



# California Public Utilities Commission

Headquarters Office: 505 Van Ness Avenue, San Francisco, CA 94102

## Recent Developments in California's Competitive Procurement Process

Electric Power Supply Association  
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Commissioner Dian M. Grueneich  
California Public Utilities Commission



# Recent Developments in California's Competitive Procurement Process

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- The CPUC has shown a commitment to authorizing new generation resources by approving specific projects and developing a resource adequacy framework to ensure sufficient resources going forward.
- The CPUC in conjunction with other state agencies has developed a “loading order” for utility resource acquisitions that emphasizes energy efficiency, demand response, renewables and then traditional fossil resources.
- The CPUC has an evolving procurement process for acquiring new resources that has been a mixture of utility projects, bilaterals, and RFP processes.
- The CPUC's December 2004 procurement decision creates an open and transparent competitive framework for utility solicitations going forward, including requiring an independent evaluator.
- California's utilities are commencing long-term resource solicitations and have annual requirements for new renewable projects.



## CPUC has Recently Authorized New Generation Projects for California

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- **In December 2003, the CPUC authorized Southern California Edison (SCE) to enter into a contract with Mountainview, a 1,050 MW project scheduled to provide power by 2006.**
  - The CPUC viewed Mountainview as an “unique and fleeting” low-cost opportunity – the question of immediate need for the plant was disputed and there was no competitive bidding process.
  - The CPUC authorized SCE to acquire Mountainview Power Company, LLC (MVL) as a wholly-owned subsidiary of Edison, and to enter into a PPA with MVL for the purchase of electricity from Mountainview Power Project.
  - The decision authorized SCE to proceed with the proposed FERC jurisdictional PPA, which was effectively a utility-owned project, but stated the Commission’s preference to have Mountainview owned and operated as a traditional utility-owned project some time in the future.



## CPUC has Recently Authorized New Generation Projects for California (cont.)

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- **The Commission's most recent experience with a head-to-head competition among diverse resources was San Diego Gas & Electric's (SDG&E) Grid Reliability RFP in 2003.**
  - This RFP process was controversial because one of the selected plants was built by the utility's affiliate and the RFP was for three year projects and two much longer term projects were selected.
  - SDG&E issued its RFP to procure resources to meet its capacity needs for at least 2005-2007 and considered both supply and demand resources.
  - In June 2004, the Commission approved two large power plant projects—Palomar and Otay Mesa.
    - Palomar is a utility-owned 550 MW plant expected to go on-line in June 2006 that was a turnkey project built by Sempra.
    - Otay Mesa is a 585 MW plant that is expected to provide SDG&E with power beginning January 1, 2008.



## Governor Schwarzenegger Supports Aggressive Resource Adequacy and the Loading Order

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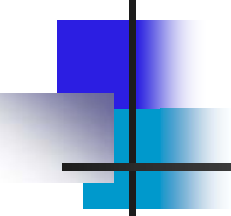
- **The Governor supports the loading order adopted by the CPUC, which provides environmental preferences for new resources.**
- **The Governor supported the CPUC moving up its 15-17% resource adequacy requirement two years from 2008 to 2006.**
- **The Governor is in favor of open and competitive solicitation procurement processes.**
- **The Governor wants the CPUC to encourage utilities to sign long-term contracts to ensure new resources are built for California's future.**



## CPUC is Moving Forward with Procurement Decisions to Ensure Resource Adequacy

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- **In 2004, the CPUC adopted a planning reserve margin requirement for load serving entities, adopted the utilities' long-term procurement plans, and directed utilities to enter into contracts through open and competitive procurement processes.**
  - Utilities should not rely on the spot market for more than 5% of their net short needs.
  - In January 2004, the Commission adopted a 15-17% reserve margin for all Load Serving Entities (LSEs), to be met no later than January 1, 2008. Then, in October 2004, the Commission accelerated the planning reserve margin requirement to June 1, 2006.
  - In December 2004, the CPUC issued a decision adopting a more open and competitive procurement process, where utilities would solicit offers for long-term contracts and projects.
  - The Commission also adopted Pacific Gas & Electric (PG&E), SCE and SDG&E's long-term procurement plans and provided direction to the utilities on the procurement of the resources identified in their plans.
  - The Commission supports a hybrid market structure, consisting of a mix of utility-owned generation and power purchase agreements with 3rd party producers.



## The CPUC's December 2004 Procurement Decision Allows for Greater Head-to-Head Competition and Adopts Guidelines for All-Source Solicitations

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- **Following California's Energy Action Plan loading order is the first priority for utility power procurement.**
  - Cost-effective energy efficiency and demand-side resources have highest priority in resource selection, followed by renewable resources, and then traditional fossil resources.
- **The utilities' Procurement Review Groups (PRGs), first established in 2002, serve as informal advisory bodies for procurement activities.**
  - The PRGs consist of non-market participants (e.g., consumer groups). CPUC staff are ex officio members of the group.
  - PRG members provide feedback to the utilities on procurement practices and strategies in advance of filings at the CPUC.



## The CPUC's December 2004 Procurement Decision Allows for Greater Head-to-Head Competition and Adopts Guidelines for All-Source Solicitations (cont.)

