FILED
09-25-06
03:00 PM

ATTACHMENT A

2006 Long-Term Procurement Plan Filing Outline
Draft 9/20/2006

As noted in the Scoping Memo, the 2006 Long-Term Procurement Plan (LTPP) filings following this outline are due on November 20, 2006. This outline provides an organizational structure for the contents of the 2006 LTPPs and provides more detail; however, this outline follows the general description of the scope of the 2006 Long-Term Procurement Plans provided in the Scoping Memo. The outline is only intended to cover issues in Track 2 of the proceeding.

ASSIGNED COMMISSIONER'S RULING AND SCOPING MEMO ON THE LONG-TERM PROCUREMENT PHASE OF R.06-02-013 1

Contents of Volume 1 – 2006 Long-Term Procurement Plan 4
Section I. Executive Summary 4
Section II. Background Information on Utility Procurement 4
- A. Introduction to Previous Procurement Plans and Procurement Plan Approvals 4
- B. Introduction to Procurement Policy and State Law 4
- C. Utility Service Profile 5
- D. Lessons Learned Since Resuming Procurement January 1, 2003 6
- E. Changes since Previous Procurement Plans 6
- F. Decisions Pending at Commission related to Procurement 6

Section III. Procurement Implementation Plan 7
- A. Procurement Processes 7
- B. Risk Management Policy and Strategy 10
- C. Fuel Supply Procurement Strategy 10

Section IV. Long-Term Procurement Resource Plan 2007-2016 11
- A. Introduction to Resource Planning and Planning Approach 11
- B. Load Forecast (Demand Forecast) 12
- C. Supply Forecast for Existing or Planned Resources 14
- D. Planning Scenarios 14
- E. Need Determination (Residual Net Long/Short Forecast) 15
- F. Price Forecasting 16
- G. Resource Trade-Off Assessment 16
- H. Candidate Resource Plan 16

Section V. Procurement Strategy by Resource 17
- A. Introduction to Resource Acquisition Strategy 18
- B. Energy Efficiency (EE) 18
- C. Demand Response 18
- D. Renewable Energy Procurement Strategy 18
- E. Distributed Generation (California Solar Initiative and Self-Generation Incentive Program) 19
- F. Other Generation Supply Resources 19
- G. Imported Generation 19

H. Integration of Transmission and Procurement Planning 19
Section VI. Evaluation of Resource Plan 20
Section VII. Cost Recovery Issues 21
Section VIII. Commission Review of Implementation of Procurement Plan 21
Contents of Volume 2. Testimony on Selected Procurement Policy Issues 22
Section I. Introduction 22
A. Introduction 22
B. Discussion on Recent/Upcoming Policy Issues 22
Section II. Procurement Practices 23
A. Competitive Procurement RFOs 23
B. Credit and collateral policies 23
C. Independent Evaluator 24
D. Implementation of AB 1576 24
Section III. Risk Management Practices 25
A. Gas Hedging Strategies for Electric Procurement Portfolios 25
B. Application of TeVaR to Measure the Customer Risk Tolerance Threshold 25
Section IV. Other Testimony in Support of Procurement Policies and Plans 26

Instructions

As noted in the Scoping Memo, the purpose of these two volumes is to separate out the review of the 2006 Long-Term Procurement Plans from the specific policy issues under consideration in this version of the long-term procurement proceeding.

In addition to the more detailed notes in the Scoping Memo, a few instructions about the outline are provided here:

- Plans must detail the procedures and processes used in procurement, especially as required by Commission decision or this outline.
- Plans should be a freestanding document that does not require review of prior procurement plans. Plans may refer to documents in other proceedings that provide more detail, e.g. the short-term RPS plans, or implementation plans for Demand Response programs.
- Plans may repeat information from previous plans, even if there has been no change since the plan was adopted. The plan may indicate "this item has not changed since previous plans", but it must include the details.
- Plans should indicate clearly when there is a difference in practice and procedure between procurement that occurs in various time horizons (less than 90 days ahead, less than 5 years in length, greater than 5 years in length, etc.)
- Plans should include information about electric procurement, as well as the purchase of gas or other fuel for the purposes of electric procurement.
- The plan should attempt to incorporate all of the items identified and follow the order as noted below. Plans should follow the roman numeral and letter outline format provided; however, in the areas of this outline denoted with bullets (or sub-bullets), the plan information can be reordered to best suit the needs of the plan authors.
- Anything omitted by this outline but required for a complete long-term procurement plan should be added by the IOU. The outline attempts to identify all of the requisite components of the 2006 Long-Term Procurement Plans. However, the 2006 Long-Term Procurement Plans will replace all previous versions of the Procurement Plans, (except the RPS STPPs) and therefore, the IOUs should add any additional details where necessary, to ensure that the 2006 plans are complete.

Contents of Volume 1 – 2006 Long-Term Procurement Plan

Section I. Executive Summary

- Summarize the plan contents and identifies the highlights of the 2006 LTPP in brief.
- Provide an overview of the 2006 LTPP planning objectives.
- Provide highlights of the key approvals requested in the 2006 LTPP.

Section II. Background Information on Utility Procurement

A. Introduction to Previous Procurement Plans and Procurement Plan Approvals

- Describe the previous plans and plan approvals, e.g. 2006 LTPP replaces plans filed on November 15, 2002 (known as the 2003 STPP), April 15, 2003 plan (known as the 2004 STPP), and July 9, 2004 known as the 2004 LTPP). Describe the existing procurement authority that is replaced by this plan filing, if approved.
- Describe briefly any changes made to previous procurement plans via Advice Letter, include date of approval and resolution number (if applicable).

