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

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| Order Instituting Rulemaking to Develop Additional Methods to Implement the California Renewables Portfolio Standard Program. | Rulemaking 06-02-012 (Filed February 16, 2006) |

# ADMINISTRATIVE LAW JUDGE'S RULING REQUESTING FURTHER COMMENTS ON SHORT-TERM PRICING BENCHMARK PROPOSALS

The Administrative Law Judge's Ruling Providing Opportunity for Comments and Reply Comments (May 10, 2007) requested comments and reply comments on, among other things, a short-term market price referent (MPR) methodology. Review of the comments and reply comments[1] suggests that further comment would be useful. In prior comments, parties generally accepted the proposal that price reasonableness benchmarks for contracts between five and 10 years in duration should be based on modification of the long-term MPR methodology. For contracts less than five years in duration (shorter-term contracts), some parties suggested that a benchmark based on actual market prices could be used.

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[1] Comments were filed and served by Aglet Consumer Alliance (Aglet), Alliance for Retail Energy Markets (AReM), Division of Ratepayer Advocates, Green Power Institute (GPI), PacifiCorp, Pacific Gas and Electric Company (PG&E), Powerex, Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E) and The Utility Reform Network (TURN). Reply comments were filed by Aglet, AReM, The Center for Energy Efficiency and Renewable Technologies, GPI, PG&E, SCE, SDG&E and TURN.

In order to evaluate these proposals, this ruling requests clarification of proposals and additional information useful for developing a short-term pricing benchmark for shorter-term contracts. Comments should be filed and served not later than September 24, 2007. Reply comments should be filed and served not later than October 1, 2007. Parties that did not file comments or reply comments in response to the May 10 ruling may file comments and/or reply comments in response to this ruling.

Attachment A to this ruling sets out a list of questions developed by Energy Division staff to help focus the comments. Overall, parties should provide information on the availability of usable market data for a short-term pricing benchmark. Parties should bear in mind that any short-term pricing benchmark must be based on publicly available data, and for RPS contract evaluation purposes, the benchmark must be an all-in (energy and capacity) price. Parties should also identify how their comments and/or proposals incorporate the guiding principles outlined below:

1. Methodology should be transparent and based on publicly available inputs.

2. Market data should be used to the extent possible.

3. Pricing benchmark should be verified against forward market data.

4. Methodology should be consistent with the evaluation of other products.

5. The methodology should be consistent with previous regulatory decisions.

6. Since the Commission is striving to streamline the RPS procurement process, simplicity is preferred over complexity.

**IT IS RULED** that:

1. Comments on a short-term pricing benchmark for RPS procurement contracts, as outlined in this ruling and Attachment A, may be filed and served not later than September 24, 2007.

2. Reply comments may be filed and served not later than October 1, 2007.

Dated September 4, 2007, at San Francisco, California.

/s/ ANNE E. SIMON
Anne E. Simon
Administrative Law Judge

## ATTACHMENT A

A. Identify publicly-available market price indices.

1. Which specific indices do you recommend as sufficiently reputable and reliable for use in benchmarking short-term renewable contracts?
2. If the recommended indices are subscription based, how might they be made available to various stakeholders in a public regulatory proceeding?
3. What, if any, information is available regarding how liquid or robust the indices are for various delivery points or time periods? How may the Commission or stakeholders determine whether a specific quote is insufficiently liquid or robust for use in a benchmarking process?
4. The long-term MPR is a statewide proxy value. Would a short-term pricing benchmark based on market index prices reflect a statewide value or would it be specific to the location of the energy deliveries? If the latter, how is it consistent with the long-term MPR? What are the benefits and drawbacks of a location-specific benchmark vs. a statewide value?
5. The long-term MPR methodology calculates annual MPR prices for different annual online dates and contract terms. Is there sufficient granularity in market data to develop a short-term pricing benchmark for contracts that span one month in duration through five years?
6. When should the short-term pricing benchmark based on market prices be calculated? Should quotes be used from the day the contract was executed, the day the solicitation closed, or other?
7. Has the Commission approved the use of these indices for any other purpose?
8. Provide any reasons why these indices would be inappropriate to use as a short-term pricing benchmark for short-term RPS contracts.
9. The long-term MPR is all-in price, including energy and capacity prices. Do the indices purport to represent an all-in energy and capacity price for electricity? Are there any issues that would

