



# California Public Utilities Commission

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

## The PUC Implements Assembly Bill 57

**Briefing Before the Assembly Utilities and  
Commerce Committee**

**May 10, 2004**



# AB 57 Gets Utilities Back Into the Electricity Procurement Business

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## AB 57:

- Provides guidance on utilities' electricity procurement and electricity demand reductions
- Requires that each electrical corporation whose customers were served by the Department of Water Resources (DWR) resume procurement for their customers by no later than January 1, 2003
- Directs the PUC to ensure that each utility optimizes the value of its overall supply portfolio, including DWR contracts, for the benefit of its bundled service customers



# AB 57 Gets Utilities Back Into the Electricity Procurement Business (cont.)

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- Directs the PUC to review each utility's procurement plan in a manner that:
  - Assures creation of a diversified procurement portfolio
  - Assures just and reasonable electricity rates
  - Provides certainty to the utility in order to enhance its financial stability and creditworthiness
  - Eliminates the need, with certain exceptions, for after-the-fact reasonableness reviews of a utility's prospective electricity procurement performed consistent with an approved procurement plan.



# **AB 57 Gets Utilities Back Into the Electricity Procurement Business (cont.)**

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To Implement AB 57 the PUC Must:

1. Review and approve utility energy procurement plans.
2. Establish policies and cost recovery mechanisms for energy procurement.
3. Ensure that the utilities maintain an adequate reserve requirement.
4. Implement a long-term resource planning process.
5. Implement a Renewable Portfolio Standard (RPS) program in accordance with SB 1078.



# The PUC Began Implementing AB 57 in the Fall of 2002

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Since August 2002, the Commission has:

- Authorized PG&E, SCE and SDG&E to begin transitional procurement pending PUC approval of their 2003 procurement plans<sup>1</sup>
- Allocated 35 long-term DWR contracts to the three utilities<sup>2</sup>
- Adopted a regulatory framework under which the utilities resumed full procurement responsibilities on Jan 1, 2003<sup>3</sup>
- Adopted Operating Agreements defining the terms and conditions for DWR contract administration<sup>4</sup>

<sup>1</sup> In D.02-08-071    <sup>2</sup> In D.02-09-053    <sup>3</sup> In D.02-10-062    <sup>4</sup> In D.02-12-069 and D.03-04-029



# The PUC Began Implementing AB 57 in the Fall of 2002 (cont.)

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- Approved the utilities' 2003 procurement plans<sup>5</sup>
- Established processes to implement the RPS program<sup>6</sup>
- Established the Energy Resource Recovery Account (ERRA) to ensure that utilities timely recover their procurement costs<sup>7</sup>
- Authorized over 1,000 MW of non-renewable procurement contracts<sup>8</sup>
- Authorized over 600 MW of renewable procurement contracts, consisting of biomass, geothermal, wind, and small hydro<sup>9</sup>

<sup>5</sup> In D.02-12-074 <sup>6</sup> In D.03-06-071 <sup>7</sup> In D.02-10-062 and D.02-12-074

<sup>8,9</sup> In various Commission resolutions



# Utilities Resumed Procurement on January 1, 2003

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- Utilities procured power in 2003 under their PUC approved 2003 short-term plans
- Utilities bought power to serve their residual net short needs (the power that is needed after taking into account existing resources from within the utilities' supply portfolio and the DWR contracts that have been allocated to them)
- Utilities marketed their residual net Long positions (that is, selling surplus power that the utilities have in certain hours)
- Utilities measured and reported price risk exposure
- Utilities hedged gas and electric price risk

# PUC Adopted A Short-Term Operating Reserve Level and Approved the Utilities' 2004 Short-Term Plans



The PUC in December 2003<sup>10</sup>:

- Adopted the utilities' short-term procurement plans for 2004
- Adopted a 7% short-term operating reserve level and provided guidance on a 5% target level of spot market purchases
- Addressed risk management issues
- Allowed the utilities to enter into contracts of up to 5 years to meet needs in 2004

<sup>10</sup> In D.03-12-062



# PUC Adopted A Short-Term Operating Reserve Level and Approved the Utilities' 2004 Short-Term Plans (cont.)

- Ordered the utilities to extend expiring or expired contracts with existing Qualifying Facilities (QFs) until December 31, 2004
- Authorized \$245 million of funding for energy efficiency programs for 2004 and 2005

<b>Utility</b>	<b>2004</b>	<b>2005</b>
PG&E	\$25 million	\$50 million
SCE	\$60 million	\$60 million
SDG&E	\$25 million	\$25 million



# PUC Established a Long-Term Procurement Framework

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The PUC in January 2004<sup>11</sup>:

- Deemed that each Load Serving Entity (LSE) within the utility's service territory has an obligation to acquire sufficient reserves for its customers' load. Utilities should make investments necessary to meet their obligation to serve at just and reasonable rates
  - LSEs are directed to meet a phased-in 15% to 17% reserve requirement by January 1, 2008. The Commission will establish interim benchmarks that will be in place starting in 2005.