B. Introduction to Procurement Policy and State Law

- As introductory information for the reader unfamiliar with the long-term procurement policy framework in California:
    - Describe briefly how IOU authorized to engage in procurement under state law, required to file plan in accordance with Pub. Util. Section 454.5.
    - Describe briefly the "ground rules" of authority and flexibility for procurement established in State Law and Commission decisions.
        - Describe briefly how the Commission has used authority in Pub Util. Code 454.5 to approve previous versions of plans and establish numerous procurement policies through decisions, as well as the Energy Action Plan (EAP), that guide utility procurement activities. Numerous procurement decisions since 2002 authorized utility to enter into procurement. For example, the Commission has provided IOU:
            - Authority to enter into contracts up to 1 quarter in length under certain conditions;
            - Authority to enter into contracts up to 5 years in length under certain conditions; and

- Authority to enter into contracts greater than 5 years in length with Commission pre-approval via Application. (Note: RPS contracts are handled separately.)

- As an introduction to the context of this year's filing:
  - Describe recent policies and/or upcoming market changes that have altered the Procurement Plan since it was last filed, e.g.:
    - Adoption of detailed resource adequacy requirements, both system and local;
    - Upcoming implementation of CAISO's market redesign technology upgrade (MRTU) and its implications for utility procurement;
    - CPUC's adoption of community choice aggregation (CCA) rules;
    - CPUC's adoption of expanded California solar initiative (CSI) Program;
    - CAISO's 95% day-ahead scheduling requirements;
    - Any recent policy and market developments that may impact the 2006 Long-Term Procurement Plans;
    - CPUC's interest in reducing and eliminating RMR contracts in favor of LSE-based procurement;
    - CPUC's adoption of GHG policies and any recent relevant legislation;
    - Adoption of EAP II's goal of 33% renewables by 2020.
- As an overall introduction to the scope of this year's filing:
  - Provide an introduction to the IOU's 2006 long-term procurement plan which will highlight the overall planning and procurement processes.
  - Describe duration of the plan (e.g. 2007-2016.)
  - Describe how the overall plan authority is for 10 years, but the near term authority is "rolling" forward. Describe how that rolling authority works for 5 year and less procurement.

C. Utility Service Profile

- Describe the utility service profile, in particular with respect to how the scope of the utility affects its procurement practices.
- Describe expected customer and load growth, population density, historical load patterns and historical temperature patterns, and other variables that may have a deterministic effect upon future demand.

- Describe the utility transmission system, in particular to highlight load pockets, generation pockets, and any major transmission constraints that affect procurement.

D. Lessons Learned Since Resuming Procurement January 1, 2003

- Summarize at a high level the utility's experience to-date with procurement.
- Describe at a high level procurement transactions entered into since January 1, 2003 under authority granted through the Commission pre-approved procurement planning process. (Short-term, medium-term, long-term; summary statistics such as volumes and number of transactions, number of RFOs, number of approved new generation contracts, total cost of procurement broken down by a few key categories such as fuel cost vs. capacity costs). Purpose of this summary is to provide a context for procurement plans in terms of the magnitude of activities authorized by plan approval.
- Describe any competitive procurement solicitation activities to date (RFOs) and the results of the RFOs.
- Describe Lessons Learned based on procurement experience to date. Lessons learned may set the stage for maintaining procurement plan as-is, and or modifications contained within procurement plans late sections.
- Describe any Lessons Learned with respect to gas hedging for electric procurement.
- Evaluate the Lessons Learned to date on how well the Commission-approved procurement planning process ability is able to meet objectives of State Law and support electric procurement at reasonable costs for customers.

E. Changes since Previous Procurement Plans

- Highlight key changes in this procurement plan since previous procurement plans, if not already mentioned above.

F. Decisions Pending at Commission related to Procurement

- Identify whether the IOU has any pending procurement related decisions at the Commission that affect the IOU's procurement plan. Identify whether the procurement plan assumes the pending items are approved and/or whether the request is subsumed into this filing.
    - For Applications, identify the proceeding number and provide a summary of the proceeding.
    - For Advice Letter, identify the Advice Letter number, the date of its filing and provide a summary of the request. Identify whether the procurement plan herein supersedes or is dependent upon the Advice Letter approval.

- Identify whether the IOU is expecting an imminent decision in any other procurement related docket that affects the procurement plan. Indicate what assumptions the IOU uses in the plan in the absence of a final decision in the other proceeding. For example, PG&E has an Application for approval of 2,200 MW of new gas-fired generation in A.06-04-012. In its plan, PG&E may choose to assume that Application is approved and reserve the right to need to modify its plan if some aspect of the Application is not approved.
- Identify any other major open issues, such as capacity markets or zonal resource adequacy requirements, which might affect utility procurement. This category of open issues is intended to capture issues that might be decided in the next 1-3 years, but are not under consideration in this proceeding.

Section III. Procurement Implementation Plan

This section of the plan is intended to provide detailed descriptions of procurement processes, as well as transaction planning and execution. The implementation plan should express the scope and boundaries of utilities' procurement authority. The IOU will describe, in detail, how it intends to implement the 2006 long-term procurement plan on an on-going (and rolling forward) basis.

A. Procurement Processes

- Describe the procurement process from planning through transaction execution through dispatch.
- Describe the organizational structure of the procurement department.
- Describe the proposed procurement products for electric and gas procurement. Description might include approved procurement products, physical products, firm transmission rights and congestion revenue rights, third-party transmission capacity, inter-utility exchanges, counterparty sleeves, operating reserves/ancillary services, etc.
- Describe the proposed markets and/or selection process for each procurement related product.
    - Market Purchases over traded exchanges (transparent exchanges, broker-traded products, spot markets)
    - RPS solicitations
    - All-source solicitations
    - Bilaterally Negotiated Contracts
    - Inter-utility Swaps
    - Utility Ownership
    - Other
- Describe the application of Least Cost/Best Fit during every stage of procurement planning and transactions. Explain how least cost/best fit influences product selection

for new contracts, as well as how least cost dispatch principals and processes work as procurement flows into real-time. Describe Daily Planning and Operations for meeting the utility's procurement needs.

