



*Pacific Gas and
Electric Company™*

Charles R. Middlekauff

Mailing Address
P.O. Box 7442
San Francisco, CA 94120

Street/Courier Address
Law Department
77 Beale Street
San Francisco, CA 94105

(415) 973-6971
Fax: (415) 972-5952
Internet: CRMd@pge.com

December 12, 2005

Docket Clerk
California Public Utilities Commission
505 Van Ness Avenue, Room 2001
San Francisco, CA 94102

Re: *Order Instituting Rulemaking to Promote Policy and Program Coordination and
Integration in Utility Resource Planning (R. 04-04-003)*

Dear Docket Clerk:

Enclosed for filing are the original and five (5) copies of the “**COMMENTS OF PG&E ON ASSIGNED COMMISSIONER’S RULING REGARDING NEXT STEPS IN PROCUREMENT PROCEEDING IN 04-04-003**” in the above-referenced matter.

Please file the original document, date-stamp a copy, and return the enclosed copy in the postage-paid, self-addressed envelope provided for this purpose.

Sincerely,

/s/

Charles R. Middlekauff

cc: President Michael R. Peevey
Commissioner Geoffrey F. Brown
Commissioner Dian M. Grueneich
Commissioner Susan P. Kennedy
Commissioner John Bohn
ALJ Carol A. Brown
Mr. Sean Gallagher, Director, Energy Division
Official Service List for R.04-04-003

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

Order Instituting Rulemaking to Promote
Policy and Program Coordination and
Integration in Electric Utility Resource
Planning

R. 04-04-003

U 39 E

**COMMENTS OF PG&E ON ASSIGNED COMMISSIONER'S RULING
REGARDING NEXT STEPS IN PROCUREMENT PROCEEDING IN 04-04-003**

WILLIAM V. MANHEIM
JOHN W. BOGY
CHARLES R. MIDDLEKAUFF

Pacific Gas and Electric Company
P.O. Box 7442
San Francisco, CA 94120
Telephone: (415) 973-6971
Facsimile: (415) 973-5520
Email: crmd@pge.com

Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

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In accordance with the Assigned Commissioner's Ruling Regarding Next Steps In Procurement Proceeding ("ACR") issued on December 2, 2005, Pacific Gas and Electric Company ("PG&E") submits the following comments regarding the ACR, preliminary Staff proposal (Appendix A) and the transmission planning collaboration document (Appendix B).

I. INTRODUCTION

PG&E commends Assigned Commissioner Peevey and the Commission Staff for preparing an ACR that lays out a well-defined and thoughtful process for the 2006 Long-Term Procurement Plan ("LTPP") proceeding. The proceeding scope outlined by the ACR appropriately includes reviewing the need for new generation in California, considering mechanisms for new generation benefit sharing and cost allocation,

reviewing the integrated resource plans for all Load Serving Entities (“LSEs”), and updating the LSEs’ procurement policies and practices.

To power California’s growing economy and to replacing aging power plants, investment in new capacity at this time is critical to reliably meet customer needs. At a time when California’s wholesale market, including a competitive capacity market, is at a nascent state, long-term bilateral contracts are required to provide sufficient incentives to support investment in new capacity. Acquisition of these long-term contracts is necessary to forestall shortages and avoid dramatic price spikes reminiscent of the crisis of 2000-2001, and needs to be premised on well-defined mechanisms to recover costs from all customers for whom the contracts were executed. The cost of capacity incurred by a utility on behalf of all of its customers, including new commitments entered into during the transition to a capacity market or multi-year resource adequacy regime, should be recoverable through a non-bypassable charge applicable to all customers for whom the obligation was incurred. Finally, all LSEs, including competitive non-utility electric service providers, community choice aggregators and publicly-owned utilities must be subject to the same requirements for the renewable portfolio standard and any other resource requirements on an ongoing basis.