<sup>11</sup> In D.04-01-050



# PUC Established a Long-Term Procurement Framework (cont.)

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- Utilities shall forward-contract 90% of their summer (May through September) peaking needs (load plus reserves) a year in advance, starting in 2007, allowing for utilities the flexibility to justify, on a case-by-case basis, excursions below this level.
- Endorsed a hybrid market structure for generation, where utilities manage a diversified resource portfolio consistent with the preferences stated in the Energy Action Plan (EAP)
  - A portfolio mix of short-term transactions, new utility-owned plant, and long-term Power Purchase Agreements (PPAs) is optimal.



# PUC Established a Long-Term Procurement Framework (cont.)

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- If new generation resources are required, utilities should first consider the advantages of repowering existing plants or developing brown field sites located close to load, rather than developing new green field sites remote from load and requiring substantial transmission and other upgrades to the system.
- Granted utilities procurement authority for the first three quarters of 2005
- Ordered utilities to work with the ISO on import scenarios, and with the CEC to streamline the transmission planning and approval process



# PUC Established a Long-Term Procurement Framework (cont.)

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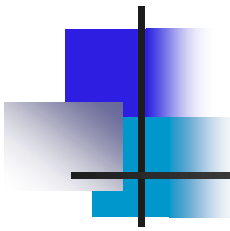
- Committed to revisit confidentiality in order to improve transparency and provide for meaningful public participation
  - PUC proposes to broaden the scope of planning data in utility long-term plans that can be made public.
- Ordered the utilities to file long-term plans biennially, beginning in 2004, so that the IEPR can be integrated into the review cycle and the utilities' base case scenarios
  - Long-term plans should integrate results from the CEC's Integrated Energy Policy Report (IEPR), and should be consistent with the EAP.
  - A 10-year procurement planning horizon is appropriate, and should provide relatively long notice to all industry players of the state's anticipated needs.



# PUC Established a Long-Term Procurement Framework (cont.)

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- Long-term plans should include Community Choice Aggregation and core/noncore scenarios in their forecasts.
- Required utilities to file an accelerated RPS scenario that meets the EAP's goal of 20% by 2010
- Required utilities to pursue an integrated resource planning process that balances the need for additional generation, transmission, and demand-side investments (i.e., energy efficiency and demand response)

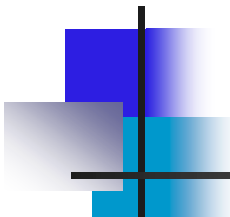


# PUC Will Approve the Utilities' Long-Term Plans by the end of 2004

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PUC will:

- Adopt plans that meet a range of needs
- Assess utilities' demand and supply-side forecast/proposals
- Authorize long-term competitive procurement processes
- Set upfront standards and criteria for cost-recovery of long-term procurement products
- Provide authority for short-term procurement covering 2005-2006, until the long-term plans filed in 2006 are adopted by the PUC



## **PUC Will Approve the Utilities' Long-Term Plans by the end of 2004 (cont.)**

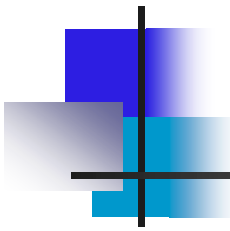
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The utilities submitted outlines of their long-term plans in April 2004 and will file their long-term plans by July 2004

PUC will issue a workshop report by June 2004 to address resource adequacy and planning reserve requirements issues

- Major issues include counting, deliverability, load forecasting, phase-in benchmarks for planning reserves, and compliance.





## **PUC Will Approve the Utilities' Long-Term Plans by the end of 2004 (cont.)**

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PUC's procurement rulemaking will coordinate the consideration of the long-term plans with other ongoing PUC efforts:

- Community Choice Aggregation rulemaking
- Demand Response rulemaking
- Distributed Generation rulemaking
- Energy Efficiency rulemaking
- Avoided Cost and Qualifying Facility Pricing rulemaking
- Renewable Portfolio Standards rulemaking
- Transmission Assessment Process rulemaking
- Transmission Planning investigation



## **Utilities Will Solicit Renewable Contract Bids by July 2004**

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2004 Annual Procurement Targets (APT) for each utility have been determined

2003 baseline levels of renewable generation for each utility are being established

PUC adoption of Standardized Contract Terms and Conditions is targeted for June 2004

PUC adoption of Market Price Referent methodology is targeted for June 2004



## Utilities are Financially Stable and Creditworthy, and are Beginning to Make Long-Term Resource Commitments

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The Commission Recently Approved SCE's Mountainview Project, a 1,054 MW Unit-Contingent, Gas-Tolling Power Contract

- The transaction provides an opportunity to acquire 1,054 MW of generation at a price below the estimated full construction cost of a comparable facility
- The Mountainview PPA is a 30-year, cost-of-service contract allowing SCE to use the plant's output as a dispatchable resource exclusively dedicated to SCE's customer needs



## **Utilities are Financially Stable and Creditworthy, and are Beginning to Make Long-Term Resource Commitments (cont.)**

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The PUC Will Soon Decide On SDG&E's Request to Enter into new Electric Resource Contracts

- SDG&E would purchase the 550 MW Palomar plant (in 2006 when construction is complete) from its affiliate, Sempra Energy Resources
- SDG&E requested Commission approval to sign a 10-year PPA for 570 MW from Calpine's Otay Mesa plant



# Notes

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