- Describe how the IOU uses the Loading Order in its procurement decisions.
- Describe procurement contracting methods and practices, including:

  Evaluation process and methodology for contract valuation

  - Short Term (less than 90 days and less than five years)
    - Describe procurement contracting methods and practices for short-term transactions.
    - Negotiated Bilateral Contracts
      - Describe the benchmarks proposed for reviewing negotiated bilateral contracts.
    - Competitive Solicitations
      - Describe the Competitive Solicitation (RFO) process and the major constraints placed upon bidders in the RFOs.
      - Describe the application of the Independent Evaluator in reviewing competitive solicitations.
      - If the IOU can contract for a product for up to 5 years without prior Commission approval, when does that contracting authority start/end? Can it be for products that start 6 months from now? 12 months from now?
  - Long Term (>5 year contracts)
    - Describe procurement contracting methods and practices for long-term transactions (greater than five years)
    - Negotiated Bilateral Contracts
      - Describe the benchmarks proposed for reviewing negotiated bilateral contracts.
    - Competitive Solicitations
      - Describe the Competitive Solicitation (RFO) process and the major constraints placed upon bidders in the RFOs. Describe practices and procedures used by IOUs in their RFOs
      - Describe the application of the Greenhouse Gas Adder in competitive long-term RFOs, in particular how it is used in the project valuation process
      - Describe the application of the Independent Evaluator in reviewing competitive solicitations.
      - Describe when a competitive solicitation is open to existing resources, or when it is targeted at only "new" resources.

Define "new" resources. ("New" might be defined by some as not yet under construction, and by others as not yet online.)

- Utilities were ordered to hold "all-source" RFOs. Define "all-source" RFO (Does it have to be new, existing, DR, RE, etc.).
- Does the IOU limit the time between when the RFO bids are received and when they are executed in order to call it procurement picked up in a competitive RFO?

  - Describe how the boundaries between the terms (short vs. intermediate vs. long) are defined. In this discussion please include:
    - Length of time between contract date and date deliveries may commence.
    - Multiple contracts that exceed term limits for specific rules when the contract terms are combined.
  - Proposed Transaction Timing for upcoming RFOs (include tentative RFO Schedules if possible) -- IOUs should describe all planned procurement activities such as RFOs, etc. to the extent feasible. For example, annual RPS RFOs, annual all-source RFOs for resources, etc. IOUs should describe the length and types of contracts that will be offered. The focus of this section should be on the next 1-5 years of RFOs.

- Describe Price Forecasting Methodology (for support of procurement planning and operations)
  - Electric Price Forecasting
  - Gas Price Forecasting (D.04-12-048, p.52 requires utilities to provide updated gas price forecasts using the same criteria set for in D.04-01-050 for subsequent LTPPs)
- Describe Ratable Rates
  - Proposed Forward Energy and Capacity Volume Limits
    - Short Term Transactions
    - Longer Term Transactions
    - Discuss the impact of the volume limits in terms of the amount of the portfolio that will be hedged each year into the future (80% of Year 2, 40% of Year 7, etc.)
  - Proposed Volume Limits for Forward Gas Transactions
- Describe the IOU's Consultation process with its Procurement Review Group (describe how the utility consults with its PRG Group, under what authority and how it utilizes that consultation to enhance procurement)
- Describe any procurement transaction barriers for contracting with new or existing resources. Describe any barriers for contracting for greater than 5 years with an existing resource.

B. Risk Management Policy and Strategy

In the context of the Commission's rules for consumer risk, describe:

- Current Risk Management Practices
    - Short Term
    - Intermediate Term
    - Long Term
- Portfolio Risk Assessment
- Electric and Gas Portfolio Hedging Targets
    - Describe how much "open" position the utility has and how it fills in the "open" position, layering in purchases over time to reduce risk.
    - Describe Portfolio Management approach
        - Short Term
        - Intermediate Term
        - Long-Term
- Credit and Collateral Requirements
    - Creditworthiness
    - Counterparty Collateral Requirements
    - IOU Collateral Authority
    - Include how the requirements vary with different types of transactions (short term transactions, long-term transaction, RFO, bilateral, etc.)
- Customer Risk Tolerance
- TeVaR Methodology for Measuring Portfolio Risk Exposure
- Use of TeVaR in Procurement
- Portfolio Operating Targets for Electric and Gas positions
- Example of Current TeVaR Results, and how they are used in Procurement
- Submittal of Portfolio Risk Assessment to the Commission (including format and timing)

C. Fuel Supply Procurement Strategy

- Discuss fuel procurement needs to meet resource plan outlined in Sections IV and V.
- Discuss natural gas procurement products, transactions, and activities.

- Discuss Gas Supply Plans for DWR and Non-DWR Resources.
- Describe natural gas procurement practices and procedures (and refer to relevant fuel supply plan parts of Section III above).
- Describe Natural Gas Hedging Strategy.
- Describe how the utility purchases natural gas for its contracts, according to what parameters.
- Other Fuel Supply Plan Issues. If Applicable, describe nuclear fuel or other fuel supply plan.
- Discuss gas hedging product valuation and contract selection methodology.
- Discuss volumes and costs of gas procurement.

Section IV. Long-Term Procurement Resource Plan 2007-2016

Each IOU will provide a Procurement Resource Plan that includes both a description and tables showing a 10-year resource demand forecast and supply plan. The Resource Plan should help the Commission understand how each utility intends to procure, given a range of load and resource uncertainties. Section V includes a detailed resource strategy per resource type.

