California Public Utilities Commission
AB57, AB 380 and SB 1078
PROCUREMENT POLICY MANUAL

Prepared by Energy Division
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1. INTRODUCTION

This Procurement Policy Manual provides all of the requirements and guidance provided by the Commission to its jurisdictional entities under PU Codes 380, 454.5, and 399.11-399.20. This Manual constitutes the upfront and achievable standards and criteria envisioned by the California State Legislature in Assembly Bill (AB) 57.[1]

The Manual is organized in the following manner:

- There are 4 Categories that address various aspects of the Commission's procurement requirements:
  - General Procurement Requirements
  - Oversight and Advisory Requirements
  - Resource Adequacy Requirements
  - Reporting and Filing Requirements
- The requirements within each Category are grouped into Topics. Topics are stand-alone sets of requirements related to a particular issue, and they are paginated separately such that as a requirement within a topic is revised, the entire topic can be replaced without affecting the pagination of the rest of the document.
- A table of acronyms and a table of definitions are provided in Section 2;
- Each set of the three PU Codes that these procurement requirements were developed to implement are summarized in Section 3;
- The four procurement requirements categories follow Section 3; and
- 7 APPENDICES that contain a variety of reference materials cited throughout the document are located at the end of the document.

[1] AB 57, enacted in 2002 and codified as Public Utilities Code section 454.5, requires that "upfront and achievable criteria by which the acceptability and eligibility for rate recovery of a proposed procurement transaction will be known by the electrical corporation prior to execution of the bilateral contract for the transaction." To implement this requirement, AB57 also requires that each IOU file a proposed procurement plan and that the PUC review and accept a procurement plan for each electric utility in the state.

2. DEFINITIONS AND ACRONYMS

Industry-specific terms used throughout this Manual are defined as follows:

All-Source Solicitations	Transparent and competitive solicitations open to all resources. All-source means "all resources". Examples include but are not limited to fossil fueled, renewable, demand response, PSAs, buyouts, PPAs, cogeneration, et al. D.04-12-048 (Order 26.a) D.06-07-029
Ancillary Services	Services needed to assure system reliability. Services include regulation service, spinning reserve, non-spinning reserve, and replacement reserve and are procured through daily markets. Reactive power support and black-start generation capability are acquired separately through contracts. D.02-10-062 and ISO publication
Bilateral Contract	Contracts negotiated with counterparties outside of an RFO process, and not conducted through an approved brokerage or exchange. D.09-06-050
Brownfield Sites	Sites that contain existing or retired generating facilities that may be used to site new generation or repower existing facilities. D.04-01-050, AB 1576
Capacity	The ability of a power plant to produce a given output of electric energy at an instant in time, measured in kilowatts or megawatts (1,000 kilowatts). **Qualifying Capacity (QC)** represents the gross amount of a resource's capacity that can be counted for using the Commission's adopted RA counting rules, prior to an adjustment for deliverability. **Net Qualifying Capacity (NQC)** The amount of a resource's capacity that can actually be counted for RA compliance

	filings. This represents the qualifying capacity; calculated using the Commission's counting rules, adjusted for deliverability. D.09-06-028
Cogenerator	The consecutive generation of thermal or mechanical and electric energy, also called combined heat and power. Cogenerators use energy for an industrial or commercial process and sell electrical energy to the grid.
Combined Cycle Gas Turbine (CCGT)	A combined cycle generator uses a gas turbine generator to generate electricity and the waste heat from the gas turbine is used to make steam to generate additional electricity via a steam turbine. A combined cycle generator employs more than one thermodynamic cycle to improve efficiency and reduce waste heat energy.
Community Choice Aggregation (CCA)	A Load Serving Entity formed by cities and counties to serve the energy requirements of their local residents and businesses. D.04-12-046, PU Code 331.1
Consumer Risk Tolerance (CRT)	A metric to monitor and manage rate level risk. CRT is essentially a cap on unforeseen electric rate increases looking 12 months into the future due to electric procurement activity. D.07-12-052
Cost Responsibility Surcharge (CRS)	A surcharge on customer generation departing load to recover DWR-related costs and to determine each customer's fair share of those costs. D.03-04-030
Day-Ahead Transactions	In the context of physical electrical energy transactions, day-ahead refers to transactions executed on one day for delivery on the "next" as defined by the Western Electricity Coordinating Council ("WECC") Prescheduled Calendar. On a non-holiday week, this schedule is as follows:

Trading Day	Delivery Day
Monday	Tuesday
Tuesday	Wednesday
Wednesday	Thursday
Thursday	Friday and Saturday
Friday	Sunday and Monday

In the context of physical natural gas transactions, day-ahead refers to transactions executed on one day for delivery on the "next" as defined by the Intercontinental Exchange ("ICE") Next Day Trading Calendar Physical Natural Gas. This schedule is as follows:

Trading Day	Delivery Day
Monday	Tuesday
Tuesday	Wednesday
Wednesday	Thursday
Thursday	Friday
Friday	Saturday, Sunday and Monday

Demand Response (DR) Programs that apply rate design, incentives and technology to induce changes in customer demand.

D.06-03-024

Direct Access (DA) Retail electric service where customers purchase electricity from a competitive provider, an Electric Service Provider (ESP), instead of from a distribution utility. The distribution utility delivers the electricity that the customer purchases from the ESP.

D.07-05-029

Distributed Generation (DG) Facilities that serve load in close proximity to the generation. Facilities interconnected at distribution level voltages, and sized less than 20 MW. Facilities may not always be customer-owned and may be located on the utility, or system-side of the meter, expressly designed as a net exporter of power to the grid.

D.09-08-026

DRA	Division of Ratepayer Advocates.
Energy Service Provider (ESP)	A non-utility entity licensed by the CPUC that offers retail electric service to customers within the service territory of a distribution utility. Electricity is delivered using the distribution system of a distribution utility. D.07-05-029, PU Code 218.3
Energy Resource Recovery Account (ERRA)	Balancing account established to record and recover a utilities energy procurement costs. D.05-07-015, p.7
Forward Transactions	Contracts entered into in advance of delivery time. D.02-10-062
Greenfield Sites	Sites where there is no existing generating facility. D.04-01-050, AB 1576
Integrated Energy Policy Report (IEPR)	A report published every two years by the CEC with updates in alternate years per SB 1389 (Bowen and Sher, Chapter 568, Statutes of 2002) .Assessments and forecasts of all aspects of energy industry supply, production, transportation, delivery and distribution, demand, price, and associated policy recommendations.
Independent Evaluator (IE)	Independent third party evaluators who ensure the process for resource solicitations are fair and unbiased. IEs participate in PRGs and produce independent reports that are filed in Commission proceeding. D.04-12-048
California Independent Systems Operator (ISO or CAISO)	A FERC regulated independent balancing authority which has operational control over the combined transmission grids of Pacific Gas and Electric Company, San Diego Gas and Electric Company, and Southern California Edison, and provides open, non-discriminatory access thereto.
Least-Cost Best-Fit (LC/BF)	Selection of resources that are least cost, including the direct costs of energy generation and any indirect costs due

	integration of the resource and needed transmission investment. In addition, utilities are required to consider resources that best fit their system needs. D.04-07-029.
Load-Serving Entity (LSE)	Entity that sells electricity and/or natural gas commodity to retail customers. PU Code 380
Market Price Referent (MPR)	A levelized price used to evaluate the reasonableness of prices of long-term PPAs for RPS-eligible electric generation. D.08-10-026
Open Access Same Time Information System (OASIS)	An Internet-based system for obtaining services related to electric power transmission in North America. It is the primary means by which high-voltage transmission lines are reserved for moving wholesale quantities of electricity.
Over-the-Counter (OTC)	Trades of electricity or natural gas, or futures thereof on any open commodities market. An OTC transaction is a bilateral contract in which two parties agree on how a particular trade or agreement is to be settled in the future.
PG&E	Pacific Gas and Electric Company.
Planning Reserve Margin (PRM)	A capacity reserve margin over and above capacity required to meet peak demand. D.04-01-050
Procurement Review Group (PRG)	A Commission authorized forum that reviews procurement activities including contracts and reasonableness criteria and offers assessments and recommendations to each utility. D.02-08-071
Prompt-Month	In the context of electricity transactions, the month following the month for which Day-Ahead power trading is taking place. In the context of natural gas transactions, the nearest delivery month for which NYMEX futures prices are published.
Purchase and Sale Agreement (PSA) (also called:	Projects or transactions in which the developer sells the project to an IOU at the time the project enters commercial operation. PSA (turnkey) projects have a pre-determined price and pre-

turnkey agreement) determined capacity and operating characteristics.

Repower Replacement of older less efficient electric generating equipment of a facility with newer more efficient electric generating equipment.

AB 1576

Request for Offers (RFO) A public request to buy, or sell a product through a structured process. Generally, a request by a utility for offers from generators, developers, and marketers for contracts to sell electric capacity, energy, natural gas or other products to the utility.

IOUs have the flexibility to tailor their RFOs to reflect their specific resource needs. Those specific resource needs may not be practical for all types of resources, but the RFO should specify needs not resource types. All resources do not need to participate in every All-Source and RPS solicitation.

Residual Net Long/Short Position(RNL/RSL) Excess or shortage of electric capacity, energy or natural gas in any given time period over the amount of the IOU's projected requirement for that time period. Also called Net Long/Short Position. "Residual" refers to the net position after inclusion in the portfolio of all existing contracts and other resources available to IOU.

SCE Southern California Edison Company.

SDG&E San Diego Gas and Electric Company.

Short-Term Transactions Transactions of less than three consecutive months duration and not exceeding three months forward subject to the strong showing standard adopted in D.02-10-062, as modified by D.03-06-067. Contracts do not need to begin on the first day of the month to qualify as a short-term contract. For example, a contract from January 10th to April 9th is less than three consecutive calendar months and is considered a short-term contract.

Spot Market Transactions that take place in either the Day-Ahead, Hour-Ahead or real-time markets. ISO spot market transactions are

Transactions	authorized to balance system and meet short-term needs. D.02-10-062
TEVaR (or Time To Expiration Value at Risk)	An estimate at a given confidence level of the amount of electric rate increase that could occur due to changes in market conditions such as nuclear outage risk, hydro-power availability risk, electricity spot market price volatility, credit risk, and gas price volatility (which represents the single greatest historical source of price volatility). D.07-12-052

Acronyms used throughout this manual are defined as follows:

AB	Assembly Bill
CAM	Cost Allocation Mechanism
CCA	Community Choice Aggregation
CEC	California Energy Resources Conservation and Development Commission, commonly referred to as the California Energy Commission
COL	Conclusions of Law
CRR	Congestion Revenue Right
CRT	Consumer Risk Tolerance
CPCN	Certificate of Public Convenience and Necessity
CPUC or the **Commission**	California Public Utilities Commission
DE	Debt Equivalence
DA	Direct Access
DRA (formerly ORA)	Division of Ratepayer Advocates of the CPUC (formerly named the Office of Ratepayer Advocates or ORA)
DR	Demand Response

DWR or **CDWR**	California Department of Water Resources
ED	Energy Division
EE	Energy Efficiency
EPC	Engineering, Procurement and Construction Agreement
EPS	Emission Performance Standards
ERRA	Energy Resource Recovery Account
ESP	Energy Service Provider
FERC	Federal Energy Regulatory Commission.
FOF	Findings of fact
IEPR	Integrated Energy Policy Report
IE	Independent evaluator
IOU	Investor-owned utility
IPP	Independent Power Producer
ISO or CAISO	California Independent Systems Operator
IUE	Inter-Utility Exchange
LSE	Load-serving entity
LAR	Local Area Reliability
LT CRR	Long Term Congestion Revenue Right
LTPP	Long Term Procurement Plan
NBC	Nonbypassable Charge
OASIS	Open Access Same Time Information System
OP	Ordering Paragraphs
OTC	Over-the-counter or Once-through-cooling
PPA	Power purchase agreement

PRG	Procurement Review Group
PRM	Planning Reserve Margin
PSA	Purchase and Sale Agreement
QCR	Quarterly Compliance Report
QF	Qualifying Facility
RA	Resource Adequacy
RAR	Resource Adequacy Requirement
RFO / RFP	Request for Offers / Request for Proposals
RPS	Renewable Portfolio Standard
UOG	Utility Owned Generation
WAPA	Western Area Power Association

3. PUBLIC UTILITIES CODES 380, 454.5, 399.11-399.20

PU CODE 380

PU Code 380 requires that each LSE maintain physical generating capacity adequate to meet its load requirements, including, but not limited to, peak demand and planning operating reserves. The generating capacity shall be delivered to locations and at times may be necessary to provide reliable electric service.

Additionally, each LSE, at a minimum, shall meet the most recent minimum planning reserve and reliability criteria approved by the Board of Trustees of the Western Systems Coordinating Council or the Western Electricity Coordinating Council.

LSE's are required to submit sufficient information, including but not limited to, anticipated load, actual load, and measures undertaken by the LSE to ensure resource adequacy. This information is to aid the Public Utilities Commission in determining compliance with resource adequacy requirements.

All costs incurred on behalf of the IOU's customers are to be recovered in a nonbypassable manner from the customers on whose behalf they are incurred and a mechanism is to be put in place to ensure no shifting of costs. These costs must be first determined reasonable by the Commission.

PU CODE 454.5

PU Code 454.5 requires that the IOUs prepare procurement plans for review and approval by the Commission and ensures that all costs associated with transactions executed by an IOU in accordance with its Commission-approved procurement plan will be fully recoverable. Procurement plans are now prepared every other year following the adoption of official load forecasts by the California Energy Commission in its biennial Integrated Energy Planning Report process.

PU Code 454.5 requires that the following elements be including in an IOU's procurement plan:

- An assessment of the price risk associated with the supply portfolio,
- A definition of each electricity product, including support and justification for the product type and the amount to be procured under the plan,
- Duration of the plan,
- Duration, timing and range of quantities of each product to be procured,
- A competitive procurement process under which the IOU may request bids for procurement-related services, including the format and criteria of that procurement process,
- Upfront standards and criteria by which the acceptability and eligibility for rate recovery of a proposed procurement transaction will be known by the IOU prior to execution of the transaction,
- Procedures for updating the plan,
- A showing that the plan will achieve the following: (a) the IOU will, in order to fulfill its unmet resource need and in furtherance of Public Utilities Code section 701.3, until a 20 percent renewable resource portfolio is achieved, procure renewable energy resources with the goal of ensuring that at least an addition 1 percent per year of the electricity sold by the IOU is generated from renewable energy resources, and (b) the IOU will create or maintain a diversified procurement portfolio consisting of both short-term and long-term electricity and electricity-related and demand reductions products.