compromise or limit the application of the indices as a benchmark for short-term renewables contracts (i.e., all-in vs. energy only, firm vs. as-available, baseload vs. peaking)? If so, how should theses issues be addressed?

B. If the above-mentioned indices are not all-in prices, please identify how capacity prices would be integrated into a short-term price benchmark and provide comments on the questions listed below.

1. What methodologies are currently used to price capacity for contracts of one month – five years in duration? Is this process transparent and publicly available? If not, how could it be modified for use in this proceeding?
2. Should the proposed methodology be applied consistently for all utilities?
3. Should LSEs be allowed to utilize proprietary studies or data (such as loss of load probability) in developing and allocating capacity value? Alternatively, what publicly available data should be used in the calculation of capacity value?
4. Has the Commission adopted this approach of calculating capacity prices for any other purposes?
5. Should system and/or local resource adequacy be considered?
6. Is it necessary to include capacity prices in the benchmark calculations for all RPS contracts?

C. Develop, present and explain a complete methodology of an all-in levelized TOD adjusted short-term pricing benchmark for contracts less than five years in duration. Use the methodology to calculate a few sample benchmarks for contracts with terms of one month, three years and five years. Identify all inputs and citations for all inputs, and submit relevant workpapers and Excel spreadsheets with your comments. If an Excel spreadsheet is provided, please do not lock cells.

1. Please describe how TOD factors would be used to develop a levelized TOD-adjusted price for each LSE using the proposed indices. Can the TOD factors used in the long-term MPR methodology be directly applied to the indices proposed for use in

the short-term benchmark? Are there any issues that must be address or reconciled in the application of the TOD factors?

2. If a method for integrating capacity value is proposed, please describe the process by which capacity prices are used (or modified) and integrated with the energy price forecasts to develop a levelized TOD-adjusted price.

D. What term RPS contracts should be evaluated against the short-term pricing benchmark based on market indices – contracts below five or three years in duration?

E. D.06-10-019 requires that all short-term RPS contracts be submitted for Commission approval via advice letter. In its comments, PG&E suggests that for contracts less than three years in duration, "no advance Commission approval should be required for full rate recovery of payments" if the contract is procured pursuant to the utility's RPS Plan, "with a reasonable *per se* price, if the contract was executed after consultation with the PRG, and is reported in the utility's Quarterly Report." (The Quarterly Report, pursuant to the Commission's long-term procurement proceeding, R.06-02-013, lists shorter-term contracts that are pre-approved pursuant to the utility's long-term procurement plan.)

1. Please comment on PG&E's proposed contract approval process.
2. If the Commission were to implement a pre-approval process, should the cutoff for pre-approval be a term of five years, to be consisted with the long-term procurement proceeding, or three years, per PG&E's initial suggestion?
3. For parties that do not approve of such a pre-approval for RPS contracts, please propose a contract approval process for these short term contracts.

F. Please provide any additional information necessary for the Commission to develop a short-term pricing benchmark based on publicly-available market price indices.

**(END OF ATTACHMENT A)**

## INFORMATION REGARDING SERVICE

I have provided notification of filing to the electronic mail addresses on the attached service list.

Upon confirmation of this document's acceptance for filing, I will cause a Notice of Availability of the filed document to be served upon the service list to this proceeding by U.S. mail. The service list I will use to serve the Notice of Availability of the filed document is current as of today's date.

Dated September 4, 2007, at San Francisco, California.

/s/ FANNIE SID

Fannie Sid