

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Integrate Procurement  
Policies and Consider Long-Term Procurement Plans.

Rulemaking 06-02-013  
(Filed February 16, 2006)

**STATEMENT OF THE WESTERN POWER TRADING FORUM  
REGARDING LTPP PROPOSALS**

The Western Power Trading Forum (“WPTF”) responds herein to the questions raised by Administrative Law Judge Carol Brown in her February 23, 2006, Administrative Law Judge’s Ruling Setting Prehearing Conference and Setting Workshop on Review of Policy Proposals to Support New Generation. WPTF is open to continuing discussion with parties on different and novel ways to attract new generation in the State. However, we do not share the premise that Resource Adequacy capacity will be entirely soaked up by one large party leaving the smaller Load Serving Entities (“LSEs”) in the lurch – the so called “musical chairs” hypothesis; that is, smaller LSEs will find themselves unable to procure Resource Adequacy (“RA”) capacity and turn to the Commission for immediate relief. The reason WPTF does not accept this hypothesis is that qualified import transactions at the California Independent System Operator Corporation (“CAISO”) intertie points can qualify under Commission rules as RA capacity and available transmission capacity is expected to provide adequate deliverability of both imported and internal RA capacity.

On the other hand, WPTF appreciates the angst felt by some in California that without an amount of additional indigenous resources, for example, a tranche of “public goods” capacity, the grid may be unreliable. The irony is that, at the current moment, all LSEs believe they are

compliant, or will have all the RA capacity needed, to satisfy their respective RA obligations under existing rules. However, in contrast, the analyses issued by the California Energy Commission (“CEC”) and the CAISO indicate there could be a severe net-short in the region South of Path 26.

Rather than debate the degree to which the supply/demand balance may or may not exist, WPTF would instead like to discuss with parties in the Long-Term Procurement Plan (“LTPP”) workshops alternative arrangements whereby “public goods” capacity may be developed but with alternative parties taking the role of procurement agent. Lacking that, WPTF’s responses below to the Commission represent the best opinion we can offer at the present to help California’s long-term procurement plan.

- (1) Is there a need for the State to adopt additional policies to support the development of new generation and long-term contracts in California? If so, describe a policy proposal that serves that goal, such as the consideration of a transitional and/or permanent cost allocation or alternative mechanisms that would serve the same goal. Proposals should include detailed information about how costs and benefits of new generation contracts will be allocated and shared, how the policy will be implemented, over what timeframe, and with what safeguards.**

WPTF believes that California will attract new investment in power generation and transmission if it continues on the path it is on with respect to established LTPP and Resource Adequacy Requirements (“RAR”) orders. Further, the Commission should encourage the development of a market-driven, tradable capacity product in the near future, the specific form (but not prescription) of which will be determined in the RAR proceeding, R.05-12-013. However, time is not on California’s side. Power demand continues to grow and supply is not keeping up. Staff resources at the Commission, the CEC and the CAISO and amongst market participants are limited – there is only so much that people and parties can undertake. Hence, it

is axiomatic that time spent developing patchwork interim solutions takes away from time spent developing longer-term, durable solutions. WPTF believes that rather than allocate people and effort towards yet another “interim solution,” the Commission should stay focused on the longer-term goals, expedite the implementation of the rules that we believe are pointed in the right direction, and avoid the temptation to embrace short-term, interim solutions to longer-term problems (i.e., encouraging investment in new generation).

In short, what this means is that each LSE should be responsible for meeting the needs of its customers, and its customers alone. There is no need to invent new schemes and cost-allocation methodologies that divert the Commission’s attention and further delay the successful transition to competitive markets when these proposals are complex, time-intensive, and give rise to more debate than resolution. Moreover, the time spent on devising such schemes causes even more protracted uncertainty in the California marketplace – uncertainty that dissuades investments and deters the very same long-term contracting that the Commission intends.

- (2) Is there a need for the Commission to act on the proposal urgently? What are the relevant timelines that will be affected by the Commission’s action on this proposal? Are there new generation projects or solicitations that will be delayed if this proposal is not acted upon?**

Urgency underscores our belief that the Commission’s attention be directed in a manner that is safe and sane for California consumers. Either the Commission believes that it is on the road to stabilizing the electric sector supply/demand balance, or it doesn’t. Jumping to an interim solution, and indefinitely postponing the long-term objectives of market-based, competitive procurement and grid-wide reliability, means the Commission does not believe that the orders in R.04-04-003 are adequate and that, instead, one or more interim measures are necessary because we are out of time.