PU CODE 399.11-399.20
(399.11 et seq) RENEWABLES PORTFOLIO STANDARD

PU Code 399.11 et seq, establishes California's Renewables Portfolio Standard (RPS). PU Code 399.11 et seq, as implemented by the Commission, requires that retail sellers of electricity to California end-use customers must procure an additional 1 percent of retail sales per year from eligible renewable sources until 20% is reached, no later than 2010. The following entities fall under the code's definition of retail seller: electrical corporations (i.e. IOUs), electric service providers and community choice aggregators.

PU Code 399.11 et seq, as implemented by the Commission, sets forth the following obligations for the IOUs:[2]

- In each year, prior to 2010, IOUs must procure eligible renewable energy equal to its annual procurement target or face penalties of $50/MWh, not to exceed $25 million/year.[3]
- IOUs must prepare an annual renewable energy procurement plan for review and approval by the Commission that includes the following elements:
    - an assessment of the IOU's portfolio supply and demand to determine the optimal mix of eligible renewable energy resources,
    - a bid solicitation setting forth the need for eligible renewable energy resources,
    - a description of the IOU's least-cost, best-fit methodology used to select eligible renewable energy resources from a solicitation,
    - standard terms and conditions to be used in contracting for eligible renewable energy resources, including performance requirements,
    - provisions for employing available flexible compliance mechanisms.
- IOUs must offer a tariff that provides payment, set at the "market price" as determined by the Commission*,* for every MWh of generation from eligible renewable energy facilities, provided that:
    - the facility has an effective capacity not greater than 1.5 MW, and
    - the total capacity enrolled for each IOU does not exceed their proportionate share of the program limit.

[2] A detailed description of the Renewables Portfolio Standard procurement guidelines will be compiled in a separate document and incorporated here at a future date.

[3] Subject to flexible compliance rules and the IOU's cost limitation.

4. CATEGORY G: GENERAL PROCUREMENT REQUIREMENTS

The General Procurement Requirements category provides the policy directives that govern the general procurement activities performed by the IOU pursuant to their approved Long Term Procurement Plans (LTPPs).

Note that the guidance and requirements provided in this category address the general procurement practices to which jurisdictional entities are to adhere. In addition, the Commission has approved a variety of energy products that the jurisdictional entities are authorized to procure. Appendix A provides a list of these approved energy products.

General Procurement Direction

The Commission adopted a series of procurement decisions establishing a set of requirements that if followed establish a procurement action as reasonable before contract execution and that the procurement action will not be subject to after the fact reasonableness reviews.

An IOU may request, through the application process, approval of any contract to identify the contract as reasonable and exempt from after the fact reasonableness reviews. An IOU may file an application if a contract process violates one or more of these rules and the IOU wishes contract approval with no after the fact reasonableness review. An IOU shall not file an application for contract approval if the contract process complies with these rules, except as required by these rules.

These rules generally require procurement to be through competitive processes.

G.1 Term Definitions/Preapproval Requirements

- (a) IOU Procurement Authority Timeline and Contract Term Definitions
- (b) Preapproval Requirements
- (c) Spot Market Purchases

G.2 Authorized Procurement Methods/Market Tests

- (a) General Valuation Guidelines
- (b) Requests For Offers (RFO's)
- (c) Bilateral Contracting for Short-Term Contracts
- (d) Non-Standard Products
- (e) Natural Gas Storage and Pipeline Capacity
- (f) Bilateral Contracting for Local Area Reliability
- (g) Exchanges
- (h) Over the Counter Brokers

G.10 Qualifying Facilities

(a) QF Requirements
(b) Avoided Cost Pricing
(c) QF Contracting
(d) Additional QF Requirements

TOPIC G.1: TERM DEFINITIONS / PREAPPROVAL REQUIREMENTS

G.1 (a) IOU Procurement Authority Timeline and Contract Term Definitions

The IOUs' procurement authority is extended on a rolling ten-year basis. The IOUs are authorized to enter into short-term, medium-term and long-term contracts.[4] (D.04-12-048 at 107-08.)

Short-Term Contracts. Short-term contracts are contracts of less than three consecutive months[5].

Medium-Term Contracts. Medium-term contracts are contracts of three consecutive months or greater and under five years in duration.

Long-Term Contracts. Long-term contracts are contracts of 5 years or more in length.

Multiple contracts entered into at the same time for the same resource and for consecutive time periods are considered one contract for the purposes of this rule. More specifically, for the purpose of determining the "term" of a contract, two or more contracts, including contractual options, are treated as one ("linked"), where:

A. They specify the same resource as the primary delivery source or, (2) for an unspecified source, they are with the same counter-party; ***and***

B. They are negotiated or executed within any three consecutive month period, except if entered into as a result of separate RFOs and the contract from the earlier RFO is executed before the later RFO has received any bids (either indicative or final).

(D.07-01-039 at 181 and OP 10.)

G.1 (b) Contract Preapproval Requirements

Long-term contracts (i.e., contracts with durations of five years or longer) must be submitted with an application to the Commission for preapproval. (D.04-12-048, at OP 14.)

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[4] All references to contracts in this discussion include any extension options provided for in the contract.

[5] For purposes of this definition, it is acceptable that a three month contract may not start on the first day of a month. For example, a contract from January 10th to April 9th is less than three consecutive calendar months and is considered a short-term contract.

Short- and medium-term contracts (i.e., contracts with durations of less than five years) do not require Commission preapproval, though IOUs must adhere to all relevant procurement requirements (the "upfront and achievable standards"). Limitations on the contract delivery dates for under five-year contracts are defined as follows:

- IOU may execute a contract of under five years without pre-approval for which deliveries end at any point within the 10-year LTPP procurement cycle, provided the procurement complies with a procurement limit methodology approved by the Commission.
- Absent a Commission-approved procurement limit methodology, an IOU may execute a contract of under five years without pre-approval provided, that the five-year duration clock begins:
    - At the time the contracted resources begin delivery if delivery begins within one year of contract execution; or
    - At the time of contract execution if delivery does not begin within one year of contract execution.
- In calculating contract duration, calendar days are used, not days of obligation, days of service under the contract, or days of need for the resource.

(D.07-12-052.)

G.1 (c) Spot Market Purchases

The IOUs are ordered to limit their exposure to the spot markets. If an IOU plans to purchase more than five percent of its monthly electricity or natural gas needs from the spot market it shall consult with the PRG and justify the purchase in its quarterly report. Similarly if an IOU purchases more than five percent of its monthly electricity or natural gas needs from the spot markets, whether planned or not, it shall report it to the PRG and justify its actions in its quarterly report to the Commission.

G.1 (d) CRR Preapproval Requirements

Monthly, seasonal, and annual CRRs do not require Commission preapproval for procurement. Absent a Commission-approved Congestion Management Plan, Long Term (LT) CRRs may be procured to replace expiring LT CRRs. If an IOU wishes to procure additional LT CRRs, it should file a Tier 3 Advice Letter seeking to add a Congestion Management Plan to its Commission-approved procurement plan or include the requested methodology in an application to update its procurement plan.

TOPIC G.2: AUTHORIZED PROCUREMENT METHODS / MARKET TESTS

G.2 (a) General Valuation Guidelines

For transactions with durations greater than or equal to three calendar months, or delivery starting more than one quarter forward, such as long-term PPAs, acquisition of generating resources or non-standard products, or other significant contracting efforts involving competitive solicitations (e.g. RFOs), the IOUs shall follow a valuation process. (D.03-12-062 at 37-38.)

The Commission encourages IOUs to use a valuation process substantially similar to the process proposed by the DRA:

(1) Define scenarios or model inputs;

(2) Weigh scenarios or model inputs;

(3) Establish other input assumptions;

(4) Establish candidate products that would be effective given particular stress scenarios and other model units;

(5) Solicit hedge products;

(6) Share bids with PRG;

(7) Evaluate candidate hedges and rank according to cost-benefit analysis;

(8) Meet with PRG and solicit comments from PRG members and attempt to reach a consensus;

(9) Tentatively select hedges;

(10) Update TeVAR to reflect the addition of the new candidate hedges; and

(11) Select hedges.

(D.03-12-062 at page 32, 37-38.)

The valuation process should be modified to match the procurement process being used and the energy products being purchased. For example, a negotiated <u>bilateral contract</u> would not fit the entire 11-step process, but that does not release the IOU from the requirement to apply a valuation process for negotiated bilateral contracting.

G.2 (b) Requests for Offers (RFOs)

Medium term contracts that are entered into as a result of an RFO process that complies with the rules are deemed reasonable and are not subject to after the fact reasonableness review.
While the Commission determines the reasonableness of long term contracts through its application process, RFOs are the preferred mechanism for determining a procurement process was reasonable. The utilities may use competitive RFOs as a market test of the validity of their procurement decisions.

RFO Development and Composition

IOU procurement plans should specify the steps of the solicitation process to be used. IOUs have the flexibility to tailor their RFOs to reflect their specific resource needs. The utility solicitations:

1) Shall specify the products to be purchased in sufficient detail for potential bidders to be able to determine if their proposed product qualifies.
2) May be all-source or may be segmented to allow similar sources to compete with each other.

    a. All-source solicitations shall be open to all resources capable of meeting the product requirements
    b. Segmented solicitations shall be limited to a specific preferred resource the IOU must procure to comply with Commission orders.

3) Should be available to the public and widely distributed.
4) Shall specify and describe the evaluation tools and methodology used to rank and select bids, such as minimum requirements for counter-party creditworthiness, minimum number of bids that must be received, and an evaluation of cost-to-risk tradeoff (consumer risk tolerance level) of the various bids.

If an IOU considers the prices bid into a particular solicitation to be overly high, it has the right to terminate the solicitation and issue a new solicitation.

RFOs must include, among other things:

(a) Description of the product(s) solicited,

(b) Terms,

(c) Minimum and maximum bid quantities,

(d) Scheduling and delivery attributes,

(e) Credit requirements, and

(f) Pricing attributes.

(D.02-10-062 at 31.)

In addition, in designing and conducting their RFOs and selecting winning bidders, the IOUs are to be mindful of the state's Energy Action Plan preferred loading order and the Commission's greenhouse gas policy enunciated in R.06-04-009. (D.06-07-029 at 3.)

IOUs shall provide all draft RFOs to its PRG and receive comment from the PRG, prior to issuance of the RFO.

The IOU shall provide a final version of the RFO to the Energy Division and obtain the Division Director's written approval prior to the issuance of the RFO.

Evaluation Criteria

All RFOs shall require sufficient bid information to determine the total cost (generation and transmission) of delivery to load. The IOUs shall consider the following in evaluating bids from an RFO:

- Least-Cost-Best-Fit,
- Viability
- debt equivalence,
- the greenhouse gas adder,
- environmental justice issues,
- brownfield sites, and
- local area reliability issues, if applicable.

Least-Cost-Best-Fit. To obtain the best and most cost effective product for their customers, the IOUs shall employ Least-Cost-Best-Fit methodology when evaluating PPAs and utility owned bids in an RFO, taking into account the qualitative and the quantitative attributes associated with each bid. Least-Cost-Best-Fit shall include evaluation of all costs and benefits to ratepayers (D.04-12-048 at FOF 86, OP 26(d).)

Viability. Each bid shall be evaluated on the ability of the bidder to provide the requested products/services in the time period requested.

Debt Equivalence. Debt equivalence is the impact on the utilities' credit quality and cost of capital of the fixed payment stream of long-term purchased power contracts. Some credit analysts treat a portion of contract payment obligations as the equivalence of debt in assessing the utilities' capital structure and debt capacity.

The IOUs shall analyze the impact of Debt Equivalence when comparing PPAs against PPAs in their bid evaluations, , utilizing a "modified S&P methodology (i.e., using a 20% Risk Factor rather than the 30% factor used by S&P). IOUs shall not use debt equivalence analysis when a utility-owned generation (UOG) project is being considered (D.04-12-048 at 144-45. and D.08-11-008 at 2).

Greenhouse Gas (GHG) Adder. For long term contracts, the IOUs shall employ a Greenhouse Gas Adder in evaluating the cost of power procured when evaluating fossil and renewable generation bids received via an all source RFO. (D.04-12-048 at 152, 154.) The Commission has adopted the E3 forecast of CO_2 values as a GHG adder to reasonably reflect the cost to California of carbon emissions. (D.05-04-024 FOF 5 and COL 7.)

The E3 forecast values are $10/ton for 2010.
(E3 Report, http://www.ethree.com/CPUC/ E3_Avoided_Costs_Final.pdf at 78-79)

Environmental Justice Issues. IOUs shall provide greater weight to selection of projects that do not result in disproportionate resource sitings in low income and minority communities. (D.07-12-052 at 157.)

Brownfield Sites. IOUs shall consider the use of brownfield sites first and take full advantage of their location before they consider building new generation on greenfield sites. Preference should be give to procurement that will encourage the retirement of aging plants, inefficient facilities with once –through cooling, by providing, at minimum, qualitative preference to bids involving repowering of these resources or bids for new facilities at locations in or near the load pockets in which these resources are located. (D.07-12-052, at 2.6.) If an IOU decides not to use a brownfield site, it must justify its decision: 1) for a long term contract, in the application or advice letter seeking contract approval, or 2) for an intermediate term contract in the quarterly report.
(D.04-12-048 at 155.)

Local Reliability Issues. As part of its least-cost/best fit analysis, IOUs shall consider local reliability needs. The mix of resources contracted for should provide for the reliable operation of the grid. In selecting new generation, IOUs shall consider local area reliability concerns including deficient areas, and pending retirements in local areas.

IOUs are to be flexible with online dates so that potential viable resources, especially repowered sites, are not excluded if there is a short gap in which an existing power plant continues to produce power, before the new plant gets built and comes on-line. (D.06-07-029 at 28.)

If a bidder into a new generation RFO proposes to retire an existing generation resource(s) that is operating beyond its design life and replace it with a new resource(s) or repower an existing resource(s) so that the repowered resources operate at efficiencies comparable to new resources, the bid evaluation shall consider the new or repowered resources as independent from the proposed retirement. No such bid should be excluded from the solicitation because the bid will not result in a net increase in system generation capacity.

G.2 (c) Bilateral Contracting for Short-Term Transactions (up to three calendar months in duration)

For short-term transactions,[6] IOUs are authorized to use direct bilaterals (D.03-12-062 at 39, as clarified by D.04-12-048 FOF 73, OP 15.) subject to a strong showing (D.03-12-062 at 39.) that these transactions represent a reasonable approximation of what a transparent competitive market would produce. (D.02-10-062 at 34.)

The strong showing requirement can be met by a comparison to RFOs completed within one month of the transaction. (D.02-12-074 at 7.)