- The IOUs should file resource plans, including scenario analysis and results in accordance with these directions, modified to their particular situation.
- IOUs will provide an explanation of the methods in which it developed its resource plans.
- IOUs should explain, in detail, the evaluation methodology utilized to determine the effectiveness of each potential plan. IOUs should explain the selection process including the metrics utilized to select a preferred plan. When presenting the preferred plan each LSE should present capacity tables (resource adequacy balance), energy tables, and the transmission needs of preferred plan.
- The results of any comparative analysis between plan results, if applicable, should be highlighted through a side-by-side tabular presentation.

A. Introduction to Resource Planning and Planning Approach

This section should describe how the utility approached resource planning, including in particular how it implemented the instructions contained herein.

- Overview of the resource plans provided by the IOU, including the identification of the preferred resource plan if more than one plan is provided by the IOU.
- Overview of the different scenarios developed by the IOU to create candidate resource plans.

This section of the outline provides directions and guidelines on how the utility will develop its resource plan. The IOU needs to develop a range of need for each resource in its procurement plan so that the Commission can adopt a range of need for the upcoming procurement cycle. The IOU must consider a wide range of uncertainties in the development of its resource plan, and so we allow the IOU to present up to 3 different resource plan scenarios depending on various conditions. Although we allow the utility latitude in determining the exact conditions it chooses for each scenario, there are some variables that we provide specific direction on how to proceed, i.e. we require the utility to make certain assumptions in all of its scenarios.

The Resource Plan section of the 2006 Long-Term Procurement Plan will include the items outline below. Items B, C, D, and E all contain a considerable level of uncertainty. The uncertainties contained can drive different results for Item F. Therefore, the utility can present up to 3 resource plan scenarios, provided the assumptions are identified clearly. We do not require that the 3 candidate plans hinge on particular demand or supply scenarios; rather we allow the utility to establish groupings of assumptions on both the demand and supply side. If multiple resource plans are presented, then the utility should provide a comparison of the different resource plan results, along with its preferred plan identified and reasons for its preference cited.

B. Load Forecast (Demand Forecast)

In D.04-12-048, the Commission indicated that the 2006 procurement proceeding would address IOU resource procurement proposals in light of the range of need (i.e. demand minus supply) identified in the CEC's IEPR Transmittal Report. In November 2005, the CEC published its IEPR Transmittal Report,[1] which identified a contractual range of need for each IOU between 2009 and 2016. In the 2005 IEPR Transmittal Report, the CEC, due to complications resulting from confidentiality issues, relied upon public data , thereby limiting the information available when it established a range of need. Also, the CEC report states that the range of need should be updated to reflect recently signed contracts since the CEC report relies on contracts signed as of March 2005. Considerable IOU procurement has occurred since March 2005.

The CEC also established a demand forecast which it transmitted to the CPUC in its November 2005 Transmittal Report.[2] In a June 2006 staff forecast revision, the CEC

---

[1] See *Commission Final Transmittal of 2005 Energy Report Range of Need and Policy Recommendations to the California Public Utilities Commission,* November 2005, available at: http://www.energy.ca.gov/2005_energypolicy/index.html http://www.energy.ca.gov/2005_energypolicy/index.html.

[2] See California Energy Demand 2006-2016 Staff Energy Demand Forecast, publication # CEC-400-2005-034-SF-ED2, available at: http://www.energy.ca.gov/2007_summer_outlook/index.htmlhttp://www.energy.ca.gov/2007_summer_outlook/index.html.

revised upwards its 2007 peak capacity demand forecast (but not energy, and not subsequent years).[3] The CEC established growth rates and weather multipliers for each IOU in the 2005 IEPR, and if the multipliers are applied to the revised 2007 year forecast, then in essence, the CEC has established a demand forecast for the next 10 years for each IOU. Therefore, a revised IOU forecast is available on the 1:2, 1:5, and 1:10 (low, base, and high) levels, although it needs to be derived from the two CEC sources: the 2005 IEPR and the 2006 update for 2007.

We require that the IOUs use the CEC's revised demand forecast for 2007-2016. If the IOU wishes to adjust the IEPR demand forecast in light of new information for one or more of its resource plans, that new information must be introduced and litigated in this proceeding.

Currently, the resource adequacy proceeding requires that IOUs procure annually on a 1:2 forecast basis. However, for longer term planning, it is prudent to review the medium and high forecast levels. We do not specify whether the IOU must use the IEPR high, base, or low demand forecast in its preferred resource plans, but we require that the IOU must (1) identify the demand forecast it uses in terms of which CEC forecast it is using; and (2) identify the range of need as a result of the range of the three demand forecasts as well as other planning uncertainties.

We expect that the CEC, as an intervener in this proceeding, will notify the Commission and parties of any changes to the adopted IEPR demand forecast throughout the proceeding so that IOUs are able to incorporate the most up to date information in their resource plan development. The CEC will also be able to confirm that the IOU has correctly used the relevant, approved demand forecast.

Utilities should assume that they are responsible for planning for all existing bundled service customers, load growth for these customers, and all new customers resulting from economic growth in their service areas. Utilities should assume for the 2006 planning cycle that in the long-term they are responsible for the new resource planning for non-RPS generation for the direct access and CCA loads in their service territory. Utilities should assume that they have to meet a minimum of 15-17% planning reserve margin, and utilities should assume that they have to provide some amount of resource diversity to the CAISO. Any other assumptions should be identified.

The IOUs must incorporate the minimum planning reserve margin, translated from expected requirements for system and local resource adequacy requirements, in their demand forecasts. Although the Commission has only adopted local resource adequacy requirements for 2007, the IOUs should make reasonable assumptions about the fact that similar local requirements will exist into the future.

---

[3] See *Staff Forecast of 2007 Peak Demand, June 2006 available at:*
http://www.energy.ca.gov/2007_summer_outlook/documents/index.html
http://www.energy.ca.gov/2007_summer_outlook/documents/index.html.