The ACR aptly recognizes the interrelationships between various key procurement related issues and appropriately phases the 2006 LTPP proceeding to first address the critical policy issues that need to be resolved early in the process. By addressing the need for new generation and benefit and cost allocation issues first, all LSEs will subsequently be able to develop complete and comprehensive LTPPs. Moreover, it will promote

efficiency to establish early in this proceeding the components and format of information that should be included in each LSE's LTPP. This will allow the Commission and participants to obtain and focus on the information needed for resource planning. Finally, requiring all LSEs to submit LTPPs in the second phase of this proceeding will significantly advance the Commission's efforts to develop an integrated and coordinated energy policy. In short, PG&E fully supports the ACR's proposed structure and process for the 2006 LTPP proceeding.¹

As explained in more detail below, PG&E does have several concerns regarding the schedule proposed by Commission Staff. However, many of these concerns can be easily remedied by modifying some of the dates proposed by Staff. In these comments, PG&E is providing specific suggestions for schedule modifications.

II. PG&E'S COMMENTS ON THE ACR.

The ACR explains that the Commission intends to initiate two new procurement related rulemakings – one to address resource adequacy or “RA” issues and the other to address long-term planning and procurement issues.² While PG&E supports separate proceedings on these issues, it is important to note that determinations made in the RA proceeding will have significant impacts on the 2006 LTPPs. Thus, the Commission should move ahead expeditiously with the RA proceeding. Moreover, although not mentioned in the ACR, PG&E also believes that the development of a uniform avoided

¹ In addition, it is encouraging that the ACR recognizes the need to establish a new Rulemaking to consider extension of resource adequacy mandates to local areas and multi-year requirements for all load-serving entities.

² ACR at 4.

cost to evaluate all supply, demand and transmission options is a critical element in developing the LSEs' integrated resource plans and needs to be addressed simultaneously with the 2006 LTPP and the RA proceedings.

The ACR identifies four issues that will be addressed in the 2006 LTPP proceeding.³ PG&E believes that these are the appropriate issues to address. As indicated above, PG&E also supports phasing these issues, such that a decision regarding the need for new generation and allocation of new generation benefits and costs is made before the submission of the 2006 LTPPs. The ACR also states that all LSEs under the Commission's jurisdiction, not just the investor owned utilities ("IOUs"), will be named as respondents in the 2006 LTPP proceeding.⁴ PG&E strongly supports this proposal. In order to insure that, to the extent possible, an integrated procurement and resource strategy is developed for those parts of California under Commission jurisdiction, all LSEs should actively participate in this proceeding so that the Commission can make determinations based on a complete record that addresses all LSEs' LTPPs, not just the IOUs.

The ACR invites comments as to how the California Energy Commission's ("CEC") *Committee Final Transmittal of 2005 Energy Report Range of Need and Policy Recommendations to the California Public Utilities Commission* ("Transmittal Report") and the *Integrated Energy Policy Report* ("IEPR") can be used as inputs in the 2006

³ *Id.* at 6.

⁴ *Id.* at 7-8.

LTPP proceeding.⁵ PG&E appreciates that the ACR recognizes the need to address how the *Transmittal Report* and *IEPR* are to be incorporated into 2006 LTPPs. The base case numbers used in the *Transmittal Report* and *IEPR* require updating to incorporate recent changes to certain assumptions, including the load forecast, projections of energy efficiency, Combined Heat and Power resources, and renewable resource additions.⁶ Additional changes include incorporating recent PG&E procurement of resources and expected PG&E procurement approved in the Commission's 2004 Long Term Procurement Decision (D.02-12-048). In order to insure that the most up to date and accurate data is used in the 2006 LTPP proceeding, PG&E intends to use updated data for its own resources and resource needs in preparing its 2006 LTPP.⁷ While information in the *Transmittal Report* and *IEPR* will certainly prove useful in this proceeding, it is essential that the Commission be able to assess the needs of each LSE, including Energy Service Providers, for the duration of the planning horizon in the LTPP.