G.2 (d) Non-Standard Products

IOUs may engage in direct bilateral contracting for non-standard products procured 31 days or less in advance of start of delivery and with terms of one calendar month or less. There is no strong showing requirement for these transactions, but the utility should demonstrate that such transactions are reasonable based on available and relevant market data supporting the transaction. This may include showing competing price offers,

[6] Note that the Commission definition of “short-term transactions” differs from some IOUs’ definition.

results of market surveys, broker and online quotes, and/or other sources of price information such as published indices, historical price information for similar time blocks, and comparison to RFOs completed within one month of the transaction. (D.03-06-067 at 20, OP 3.d.)

An IOU may use negotiated bilateral contracts to purchase longer term non-standard products provided it justifies why a standard product that could have been purchased through a more open and transparent process was not in the best interest of ratepayers. (D.03-12-062 at 39-40.) When a utility knows that it will need non-standard products on a forward and recurring basis, the CPUC strongly encourages the utility to transact for such products using an RFO process. (D.03-06-067 at 20.)

G.2 (e) Natural Gas Storage and Pipeline Capacity

The use of negotiated bilateral contracting is authorized for natural gas storage and pipeline capacity products where there are five or fewer counterparties who can supply the product. (D.03-12-062 at 40.)

G.2 (f) Bilateral Contracting for Local Area Reliability

The IOUs are authorized to enter into bilateral contracts for capacity and energy from generators where the purpose is to enhance Local Area Reliability. (D.04-07-028 at 17-18.)

G.2 (g) Exchanges

For short-term transactions the utilities are authorized to use electronic trading exchanges[7] approved under their procurement plans. The procurement plans shall demonstrate that the exchanges the utility proposes to use provide transparent prices. (D.02-10-062 at 32.)

[7] Exchanges provide a forum in which both purchases and sellers can reach on agreement on price for a given product. Unlike brokerage services, which are discussed in the next Rule, exchanges take title to the products transacted. Therefore, the counterparty to an exchange transaction is the exchange itself, and a purchaser will not know the identity of the seller at any time during the transaction process.

G.2 (h) Over-the-Counter Brokers

The IOUs are authorized to use reputable Over-the-Counter ("OTC") brokers[8] provided that they demonstrate that the identified OTC brokers provide prices that are equivalent to those of exchanges. (D.03-12-062 at 27.) The IOUs are to consult with their PRGs regarding specific implementation options that are available. (D.04-12-048 at 119, COL 41.)

Prices equivalent to exchanges at a minimum require that the price is knowable and available to any interested market participant and representative (i.e. posted price and quantity are determinative of the final transaction cost).

G.2 (i) ISO Market Transactions

ISO-Market transactions in the Day-Ahead, Hour-Ahead and Real-Time Market are authorized to balance the system and meet short-term needs. (D.02-10-062 at 30, 32.)

G.2 (j) Electronic Auctions

The IOUs are authorized to conduct procurement using an electronic auction format for execution of competitive solicitations for short-, medium-, and long-term procurement. (D.04-12-048 at 215.)

G.2 (k) OASIS Transactions

The IOUs are authorized to procure electric transmission products via the various OASIS sites administered by transmission providers throughout the Western Electricity Coordinating Council (WECC) provided they post offers for standard electric transmission products at FERC tariff rates. (SCE 2004 STPP at 129 (approved by D.03-12-062).)

G.2 (l) Inter-Utility Exchanges

An IOU may engage in inter-utility energy exchanges provided they are (1) cost-effective reductions to seasonal or specific RNS positions, or (2) cost-effective reductions to

[8] Brokerages provide a forum in which both purchases and sellers can reach on agreement on price for a given product. Unlike exchanges, which are discussed in the previous Rule, brokerages do not take title to the products transacted. The brokerage acts as a "middle-man" between the purchaser and seller such that they both can remain anonymous until after a final agreement on price has been reached. Brokerages charge a commission fee for services rendered.

seasonal or specific RNL positions. Inter-utility energy exchange transactions are not subject to the strong showing requirement applicable to bilateral contracting. (D.02-12-074 at 7.)

G.2 (m) Third Party Auctions

The utilities are permitted to participate as a buyer in RFPs and/or open seasons conducted by generators offering Capacity and/or Energy. While the specific terms of the contracts being offered in the generator RFPs need not precisely match the utility's authority to conduct its own RFP, the terms should be reasonably similar. (D.04-01-050 at 64-65.)

The utilities are permitted to participate as a seller in RFPs and/or open seasons conducted by other Load Serving Entities and/or balancing authorities offering Capacity and/or Energy. While the specific terms of the contracts being offered in the RFPs need not precisely match the utility's authority to conduct its own RFP, the terms should be reasonably similar.

G.2 (n) UOG Selected Outside of a Solicitation

The Commission has identified a preference for independently owned fossil fueled generation, but has identified the following five unique circumstances that may warrant some form of utility ownership. The Commission has a strong preference for competitive solicitations, so in all cases, if an IOU proposes a UOG outside of a competitive RFO, the IOU must make a showing that holding a competitive RFO is infeasible.

- Market Power Mitigation – the IOU must make a strong showing that as a result of some attribute of the desired resource, a private owner would have the ability to exert significant influence over the price of its development or of the price and quantity of its output (energy, capacity, or ancillary services);

- Preferred Resources[9] – while the Commission relies on markets to deliver efficiently priced products for ratepayers, it will not limit its options and intends to continue to deploy all resources available, including utility development and ownership, to meet California's vital environmental policy objectives;

[9] Preferred resources in order of preference are energy efficiency, demand response, renewables, distributed generation and clean fossil-fuel. However, a utility may only develop a clean fossil-fuel UOG outside of the RFO process if it utilizes an advanced or emerging technology that the market is unlikely to develop.

- Expansion of Existing Facilities – IOUs need to make a strong showing that development is clearly preferable to a resource that could be obtained via a competitive solicitation that would not necessarily result in utility ownership;

- Unique Opportunity – an attractively priced resource resulting from a settlement or bankruptcy proceeding;[10] and

- Reliability - resources needed to meet specific, unique reliability issues (particularly under circumstances in which it becomes evident that reliability may be compromised if new resources are not developed, and the only means of developing new resources in sufficient time is via UOG.

The Commission will consider these unique circumstances for UOG approval outside of a competitive solicitation on a case-by-case basis via an IOU application. In instances in which an IOU submits an application for UOG that falls into one of the above categories, the IOU should request in its application to hold a competitive RFO for PSA (or turnkey) project development of the resource. If a competitive solicitation for a PSA contract to build the UOF is not appropriate, in its application the IOU should explain why this is the case and propose either an EPC or straight utility build project approach, depending on the circumstances.

Finally, several RFOs have required or provided as an option the transfer of the fully depreciated resource underlying a PPA to the IOU. We believe that this practice distorts the market, and we prohibit IOUs from including this approach as an option in their competitive RFOs.

IOUs are not permitted to recoup from ratepayers any bid development costs associated with losing PSA or EPC bids, in the event that any such costs are incurred.

The Commission will consider cost-and savings-sharing ratemaking mechanisms for UOG on a case-by-case basis, based on the unique circumstances associated with the procurement, and proposals for the requested treatment must be justified by these unique circumstances.

G.2 (o) Congestion Revenue Rights

CRRs are a hedge against congestion risk. The IOUs shall use CRRs to hedge the costs of transmitting power and not as a means of financial speculation. (Res E-4134, OP 3;

[10] One method in which the IOU could demonstrate that the resource is favorably priced is by subjecting the resource to a "market test" by conducting a competitive solicitation.

Res E-4135, OP 3; Res E-4136, OP 3). For CRR procurement, the Commission encourages each IOU to use a process for CRR valuation substantially similar to the description provided above in Section G.2(a). However, since CRRs are primarily a hedging product, they may be valued with two distinct objectives: 1) increase in overall portfolio expected value to the ratepayers, and 2) reduction in TeVAR.

CRRs may be procured via any or all of the ISO CRR processes, including the Tier I-III allocation processes, Tier LT allocation process, and auctions. Further, the IOUs are also authorized to procure CRRs using exchanges and reputable OTC brokers. The IOUs may also procure short term (less than three calendar months) CRR products using bilateral contracting, subject to the restrictions described above in Section G.2(c).

TOPIC G.3: NEW SYSTEM GENERATION, THE COST ALLOCATION MECHANISM, AND THE ENERGY AUCTION

G.3 (a) System Need Determination

The Commission may designate an IOU to procure new system generation within its distribution service territory, based on a Commission approved need determination. The need determination shall be based on the CEC's IEPR load forecast and a PRM (the current PRM is 15-17%) using the CEC's base forecast under baseline (1-in-2) temperature conditions (pursuant to D.04-12-048 and D.07-12-052 at 20.)

No IOU is to initiate an RFO for new fossil resources that have not been formally authorized in a Commission decision unless the IOU makes a strong showing in advance, by an approved Advice Letter, that unusual or extreme circumstances warrant such an action. (D.07-12-052 at 211.)

G.3 (b) Cost Allocation Mechanism

1. The Cost Allocation Mechanism (CAM) requires an IOU to allocate the costs and benefits associated with development of new system resources to all benefiting customers. The LSEs with load in the IOU's service territory are allocated rights to the capacity that can be applied toward each LSE's RAR requirements. The LSEs' pay the net cost of the capacity:

    i. [Net Capacity Cost] = [Total costs paid by the IOU pursuant to a contract with a third party] – [Energy and ancillary services value of the resource].

    Or,

    ii. [Net Capacity Cost] = [The annual revenue requirement for the resource if the IOU directly owns the resource] - [Energy and ancillary services value of the resource]

    If a new unit subject to the cost allocation mechanism falls within a local area, the Local RA counting benefit will also go to all LSEs that are paying for the resource.

2. The CAM is limited to the term of the contract or 10 years, whichever is less, from the time that the new unit comes online (the mechanics of this CAM may change depending on any future market-based system the Commission adopts).

3. The administrative cost of selecting the contract (i.e., the procurement administrative costs for contract negotiation and selection) will be born by only the bundled customers.

4. Only contracts for new or repowered resources selected through a competitive solicitation open to any fuel type or technology can be considered for the cost-allocation mechanism. All LSEs are encouraged to give strong consideration, if not outright preference, to resources that reduce the Local RAR for all LSEs. The IOU should justify why any new contract procured on behalf of the entire system does not address local RAR.

5. The contracts must be approved by the Commission via an application.

6. Only new or repowered facilities of any resource type are eligible for the cost-allocation mechanism. If the commission determines generation resources are needed to meet system or local area reliability needs for the benefit of all customers in the IOU's distribution service territory, the CAM will be required. If the Commission determines the generation resources are needed for bundled customers only, then CAM does not apply.

7. If the utility signs a contract which includes some years of service from an existing unit, and some years of service for a new unit on the same or on a near site—the cost-allocation method only applies to the part of the contract with the new facility. Any part of the contract that uses the existing facility must be paid fully by bundled ratepayers.

8. Utility Owned Generation (UOG) resources are required to allocate the costs and benefits associated with development of new system resources to all benefiting customers using CAM.

9. Energy and capacity from any new resources should be unbundled, with the costs and benefits of the RA capacity component socialized to all customers connected to the utility's distribution system, and the costs and benefits of the energy component assigned to those that value the energy the most, as demonstrated through an auction or similar mechanism.

10. The IOU should charge the benefiting customers the net cost of capacity, determined as a net of the total cost of the contract minus the energy revenues associated with dispatch of the total contract. All RA counting benefits and net costs are spread to the LSEs whose customers are allocated costs based on share of 12-month coincident peak, adjusted on a monthly basis to facilitate load migration. The contract costs paid and RA benefits received by DA (or CCA and muni load)

and bundled customers should be based on a share basis equal to the credit share received.

11. The energy component of the contracts for new resources will be separated so the risks can be assumed by individual market participants. These auctions will provide the right for another entity to manage the energy component of the contracts. Essentially the IOU will sell the tolling right, and retain the RA benefit which it will share with all customers paying for the capacity.

12. The IOUs must retain an independent third party to administer the energy auction. The auction will be overseen by the IOU, the PRG and the third-party evaluator. The cost of administering the auction shall be considered part of the IOU's procurement expenses unless the IOU contracts with a third party, in which case, the cost of the auction shall be considered part of the cost of the contract.

13. The IOU's own procurement group will be allowed to bid on the auction for the energy. The purpose of the auction will be to maximize the energy value and minimize the residual cost of the RA capacity. The auctions should be periodic, so as to capture the fluctuations in the energy market. If there are no bids accepted for the tolling right to the contract, then the IOU will manage the energy dispatch i.e., it will be valued at spot market prices, until time for the next periodic auction, or one year, whichever comes first.

14. The IOU's Implementation Proposal filed with the Commission must include a proposal for how the RA credit and costs will be calculated and allocated. The IOU proposal will include how it will notify all LSEs, the Commission's ED, and the CEC of the amount of RA capacity that is expected to be available and when. As part of the normal notification of RAR, the ED and CEC could provide each LSE with a credit that it can use towards either its system RAR compliance showing, and if applicable its local RA showing. The IOU is obligated to auction the rights to the energy, unless the Commission directs otherwise.

15. If an IOU identifies and selects a new power plant project outside of a competitive solicitation, i.e., through a "unique fleeting opportunity", or renewable resources procured by the IOU to comply with the requirements of the RPS program are not eligible to be considered for this cost-allocation treatment. Such opportunities must be weighed on their merits for currently bundled customers only.

16. If the commission approves a centralized resource adequacy mechanism pursuant to subdivision (h) and (i) of Section 380, the use of CAM will be suspended. If the commission determines the net capacity costs of generation resources are required to meet urgent system or urgent local grid reliability needs, and authorizes the

resources to be procured outside of the Section 380 and 454.5 processes, CAM will be applied.

17. If the Commission orders that IOUs cease procuring capacity through a centralized resource adequacy mechanism, CAM will be activated.

G.3 (c) Energy Auction

Each IOU is to conduct periodic auctions for the energy rights to all resources acquired pursuant to D.06-07-029, consistent with the processes identified in the Joint Settlement Agreement on Principles for the Energy Auction and Products that was adopted with modifications in D.07-09-044 (provided in Appendix B).

The auctions provide the right to the winning entity to manage the energy component of the tolling contracts for that entity's own use. The CPUC allocates the RA benefit among all the LSEs in the IOU's service territory according to the LSE's share of the 12-month service area coincident peak.

The IOU's own procurement group is permitted to bid on the auction for the energy. If there are no bids accepted for the tolling right to the contract, then the IOU manages the energy dispatch in accordance with the original terms of the Joint Parties proposal: it is valued at spot market prices, until time for the next periodic auction, or one year, whichever comes first.

The IOU shall contract with a third party to administer the auction and the cost of administering the auction shall be considered part of the cost of the contract for generation. The auction is to be overseen by the IOU, the PRG and an independent evaluator.

(D.06-07-029 at 31-32 and OP 2.)