C. Supply Forecast for Existing or Planned Resources

IOUs should identify a list of its existing resources broken down by unit, similar to the resource adequacy filing. For capacity values, the IOU should assume the Qualifying Capacity value, as defined in the resource adequacy program. Each resource plan should be documented in detail and assumptions should be documented.

- Existing and Projected Supply Available to Bundled Customers
- Summary of Forecast of Energy/Capacity
- DWR Contracts
- Utility Owned Generation
- QFs
- Inter-Utility Contracts
- Existing Bilateral Contracts
- Renewables
- New/Future Bilateral Contracts

For demand-side resources, resource plan should describe the following elements:

- Energy efficiency program impacts. Describe committed versus uncommitted annual energy and peak impacts. Describe the accomplishments in the prior EE program cycle. Demonstrate whether the EE program impacts are meeting the expectations relative to the targets that were set in D.04-09-060.
- Demand Response program impacts. Describe how much Qualifying Capacity (QC) can be expected from each DR program.
- Self-generation/distributed generation.

For supply-side resources, supply plan should include the following elements:

- Identify Contract by Unit, in line with Resource Adequacy supply conventions, not just contract name
- The availability and operating characteristics of unit
- Qualifying Capacity (based on existing CAISO list and existing Resource Adequacy program counting protocols) and expected energy from contracts (based on least cost dispatch)
- Locational attributes of unit
- Delivery Point
- Whether or not unit is unit contingent or LD Contract
- Fuel type

D. Planning Scenarios

In addition to load forecast and existing supply, an IOU may consider a variety of other planning uncertainties in developing a resource plan. A planning scenario is based on a set of assumptions related to demand and supply for resources, given a range of uncertainties.

A scenario should describe the state of the market within which the IOU is expected to procure. The resource plan that results from the scenario describes the procurement actions and strategic direction the IOU will take to meet the needs of its customers while meeting the policy objectives. The purpose of LTPP scenario analysis is to demonstrate the robustness of plans across perceived uncertainties.

Details of scenarios may include:

- Availability and cost of various resource types
- Level of retirements of existing generation
- Likelihood of contract failure
- Availability of new transmission
- Structural changes in market prices
- Commercial transaction uncertainties, execution risk
- Market price conditions

E. Need Determination (Residual Net Long/Short Forecast)

A net of the above three items (B, C, and D) will be provided, which should result in a forecast of the determination of each IOU's net open position (residual net long or residual net short – RNS/RNL) for both Capacity and Energy for the next 10 years. The RNS and RNL Requirements are based on Least Cost Dispatch for capacity and energy. There should be more detail on the short-term RNS and RNL. The Long-Term RNS and RNL should include two separate need determinations – one for bundled customer needs and one for the needs of the system customers (including the bundled customers). The bundled customer need is an update to the IEPR Transmittal Report's Contractual Need Analysis.

As noted in the Scoping Memo, The Commission will establish a new resource physical need determination that includes at a minimum the following: the range of need (e.g. 500-700 MW of new resources), the time frame of the need (e.g. 2010-2012), the location of the need (e.g. x% should be targeted within local areas), the type of resource needed ((blackstart, quickstart, VAR support capacity, wind integration, baseload/shaping/peaking), and the timeframe of the IOU long-term RFO for new resources.

The IOU should provide a summary of its analysis using the format consistent with the CEC's existing 5-year Supply/Demand outlook, which reviews the physical supply available in NP26 and SP15.[4] Any changes to the Supply/Demand outlook format should be clearly noted and the assumptions explained.

For new resources, not yet in portfolio

[4] See most recent Supply/Demand 5 year outlook *June 30, 2006, Revised Summer 2006 Demand and Five Year Outlook,* available at http://www.energy.ca.gov/2006_summer_outlook/index.html.

- Type of resource
- Resource operating characteristics and costs
- Baseload, shaping, peaking
- Utility owned, market purchases, or PPA
- Likely Fuel source
- Expected price
- Load following service

F. Price Forecasting

The IOU should provide a description of the assumptions regarding expected price forecasts for each resource type that could be used to fill the net open position (this information drives the resource plan results) and expected availability information. The IOU should explain how this price forecasting drives the results of its preferred resource plan. The IOU should provide cost-effectiveness information about each resource type.

Data for Cost, Market Price, Natural Gas and Cost Sensitivities

D.04-01-050 asks the utilities to consider gas prices and market prices for electricity at the 95th percentile of expected future prices. In addition to providing estimates of the resulting increase in cost of meeting load, the utilities should provide prices that correspond to the 95th percentile.

G. Resource Trade-Off Assessment

The IOU should provide a qualitative and quantitative assessment of the trade-off between different resources and strategies; describing how the IOU proposes to optimize the portfolio in light of the policy objectives and constraints.

H. Candidate Resource Plan

The IOU should describe a proposed resource plan to fill the net open position and provide references to supporting tables. The resource plan should identify each resource by its expected volume that will be used to fill the net open position. For each resource type, sufficient detail should be provided for the Commission to make a detailed need determination for each resource types, i.e. "we order the IOU to fill the net short position with x amount of EE, RPS, DG, DR, fossil generation, etc." Details of the strategies used to fill the net short position at the volume identified in the plan should be included in Section V.

If more than one scenario is developed in Section D above, the IOU may have more than one candidate resource plan. The IOU is required to describe its preferred resource plan.

The IOU is required to show a resource plan that is compliant with EAP II, including attempting to achieve 33% renewables by 2020. If the preferred resource plan does not

put the IOU on a path to achieve 33% by 2020, the IOU should provide for the differences between its preferred resource plan and a 33% plan. Information about the differences between plan costs, resource availability, etc. can be presented.