WPTF instead believes that we must stay the course and re-double our efforts to develop the rules under which LSEs will forward contract with generators. If Commission orders on procurement and resource adequacy could be implemented within days, then, of course, interim solutions might make sense. But that is not the case. All parties would agree that the enormous weight of the procurement and resource adequacy decisions before the Commission will take many months to decide. No matter which way the Commission turns there are workshops, hearing, briefings, and settlement conferences, and these processes take many months. The Commission should not fall into the trap of thinking that the long-term nature of the process warrants a quick fix. There are no quick fixes without long-term consequences for market participants and consumers.

**(3) Why is the existing regulatory authority insufficient to ensure that contracting for new generation occurs?**

WPTF believes the existing regulatory authority is sufficient to ensure that contracting for new generation occurs. We are aware of existing generation in Southern California, the region that remains capacity critical for the next three to four years, which remains un-contracted with any LSE. However, the first RAR showing is under way, and the volume of Commission-approved LSE contracts should increase over time as more physically-deliverable forward-procured products are developed and entered into by buyers and sellers.

**(4) How will ratepayers be affected by adoption or rejection of the policies proposed?**

WPTF firmly believes that ratepayers will, in time, reap the benefits that naturally come with a competitive environment – an environment that reflects high efficiency at the lowest possible cost for reliability. However, there is no free lunch. Fair market value for existing

capacity and long-term contracts for future capacity require financial commitments that currently only the large LSEs, and some municipal utilities, can undertake. California can provide the kind of market stability that investors seek by offering greater certainty and fewer interim solutions.

- (5) How much new generation would the new policies apply to? If the policies apply to all contracts for new generation, on what date would application begin, and until what date/event would it continue?**

This is exactly the type of difficult question that arises if the Commission orders the LSEs to undertake approaches that diverge from the long-term plan set out in the procurement decisions D.04-12-048 and D.05-12-042 and RAR decisions D.04-10-035 and D.05-10-042. It is time for the Commission to quit second-guessing its prior decisions in search of the “perfect” administrative solution. Rather, it should press forward to implement the policies it has already adopted, upon which market participants rely commercially, without being deterred by the complaints of parties who want even more administrative certainty than is already contemplated in California law or Commission regulations.

- (6) How does the proposal apply to the need determinations made by the Commission for Pacific Gas and Electric Company and Southern California Edison Company in Ordering Paragraphs (OP) 4 and 5 in D.04-12-048? Does the proposal apply only to the amount of new generation authorized in D.04-12-048? Does the proposal apply to a larger amount of new generation? If so, how much and how is that larger amount determined?**

WPTF believes that each LSE should competitively procure the amount of physically-deliverable capacity which it needs to manage its forecasted load obligations. There is no reason for any LSE to reach beyond that limit.

**(7) How will the proposal affect the Commission's ability to consider capacity markets in a R.05-12-013? Are there steps the Commission can take to ensure that new policies do not foreclose the possibility of capacity markets?**

Staying the course does not limit the implementation of a capacity market. WPTF advocates for a market-based, forward capacity market that is CAISO-operated. The form of a tradable capacity product and the later implementation of a capacity market are being considered in the RAR docket. Therefore, implementation of a tradable capacity product could begin immediately upon the Commission issuing a June Decision, on a bi-lateral basis, to support LSEs' September 2006 RAR demonstrations for 2007. The bilateral market's experience in trading the capacity product will set the stage for later implementation of a central capacity market in which the capacity product can be applied as one of several alternative measures for LSEs to manage their demand and resource adequacy obligations.

WPTF thanks the Commission for its attention to these comments.

Respectfully submitted,

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**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served a copy of the foregoing document on all parties of record in the above-captioned proceeding by serving an electronic copy on their email addresses of record and by mailing a properly addressed copy by first-class mail with postage prepaid to each party for whom an email address is not available.

Executed on March 7, 2006, at Woodland Hills, California.

  
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Michelle Dangott