TOPIC G.4: UOG/IPP HEAD-TO-HEAD COMPETITION

G.4 (a) UOG/IPP Bid Comparisons

IOU RFOs may include PSA bids and, under extraordinary circumstances, EPC bids[11]. Head-to-head comparison of bids with these different ownership structures are to include the differing impacts of performance risk, credit risk, 10-year versus life-of-asset price terms and operational flexibility evaluations, etc. (D.04-12-048 and D.07-12-052 at 201.)

G.4 (b) Direct Utility Build Bids

Direct utility build bids are not permitted in IOU competitive RFOs. (D.07-12-052 at OP 30.)

[11] D.08-11-008 states that "(w)hile extraordinary circumstances are by definition difficult to identify a priori, our intention is to set a high bar for an 'appropriate circumstance' for an IOU to circumvent the potential for private ownership by soliciting EPC bids. Simply owning land on which generation could be built does not meet this test. Requesting EPC bids in general in an RFO as an alternative to PSAs and PPAs certainly does not satisfy this requirement either."

TOPIC G.5: NONBYPASSABLE CHARGES

G.5 (a) Applicable Entities

Load that migrates from IOU service to the following entities are responsible for paying their share of any resulting stranded costs:

- DA (including bundled service customers who are eligible to return to direct access),
- CCA,
- New WAPA departing load (see PG&E Electric Schedule E-NWDL),
- Split wheeling departing load customers (see PG&E Electric Schedule E-SDL), and
- Large new municipalizations (via an IOU-filed application).

G.5 (b) Calculation of the D.04-12-048 Nonbypassable Change (NBC)

The above-market costs of new generation resources, including qualifying facilities standard offer contracts and RPS assets, are subject to the D.04-12-048 NBC. Nonrenewable resources are subject to the charge for up to ten years (beginning when electricity delivery commences), and RPS assets are subject to the charge through the life of the asset. (D.08-09-012, OP. 5, 12.)

The D.04-12-048 NBC shall be implemented as a component of the cost responsibility surcharge (CRS), calculated on a total portfolio basis with the netting of individually calculated annual charges and the carrying over of negative total charges for use in offsetting positive charges in subsequent years. Pre-restructuring resources shall continue to be included in the portfolio of resources used in determining D.04-12-048 charges, once recovery of DWR power costs ends. (D.08-09-012, OP 6-7.)

Customers who depart in the first half of any particular year are responsible for stranded costs associated with new generation resource commitments made through the end of the previous year, and customer who depart in the second half of any particular year are responsible for stranded costs associated with new generation resource commitments made through the end of that particular year. (D.08-09-012, OP 10.)

G.5 (c) Calculation of the D.06-07-029 NBC

The methodologies for calculating the costs and benefits associated with D.06-07-029 (CAM) resources are developed in the CAM and energy auction decisions (D.06-07-029 and D.07-09-044.), so these resources should not be included in the calculation of D.04-12-048 NBCs for DA and CCA departing load.

The CRS and the D.06-07-029 NBC are to be calculated and billed as separate items, and the D.06-07-029 NBC shall not be included under a 2.7 cent per kilowatt hour DA CRS cap. (D.08-09-012, OP 14-15.)

To the extent that large municipalization, new WAPA departing load or split wheeling departing load customers are subject to the cost allocation mechanism (CAM), the departing customers should be responsible for any uneconomic PPA costs which are represented by the total annual PPA cost, less energy auction revenues, less the value of the resource adequacy (RA) credit, with the IOU retaining the RA credit for its own use. (D.08-09-012, OP 13.)

TOPIC G.6: AFFILIATE TRANSACTIONS

G.6 (a) Long-Term and Medium-Term Transactions

IOUs are permitted to enter into long- and medium-term transactions with affiliates, so long as such transactions take place through an open and transparent solicitation process. (D.04-12-048 at 128-29.)

G.6 (b) Short-Term Transactions

Anonymous transactions with affiliates are permissible if conducted through the ISO, brokers or exchanges. (D.03-06-076 at 12.) Otherwise, no short-term[12] transactions may be consummated with an IOU affiliate. When the Commission instituted the ban on affiliate transactions in D.02-10-062, it specifically carved out an exception to the ban for anonymous transactions conducted through the ISO. In D.03-06-076 at 12, the Commission expanded the scope of that exception to include anonymous transactions conducted through brokers or exchanges:

> The moratorium [on affiliate transactions] does not preclude "transactions through the ISO ... that can be demonstrated to include multiple and anonymous bidders." (FOF 21 [of D.02-10-062].) In today's order, we expand that exception to include anonymous transactions (where the buyer does not know who the seller is and vice-versa until after agreement has been reached) conducted through brokers and exchanges. Today's order also clarifies that Standard of Conduct 1, regarding affiliate transactions, is not intended to preclude such blind transactions.

(D.04-12-048 at 128-29; OP 27.)

In D.04-12-048, the Commission declined to lift the ban on short-term transactions, finding that:

> the short-term market moves too fast and there is too great of a potential for abusive self-dealing, with little or no possibility for Commission oversight of these types of transactions. (D.04-12-048 at 129.)

[12] The Commission did not define "short-term" in the context of this rule. SCE construes "short-term" in this context to refer to transactions of up to three calendar months or one quarter in duration with delivery start dates up to one quarter forward, which is the definition provided by the Commission in the context of bilateral transactions. (*See* D.04-12-048 OP 15.)

However, short-term transactions that take place through an anonymous process are permitted.

G.6 (c) Transactions for Natural Gas Services

Transactions for natural gas services between SDG&E and SoCalGas and between PG&E and affiliates and operating divisions that are found necessary and beneficial for ratepayer interests are permitted. These transactions should be subject to the rules adopted in Res. E-3838 and E-3825. (D.04-01-050 at 196.)

G.6 (d) Grandfathering

Existing contractual relationships with affiliates (e.g., QF contracts) are permitted for the life of the plant. (D.04-01-050 at 196.)

TOPIC G.7: RISK MANAGEMENT, CREDIT, AND COLLATERAL

G.7 (a) TeVAR

Each IOU should analyze portfolio risk based on a probability distribution of risk factors and should report portfolio risk using TeVAR measurement at the 95th percentile. (D.03-12-062 COL 5 and D.07-12-052 at OP 21.) Congestion risk and the reduction (or increase) in congestion risk achieved by each IOU's CRR portfolio shall be included in TeVAR.

G.7 (b) Risk Exposure Diversification

Each IOU shall seek to secure diversity in counterparty representation within its contract portfolio; not all contracts should be with one supplier or with a limited set of suppliers, nor should any IOU rely on generation based on only one fuel source. (D.02-10-062 at 43.)

Procurement plans must discuss how the IOU will ensure that it contracts with a variety of counterparties. (D.02-10-062 at 43.)

G.7 (c) Credit and Collateral

Each IOU's approved procurement plan includes specific credit and collateral requirements. Each IOU shall balance the risk of counterparty default and the ability to post collateral, and each IOU is authorized to commit up to its Commission approved Collateral Limit for all energy procurement. (D.04-01-050 at 86; D.03-12-062 at 42; D.07-12-052 at 159-161.)

Each IOU is also authorized to file an update to its procurement plan if an increase in collateral is required to carry out its procurement and to recover the costs of all collateral requirements in its ERRA proceedings. (D.04-12-048 at 171-72.)

TOPIC G.8: AB 1576 REPOWERING

G.8 (a) AB 1576 Project Requirements

P.U. Code Section 454.6(b) codifies the criteria provided in AB 1576, under which the Commission would approve a cost-of-service contract that supports the repowering of an existing generation facility:

1. The project is a replacement or repowering of an existing generation resource of a thermal power plant.
2. The project complies with all applicable requirements of federal, state, and local laws.
3. The project will not require significant additional rights-of-way for electrical or fuel-related transmission facilities.
4. The project will result in significant and substantial increases in the efficiency of the production of electricity.
5. The Independent System Operator or local system operator certifies that the project is needed for local area reliability.
6. The project provides electricity to consumers of this state at the cost of generating that electricity, including a reasonable return on the investment and the costs of financing the project.

Projects that meet these seven criteria are eligible for cost-of-service contracts with IOUs.

TOPIC G.9: EMISSIONS PERFORMANCE STANDARD

G.9 (a.) General EPS Requirements

The EPS applies to baseload generation facilities, which are defined as power plants designed and intended to provide electricity at an annualized plant capacity factor of at least 60 percent. CCGTs that were in operation as of January 25, 2007, or received a CEC final permit decision to operate as of June 30, 2007 are "deemed compliant" with the EPS. The requirement to comply with the EPS is triggered only if there is a "covered procurement," which requires a long-term financial commitment by an LSE. For LSE-owned power plants, a long-term financial commitment occurs when there is a new ownership investment. For baseload generation procured under contract, there is a long-term financial commitment when the LSE enters into a new or renewed contract with a term of five or more years.

Specifically, long-term financial commitments that represent "covered procurement" subject to the EPS include:

1. New ownership investments in baseload generation made by an LSE, defined as:
   a) Investment in a new baseload power plant (new construction);
   b) Acquisition of new or additional ownership interest in an existing baseload power plant previously owned by others;
   c) New investments in the LSE's own existing, non-CCGT baseload power plant that:
      i) are designed to extend the life of one or more units by five years or more,
      ii) result in a net increase in the rated capacity of the power plant, or
      iii) are designed and intended to convert a non-baseload power plant to a baseload power plant; or
   d) Units added to a deemed-compliant CCGT power plant that result in an increase of 50 megawatts (MW) or more to the power plant's rated capacity. (D.07-01-039 at 265.);

or

2. New contract commitments with a term of five years or greater by an LSE with:
   a) Base load generation facilities, unless those facilities represent deemed-compliant CCGT power plants; or

b) Any deemed compliant CCGT power plant that added units resulting in an increase of 50 MW or more to the power plant's rated capacity. (D.07-01-039 at 266.)

LSE's must demonstrate that the net emissions rate of each baseload facility underlying a covered procurement is no higher than 1,100 lbs of carbon dioxide (CO2) per megawatt hour (MWh). (D.07-01-039 at 267.)

G.9 (b) Pre-approved Renewable Resources and Technologies

Baseload power plants generating electricity using the following renewable resources and technologies are pre-approved as EPS compliant, and therefore the LSE does not need to calculate the net emission from power plants utilizing these generation sources to demonstrate compliance with EPS:

- Solar Thermal Electric (with up to 25% gas heat input)
- Wind
- Geothermal, with or without Reinjection
- Generation facilities (e.g., agriculture and wood waste, landfill gas) using biomass that would otherwise be disposed of utilizing open burning, forest accumulation, landfill (uncontrolled, gas collection with flare, gas collection with engine), spreading or composting. (D.07-01-039 at 269.)

G.9 (c) Contract Stringing

For the purpose of determining the "term" of a contract under section 2) above, two or more contracts, including options, including contractual options, should be treated as one where:

1. They specify the same power plant as the primary delivery source, or for an unspecified source, they are with the same counter-party; and
2. They are negotiated or executed within any 3 consecutive-month period, except if entered into as a result of separate Requests for Offers (RFO) and the contract from the earlier RFO is executed before the later RFO has received any bids (either indicative or final). (D.07-01-039 at 266.)

G.9 (d) Exemptions from the Interim EPS Rules

Reliability exemptions from the EPS may be authorized on a case-by-case basis if the LSE can demonstrate that a long-term commitment to unspecified power or a non-compliant specified power plant is necessary to address system reliability concerns. Any requests for a reliability exemption or to be excused from the requirements of the rules, for such "extraordinary circumstances, catastrophic events or threat of significant financial harm", comes with a heavy burden of proof on the LSE and must be pre-approved by the Commission. (D.07-01-039 at 268.)

TOPIC G.10: QUALIFYING FACILITIES

G.10 (a) QF Requirements

A QF is a facility that qualifies for specified treatment under the Public Utility Regulatory Policies Act of 1978 (PURPA), Pub.L. No. 95-617 (Nov. 9, 1978), codified in part at, 16 U.S.C. § 824a-3, et seq. PURPA requires that QFs be compensated for power deliveries at a level equal to, but not higher than, "the incremental costs to an electric utility of electric energy or capacity or both, which, but for the purchase from the qualifying facility or qualifying facilities, such utility would generate itself or purchase from another source."[13] PURPA also requires IOUs to interconnect with and purchase power from QFs at rates that do not exceed the IOU's avoided cost, as defined above. The avoided cost is set and updated from time to time by the Commission. Current QF pricing is set according to D.07-09-040.

G.10 (b) Avoided Cost Pricing

IOU's must compensate the QF at the Commission determined avoided cost consisting of an energy and capacity payment. The Short Run Avoided Cost (SRAC) energy payment is determined by applying the Market Index Formula according to D.07-09-040. Capacity payments were set in D.07-09-040.

G.10 (c) QF Contracting

D.07-09-040 adopts flexible market-based contract options in addition to the competitive solicitation and bilateral contracting options already available to QFs. QFs who choose only to provide non-firm, as-available power will have access to a one- to five-year as-available contract with energy prices based on the MIF formula and posted as-available capacity payments based on the cost of a combustion turbine less the estimated value of Ancillary Services and the capacity value that is recovered in market energy prices.

Firm power producers may elect a one-to-ten-year contract for firm unit-contingent power, with energy prices based on the MIF and capacity payments based on the MPR capacity cost established by the Commission, less the value of energy-related capital costs.

[13] 18 CFR § 292.101(b)(6).

G.10 (d) Additional QF Requirements

IOUs shall follow all other stipulations for contracting with QFs as set by D.07-09-040 and any subsequent decisions addressing petitions for modification or requests for rehearing.

5. CATEGORY O: OVERSIGHT / ADVISORY REQUIREMENTS

The Oversight /Advisory Requirements category provides policy directives that govern the oversight of procurement activities performed by the IOU pursuant to their Long Term Procurement Plans (LTPPs) and other approved procurement guidelines. The primary requirements are the use of an Independent Evaluator (IE), oversight of a Procurement Review Group (PRG) and Cost Allocation Mechanism (CAM) group, Energy Division oversight, and employee standards of conduct.

O.1 Independent Evaluator Oversight

(a) General IE Requirements
(b) IE Qualifications
(c) IOU Pool Development Requirements

O.2 PRG/CAM Group Oversight

(a) PRG Participants
(b) PRG Review of Overall Procurement Process
(c) PRG Meeting Protocols
(d) PRG Review of RFO Process
(e) CAM Group

O.3 Energy Division Oversight

(a) Review of RFO Material
(b) Review of IE Candidates

O.4 IOU and Employee Standards of Conduct

(a) IOU Standards of Conducts
(b) Employee Code of Conduct- General (Per SOC #2)
(c) Employee Code of Conduct- UOG/IPP Head-to-Head Competition

TOPIC O.1: INDEPENDENT EVALUATOR (IE) OVERSIGHT

O.1 (a) General IE Requirements

The role of an IE is to monitor the fair and unbiased nature of an entire solicitation process, including, but not limited to: all communications about the solicitation to market participants, the operation of the solicitation, and the selection and negotiation process. Although the IE shall be under contract to the IOU, the IE shall respond to the requests and information requests of the PRG and ED. Such communications may be directly between the ED or PRG and the IE, without any involvement or knowledge of the IOU.