Attachments to Section IV

IOUs should follow the format developed in the 2004 proceeding and the CEC IEPR proceeding for:

- Summary Range of Need Tables (Annual)
    - The IEPR Transmittal Report provided an easy to manage format for the summary range of need on an annual basis. (B1-B18 in Appendix B) The IOUs should follow this format to the greatest extent possible. In the Report, on p.62-65 the CEC provided a helpful sample of how the range of need was calculated. The IOU should also provide such a "definitions" table, mirroring what the CEC provided in Appendix B, Tables B-19 and B-20. These tables may need to be adjusted to highlight resource adequacy requirements.
    - In Summary Tables, each supply resource is not identified by unit, but by groups of like resources (Existing Bilateral Contracts, etc.)
- Monthly Capacity Resource Accounting Tables and Monthly Energy Balance Tables
    - Each supply resource would be identified by unit, i.e. at a much higher level of detail than the summary range of need tables

The IOUs should meet and confer with the Energy Division and the CEC to develop a consensus format for the attachments, in particular for the monthly tables. The format should be enhanced above what was provided in 2004 in order to account for how resource adequacy resources are now counted, e.g. information on each resource should be provided on a unit basis (rather than on a contract name basis).

Section V. Procurement Strategy by Resource

For each procurement resource category, the IOU should provide an overview of its procurement strategy and planning approach. Each strategy should include references to the appropriate decisions, goals, and activity plans that determine future procurement of each procurement resource. For each resource category, the IOU should identify targets, as well as uncertainties with respect to the resource. The text should describe what aspects of its strategy are already "in place" (i.e. authorized or approved by the Commission) versus what aspects of its strategy are "expected" (i.e. authorized or approved by future Commission decision.

In Section IV, the IOU described its proposed resource plan. The sections below should include details of each strategy used to fill the net short position at the volume identified in the resource plan proposed in Section IV.

A. Introduction to Resource Acquisition Strategy

- Current and future compliance with CPUC State Policy objectives, especially long-term energy and environmental strategies.
- Compliance with RA requirements.
- Other

B. Energy Efficiency (EE)

The resource strategy for EE should include the progress to date on meeting adopted EE programs, as well as separately identifying the expected EE savings from future EE programs.

- Prior EE (Pre-2006 programs)
- Existing EE (Adopted targets for 2006-2008, goals, committed, etc.)
- Planned EE (Not yet adopted/committed for 2009-2011 program cycle, etc.)
- In addition to a general discussion regarding energy efficiency strategy, plans should keep in mind the following:
    - In D.04-12-048, p. 103, the Commission said that utilities shall provide information about the EE programs in a consistent format in their future LTPP filings. It indicated that NRDC's list provide a good starting point. See D.04-12-048, OP 13.
    - See also D.04-12-48, OP 12 requiring the IOUs to incorporate goals from the EE decisions in their LTPPs.

C. Demand Response

- Existing DR
- Planned DR

D. Renewable Energy Procurement Strategy[5]

- Existing Renewables
- Planned Renewables (may include reference to approved RPS STPPs)
- Discuss compliance with RPS program targets, such as RPS procurement, resource mix, resource potential and rate impacts.
- Discuss how the IOU can get to a 33% Renewables Target, including references to the resource plan in Section V. If the 33% target by 2020 is not achieved in the LTPP preferred resource plan, explain the reasons why. If the preferred resource plan does not achieve the 33% renewables target then the IOU must demonstrate what would need to change within the context of its

[5] D.05-10-014, OP1#14 stated "The utilities' future long-term planning for RPS compliance shall be conducted as part of general procurement planning in R.04-04-003 or its successor proceeding."

preferred plan in order to reach the stated target. In light of the EAP's Key Action #5 on Renewables[6], each IOU is directed to evaluate and develop an implementation path for achieving renewables goals beyond 2010, and beyond the RPS requirement
- Discuss renewables integration costs, as necessary.

E. Distributed Generation (California Solar Initiative and Self-Generation Incentive Program)

- Existing Distributed Generation
- Planned Distributed Generation
- In addition to a general discussion regarding DG, the plans should keep in mind D.04-12-048, OP 11 regarding guidance on how to consider cost-effectiveness in future resource planning

F. Other Generation Supply Resources

- DWR Contracts
- Utility Owned Generation
- Use of RMR Contracts
- Market Purchases
  - QFs
  - Renewables
  - New Fossil Generation

Where resource plans anticipate the need for conventional resources, it will not be acceptable to simply assume that new generation occurs in the anticipated amount, but rather each respondent must describe in detail its plans to acquire or otherwise ensure the investment in such new generation, indicating the estimated timing, magnitude, and parameters of various resource RFOs and planning processes.

G. Imported Generation

- Market Purchases
- Utility Swaps
- Other

H. Integration of Transmission and Procurement Planning

- Analyze any transmission issues related to the 2007-2016 procurement plans.

---

[6] EAP II, p. 8, Renewables/Key Action #5. "Evaluate and develop implementation paths for achieving renewable resource goals beyond 2010, including 33 percent renewables by 2020, in light of cost-benefit and risk analysis, for all load serving entities."

- Identify the upgrades included as part of the most recent CAISO approved transmission plan, including a timeline.
- Discuss how to integrate long-range transmission planning into the long-term procurement process for all resource categories, especially renewables.
- Discuss how planned transmission upgrades identified in CAISO approved transmission plan will affect the achievement of the procurement resource strategies identified herein.
- Identify any key transmission projects which are critical to the utilities' procurement resource plan expectations.
- Discuss transmission options for facilitating a 33% renewables target by 2020.

Section VI. Evaluation of Resource Plan

Section IV developed a candidate resource plan or plans. This section is intended to evaluate the resource plan and understand its environmental, ratepayer, and reliability impacts. All resource plans are required to meet minimum regulatory and system constraints, i.e., state law, commission procurement policy, EAP Loading Order, resource adequacy requirements, RPS requirements, and least-cost/best-fit protocols, etc. After meeting all of the constraints, the plans can be evaluated against their impact on meeting the following objectives: minimizing environmental impact, minimizing ratepayer costs, and ensuring reliability.