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- **Utilities must use greenhouse gas (GHG) adders ranging from \$8 to \$25 per ton in evaluating fossil generation bids.**
  - Application of the GHG adder is not required for contracts less than five years in duration.
  - For contracts longer than five years, the adders should be employed in evaluating the cost of power procured in 2007 and beyond.
- **The use of an independent third party evaluator (IE) is required in resource solicitations that involve affiliates, utility-built, or turnkey projects.**
  - The decision endorses the IE guidelines listed by the Federal Energy Regulatory Commission.
  - The IEs will not make binding decisions on behalf of the utilities, but consult with them on the design, administration, and evaluation of RFOs.





## The CPUC's December 2004 Procurement Decision Allows for Greater Head-to-Head Competition and Adopts Guidelines for All-Source Solicitations (cont.)

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- **Utilities may consider the impact of debt equivalence (DE) in their bid evaluation process.**
  - In their cost of capital proceedings, the utilities will need to demonstrate the material impact of debt equivalency on their credit rating, if any.
  - Utilities will apply the Standard & Poor's methodology and use a 20% risk factor for DE.
- **The CPUC lifted the ban on long-term affiliate transactions and discouraged but did not rule out bilaterals.**
- **The CPUC intends to open a confidentiality rulemaking proceeding later this year; the goal is to revise the existing confidentiality rules.**



# SCE is Making Significant Progress in Obtaining Sufficient In-Basin Resources for Summer 2005 and the Years Beyond

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- **There are insufficient in-basin resources to meet forecasted demand if Southern California experiences an abnormally hot summer this year.**
  - The Governor's office and the CPUC have been working with SCE in the utility's efforts to acquire resources needed to address summer 2005 reliability concerns.
- **In October 2004, SCE issued a solicitation for intermediate-term commitments.**
  - The requested products included local reliability, dispatchable and non-dispatchable peakers, and system resources for the period 2005 through 2008.
  - SCE executed agreements for thousands of MWs in late January 2005.
- **SCE intends to issue a solicitation for commitments of up to 10 years, with expected initial delivery dates between June 1, 2006 and August 1, 2008.**
  - SCE will be seeking new dispatchable generating products with SP-15 delivery points.



# PG&E is Procuring Resources through Long-Term and Intermediate-Term Competitive Solicitations

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- **On April 7, 2005, the Commission approved PG&E's request to enter into a nearly 3-year tolling agreement with Duke Energy for 650 MW.**
  - PG&E had responded to Duke's competitive solicitation issued in October 2004, but is effectively signing a bilateral deal to keep this generation online.
  - The contract addresses summer 2005 reliability concerns.
- **PG&E is in the midst of an intermediate-term RFO where it is seeking shapeable energy from 2006 through 2008.**
  - PG&E issued the RFO in September 2004, to conclude in May 2005.
- **PG&E is looking to procure long-term resources amounting to 1,200 MW in 2008 and an additional 1,000 MW in 2010.**
  - PG&E initiated a long-term solicitation in October 2004, revised it based on the CPUC's December 2004 procurement decision, and re-issued it in March 2005, with a deadline of April 2005.
  - PG&E has conformed its review process (e.g., hiring an Independent Evaluator) and solicited offers for both facility ownership and power purchase alternatives.



# The Utilities' Solicitations for Renewable Resources Shaping Up to be Successful

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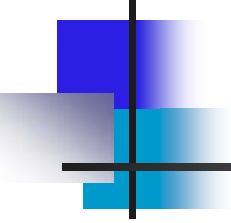
- **PG&E, SCE and SDG&E have approximately 13%, 18%, and 5%, respectively, of renewable resources in their energy portfolios and need to reach 20% by 2010.**
- **PG&E and SDG&E will be filing 2004 RPS contracts with the CPUC in Q2 2005 as a result of competitive RFP solicitations.**
  - The 2004 RPS solicitations closed in August 2004.
  - The CPUC released the Market Price Referent in February 2005 as market benchmark, after the utilities had determined their short list of bidders.
  - PG&E and SDG&E will file contracts with the CPUC in April and June 2005, respectively.
- **SCE filed the results from its competitive 2003 RPS Interim Solicitation in March 2005 but did not issue a 2004 RPS solicitation**
  - SCE filed for Commission approval of 6 contracts that initially total 643 GWh/year with potential expansion up to 2,217 GWh/year.
  - 2 biomass, 1 geothermal and 3 wind contracts.



# The Utilities' Solicitations for Renewable Resources Shaping up to be Successful (cont.)

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- **The utilities' 2005 RPS solicitations are on track for Q3 2005.**
  - PG&E, SCE and SDG&E have filed 2005 RPS procurement plans with CPUC.
  - RPS RFO bidding requirements will be filed with the CPUC on April 15, 2005.
  - A Commission decision approving the RFOs and procurement plans is expected in Q3 2005. The utilities will issue RPS solicitations shortly afterwards.



# Summary of CPUC Activities for Procurement of New Resources

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- Adopted “loading order” for new resource acquisitions based on environmental impact.
- Committed to developing new resources to ensure resource adequacy.
- Last few years have seen an evolving approach to acquiring new resources.
- Open, competitive, and transparent framework going forward with expectation of hybrid market structure.
- CA utilities are moving forward with long-term solicitations and renewable acquisitions.