An IE shall be contracted with, by the IOU, and retained for all competitive solicitations that involve affiliate transactions or utility-owned or PSA bids and for all competitive RFOs seeking products two years or greater in duration regardless of the bidders. Competitive RFOs include RFOs issued to satisfy service area need and supply side resources not including EE and DR. For solicitations of products five years or greater in length, the IE report shall be filed with Energy Division and the PRG at least 7 calendar days before any IOU application is filed with the CPUC and the IE report should also be submitted as an attachment to the application. For solicitations of products less than five years in length, the IE report shall be filed with the QCR, using the long and short versions of the IE Report Template developed by ED (See Appendix E). (D.07-12-052 at OP 9, 10, & 12.)

The use of an Independent Evaluator (IE) is also required in resource solicitations where an IOU seeks authorization to allocate new generation costs in accordance with the mechanism set forth in D.06-07-029, and the IOUs must retain an IE to administer the CAM energy auction. (D.06-07-029 at 32.)

Prior to drafting RFO bid documents, IOUs must hold a meeting with the IE, PRG, and ED to outline their plans (quantities and types of products they intend to solicit, category definitions if multiple bid categories are envisioned, any unique circumstances to be addressed in the RFO) and solicit feedback. Then, the draft RFO bid documents are to be developed under the oversight of an IE. (D.07-12-052 at OP15) However, the IEs are not permitted to make binding decisions on behalf of the IOUs. (D.04-12-048.)

O.1 (b) IE Qualifications

The Commission provided the following guidance regarding IE qualifications (D.04-12-048 at 135-37.):

- A minimum criterion for independence is that the IE has no financial interest in any of the potential bidders, including the affiliate, or in the outcome of the process.
- The IE shall be able to make a determination that the RFP process is transparent and fair and that the RFP issuer's decision is not influenced by any affiliate relationships.
- IEs shall be available to testify as an expert witness in any associated CPUC proceeding regarding upfront review of potential solicitation transactions.
- IEs shall have the following qualifications: (1) technical expertise germane to evaluating resource solicitation power products (i.e. they should not be general observers hoping to be educated on the job); (2) skilled in analyzing a range of power market derivatives (e.g. futures, contracts, options, swaps); (3) familiarity with the various standard contracts and industry practices; (4) experience analyzing the relative merits of various types of PPAs; and (5) the ability to evaluate PPAs, PSAs and IOU-built projects on a side-by-side basis.
- IEs shall make periodic presentations regarding their findings to the IOU and to the PRG.
- IEs shall comply with the appropriate Fair Political Practices Commission guidelines in order to avoid conflicts of interest.

O.1 (c) IOU IE Pool Requirements

Each IOU, in conjunction with each respective PRG, shall develop a pool of at least three, but preferably more, IEs to be used beginning January 1, 2009. Each IOU should develop and periodically add to its IE pool as follows:

1. The IOU shall develop a list of prospective IEs via industry contacts, literature searches, PRG recommendations, and similar methods, solicit information from the prospective IEs and circulate the list of candidates and their "resumes" to the PRG and ED staff for feedback.

2. The IOU should rely on the guidance regarding IE expertise and qualifications provided in D.04-12-048. However, these qualifications should represent the minimum necessary for an IE to be effective, and the IOU and the PRG should include any additional relevant information that it has gained thru its experiences implementing the IE requirements.

3. The IOU and PRG shall interview a subset of prospective candidates that the IOU, PRG, and ED staff deem most suitable for the role (IOUs should arrange for the PRG to conduct interviews with candidate IEs in isolation from the contracting IOU).

4. The PRG shall coordinate the development and submittal to the IOU its recommendations on each prospective candidate (including the general consensus and any opposition to the consensus). The IOU shall submit a written list of qualified IEs to ED to add to the contracting IOU's pool. The list must contain the recommendations of the PRG that were submitted to the IOU. ED will evaluate the proposed IE's competencies based on the guidelines in D.04-12-048 as well as evaluating the IEs independence including any conflicts of interest. ED shall give final approval for inclusion of an IE in the IE pool by letter to the submitting IOU. ED will also have the right to final approval of the use of a particular IE for each RFO.

5. Beyond the development of the initial IE pool, additional IE's may be added to the pool by following the same procedures listed above.

6. An IE may remain in the IE pool for two years, after which he/she must go through a reevaluation process based upon the inclusion criteria (see O.1 (b)) to assure continued compliance. The reevaluation process will involve additional reviews of the IE candidate by the PRG, IOU and ED staff including additional interviews, if necessary.

7. The IOU shall develop a pro forma contract to be used each time it contracts with an IE. If deviations from the pro forma contract are necessary, the modifications must be fully supported when the IOU seeks final approval of the contract. This pro forma contract shall be submitted as part of the next LTPP filing and will be subject to Commission approval.

Each IOU is to provide the name and information of the IE, the procurement solicitation(s) the IE has been used for and the amount of money involved in the procurement solicitation(s) be reported to the IOU's PRG before and after the solicitation takes place.

The IOUs, in consultation with the PRG and ED, shall develop comprehensive conflict of interest disclosure requirements for the IE. An IE may be disqualified from participating in an RFO process if there are particular egregious conflicts of interest that arise during the contract. The conflict of interest disclosure requirements shall be approved along with the standard contracts in the next LTPPs proceeding.
(D.07-12-052 at OP 10)

O.1 (d) IE Report Requirements

In some circumstances, it may be necessary for an IE to produce two versions of an IE report: one public/redacted and another that is confidential. These two versions must be identical with the exception of redacting confidential information. There shall be no differences in the conclusions or non-confidential text.

TOPIC O.2: PRG / CAM GROUP OVERSIGHT

O.2 (a) PRG Participants

The PRG is to consist of "non-market participants," who sign non-disclosure agreements, and the CPUC ED and DRA, ex officio. The CEC is also invited to participate. (D.02-08-071 at 24.) Eligible non-market participants who are members of a PRG are compensated through the intervenor compensation mechanism. (D.02-10-062 at 3-4.)

Non-market participants are to identify their proposed Reviewing Representatives to the IOU and ED's Director and provide a curriculum vitae of the candidate, including a brief description of the candidate's professional experience and past and present professional affiliations for the last 10 years. The IOU and ED's Director shall advise the proposing party in writing within three (3) business days from receipt of the notice if either or both of them object to the proposed Reviewing Representative, setting forth in detail the reasons there for.

In the event of such objection, the proposing party, the IOU, and ED's Director shall promptly meet and confer to try to resolve the issue, and if necessary seek a ruling from either the assigned ALJ or the Law and Motion ALJ. In addition to determining whether the proposed Reviewing Representative has a need to know, the ALJ in ruling on the issue will evaluate whether the candidate is engaged in the purchase, sale or marketing of energy or capacity (or the direct supervision of any employee(s) whose duties include such activities), or the bidding on or purchasing of power plants or consulting on such matters (or the direct supervision of any employee(s) whose duties include such bidding, purchasing or consulting). Absent unusual circumstances as determined by the ALJ, a candidate who falls within the above criteria will ordinarily be deemed ineligible to serve as a Reviewing Representative. (Excerpted from the "Protective Order Regarding Confidentiality of Power Procurement Information" established in Rulemaking (R.) 01-10-024.)

O.2 (b) PRG Review of Overall Procurement Process

Each IOU is to maintain and routinely consult with a PRG. The PRG is to review and assess the details of the IOUs' overall procurement strategy and specific proposed procurement contracts and processes prior to submitting filings to the Commission (D.02-08-071 at 7), including, but not limited to:

- On a quarterly basis, review fuel forecasts, open position, changes in market conditions from the previous quarter, including natural gas and electric prices, hedging strategies going forward, and the necessity of filing a plan update (D.03-12-062 at 47.);

- All transactions with delivery periods greater than three calendar months, or one quarter (D.04-12-048 at OP 15.); and
- Instances in which its estimated portfolio risk exceeds the CRT threshold by 25%. (D.03-12-062 at 16; Res. E-3846 at 9; D.02-12-074 at Confid. Appx. B.)

Each IOU should confer with the PRG if material barriers to hedging arise. The PRG should discuss these barriers and potential actions that might be taken to eliminate them. If the IOU decides, after good faith consultation with its PRG, that hedging strategy modifications are needed, either specific to any identified material barriers or to the hedging strategy in general, the IOU must file these modifications in the form of an expedited application, within 15 days of the PRG meeting in which the recommended changes are discussed. (D.03-12-062 at 16.)

O.2. (c) PRG Meeting Protocols

- IOUs are to provide PRG members with meeting agendas and materials a minimum of 48 hours in advance of the PRG meeting, unless there are unusual, extenuating circumstances that the IOU communicates to PRG members in an email announcing a meeting or distributing meeting materials on a tighter timeframe. If an error is identified in PRG materials, a correction should be sent to the PRG members as soon as reasonably possible. PRG members may request a delay of the PRG meeting, if they believe that there is inadequate time to review the corrected materials.

- The IOUs are to provide confidential meeting summaries to PRG members that include a list of attending PRG members (including the organizations represented), a summary of topics presented and discussed, and a list of information requested or offered to be supplied after the meeting, (and identify the requesting party). This meeting summary must be emailed to the PRG within 14 calendar days of the meeting.

- The IOUs are to individually set up and maintain a web-based PRG calendar that can be accessed and updated by the IOU.

- The IOUs are to provide the following information to the public through a web-based forum: date, meeting time and duration of the meeting; the individuals participating in the meeting and organization represented by the individual; and a list of non-confidential items discussed. This information shall be maintained on the web-based forum for at least 12 calendar months following the relevant PRG meeting, except in the case of materials related to RFOs or other applications to the Commission. Materials related to applications must be maintained until all applications (including any applications for rehearing, etc) related to those materials have been disposed by the Commission. Beyond the minimum retention time described above, this information can be moved to an archive page, which should still be publically accessible.

- When procuring or potentially procuring CAM resources, the IOUs are to utilize an advisory CAM Group consistent with the proposal as presented in Subsection O.2(e).

O.2 (d) PRG Review of RFO Process

Prior to drafting RFO bid documents, IOUs must hold a meeting with the IE, PRG, and ED to outline their plans (quantities and types of products they intend to solicit, category definitions if multiple bid categories are envisioned, any unique circumstances to be addressed in the RFO) and solicit feedback. Then draft bid documents that include clear descriptions of the bid criteria (including the rationale for selecting and weighting the criteria) and the evaluation and selection process are to be vetted through the PRGs, and any differences are to be resolved with ED staff in advance of the public issuance of bid documents. In addition, the IOU is to provide the PRG and ED staff a decision rationale with respect to each selected and rejected bid upon completion of an RFO. (D.07-12-052 at OP 15 & 16.)

The IOU should meet with the PRG again to assess the resulting bids, the winning procurement contracts and reasonableness criteria prior to filing an application for contract approval. (D.02-10-062, Appx. C.)

O.2 (e) CAM Group

Each IOU shall develop and convene a CAM Group for procurement for which IOUs recover costs from bundled and unbundled customers using the D.06-07-029 CAM, when it becomes necessary according to the requirements of the PRG Participation Working Group proposal adopted by the Commission, as presented in Appendix D. In addition to all members of the PRG, the CAM Group shall include one or more members representing CCAs, two or more members representing ESPs, and one or more members representing other non-bundled customers. Each of these classes of non-bundled customers must be included if, and only if, they will potentially be allocated costs via the CAM. Further, if sufficient non-bundled participants to meet this requirement do not agree to participate in the CAM group, the IOU shall inform the Energy Division; if approved by the Energy Division the IOU may proceed with the CAM process with review by the PRG and an incomplete CAM group. (D.07-12-052, OP 8.)

O.2 (f) PRG Oversight of CRRs

When proposed or completed CRR procurement is reported to the PRG, the IOU shall present at least the following information:

- Basic information about each of the relevant CRRs, including: source, sink, MW quantity, term, expected value, past performance, bid price, and a description of the underlying arrangement that the CRR will hedge.
- The contribution of congestion risk to TeVAR,
- The reduction (or increase) in TeVAR due to the CRR procurement,
- The change in the overall portfolio expected value to the ratepayers due to the CRR procurement, including the CRR procurement costs, congestion costs, and expected CRR revenues/payments.

To the extent that exact calculations of these quantities are not practical, the IOU shall present a best-estimate and describe the estimation methodology.

Since the ISO allocation and auctions are the primary venue for CRR procurement, if an IOU plans to purchase CRRs via other mechanisms it shall consult with the PRG.

TOPIC O.3: ENERGY DIVISION OVERSIGHT

O.3 (a) Review of RFO Material

Prior to drafting RFO bid documents, IOUs must hold a meeting with the IE, PRG, and ED to outline their plans (quantities and types of products they intend to solicit, category definitions if multiple bid categories are envisioned, any unique circumstances to be addressed in the RFO) and solicit feedback. Then draft bid documents that include clear descriptions of the bid criteria (including the rationale for selecting and weighting the criteria) and the evaluation and selection process are to be vetted through the PRGs, and any differences are to be resolved with ED staff in advance of the public issuance of bid documents. In addition, the IOU is to provide the PRGs and ED staff a decision rationale with respect to each selected and rejected bid upon completion of an RFO. (See RFO Solicitation Contract Approval Request Template in Appendix F).

O.3 (b) Review of IE

The IOU and PRG shall interview a subset of prospective candidates that the IOU, its PRG, and ED staff deem most suitable for the role. (D.07-12-052 at 137.) These interviews may be conducted by conference call and are subject to the PRG meeting protocols described above (O.2 (c).).

TOPIC O.4: IOU AND EMPLOYEE STANDARDS OF CONDUCT

O.4 (a) IOU Standards of Conduct (SOC)

SOC #1: Arms Length Transactions and Self-Dealing. Each utility must conduct all procurement through a competitive process with only arms-length transactions. Transactions involving any self dealing to the benefit of the utility or any affiliate, directly or indirectly, including transactions involving an unaffiliated third party, are prohibited (except for circumstances explicitly exempted by Commission guidance, as described in requirement G.6). (CPUC SOC 1, as set forth in D.02-10-062 at 51, as modified by D.02-12-074 at Confid. Appx. B, D.03-06-067 at 14-16 and D.03-06-076 at 20-21.)

SOC #2: Employee Code of Conduct. Each utility must adopt, actively monitor, and enforce compliance with a comprehensive code of conduct for all employees engaged in the procurement process. The specific requirements of this code are provided in requirement O.4 (b) below.