The IOU will provide an evaluation of the proposed resource plan including:

(1) Environmental impact of the proposed resource plan, quantified in terms of greenhouse gas emissions and other metrics.

- IOUs should provide expected GHG emissions of candidate resource plans
- IOUs should explicitly express the RPS percentages that will be met by the candidate resource plans, the percentage of demand response as a percentage of RA requirements, energy efficiency savings from committed and uncommitted programs

(2) Financial impact of the proposed resource plan, quantified in terms of changes in ratepayer costs

- IOUs should provide a detailed account of plan's total resource cost and rate impact forecast
- IOUs should provide an assessment of the price risk associated with the resource plan

(3) Reliability impact of the proposed resource plan, quantified in terms of the IOU's ability to meet resource adequacy requirements and fulfill the reliability needs of the CAISO (i.e. for blackstart, quickstart, peaking, ancillary services needs.)

- IOUs should describe the reliability impact of candidate plan

If more than one candidate resource plan is proposed, then the evaluation section should describe the preferred plan and make a case for why that plan is preferred. Each resource plan should be compared with each of the others based on a limited set of key and quantifiable metrics that can appropriately gauge the tradeoffs between grid, price, and environmental considerations. Ultimately, the selection of a "preferred" resource plan would be based on the policy objectives described above and demonstrated through certain quantifiable metrics. Grid stability could be measured in terms of expected Energy Not Served (ENS) or relative Loss of Load Probability (LOLP). Price stability could be measured in terms of impact to customer costs (c/kWh) or changes in value at risk (VaR). Environmental stability can be measured in terms of annual tons of emissions. Ideally, the preferred plan should demonstrate how energy efficiency, renewable energy, and combined heat and power resources can be integrated into the existing portfolio to meet growing electric needs in a way that is cost-effective, reduces risk, is reliable, and improves environmental quality.

Section VII. Cost Recovery Issues

Section VIII. Commission Review of Implementation of Procurement Plan

The IOU should use this section to describe the process for the Commission's review of the implementation of the Procurement Plan.

- The IOU is required to meet all the requirements of AB57 and the Commission Procurement Standards of Conduct (as adopted in D.02-10-062.)
- The IOU should describe the filings it makes to demonstrate compliance with the procurement plan and Commission Policy, including explaining the procurement information reported to the Commission in the following reports:

    - Monthly Reports
        - Portfolio Risk Reduction Report
        - Monthly ERRA Report
        - Standing data requests from Energy Division or other parties
    - Quarterly Filings
        - Quarterly Compliance Filings
    - Semi/Annual Filings
        - ERRA filings
    - Biennial Filings
        - Biennial Long-Term Procurement Plan
    - As Needed Filings
        - Non-Conforming Transactions
        - Advice Letter Updates to LTPP

- Identify any other monthly, quarterly, annual filings and data requests
- The IOU should describe the process for submitting updates to its approved LTPP. Comments should specifically address the feasibility of instituting a common numbering system (common to all three IOUs) in order to track revisions to the LTPPs. This numbering system would be akin to that currently utilized to track tariff revisions.
- The IOU may propose streamlining opportunities for filings in its Volume II testimony.

Attachments to Volume I

- Utilities are requested to include a copy of their GHG Emissions Profile, as submitted to the California Climate Action Registry. (See D.04-12-048, p.149-150)
- Definitions of Key Terms – essentially a glossary of terms. (Not necessarily solely procurement related terminology)
- Technical Documentation (e.g. TeVaR methodology or other complex methodology discussions)

Contents of Volume 2. Testimony on Selected Procurement Policy Issues

This volume will contain the IOUs testimony to advocate for the Commission to adopt particular procurement policies. Volume 1 expressed the IOU plan to implement the Commission's adopted procurement policies and rules. Volume 1 is based on existing laws and policies. Volume 2 allows the IOU an opportunity to advocate through testimony for a continuation of existing rules, or a refinement to procurement policies. It is appropriate for the IOU to reference parts of its Volume 1 plan in its testimony in Volume 2. The Commission expects the testimony in Volume 2 to take on more of an advocacy tone than the Plan itself, which should be based on IOU implementation of Commission policy. If not already addressed, the testimony may consider the questions listed under each section.

Section I. Introduction

A. Introduction

B. Discussion on Recent/Upcoming Policy Issues

- Identify the impact of resource adequacy on costs and procurement practices. Describe how the local resource adequacy requirement will affect procurement in the coming years.
- Describe how the proposed GHG emissions portfolio standard will affect procurement practices.

- Describe impact of MRTU implementation on procurement practices and procedures.
- Describe how the expiration of DWR contracts over the planning horizon is affecting utility planning. Highlight the magnitude of DWR contracts in the IOU's existing resource portfolio and highlight their expiration dates.
- Describe how the EAPII goal of 33% renewables by 2020 will be achieved.

Section II. Procurement Practices

A. Competitive Procurement RFOs

A key goal of this proceeding is to review the procurement policies of the IOUs for consideration of policy refinements. If the Commission makes findings that prompt changes in procurement practices, the IOUs may have to amend their 2006 LTPPs to comport with the new Commission directives.

Numerous parties have commented that the procurement practices of the IOUs to date have not promoted all-source solicitations and have not insured an even playing field for utility and non-utility electric resources to compete. See, for example, the Pre-workshop Proposal of the Independent Energy Producers Association, March 7, 2006, filed in R.06-02-013. D.04-12-048 called for open, transparent, competitive procurements. Many non-utility competitors urge the Commission to re-visit the procurement policies, and issue directives that will ensure more open competition.

