PG&E	SCE	SDG&E	NRDC	IEP
CEE	X	X	X	X	
AMI					
Other DSM	X	X	X		
Renewables	X	X	X	X	
GHG				NOT NOW	
ST Procurement			X		
Contract admin.			X		
Hedging			X		
New Gen			X	X	X
Total Portfolio			X		

# Do the various EPIM options meet PG&E's goals?

Option	Meet Goals? Y/N	Reason
Electric CPIM	N	Not consistent with AB 57; cost drivers out of our control
Portfolio Performance Attributes	N	Metrics not within our ability to control
EPA without set-asides	N	
GHG Only	N	Not sustainable
CEE/Renewables only	Possibly	

# Demand Response

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- Will demand response incentives meet PG&E's goals?
  - Counting Rules: MW achieved through price responsive programs but reliability based programs. May not count toward meeting targets.
  - Delivered MW: contract MW vs. delivered MW
  - Cost effectiveness: DR programs not likely to be cost effective using the \$/MWH avoided costs used by CEE or renewables programs
  - May not align shareholder incentives with customer satisfaction and resource procurement goals.
  - AMI – DR incentives not considered.



# Appendices