Finally, the ACR notes that the 2006 LTPP proceeding will serve as the place to coordinate a number of ongoing procurement related dockets.⁸ In addition to the dockets identified, PG&E believes the 2006 LTPP proceeding should coordinate and integrate

⁵ *Id.* at 11, 13 and Appendix A at 8, 11.

⁶ In addition, during the preparation of the reports, the CEC did not use all of the data provided by PG&E. PG&E noted these issues in its comments on the CEC reports and in separate conversations with the CEC. However, the CEC has indicated these reports are now final. PG&E has indicated its willingness to continue to work with the CEC to update data and insure that the CEC uses all of the data provided by PG&E.

⁷ As described in more detail below, PG&E's generation needs for 2008-2010 have already been determined by the Commission in D. 04-12-048. The updated *Transmittal Report and IEPR* data is necessary for the needs determination in PG&E's service area after 2010.

⁸ *Id.* at 5.

efforts related to Direct Access Suspension (R.02-01-011), any applications for approval of specific projects or transactions, including contracts resulting from bilateral negotiations or requests for offers, utility-owned generation and updates to long-term renewable plans.

III. PG&E'S COMMENTS ON THE STAFF'S DRAFT WORK PLAN (APPENDIX A).

A. Review Of The Need For New Generation And Cost Allocation (Draft Proposal Activity #1)

The Staff's draft work plan proposal for the 2006 LTPP proceeding includes workshops in January 2006 to identify the facts available in the public record concerning the need for new generation in California and additional facts that need to be developed on this issue, if any.² PG&E agrees that a workshop in January to address these key policy issues is a necessary first step in the 2006 LTPP proceeding. This workshop could also address questions and issues with regard to the *IEPR* and *Transmittal Report*. However, Staff's proposal also includes post-workshop comments and reply comments. These comments are unnecessary, as establishing the need for new generation will be a straightforward matter based on the available record of the 2004 LTPP and the underlying data in the CEC's *California and WECC Electricity Supply Outlook* dated July 27, 2005. Because there is so much work that needs to be done in this proceeding on a compressed schedule, post-workshop comments should be eliminated or, if Staff

² *Id.*, Appendix A at 5.

believes comments are necessary, limited in scope.¹⁰

As to the need for new generation in PG&E's service territory, this need has already been well-established for the 2008-2010 period. In D.04-12-048, the Commission ordered that PG&E's 2004 LTPP was reasonable and approved "PG&E's strategy of adding 1,200 megawatts (MW) of capacity and new peaking generation in 2008 and an additional 1,000 MW of new peaking and dispatchable generation in 2010 through RFOs . . ."¹¹ Thus, while PG&E agrees with Staff's proposal to "confirm whether there is a factual need for new generation in the state (not just the IOU bundled customers),"¹² the need for up to 2,200 MW of new generation in PG&E's service area is already clearly established and should not be revisited as a part of this proceeding. As to the need beyond 2010, the Commission's action in approving the results of PG&E's long term request for offers will have an impact on any need determination.

As described in more detail Section III B below, the January 2006 workshops proposed by Commission Staff would also be the appropriate forum for establishing key planning inputs to be used by LSEs in developing their LTPPs.¹³ Agreeing on objectives and expectations; assumptions to be incorporated; specific load, price and other scenarios that might be used to stress-test the plan; and specification of the outputs through a collaborative process in January will allow PG&E to incorporate these considerations in

¹⁰ PG&E has attached to these comments a red-line version of the Staff's schedule that incorporates PG&E's proposed changes.

¹¹ D.04-12-048, Order Paragraph 4.

¹² ACR, Appendix A at 3 (emphasis added).

¹³ PG&E does not believe that cost allocation issues need to be addressed in the January 2006 workshops. Instead, these issues are more appropriately addressed in briefs.

its planning process and present a meaningful draft proposal at the March 2006 workshop.