- Definition of "new" generation as a project with a 30 year life that is not yet under construction.
- In light of new confidentiality rules, are RFOs public enough?
- Should CPUC Require Submittal of RFOs to Energy Division in advance to ensure compliance with LTPP?
- Should the Commission adopt additional RFO policies that are consistent across all three IOUs?
- Is there a need to define "all-source" RFOs?

B. Credit and Collateral Policies

Currently, the Commission and the CEC (separate but coordinated efforts) are currently undertaking an examination of the IOU's credit policies in order to gain a better understanding of credit requirements as related to the electricity procurement process. Each IOUs procurement plan contains details of their credit and collateral (C&C) policies for different types of procurement for their electric portfolio. Since the last round of plans were adopted: (1) some of the IOU's credit ratings have improved dramatically; (2) each IOU has gained significant experience in implementing its credit

and collateral requirements; and (3) some parties have expressed concern at the level of credit and collateral requirement for IOU procurement.

- Is it possible to have standard credit & collateral rules across all three IOUs?
- What are the different SCE files Settlement/Notice of non-settlement t types of credits and collateral policies for the different types of IOU procurement and should there be consistency across the different types of procurement? (i.e. Short-term transactions, up to 5-year RFOs, RPS RFOs, all-source RFOs, new-source RFOs)?
- Are there alternative mitigation techniques that could be applied to resource procurement instead of the standard credit & collateral policies currently being utilized by the IOUs?

C. Independent Evaluator

In D.04-12-048, the Commission authorized the IOUs to use an independent evaluator (IE) to monitor competitive solicitations that involved affiliate transactions, IOU-built or IOU-turnkey bidders. In addition, the Commission now requires that an IE be used in all RPS solicitations. Therefore, each IOU has gained some experience with the use of the IE. While the policy of requiring the use of an IE is not in question and is not in the scope of this proceeding, the implementation of the use of an IE may be benefit from further review.

- Should all competitive solicitations require an IE?
- Should solicitations that do not have affiliate transactions, or involve a utility-owned or utility-turnkey bid require an IE?
- How can the Commission ensure the impartiality of the IE?
- What are the costs and benefits associated with the use of an IE, and how do those benefits directly affect procurement outcomes?

D. Implementation of AB 1576

In 2005, the Legislature passed AB1576 (Pub. Util. Section 454.6) to encourage the repowering of existing facilities. The legislation provides for the Commission to order the IOUs to sign contracts with repowering power plant facilities, if the power plant is willing to enter into a long-term cost of service based contract with the IOU. To date, there have been no applications of AB1576. In addition, the State is in the process of developing new rules that may affect the use of once-through cooling in power plants. Parties are invited to submit proposals as to how to implement the repowering directives. For example, what are the mechanisms that should be utilized, should it be RFOs, unilateral contracts filed by suppliers, etc.?

- How do the IOU procurement plans provide for the potential repowering of existing facilities?
- How do the IOU procurement plans allow for potential use of AB1576 to allow for repowering?
- In D.04-12-048, p.159, the Commission directed the IOUs to consider the use of brownfield sites first and take full advantage of their location before they consider building new generation on Greenfield sites. Describe how the IOUs have been able to implement this requirement and whether it should be continued.
- Does the Commission need to adopt guidelines as to what qualifies as repowering (e.g. an engineer certification of at least a 30 year design life)?
- How do the State's water policies, including the evolving policies on once-through cooling affect the process of repowering aging power plant facilities?

Section III. Risk Management Practices

A. Gas Hedging Strategies for Electric Procurement Portfolios

- The IOUs are currently required to file gas hedging strategies related to electric procurement portfolios under two separate authorities. The IOUs conduct gas hedging procurement (1) for their DWR electric supply portfolio through Gas Supply Plans filed semi-annually; and (2) for their non-DWR electric supply portfolio through their procurement plans.
- Since the IOUs have to conduct gas hedging for DWR and non-DWR portions of their portfolios—is the gas hedging consistent across the portfolios and/or are modifications necessary to make it more consistent?
- Is it possible to have some amount of gas hedging strategy best practices shared by all IOUs?
- Are all IOUs hedging the same relative percentages of their portfolios across the same time horizon, and if not, should they be? For example, is one IOU hedging gas prices 5 years into the future and another only 3 years? Is one IOU hedging 75% of its portfolio year-ahead and another one only 25%?

B. Application of TeVaR to Measure the Customer Risk Tolerance Threshold

The Commission has previously authorized utilities to use the TeVaR (Time to expiration for the Value at Risk) approach as part of its risk management practices. Essentially, the utility monitors TeVaR to gauge the likelihood of customers' experiencing a significant change in prices as a result of not-yet made procurement expenditures. The utilities calculate TeVaR based on their remaining open electric and gas positions—looking at the potential for customer rate change at the 99% confidence interval. The IOUs submit their TeVaR reports to the Commission as part of their monthly portfolio risk reports, and the IOUs are required to consult with their procurement review groups if the TeVaR report

suggests a potential change of greater than 1.25 cents in rates. Now that utilities have gained experience in the calculation and application of TeVaR, there may be a need to refine how the utilities use it in their procurement and/or revisit limited aspects of the methodology of its calculation (i.e. 99% vs. 95% interval.).

- Should the Commission standardize how the three IOUs are calculating TeVaR and using it in their procurement plans?
- Should TeVaR be calculated on a rolling 12 months basis, and/or on the basis of the next full calendar year?
- Should the Commission refine the use of TeVar to be at the 95% interval, instead of the 99%?
- Should the Commission extend the use of TeVaR beyond 1 year, to 5 years or longer? Are there more appropriate measurements of risk tolerance for the long-term horizon?

Section IV. Other Testimony in Support of Procurement Policies and Plans

(END OF ATTACHMENT A)