SOC #3: Misrepresentation of Facts. In filing transactions for approval, the utilities shall make no misrepresentation or omission of material facts of which they are, or should be aware. (CPUC SOC 3, as set forth in D.02-10-062 at 52.)

SOC #4: Prudent Administration of Contracts. The utilities shall prudently administer all contracts and generation resources and dispatch the energy in a least-cost manner. The utility bears the burden of proving compliance with the standards set forth in its plan. Prudent contract administration includes administration of all contracts within the terms and conditions of those contracts, including dispatching dispatchable contracts when it is economical to do so. In administering contracts, the utilities have the responsibility to dispose of economic long power and to purchase economic short power in a manner that minimizes ratepayer costs.

Once a contract has been deemed compliant with the utilities' procurement plan, the contract is not subject to a reasonableness review. However, the administration of the contract by the utility remains subject to reasonableness review and disallowance through ERRA proceedings. (D.02-10-062 at 52, as modified by D.02-12-074, D.03-06-067 and D.03-06-076; D.05-01-054 (regarding scope of review and standard of review for contract administration in ERRA proceedings); D.02-12-074 at OP 24.b.)

SOC #5: Fraud, abuse, negligence, or gross incompetence. IOUs shall not engage in fraud, abuse, negligence, or gross incompetence in negotiating procurement transactions or administering contracts and generation. (D.02-10-062 at 52, as modified by D.02-12-074, D.03-06-067 and D.03-06-076.)

O.4 (b) Employee Code of Conduct – General (Per SOC #2)

Each utility must adopt, actively monitor, and enforce compliance with a comprehensive code of conduct for all employees engaged in the procurement process that:

(1) identifies trade secrets and other confidential information,

(2) specifies procedures for ensuring that such information retains its trade secret and/or confidential status,

(3) discusses employee actions that may inadvertently waive or jeopardize trade secrets and other privileges,

(4) discusses employee or former employee activities that may involve misappropriation of trade secrets or other confidential information, unlawful solicitation of former clients or customers of the utility, or otherwise constitute unlawful conduct, and

(5) requires or encourages negotiation of covenants not to compete to the extent such covenants are lawful under the circumstances.

All employees with knowledge of a utility's procurement strategies shall be required to sign and abide by this code of conduct.

(CPUC SOC 2 in D.02-10-062 at 51, as modified by D.02-12-074 at OP 24.b).)

O.4 (c) Employee Code of Conduct – UOG/IPP Head-to-Head Competition

As a precondition for conducting an RFO seeking utility ownership options, the IOU, in conjunction with its IE, PRG, and ED staff shall develop a strict code of conduct – to be signed by any and all IOU personnel involved in the RFO process – to prevent sharing of sensitive information between staff involved in developing utility bids and staff who create the bid evaluation criteria and select winning bids.[14] (D.07-12-052 at 206.)

[14] This code of conduct would be very similar to the codes of conduct and bans on preferential access to information that apply between a utility and its generation affiliates. Therefore, the internal IOU functions involved in project development and bid preparation. Thus, if a utility were soliciting PSA bids or EPC contracts as well as PPAs in a given solicitation, the individuals performing the bid evaluation would have to be functionally separated from the individuals preparing the bids (or the cost estimates) for projects that would ultimately be utility-owned (we note that some of the utilities already do this). Under this restriction, the employees developing the utility-owned project would be barred from access to any evaluation protocols, input assumptions, or bid information not made generally available to outside bidders. This approach would provide assurance that the utility could not use "inside information" to the advantage of its own project, without requiring the publication of every detail of the bid evaluation protocol.

6. CATEGORY R: REPORTING / FILING REQUIREMENTS

The Reporting /Filing Requirements category provides policy directives that govern the reporting of procurement activities performed by the IOU pursuant to their Long Term Procurement Plans (LTPPs).

R.1 Monthly Reporting

(a) Portfolio Risk Reduction Tracking Report

(b) Monthly ERRA Report

(c) Monthly ED Data Request

R.2 Quarterly Reporting

(a) Quarterly Compliance Report Contents

(b) Quarterly Compliance Report Audits

R.3 Annual and Biennial Reporting

(a) ERRA

(b) Long Term Procurement Plan

R.4 Applications/CPCNS

(a) RFO Application Template

(b) Nonconforming Transactions

R.5 EPS-Specific Reporting Requirements

(a) EPS Reporting Requirements Specific to SCE, SDG&E, and PG&E

(b) EPS Reporting Requirements Specific to All Other LSE's

(c) EPS Reporting Requirements Common to All LSE's

R.6 Confidentiality

(a) Market and Non-Market Participants and Reviewing Representatives

(b) Confidentiality Matrices

TOPIC R.1: MONTHLY REPORTING

R.1 (a) Portfolio Risk Reduction Tracking Report

Each IOU must submit a monthly Portfolio Risk Reduction Tracking Report to the Energy Division and its PRG to inform these entities of the risk exposure of its procurement portfolio on a monthly basis. The monthly report should reflect an estimate of portfolio risk for each month on a rolling twelve-month basis, on a quarterly basis for months 13-24, and on an annual basis for months 25-60. (D.03-12-062 at 16, OP 2, 4; D.04-12-048 at 168, 170, OP 25; D.02-12-074, Confid. Appx. B.)

R.1 (b) Monthly ERRA Report

In response to the Division of Water and Audit's standing 5/19/03 data request, the IOUs report their monthly ERRA costs and Residual Net Short to ED and the Division of Water and Audits on a monthly basis, and make supporting documentation available to Commission staff and interested parties upon request. (D.07-04-020.)

R.1 (c) Monthly ED Data Request

In response to ED's standing 3/13/04 data request, the IOUs report the following information to ED on a monthly basis, by the 20th day of the following month:

1. Weekly (peak and off peak) and monthly (peak and off peak) weighted average cost of electric procurement, excluding the cost of utility owned generation assets, for the previous month, including a breakdown of the cost components such as costs of day-ahead transactions, hour-ahead transactions, bilaterals, QFs, etc. and the methodology used and the cost components included in the computation.
2. Monthly energy and max capacity load forecasts for a rolling 12-month period under an economic dispatch scenario.
3. Monthly residual net short forecast for a rolling 12-month period under an economic dispatch scenario (column headings are to include: the quarter, the month, off peak/on peak, load, portfolio supply, and the RNS).
4. For the forecast RNS presented in response to Question 3, the number of hours during subperiods (super peak, off-peak, shoulder peak) that the utility is long and short and the number of MWh the utility is long and short during each subperiod in each month.

5. For the RNS forecast presented in response to Question 3, separately identified forecast monthly long positions by category, (i.e., physically long or economically long).
6. Monthly electricity and gas price forecasts used to derive the RNS forecast presented in response to Question 3 (including the source for the price series and when the price forecast is updated, as well as monthly average prices for on-peak and off-peak hours).

TOPIC R.2: QUARTERLY REPORTING

R.2 (a) Quarterly Compliance Report Contents

Within thirty days of the end of each quarter, each IOU shall file a Quarterly Compliance Filing (QCR) report with the ED, via Tier 2 advice letter, of all the transactions executed within the previous quarter. Per D.07-12-052, IOUs shall follow the current QCR reporting template developed collaboratively with ED (any updates to the reporting template are effective immediately upon ED's notification to the IOUs).

In accordance with the QCR template in effect as of May 25, 2010, IOUs are to include (at a minimum) the following information (Appendix C provides a copy of the QCR template):

A) A list of all transactions executed during the quarter as detailed in Attachment A of the QCR template.

B) A list of all non-investment grade counterparties with whom the IOU contracted with during the quarter. A list of the top 10 counterparties by dollar amount of volume with whom the IOU contracted during the quarter as detailed in Attachment B of the QCR template.

C) Information on the electric transactions executed during the quarter as detailed in Attachment C of the QCR template.

D) Information on the natural gas transactions executed during the quarter as detailed in Attachment D of the QCR template.

E) Information on any other transactions executed during the quarter as detailed in Attachment E of the QCR template.

F) All key briefing packages and PRG presentations given during the quarter to be included in Attachment F of the QCR template.

G) All Independent Evaluator reports related to contracts executed during the quarter or previous quarters if the IE report was written after the previous quarterly compliance report was filed. This information is to be included in Attachment G of the QCR template.

H) Summary information of all contracts executed or amended during the quarter as detailed in Attachment H of the QCR template. Copies of contracts should also be included. A list of all contracts executed during the quarter filed via separate advice letter or application processes.

I) A summary of retained generation investments completed during the quarter and a listing of all contracts less than 5 years duration executed with the same supplier during the quarter as detailed in Attachment I of the QCR template.

J) A summary of the system load requirements or conditions underlying the need for the quarter's transactions (residual net long/short position) as detailed in Attachment J of the QCR template.

K) Information on the IOU's risk management strategy as communicated with management as detailed in Attachment K of the QCR template.

L) Information on the models used during the quarter as detailed in Attachment L of the QCR template.

M) A summary of all transactions subject to the strong showing requirement as detailed in Attachment M of the QCR template.

R.2 (b) Quarterly Compliance Report Audits

The purpose of the QCR is to demonstrate that the transactions entered into that quarter were in compliance with the IOU's Commission-approved procurement plan. CPUC Staff is to audit or arrange for an audit of each QCR within 3 months of its filing. Given the volume of transactions conducted each quarter, the Commission recognizes that sampling may be an appropriate method of evaluation. At CPUC staff discretion, a resolution for the Commission's agenda may be prepared in order to inform the Commission of errors identified in a QCR audit. An error that is either not identified in an audit or not described in a resolution is not excused.

(D.02-10-062 at 47, OP 8, D.04-12-048 at 168, 170, OP 25, D.03-12-062 at 78-79 and D.07-12-052 at 185.)

TOPIC R.3: ANNUAL AND BIENNIAL REPORTING

R.3 (a) ERRA

IOU's are to file semiannually a forecast application and an ERRA balancing account review application.

IOU's are to follow a semiannual schedule for procurement rate adjustments. Additionally ERRA is subject to a "trigger" mechanism that requires the filing of a rate change application by the utility. Utilities should file by expedited application for approval in 60 days to adjust rates under an AB 57 trigger mechanism if the ERRA balance reaches four percent in excess of prior year's annual fuel and purchased power costs, and is expected to reach five percent. The application should include (1) a projected account balance in 60 days or more from the date of filing depending on when the balance will reach AB 57's five percent threshhold and (2) propose an amortization period for the five percent of not less than 90 days. The application should also include a proposed allocation of the over collection among customers based on our adopted rate design methodology during cost of service regulation. (D.02-10-062 FOF 24 and COL 15.)

R.3 (b) Long Term Procurement Plan

Every two years, each IOU shall submit a Biennial Long-Term Procurement Plan using a common numbering system, agreed upon between the IOUs and ED. All IOU updates or modifications to the LTPPs are to include redlined pages of the existing procurement plan as well as clean replacement pages that make use of this numbering system. (D.07-12-052 at OP 25 & 26.)

Long term plans should:

- Include the IOU's preferred portfolio choice and other alternatives (and provide estimated ratepayer costs and some measure of variability of those costs for each alternative);
- Reflect the most recent fuel price forecasts (and should include fuel price variation as an element);
- Reflect fully the expected range of fuel price and purchased power costs at least up to the 95th percentile of expected distribution;
- Adopt the most current IEPR load forecast;

- Should integrate generation and transmission planning and include conceptual transmission scenarios that illustrate the impact of potential generator location;
- Include scenarios with widespread formation of consumer choice aggregation: and
- Include other scenarios as described by the current LTPP rulemaking.

(D.04-01-050 at 175 and 188-189, D.04-12-048 at 200 and 211.)

R.3 (c) LTPP Updates or Modifications

Updates or modifications to an IOU's procurement plan between biennial procurement plan filings should be filed with a Tier 3 Advice Letter. (D.04-12-048 at FOF 106.) All updates proposed between biennial procurement plan filings, filed through the advice letter process, are required to include redlined pages of the existing procurement plan as well as cleaned up replacement pages. (D.07-12-052 at 184.)

TOPIC R.4: APPLICATIONS / CPCNS

R.4 (a) RFO Application Template

Testimony supporting applications for resources selected from competitive solicitations is to be organized consistent with the RFO Report Template developed by ED. See Appendix F (D.07-12-052 at OP 18.)

R.4 (b) Nonconforming Transactions

The IOUs shall, by expedited application, report transactions that do not conform to their adopted procurement plans. (D.02-10-062 at COL 8, OP 12.)

R.4 (c) Winning Bids

An IOU shall publicly reveal the names of winning bidder(s) and other basic information about winning bids including product description, size (in MW), term, and location, after signing a contract(s) or upon filing of an application seeking approval of the winning contract(s), whichever occurs first. The contracts themselves do not need to be published.

R.4 (d) IE Reports

An IOU must submit the IE report from an RFO as an attachment to any application for a contract resulting from that RFO.

R.4 (e) Applications for Demand Response (DR) Program Funding

Any application for funding of a DR program must include documentation of the estimated Load Impact of the program. This documentation must utilize the Load Impact Protocols described in Appendix 1 to D.08-04-050.

TOPIC R.5: EPS-SPECIFIC REPORTING REQUIREMENTS

R.5 (a) EPS Reporting Requirements Specific to SCE, SDG&E, and PG&E

The EPS reporting requirements direct that PG&E, SCE and SDG&E disclose any multiple contracts of less than five years with the same supplier, resource or facility in their QCRs. (D.07-01-039 at 156.)

PG&E, SCE and SDG&E must also disclose in their QCRs their investments in retained generation, including CCGT power plants deemed to be in compliance under § 8341(d)(1), including the investment amount and the type of alteration by generation facility and unit. (D.07-01-039 at OP 12.)

For covered procurements eligible under the RPS program, PG&E, SCE and SDG&E shall request pre-approval through RPS advice letter filings. (D.07-01-039 at OP 3(a).)

For all non-RPS covered procurements, PG&E, SCE and SDG&E shall submit documentation to demonstrate compliance with the EPS through applications served on the current LTPP service list. (D.07-01-039 at OP 3(b).)

R.5 (b) EPS Reporting Requirements Specific to All Other LSEs

The EPS reporting requirements direct all LSEs other than PG&E, SCE and SDG&E to file annual Attestation Letters, due by February 15 of each year, attesting to the Commission that the financial commitments entered into during the prior calendar year are in compliance with the EPS. The Attestation Letter shall be filed as an advice letter. (D.07-01-039 at OP 4.)

The Attestation Letter shall include a certification, including the name and contract information for the LSE officer(s) certifying the following under penalty of perjury:

1. I have reviewed, or have caused to be reviewed, this compliance submittal.
2. Based on my knowledge, information, or belief, this compliance submittal does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements true.
3. Based on my knowledge, information, or belief, this compliance submittal contains all of the information required to be provided by Commission orders, rules and regulations. (D.07-01-039 at OP 4 (a-c).)