PG&E also notes that the LSEs should not be required to file their 2006 LTTPs until after the Commission has adopted a final decision regarding the need for new generation and the allocation of new generation benefits and costs. A determination on allocation of benefits and cost for new generation commitments will necessarily affect each LSE's proposal regarding long-term procurement. Requiring the LSEs to file their 2006 LTTPs before new generation and benefit and cost allocation determinations are made could result in the need for significant revisions to the LTTPs, which would be inefficient and time-consuming.

Finally, PG&E believes that the new generation and benefit and cost allocation questions identified in Staff's proposal are the right questions to be asking in this proceeding. PG&E also notes that the Commission has already stated in D. 05-09-022 that rehearing of the "cost cap issue" (*i.e.*, to what extent there will be customer/shareholder sharing of cost overruns and underruns for utility-owned generation projections) will occur in the 2006 LTTP proceeding. PG&E suggests that the cost cap and cost cap savings issues should be addressed in the first phase of the 2006 LTTP proceeding because the Commission's determination on this critical ratemaking matter may influence a utility's decision to pursue utility-owned resources and thereby impact its long-term procurement plan.

B. Review of Long-Term Procurement Plans (Draft Proposal Activity #2)

Staff proposes a two-day workshop in February 2006 to establish an integrated

resource planning methodology or framework and a second set of workshops in March 2006 where respondents would present proposed or draft resource plans prior to filing.¹⁴ Staff then suggests the Commission issue a ruling (if necessary) in April 2006 to establish the contents of plans and that LTTPs be filed in May 2006, followed by additional presentations and potentially hearings in July 2006.¹⁵ This proposal requires some modification.

PG&E recommends that the Commission conduct the proposed February workshops in January 2006 instead, as a part of or immediately after the need determination workshops. Parties would attempt to reach consensus on objectives and expectations; assumptions to be incorporated; specific load, price and other scenarios that might be used to stress-test the plan; and specification of the outputs through a collaborative process. The March 2006 workshops envisioned in the Staff proposal should remain on calendar and discuss how the LSEs plan to incorporate the feedback from the January 2006 workshop in their planning process and present a meaningful draft proposal on the contents of an LTTP filing. After the March 2006 workshops, if the parties did not reach consensus, the Commission could issue a ruling setting forth a final set of inputs and assumptions, or direct the utilities to use their preferred cases.

To incorporate inputs and assumptions in an LTTP, PG&E needs to receive the final set of inputs and assumptions no later than sixty (60) days before the filing is due. Moreover, as explained above, a decision on generation needs and cost allocation is

¹⁴ ACR, Appendix A at 9-10.

¹⁵ *Id.* at 10.

necessary before a complete LTPP can be submitted. Thus, rather than requiring the LSEs to file LTPPs in May 2006, LTPPs should be filed sixty (60) days after a determination is made by the Commission regarding LTPP inputs and assumptions, the need for new generation, cost allocation and cost caps. A hearing date should be set no sooner than ninety days (90) after the LTPPs are filed.

With regard to the questions presented in the Staff proposal, PG&E believes these are generally the right questions for this phase of the proceeding.

Finally, Commission Staff indicated that it intended to prepare an IRP straw proposal prior to the February 2006 workshops on integrated resource plans (which PG&E is proposing be moved to January 2006).¹⁶ PG&E would like to collaborate with Commission Staff in preparing this straw proposal.

C. Review And Approval Of New 10-Year LTPPs (Draft Proposal Activity #3)

The activities in this part of the draft proposal are the same activities proposed for Review of the Long-Term Procurement Plans (Activity #2) described above. PG&E has no additional recommendations, but does note that the questions presented by Staff are generally the right questions for this phase of the proceeding.

