

July 18, 2009



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

FILED

07-20-09
04:59 PM

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

Rulemaking 08-02-007
(Filed February 14, 2008)

PROPOSAL AND PRE-WORKSHOP QUESTIONS OF L. JAN REID

Pursuant to the July 1, 2009 Assigned Commissioner's Ruling (ACR) and Scoping Memo, I submit this brief alternative proposal and pre-workshop questions on the Energy Division Staff Proposal as described in Attachment 2 of the ACR. I will file detailed comments on the Staff Proposal on August 21, 2009.

Alternative Proposals and Pre-Workshop Questions are due on July 21, 2009. I will send this pleading to the Docket Office on Saturday, July 18 using the Commission's electronic filing system, intending that the pleading will be timely filed.

II. Recommendations

I have relied on past Commission decisions, the Public Utilities (P.U.) Code, and the ACR in developing recommendations concerning investor owned utility (IOU) filing requirements.¹

¹ The investor owned utilities in this proceeding are Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), and Southern California Edison Company (SCE).

I recommend the following:

1. The Commission should order each IOU to provide incremental cost estimates of all of the requirements which would be mandated by the Staff Report. Incremental cost estimates should include employee salaries, overhead and benefit costs, administrative costs, consultant fees, and all other incremental costs which would be paid by ratepayers. (Section III)
2. Because the cost of the studies listed in Section III is unknown, I recommend that 2010 IOU filing requirements should be similar to the material furnished in the IOUs last LTPP filing. (Section IV)
3. The IOUs should perform the scenarios described in Table 1 below. (Section IV)
4. IOU costs should be calculated over a 10-year period, instead of the 20-year period recommended by the Staff Report. (Section IV)
5. The IOUs should use the metrics described in Table 2 below. (Section IV)
6. The IOUs should be required to perform the sensitivity analyses described in Table 3 below. (Section IV)
7. If the Commission adopts the Staff Report, the Commission should allow a minimum of six months between the due date for IOU LTPP filings and the due date for intervenor testimony. (Section V.A)
8. The Commission should not adopt the Concurrent Model discussed in the Staff Report. (Section V.E)
9. The Commission should not require the IOUs to file a Combined Plan as recommended by the Staff Report. (Section V.E)

My recommendations are based on the following reasoning.

1. Energy Division has not provided cost estimates for its proposal. (Section III)
2. State law requires that "A procurement plan approved by the commission shall...enable the electrical corporation to fulfill its obligation to serve its customers at just and reasonable rates." (Public Utilities Code 454.5(d). (Section III)
3. The Staff Report would require the IOUs to provide a Renewables Study, a Transmission Study, a Renewables Integration Study, a Deliverability Risk Assessment, the Identification of Avoided Resources and Need for New Local Resources, a Detailed Portfolio

Analysis, Increased Scenario Analysis, an Environmental Assessment, a Technology Transformation Assessment, and a Distribution Cost Analysis. (Section III)

4. The Commission should not approve additional IOU studies until it knows the expected cost of these studies. Once the cost of these studies is estimated, the Commission and parties can determine whether or not the benefits of a given study justify the cost of the study. (Section III)
5. IOU costs cannot be reliably estimated over a 20-year period. (Section IV)
6. The Staff Report does not allow intervenors adequate time to review IOU filings, write discovery, receive discovery responses and write testimony. (Section V)

III. Ratepayer Costs

Energy Division Staff has submitted a detailed proposal which would require that the investor owned utilities provide a large amount of new information to the Commission in the IOU's Long-Term Procurement Plan (LTPP) filings starting in 2010.

I am concerned that these new mandates will result in a significant increase in rates. Energy Division Staff does not provide cost estimates for these additional studies. This is not consistent with state law which requires that "A procurement plan approved by the commission shall...enable the electrical corporation to fulfill its obligation to serve its customers at just and reasonable rates." (Public Utilities (P.U.) Code 454.5(d).)

The Commission cannot fulfill its mandate under P.U. Code 454(d) unless it knows the extent of these incremental costs. The Commission cannot determine whether or not these costs are just and reasonable unless the IOUs provide the Commission with an estimate of the costs of the studies.