Their Attestation Letters shall also disclose their investments in retained generation, including CCGT power plants deemed to be in compliance under § 8341(d)(1). This information shall describe the investment amount and type of alteration by generation facility and unit. (D.07-01-039 at OP 12.)

R.6 (c) EPS Reporting Requirements Common to All LSEs[15]

In their compliance submittals, all LSEs should include a listing of the new long-term financial commitments of five years or longer they plan to enter into (SCE, PG&E and SDG&E) or have entered into during the prior year (electric service providers, community choice aggregators, small IOUs) with documentation to demonstrate that:

1. The commitments were not covered procurements under the interim EPS rule,
2. Covered procurements were EPS-compliant (including any contracts with a term of five years or longer that have provisions for substitute energy purchases), and/or
3. Reliability-based exemptions have been pre-approved by the Commission (including a reference to the application and Commission decision number). (D.07-01-039 at 10 (a-c).)

The determination of whether a covered procurement complies with the EPS will be based on the calculation of net emissions from each baseload power plant underlying the commitment. Detailed calculation methods are provided in CPUC D.07-01-039, Attachment 7.

For covered procurements that employ geological formation injection for CO_2 sequestration, all LSEs shall request Commission pre-approval via application. The application must include documentation demonstrating that the project has a reasonable and economically and technically feasible plan that will result in permanent sequestration of CO_2 once the injection project is operational, and that the CO_2 injection project complies with applicable laws and regulations. This showing shall include any emissions-related provisions that may be required through contract and/or permit conditions. Finally, LSEs other than PG&E, SCE and SDG&E, shall also make a showing of EPS compliance by presenting projections, and documentation of those projections, of net emissions over the life of the power plant.

[15] With the exception of Sierra Pacific and PacifiCorp, both of which have made a satisfactory showing that they meet SB 1368's alternative compliance requirements. Their annual advice letters are not required to include the information contained in this section but rather, each should attest that the utility still meets the alternative compliance requirements described herein.

(D.07-01-039 at OP 3(c) and OP 6.)

TOPIC R.6 CONFIDENTIALITY

R.6 (a) Market and Non-Market Participants and Reviewing Representatives

For purposes of access to the market sensitive procurement data discussed in this topic, "market participant" is:

1. A person or entity, or an employee of an entity, that engages in the wholesale purchase, sale or marketing of energy or capacity, or the bidding on or purchasing of power plants, or bidding on utility procurement solicitations, or consulting on such matters, subject to the limitations in 3) below.
2. A trade association or similar organization, or an employee of such organization,
    a. whose primary focus in proceedings at the Commission is to advocate for persons/entities that purchase, sell or market energy or capacity at wholesale; bid on, own, or purchase power plants; or bid on utility procurement solicitations; or
    b. a majority of whose members purchase, sell or market energy or capacity at wholesale; bid on, own, or purchase power plants; or bid on utility procurement solicitations; or
    c. formed for the purpose of obtaining market sensitive information; or
    d. controlled or primarily funded by a person or entity whose primary purpose is to purchase, sell or market energy or capacity at wholesale; bid on, own, or purchase power plants; or bid on utility procurement solicitations.
3. A person or entity that meets the criteria of (1) above is nonetheless not a market participant for purpose of access to market sensitive data unless the person/entity seeking access to market sensitive information has the potential to materially affect the price paid or received for electricity or natural gas if in possession of such information. An entity will be considered not to have such potential if:
    a. the person or entity's participation in the California electricity or natural gas market is de minimis in nature. In the resource adequacy proceeding (R.05-12-013) it was determined in D.06-06-064 § 3.3.2 that the resource adequacy requirement should be rounded to the nearest megawatt (MW), and load serving entities (LSEs) with local resource adequacy requirements less than 1 MW are not required to make a showing. Therefore, a de minimis amount of energy would

be less than 1 MW of capacity per year, and/or an equivalent of energy; and/or

b. the person or entity has no ability to dictate the price of electricity or natural gas it purchases or sells because such price is set by a process over which the person or entity has no control, i.e., where the prices for power put to the grid are completely overseen by the Commission, such as subject to a standard offer contract or tariff price. A person or entity that currently has no ability to dictate the price of electricity or natural gas it purchases or sells under this section, but that will have such ability within one year because its contract is expiring or other circumstances are changing, does not meet this exception; and/or

c. the person or entity is a cogenerator that consumes all the power it generates in its own industrial and commercial processes, if it can establish a legitimate need for market sensitive information.

Persons or entities that do not meet the definition of market participant are non-market participants, and may have access to market sensitive information. It is proper to require such non-market participants to sign a nondisclosure agreement or to be bound by a protective order prohibiting the disclosure of information to market participants. All persons or entities, except Commission staff, who receive market sensitive information, may be required to execute a non-disclosure agreement and/or be bound by a protective order against disclosure of such information.

Reviewing Representatives of market participants may have access to market sensitive data if they meet the following four criteria:

- Reviewing Representatives may not currently be engaged, directly or indirectly, in (a) the purchase, sale, or marketing of electrical energy or capacity or natural gas (or the direct supervision of any employee(s) whose duties include such activities), (b) the bidding on or purchasing of power plants (or the direct supervision of any employee(s) whose duties include such activities), or (c) consulting with or advising others in connection with any activity set forth in subdivisions (a) or (b) above (or the direct supervision of any employee(s) whose duties include such activities or consulting).
- Reviewing Representatives may not be employees of market participants.
- Reviewing Representatives shall use market sensitive data only for the purpose of participating in a formal Commission proceeding.

- Reviewing Representatives shall execute a non-disclosure agreement and be subject to a protective order which precludes the Representatives from disclosing market sensitive information to anyone who is a market participant or who is an employee or an agent of a market participant.

Attorneys or consultants that simultaneously represent market and non-market participants on procurement, resource adequacy, RPS, or the wholesale purchase, sale or marketing of energy or capacity, or the bidding on or purchasing of power plants, or bidding on utility procurement solicitations may not have access to market sensitive data.

Appendix A of Decision D.08-04-023 provides the model protective order and non-disclosure agreement that non-market participants and reviewing representatives must sign and adhere to in order to obtain the confidential LSE information discussed in this topic. This model protective order and disclosure agreement is provided in Appendix G.

R.6 (b) Confidentiality Matrices

To protect market-sensitive data of LSEs, the Commission has adopted confidentiality conclusions set forth in the IOU and ESP confidentiality matrices. See Appendix H. (D.08-04-023 Appendixes. A, B, & C.)

Where a party seeks confidentiality protection for data contained in a matrix, its burden shall be to prove that the data match the matrix category. Once it does so, it is entitled to the protection the matrix provides for that category. The submitting party must file a motion in accordance with Law and Motion Resolution ALJ-164 or any successor Rule, accompanied with any proposed designation of confidentiality, proving:

1. That the material it is submitting constitutes a particular type of data listed in the matrix,
2. Which category or categories in the matrix the data correspond to,
3. That it is complying with the limitations on confidentiality specified in the matrix for that type of data,
4. That the information is not already public, and
5. That the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.

Boilerplate assertions of a need for confidentiality are not appropriate. Rather, the producing party must cite the legal basis for confidential protection; provide facts showing the consequences of release; and show that aggregation, redaction, or other similar methods are inadequate to protect the data. No data that is already publicly available may be characterized or treated as confidential, nor may information an IOU has already furnished to an affiliated company.

For data not included in the matrix, a party seeking confidential treatment shall continue to file a motion pursuant to Law and Motion Resolution ALJ-164 or any successor Rule seeking leave from the Commission to retain such material under seal. The filing party shall bear the burden of proving that its information deserves such treatment.

If another party, or the Commission, questions the appropriateness of the confidential designation (by ruling, motion, letter, or other communication), the submitting party bears the burden of proving (1) that the material it is submitting actually constitutes a particular type of data listed in the matrix; (2) which category or categories in the matrix the data correspond to, (3) that it is complying with the limitations on confidentiality specified in the matrix for that type of data, (4) that the information is not already public, and (5) that the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.

Once the submitting party meets this burden, the party seeking disclosure of the data (or a change in how it is treated – *e.g.*, disaggregation of data submitted in aggregated form, relief from the terms of a protective order, or other change) may take several steps. It may rebut the claim that the party meets any or all of 1-5 above. It may assert that despite meeting the criteria in Items 1-5, the data should nonetheless be disclosed. The party seeking access to the data shall bear the burden of proof once the party whose data are at issue meets its burden of proving Items 1-5 above.

In all cases, the producing party shall meet its burden of proving that it cannot produce aggregated, partially redacted, summarized or other data that does not reveal the confidential material. In those instances where a producing party believes that a protective order is inadequate to protect its data, it must substantiate its claim with a particularized showing.

General Order (GO) 66-C shall continue to apply to data *not* addressed in the matrix, unless and until it is changed or repealed. To the extent the matrix contradicts GO 66-C, the matrix shall govern. Portions of GO 66-C not related to electric procurement (and similar topics) remain in place unless and until changed.

Generally, intervener groups that are non-market participants and other parties that the Commission may so designate may have access to confidential IOU and/or ESP market sensitive information provided such parties shall comply with Commission directives for protecting the confidentiality of such information.

(D.06-06-066, OP 1-4, 7, 8 10, and 11, as modified by D.07-05-032.)

7. CATEGORY RA: RESOURCE ADEQUACY OBLIGATIONS

The Resource Adequacy (RA) Obligations category provides the requirements of the RA program. Note that the guidance and requirements provided in this category apply to all LSEs (including IOUs, Energy Service Providers, and Community Choice Aggregators) under jurisdiction of the CPUC The rules that follow are restricted to rules that govern the IOU as an LSE that procures RA capacity in order to meet RA requirements.

RA.1 (a) Year-Ahead Hourly Load Forecast Submission

RA.1 (b) Month-Ahead Load Forecasts

RA.1 (c) Losses in Load Forecasts

RA.1 (d) Adjustments to Load Forecasts

RA.1 (e) Preliminary Year-Ahead Load Forecast Submission

RA.1 (f) Accuracy of Load Forecasts

RA.1 (g) Impact of Demand response 9DR), energy efficiency (EE), and Distributed Generation (DG) Programs

TOPIC RA.1: LOAD FORECASTING REQUIREMENTS

RA.1 (a) Year-Ahead Hourly Load Forecast Submission

LSEs are required to submit documented hourly load forecasts for all 12 months of the year as part of the year-ahead preliminary load forecasts they submit each spring. The LSEs shall use the methodology described in the R.04-04-003 Phase 1 Workshop Report[16], "*Workshop Report on Resource Adequacy Issues,"* Appendix B, *"Load Forecasting Strawperson,"* (June 15, 2004) to develop their forecasts. (D.05-10-042, COL 18.)

The LSEs are directed to provide their historic hourly loads for the preceding calendar year when they submit their hourly load forecasts to the CEC. (D.04-10-035 at 16; COL 16.)

RA.1 (b) Month-Ahead Load Forecasts

Sixty (60) days before the start of each compliance month, LSEs shall file an update to their year-ahead load forecast accounting for positive and negative customer load migration. These updates should not include any changes other than load migration. (D.05-10-042 at 91, COL 20.)

RA.1 (c) Losses in Load Forecasts

LSEs should include all losses in their load forecasts, including distribution losses, transmission losses, and appropriate estimates of unaccounted for energy. (D.04-10-035, COL 9.)

RA.1 (d) Adjustments to Load Forecasts

A coincidence adjustment of each LSE's load forecast should be conducted as described in the Workshop Report. The resulting LSE load at the time of monthly system peak is the basis for forward commitment obligations. (D.04-10-035, COL 5.)

The CEC should make load forecast adjustments for plausibility if the sum of the adjusted LSE load forecasts is 99% or less, or 101% or more, of the reference case forecast as described in the foregoing discussion (D.05-10-042, COL 19.)

[16] http://www.cpuc.ca.gov/NR/rdonlyres/C61CB838-E9BB-4CE2-AEB3-63DB955E2EF8/0/RAWorkshopReport2004.doc

RA.1 (e) Preliminary Year-Ahead Load Forecast Submission

In addition to the annual recorded load data for CEC use, LSEs must make preliminary load forecast filings. (D.05-10-042 at 36-39, 83-85, FOF 40, COL 18.)

RA.1 (f) Accuracy of Load Forecasts

Regardless of the assumptions or methods used, if any LSE's load forecasts consistently or systematically understate actual demand, that will be reason for investigation and possible sanction. (D.05-10-042 at 32 and COL 9.)

RA.1 (g) Impact of Demand Response (DR), Energy Efficiency (EE), and Distributed Generation (DG) Programs

The IOUs must prepare and document the hourly impacts of non dispatchable EE, DR and DG programs within their service territories and provide that information to the CEC to use in adjusting load forecasts. (D.05-10-042 at 41.)

Load forecast reduction reflecting the impacts of energy efficiency programs should be based on: (1) assurance that a program will take place either through funding authorization or a contract between parties, and (2) sufficient program detail so the impacts can be assessed. (D.04-10-035, COL 10.)

Load forecasting reductions reflecting customer-side-of-the-meter Distributed Generation impacts should reflect the output that these DG facilities are actually producing, not nameplate ratings. (D.04-10-035, COL 11.)

Non-dispatchable demand response programs such as real-time price tariffs should be treated as debits from load forecasts, while demand response programs over which the LSE has dispatch control should be counted in the same manner as other resources. (D.04-10-035, COL 12.)

TOPIC RA.2: RA FILING REQUIREMENTS

RA.2 (a) Year-Ahead System RA Filing

LSEs are required to demonstrate procurement of valid RA capacity sufficient to meet 90% of their summer (May through September) forecast peak loads (loads plus planning reserves) a year in advance. (D.04-10-050 at 30.)

RA.2 (b) Year-Ahead Local RA Filing

LSEs are required to make annual compliance filings demonstrating that they have met 100% of the applicable local procurement obligation for each month of the following calendar year (January through December) concurrently with the LSE's year-ahead compliance filing for System RA requirements. LSEs must submit a filing demonstrating procurement sufficient to meet their Local RA obligations in each service territory in which the LSE serves load. (D.06-06-064 OP 16 and at 3, 42.)

Resources that count towards meeting local RA requirements also count towards meeting system RA requirements. (D.06-06-064, COL 17.)

LSEs may sell local RA capacity as long as the sale is documented to demonstrate that the RA capacity remains available to the CAISO. (D.06-06-064 at 44, FOF 18.)