IV. PG&E'S COMMENTS ON TRANSMISSION PLANNING COLLABORATION (APPENDIX B).

PG&E supports the collaborative effort of the Commission, CEC and the California Independent System Operator Corporation ("ISO") envisioned in Appendix B as a means to facilitate transmission infrastructure improvements necessary to support

¹⁶ *Id.* at 9.

procurement policy targets and manage system reliability. The slides in Appendix B reflect a good start in identifying the role of each organization with regard to infrastructure development. PG&E, Southern California Edison and San Diego Gas & Electric have met twice with the ISO on the *Coordinated Infrastructure Planning and Development Process* (“*Coordinated Infrastructure Process*”). While there is general agreement on many aspects of the process, more discussion is needed. The December 14th workshop should provide an opportunity to clarify the inputs, roles, deliverables and timelines for all parties involved to ensure that the process proceeds smoothly.

The *Coordinated Infrastructure Process* should result in transmission expansion that best fits the load and resources that ultimately occur. For long-term transmission projects, or transmission projects that support specific resource scenarios, the *Coordinated Infrastructure Process* should identify lead times and triggers so that the transmission that ultimately is developed is both timely and supportive of the resources that are built or the load growth in an area. In addition, the process and criteria for determining which transmission projects are of a “high priority” in supporting procurement policy targets needs to be defined. Emphasis should be placed on transmission projects that provide access for a broad range of resource scenarios. In order to meet the policy goals in the Energy Action Plan II of achieving the proper balance of generation, transmission and demand side solutions to the newly identified Local Capacity Requirements, it is important to identify the marginal transmission costs for the local areas through a collaborative process.

PG&E generally supports the specific proposals in the *Coordinated Infrastructure*

Process. For example, slides concerning the Commission’s CPCN process indicate that the Commission’s consideration of alternatives (where required by the California Environmental Quality Act) will be limited to “alternative routes within a corridor compatible with path needs, not revisiting alternatives rejected in the planning process . . .”¹⁷ PG&E strongly supports this approach, which is consistent with existing law and would eliminate duplicative review of planning issues that could otherwise increase the time needed to permit important transmission upgrades or lead to inconsistent results.

However, some of the *Coordinated Infrastructure Process* proposals require modification. For example, another slide indicates that if an IOU fails to meet the adopted permitting schedule for an ISO-approved project, the Commission and the ISO will try to award the project to a “Third Party.” Under the ISO Tariff, third party projects are only authorized when a Participating Transmission Owner (*e.g.*, the IOUs) cannot obtain needed permits or adequate cost recovery.¹⁸ To the extent an IOU is unable to meet the proposed schedule, it may be because of delays in the permitting process. The Commission should focus on expediting the permitting process to insure that the IOUs are able to timely obtain all necessary permits, rather than simply seeking to identify a third party that may have to go through the exact same process (or might attempt to circumvent the Commission siting process altogether). The Commission and the ISO should also support application of the same transmission permitting process for all parties so that consistent standards of environmental protection are applied.

¹⁷ ACR, Appendix B at 6.

¹⁸ ISO Tariff, § 3.2.

Finally, PG&E encourages the Commission to consider in the workshops the limitations imposed upon the IOUs by FERC Order 2004 on effective consideration of transmission alternatives as part of the integrated resource plan. PG&E is hampered by FERC Order 2004 in its ability to have its transmission function communicate fully and openly with its procurement planning function about potential resource additions and trade-offs between generation and transmission solutions. For example, FERC Order 2004 prohibits the utility transmission function from providing to employees classified under the rules as “merchant function” any non-public information about future transmission expansion options and plans. PG&E asks the Commission devote some time in a workshop to understanding the restrictions placed upon the IOUs by FERC Order 2004 and evaluating options to approach FERC for a waiver or clarification of the rules so as to facilitate effective IOUs participation in state-mandated integrated resource planning proceedings.

V. CONCLUSION

The ACR provides a well designed and detailed roadmap for the 2006 LTPP proceeding. With the modifications proposed by PG&E, the 2006 LTPP proceeding schedule proposed by Commission Staff provides a means for moving this proceeding forward, while at the same time addressing issues in the order they need to be addressed

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to allow all LSEs the information, decisions and input necessary to develop comprehensive LTPPs.