For example, the Staff Report recommends that the Commission order the IOUs to provide:

- A Renewables Study
- A Transmission Study
- A Renewables Integration Study
- A Deliverability Risk Assessment
- The Identification of Avoided Resources and Need for New Local Resources
- Detailed Portfolio Analysis
- Increased Scenario Analysis
- Environmental Assessment
- Technology Transformation Assessment
- Distribution Cost Analysis

Some of these studies may in fact be useful. However, the Commission should not approve additional IOU studies until it knows the expected cost of these studies. Once the cost of these studies is estimated, the Commission and parties can determine whether or not the benefits of a given study justify the cost of the study.

Therefore, I recommend that the Commission order each IOU to provide incremental cost estimates of all of the requirements which would be mandated by the Staff Report. Incremental cost estimates should include employee salaries, overhead and benefit costs, administrative costs, consultant fees, and all other incremental costs which would be paid by ratepayers if the Staff Report is adopted by the Commission.

IV. IOU Filing Requirements

Because the cost of the studies listed in Section III is unknown, I recommend that IOU filing requirements should be similar to the material furnished in the IOUs last LTPP filing. A list of recommended scenarios is provided in Table 1. Table 1 can be compared to Tables 2 and 3 of the Staff Report. (Staff Report, pp. 69-71.)

Table 1: Proposed IOU Scenarios

Scenario	Description
Base Scenario	<p>Build a portfolio that meets forecast demand using the IOU's existing resource percentages (e.g., 80% natural gas, 5% wind, 5% solar, etc.) The base scenario will use a weighted average of the forward curve for electricity and natural gas over the next ten years.</p> <p>Forward curves shall be collected 30 days prior to the LTPP filing deadline. If forward curves are not available for the full 10-year period, the IOUs will extend the forward curve using a linear growth method. For example, if natural gas forward prices increase by 5% annually in the first five years, the IOUs will assume that this growth rate will continue for years 6-10.</p>
IOU Preferred Scenario	<p>Each IOU builds a portfolio that represents their preferred resource mix given the state and federal mandates which exist no more than 90 days prior to the IOU's LTPP filing deadline.</p>
Gas Price Scenarios	<p>Seven gas price scenarios shall be performed ranging from \$2/mmbtu below the forward curve to \$5/mmbtu above the forward curve in \$1/mmbtu increments. (e.g., \$2 below curve, \$1 below curve, at curve, etc.)</p>

Scenario	Description
CO2 Scenarios	Three CO2 scenarios shall be performed using low, medium, and high CO2 values taken from studies published by Synapse Energy Economics Inc. or other qualified vendors. ²

I recommend that costs be calculated over a 10-year period, instead of the 20-year period recommended by the Staff Report. I do not believe that costs can be reliably estimated over a 20-year period. This is particularly true in the case of high volatility markets such as electricity and natural gas.

A list of recommended metrics is provided in Table 2. Table 2 can be compared to Tables 4 and 5 of the Staff Report. (Staff Report, pps. 74-75, and 83.)

Table 2: Proposed IOU Metrics

Metric	Description
Cost	Cost shall be analyzed on a net present value (NPV) and total resource cost (TRC) basis. NPV shall be calculated using two methods (1) the IOUs authorized rate of return; and (2) the yield of the 30-year treasury bond. The 30-year treasury bond yield shall be collected 30 days before the LTPP filing deadline.
Risk	The 95th percentile of Time to Expiration Value at Risk (TeVaR) shall be used to quantify risk.

A list of recommended sensitivity analyses is provided in Table 3. Table 3 can be compared to Table 6 of the Staff Report. (Staff Report, pp. 85-86.)

² Synapse Energy Economics Inc. produces estimates of the short and long-term CO2 costs in \$/ton. Typically, different assumptions are used and three separate cost estimates are provided for each year: high, medium, and low.

Table 3: Proposed Sensitivity Analysis

Sensitivity Analysis	Description
Gas Price	Seven gas price scenarios shall be performed ranging from \$2/mmbtu below the forward curve to \$5/mmbtu above the forward curve in \$1/mmbtu increments. (e.g., \$2 below curve, \$1 below curve, at curve, etc.)
Need Level	Both the System and Bundled Plans should include "High-Need" and "Low-Need" sensitivities, corresponding to the uncertainty bands required around net short calculations, as described in Section 3.8.1 of the Staff Report.

V. Energy Division Questions

On July 13, 2009, Simon Baker of the Energy Division sent an email concerning the July 21 pleadings. In this email, the Energy Division informed parties that "As part of their comments on the timelines (to be submitted alongside pre-workshop questions) parties should respond to questions 28-32 of Attachment 4." (Baker email, July 13, 2009.) My responses to these questions are given below.

A. Question 28

Question: Can your respective organization staff all the various ongoing pieces of the Procurement process as outlined the Staff Proposal? Please comment on both models.

Answer: It will be extremely difficult for my organization to write testimony on the LTPP filings if the Staff Proposal is adopted by the Commission within the normal timeframe for intervenor filings. Due to the fact that the scope of IOU filings would be greatly expanded under the Staff Proposal, the discovery process will increase significantly. Therefore, I recommend that the Commission

allow a minimum of six months between the due date for IOU LTPP filings and the due date for intervenor testimony.

B. Question 29

Question: Is it a reasonable expectation to have overlapping LTPP proceedings, such as in the consecutive model which would require simultaneous consideration of 2010 LTPP Bundled Plans and 2012 LTPP System Plans (unless 2010 LTPP Bundled Plans are decoupled and accelerated)?

Answer: No, it is not. Such a process will mean that the LTPP process will be ongoing and will never end. It will be difficult for both the Commission and the ALJ Division to efficiently manage such a process. Invariably the 2012 System Plans will depend on the resolution of 2010 LTPP Bundled Plans. Therefore, I recommend that the Commission reject the consecutive model.

C. Question 30

Question: Under the consecutive approach, System Plans would become effective upon issuance of a Commission decision approximately 5 months after the System Plan is filed and approximately 18 months after the OIR. Is this a reasonable approach? If not, why not?

Answer: This is not a reasonable approach. The Staff Proposal would require that intervenors produce testimony within 90 days of the Combined Plan filing. A 90-day deadline will not allow intervenors time to review IOU filings, write discovery, and receive discovery responses from the IOUs; much less time to write testimony.

D. Question 31

Question: Under the consecutive approach, Bundled Plans would become effective upon issuance of a Commission decision approximately 4 months after

the Bundled Plan is filed and approximately 27 months after the OIR. i.e., 2010 bundled plans would become effective approximately Q3 2012 unless Bundled Plans are decoupled and accelerated). Is this a reasonable approach? If not, why not?

Answer: This is not a reasonable approach. The Staff Proposal would require that intervenors produce testimony within 30 days of LTPP filings. A 30-day deadline will not allow intervenors time to review IOU filings, write discovery, and receive discovery responses from the IOUs; much less time to write testimony.

E. Question 32

Question: Under the concurrent approach, System and Bundled plans would become effective upon issuance of a Commission decision approximately 6 months after the Combined Plans are filed and approximately 23 months after the OIR. (i.e., 2010 System & Bundled Plans are effective Q4 2011.) Is this a reasonable approach? If not, why not?

Answer: This is not a reasonable approach. The Staff Proposal would require that intervenors produce testimony within 90 days of the Combined Plan filing. A 90-day deadline will not allow intervenors time to review IOU filings, write discovery, and receive discovery responses from the IOUs; much less time to write testimony.

It is not necessary for the IOUs to file a combined plan. The results of a combined plan will only be marginally different than the sum of individual IOU plans. It is unlikely that the slightly increased reliability of a combined plan would be justified by the cost of Commission processing of such a plan. The Combined Plan will be burdensome for the IOUs, for intervenors, and for the

R.08-02-007 L. Jan Reid

Commission. Therefore, I recommend that the Commission reject the Combined Plan.

* * *

Dated July 18, 2009, at Santa Cruz, California.

/s/

L. Jan Reid
3185 Gross Road
Santa Cruz, CA 95062
Tel/FAX (831) 476-5700
janreid@coastecon.com

VERIFICATION

I, L. Jan Reid, make this verification on my behalf. The statements in the foregoing document are true to the best of my knowledge, except for those matters that are stated on information and belief, and as to those matters I believe them to be true.

I declare under penalty of perjury that the foregoing is true and correct.

Dated July 18, 2009, at Santa Cruz, California.

/s/

L. Jan Reid
3185 Gross Road
Santa Cruz, CA 95062
Tel/FAX (831) 476-5700
janreid@coastecon.com

CERTIFICATE OF SERVICE

I certify that I have this day by electronic mail served a true copy of the original attached "Proposal and Pre-Workshop Questions of L. Jan Reid" on all parties of record in this proceeding or their attorneys of record. I will serve a paper copy of the pleading on Commissioner Michael Peevey, and on Administrative Law Judge Victoria Kolakowski.

Dated July 18, 2009, at Santa Cruz, California.

/s/

L. Jan Reid