Respectfully Submitted,

WILLIAM V. MANHEIM
JOHN W. BOGY
CHARLES R. MIDDLEKAUFF

By: /s/
CHARLES R. MIDDLEKAUFF

Pacific Gas and Electric Company
P. O. Box 7442
San Francisco, CA 94120
Telephone: (415) 973-6971
Facsimile: (415) 973-5520
Email: crmd@pge.com

Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

Dated: December 12, 2005

APPENDIX A

PG&E's Proposed Modifications to Staff Schedule

Staff Draft Schedule

December 12, 2005	Comments due on this ACR
December 14, 2005	9:30 a.m. – 2:00 p.m. - Commission Workshop on Long-Term Procurement Planning 2:00 p.m. – 5:00 p.m. - Commission, CEC, and CAISO Workshop on Transmission Planning Collaboration Location: Commission’s Auditorium, 505 Van Ness Avenue, San Francisco
January 5, 2006	Post Workshop Comments
January 12, 2006	Post Workshop Reply Comments
January 2006	CAISO issues draft Transmission Study
Late-January 2006	Establish New Long-Term Proceeding Rulemaking
Late January 2006	<u>Staff Workshop on Need for New Generation and (at the same time or immediately following) Workshop on Integrated Resource Planning (two-day) + Staff Workshop on Procurement Policies to be considered in 2006 Filings (with Post-Workshop Comments and Reply Comments Cycle)</u>
February 2006	Prehearing Conference on new Rulemaking
Late February 2006	Staff Workshop on Integrated Resource Planning (two-day) + Staff Workshop on Procurement Policies to be considered in 2006 Filings (with Post-Workshop Comments and Reply Comments Cycle)
Late-February 2006	Parties File Briefs on Cost and Benefit Allocation of New Generation
March 2006	Staff Workshop on Long-Term Resource Plan Filings. All respondents will present draft proposals on contents of filings based on February workshops; each IOU will present draft plans in half-day workshops
Spring 2006	Draft decision in Confidentiality OIR Phase I
April 2006	Interim Draft Decision on New Generation + Cost and Benefit Allocation

<u>Late May 2006</u>	<u>Commission decision on New Generation + Cost and Benefit Allocation</u>
April 2006 <u>60 Days after Commission decision</u>	Ruling on Resource Plan Filings (if needed)
May 2006	Long-Term Resource Plans Filed Staff Workshops Hosted for Respondents to Present Plans
June 2006	Results of Quarterly Transaction Report Audits
July 2006 <u>90 Days after LTPPs filed</u>	Hearings on Procurement Plans
August/Sept. 2006	Post hearing briefs and reply briefs
November 2006	Draft Decision to approve long-term procurement plans

CERTIFICATE OF SERVICE BY ELECTRONIC MAIL OR U.S. MAIL

I, the undersigned, state that I am a citizen of the United States and am employed in the City and County of San Francisco; that I am over the age of eighteen (18) years and not a party to the within cause; and that my business address is Pacific Gas and Electric Company, Law Department B30A, 77 Beale Street, San Francisco, CA 94105.

I am readily familiar with the business practice of Pacific Gas and Electric Company for collection and processing of correspondence for mailing with the United States Postal Service. In the ordinary course of business, correspondence is deposited with the United States Postal Service the same day it is submitted for mailing.

On the 12th day of December 2005, I served a true copy of:

**COMMENTS OF PG&E ON ASSIGNED COMMISSIONER'S RULING
REGARDING NEXT STEPS IN PROCUREMENT PROCEEDING IN 04-04-003**

By Electronic Mail – serving the enclosed via e-mail transmission to each of the parties listed on the official service list for R.04-04-003 with an e-mail address.

By U.S. Mail – by placing the enclosed for collection and mailing, in the course of ordinary business practice, with other correspondence of Pacific Gas and Electric Company, enclosed in a sealed envelope, with postage fully prepaid, addressed to those parties listed on the official service list for R.04-04-003 without an e-mail address.

I certify and declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on this 12th day of December, 2005 at San Francisco, California.

/s/ _____
PAMELA TOM