LSEs may request a waiver of local RA requirements. Such a waiver request shall include:

> "(1) a demonstration that the LSE reasonably and in good faith solicited bids for its RAR capacity needs along with accompanying information about the terms and conditions of the Request for Offer or other form of solicitation,
>
> and
>
> (2) a demonstration that despite having actively pursued all commercially reasonable efforts to acquire the resources needed to meet the LSE's local procurement obligation, it either
>
> (a) received no bids,
>
> or
>
> (b) received no bids for an unbundled RA capacity contract of under $40 per kW-year or for a bundled capacity and energy product of under $73 per kW-year,

or

(c) received bids below these thresholds but such bids included what the LSE believes are unreasonable terms and/or conditions, in which case the waiver request must demonstrate why such terms and/or conditions are unreasonable."

(D.06-06-064 at 72-73.)

RA.2 (c) Month-Ahead System RA Filing

LSEs are required to demonstrate procurement of valid RA capacity sufficient to meet 100% commitment of resource adequacy capacity (peak load plus planning reserves) one month in advance of operations. (D.04-10-035, COL 23)

RA.2 (d) Scheduled Outage Replacement Obligation

"For purposes of Resource Adequacy, a scheduled outage that affects all or part of a unit's QC is defined as one that is designated "Approved Planned" according to the CAISO's outage coordination rules and procedures. The length of the outage and magnitude of curtailment are also taken from the CAISO's outage coordination rules and procedures. (D.06-07-031 at 9.)

The applicable Scheduled Outage Counting criterion is summarized in the table below. If the CAISO changes the approved schedule for an RA resource, the LSE will not be held responsible for procuring replacement capacity. However, the CAISO's denial of an original scheduled outage request on a RA resource would not constitute a "change" in a scheduled outage, and, therefore would not warrant an exemption from replacement procurement. Replacement capacity is not required for forced outages.
(D.06-07-031 at 9-10.)

Scheduled Outages

Time Period	Description of How Resource Would Count at Time of the Showing
Summer May through September	Any month where days of scheduled outages exceed 25% of days in the month, the resource does not count for RA requirements. If scheduled outages are less than or equal to 25% the resource does count for RA requirements.
Non-Summer Months October through April	For scheduled outages less than 1 week, the resource counts for RA requirements. For scheduled outages 1 week to 2 weeks, the amount counted for RA requirements is prorated using the formula: [1 - (days of scheduled outage/days in month) - 0.25] * MW = RA capacity The formula will allow resources to count between 50% and 25%. For scheduled outages over 2 weeks, the resource does not count for RA requirements.

(D.06-07-031 at 10.)

RA.2 (e) Guides and Templates for RA Filings

Guides and templates for annual and monthly compliance filings are issued by Commission staff each year for use by LSEs. (D.06-07-031 at 37 and D.08-06-031 at 21.)

RA.2 (f) Calculation and Rounding of RA Requirements

LSE RA procurement obligations are determined by CEC-determined adjustments to LSE forecasts, subject to dispute resolution administered by the CPUC. (D.05-10-042, at 31 and COL 7.)

The Energy Division will allocate local RA obligations to LSEs under CPUC jurisdiction; aggregate local RA requirements are adopted via an annual RA proceeding. LSEs are allocated a portion of the aggregate local RA obligations based on their proportionate share of forecasted TAC area coincident peak demand. (D.06-06-064 at 33.)

Local and system RA obligations are rounded to the nearest MW after adding the PRM and adjusting for the impacts of RMR, DR, and CAM capacity allocations. In the case of local RA obligations, these impacts are broken down by service territory and local area. (D.06-06-064, at 34, D.07-06-029, at 47.)

LSEs whose local RA obligations are less than 1 MW receive a waiver of that local RA obligation. (D.06-06-064, at 34, D.07-06-029, at 47.)

RA.2 (g) Enforcement of RA Requirements

LSEs that do not meet their RA obligations are subject to penalties: penalties for failure to meet System RA obligations are different than penalties for failure to meet Local RA obligations. Penalties are based on the Commission determined cost of new capacity.

LSEs that do not acquire capacity to meet their system RA obligation are subject to a penalty equal to three times the monthly cost for new capacity. (D.05-10-042, COL 21.)

The penalty of failure to meet Local RA obligations will be equal 100% of the cost of new capacity. The Commission will also consider other factors. The LSE will remain responsible for backstop procurement costs. (D.06-06-064, COL 25 and COL 28.)

The Commission determined cost of new capacity is set at $40 per KW-year (D.06-06-064 COL 25.).

An LSE will be subject to penalties if it fails to make a required compliance filing that shows that it has met its local procurement obligation, unless a waiver has been granted. (D.06-06-064, COL 24.)

TOPIC RA.3: RA RESOURCE REQUIREMENTS

RA.3 (a) RA Suppliers inside CAISO Must be on the NQC List

LSEs fulfilling their RA requirements with RA capacity internal to CAISO must ensure that the resource is listed appropriately in the applicable published CAISO Net Qualifying Capacity (NQC) list. LSEs must verify that they list resources with the correct CAISO Scheduling Resource ID and that they have not listed an RA resource in excess of the resource's NQC either individually or in combination with other LSEs listing that same resource.

The CAISO will annually publish and post a list of NQC for RA suppliers within the CAISO and deliverable to the aggregate of CAISO load. LSEs must verify that the resources they use to meet system and local RA resources are listed on the CAISO NQC list and that they do not show any resource beyond its applicable NQC (D.06-07-031 at 33.) In addition, in order to fulfill Local RA obligations, LSEs must procure sufficient resources from this NQC list designated within the applicable Local Areas. Once established, the NQC of each resource is set for the compliance year irrespective of forced outages or resource performance during the compliance year (D.06-07-031at 29.) Although resource NQC can increase or new resources can be added, no resource will be removed or NQC reduced during the course of the compliance year (D.05-10-042 at 33 and D.06-07-031 at 8.) An RA supplier shall not be considered qualifying capacity for the purposes of the RA program unless the owner has submitted its qualified capacity value and supporting documentation to the CAISO. (D.05-10-042, COL 10; D.06-07-031, FOF 4, 6.) The CAISO has full authority to determine if resources can be substituted for each other in an RA filing. (D.06-07-031, FOF 12.)

RA.3 (b) New RA Resources

New resources that have not yet come online may count for RA provided that they reach Commercial Operation on or before the date that the LSE submits an RA filing including the resource, meaning 30 days before the start of the applicable compliance month. For listing in a Year Ahead RA filing, resources that have not reached commercial operation yet can be listed as resources under construction, and resources providing Local RA capacity to LSEs can be listed by LSEs provided that the LSE seeking to list that capacity includes other equivalent local capacity resources that will remain available to CAISO until the new resource actually becomes commercially operable. "The databases maintained by the CEC and CAISO are the appropriate foundation for determining CODs [commercial operation dates] for resources still under construction." (D.04-10-035, COL 20, D.09-06-038 at 14-15 and OP 3.)

RA.3 (c) RA Suppliers Must Comply with CAISO Tariff Provisions

RA contracts shall require generators to comply with all CAISO tariff provisions. (D.05-10-042 at 18.)

RA.3 (d) RA Suppliers must be Available for Dispatch by CAISO

RA contracts should reflect the obligation of RA resources to make themselves available to the CAISO on a real-time basis to the extent they are physically able to perform. (D.05-10-042 at 15, FOF 6.)

The obligation of suppliers to be available and perform is established indirectly through their contracts with LSEs. D.04-10-035 outlined (at p. 41) certain broad aspects of the contractual obligations to be imposed on generators. These include a sequential generator obligation to (1) be scheduled by the LSE, (2) bid into the day-ahead market if not already scheduled, or (3) be subject to the CAISO's Residual Unit Commitment (RUC) process if the bid is not accepted. (D.05-10-042 at 15.) The availability requirement extends beyond the RUC process into real-time to the extent that the resources are physically able to perform. (D.06-04-040 OP 1.d.) As a practical matter, this means that resources that are already running and that have unscheduled RA capacity shall make that unscheduled RA capacity available to the CAISO, if requested. (D.05-10-042 at 15.)

RA contracts for short-start RA resources shall reflect the obligation of short-start RA resources to self-schedule or offer into the CAISO's hour-ahead market and real time market for each hour of the operating day, subject to use limitation and contingency designations, even if not scheduled in the day-ahead market or committed by RUC. (D.05-10-042 at 15.)

RA.3 (e) Liquidated Damages Contracts

The use of liquidated contracts to satisfy RA requirements was phased out on December 31, 2008 (D.05-10-042, COL 14-15.) except for Department of Water Resources contracts (D.04-10-035 at 29.) and firm import contracts (D.05-10-042, FOF 33.).

RA.3 (f) Performance Requirements for Demand Response (DR) Programs

DR resources should be available at least 48 hours each summer season to count as qualifying capacity and operate at least two hours per day. Further, there is a 0.89% of forecast peak load cap on DR resources that are not available for more than two hours in a day. (D.04-10-035 at 26-27, COL 19.)

RA.3 (g) Minimum Run Time Requirement

RA resources must meet daily and monthly minimum run time requirements to be eligible to satisfy resources adequacy requirements. (D.04-10-035, COL 17.) A generating resource is not eligible to satisfy resource adequacy requirements unless it is able to operate for 4 hours per day for three consecutive days and the resource satisfies a minimum aggregate number of hours per month based on the number of hours that loads in the control area exceed 90% of peak demand in that month. (D.04-10-035 COL 17.) The 90% requirement only applies to the 5 summer months. (D.05-10-042 COL 16.)

RA.3 (h) Requirement that No RA Resource Shall Receive a RUC Availability Payment

LSE contracts with RA resources should reflect the Commission's determination that an RA resource is not eligible for any RUC availability payment or revenue. An RA resource must submit a zero dollar ($0) bid for RA capacity into RUC and an RA resource will not be eligible for any RUC availability payment or revenue. (D.05-10-042 at 16.)

RA.3 (i) Requirement to Assign Risk for Changes in NQC

Any multi-year RA resource contract must contain a provision assigning the risk for possible annual changes in the NQC of the contract resource. (D.06-07-031 at 8.)

APPENDICES

APPENDIX A -AUTHORIZED PROCUREMENT (copy attached)

APPENDIX B– ENERGY AUCTION JOINT SETTLEMENT AGREEMENT (copy attached)

APPENDIX C - QUARTERLY COMPLIANCE REPORT TEMPLATE (copy attached)

APPENDIX D - PRG PARTICIPATION WORKING GROUP PROPOSAL (copy attached)

APPENDIX E - INDEPENDENT EVALUATOR REPORT TEMPLATE (hyperlink only)

APPENDIX F- RFO SOLICITATION CONTRACT APPROVAL REQUEST TEMPLATE (hyperlink only)

APPENDIX G - MODEL PROTECTIVE ORDER (hyperlink only)

APPENDIX H- MATRIX OF ALLOWED CONFIDENTIALITY TREATMENT (hyperlink only)

APPENDIX A - AUTHORIZED PROCUREMENT

Authorized Procurement Products	
Transaction	**Description**
Forward Spot (Day-Ahead & Hour-ahead (purchase, sale, or exchange)	Purchase pre-scheduled energy or load reductions at fixed price
Real-time (purchase or sale)	Energy imbalance transactions or load reductions
Forward Energy (purchase or sale)	Contracts entered into in advance of delivery time, includes block/forward products (e.g., fixed amounts of energy over a specified period of time (e.g., 7x24, 6x16, super-peak, and shaped products) Could be fixed price
Forward Energy (demand side)	Baseload usage reduction through investments in permanent energy efficiency
Capacity (purchase or sale)	Right to purchase energy in exchange for capacity payment. If exercised, buyer also pays incremental energy charge at specified rate
Capacity (demand side)	Right to purchase load reductions for capacity payments
On-site energy or capacity	Energy or capacity products self-generated on the customer side of the meter
Tolling Agreement	Type of capacity product where buyer hedges fuel cost risk by providing the gas supply, transportation, and storage
Peak for off-peak exchange	Trades peak energy for off -peak energy (x peak MWh < y off-peak MWh)
Seasonal exchange	Buyer receives peak energy in Summer and returns peak energy in Winter
Physical call (or put) option	Deal to purchase energy in future at pre-set price (price may be pegged to an index). [Call is right to purchase, put is right to sell.]
Financial call (or put) option	Caps energy price without losing the benefit of lower prices. Price of energy is capped at a fixed price; at times when an agreed upon index price falls below the fixed (strike) price, the buyer pays the lower index price

Financial swap	Buyer gets or pays difference between floating price index and a fixed negotiated price
Insurance (Counterparty credit insurance, cross commodity hedges)	Buyer can insure against various adverse events (such as extreme temperature, a generating resource failure, or counterparty default, among others), to reduce price risk
Electricity Transmission Products	Arranged through CA ISO and with non-CAISO transmission owners. Also includes purchase of transmission rights or use of locational spreads.
Gas Transportation Transaction	Buyer contracts for transportation of gas to a determined delivery point, at a set price (could be fixed or variable) over a specified time-frame
Gas Storage	Buyer reserves gas storage capacity for a defined price
Gas Purchases	Purchased on a monthly, multi-month, or annual block basis
Ancillary Services	Replacement reserve, regulation up, regulation down, spinning-reserve, non-spinning reserve
Structure Transactions	Combine one or more product types, varying expiration dates, tiered prices, etc.
Emissions Credits futures or forwards	Provides right to purchase emissions credits at a fixed price
Weather triggered option	Any transaction otherwise authorized with payment/exercise rights based on weather.
Forecast Insurance	Payment to SCE occurs in case of deviations of weather from forecast
Gas Purchases	Purchased on a daily basis
Non-FTR Locational Swaps	SDG&E will have available to it certain resources located outside of the SDG&E service territory that do not have FTR protection. SDG&E may choose not to import the power into SP15 but sell it at the delivery point, purchasing replacement power in SP15 or another location with less congestion risk.

FTR Locational Swaps	SDG&E owns some FTRs from ZP26 to SP15 via the CAISO2003 FTR auction. When some or all of the FTR capacity is not being used for Sunrise energy deliveries, SDG&E will enter into locational swaps to improve on the initial value of the FTR hedge.
Counterparty Sleeves	Two-sided trades where the same product is purchased from one counterparty and sold to another simultaneously.
Contingent Forward	A contract entered into in advance of delivery time, the performance of which is contingent upon the subsequent occurrence of one or more events agreed upon by the counterparties.
Electric Product Exchange	The buyer has an obligation to receive electric products and an obligation to return electric products as part of the same transaction. The transaction may also include an exchange of payments, in fixed or variable terms. Electric products include energy, capacity, and ancillary services.
New York Mercantile Exchange ("NYMEX") Electricity Futures (purchase or sale)	Standardized forward energy contract traded on NYMEX. Futures may be physically or financially settled.
Resource Adequacy Product	A capacity product intended to meet resource adequacy obligations.
RA Import Capacity Counting Right	Transfer the right to count import energy or import RA product at an intertie toward satisfying resource adequacy requirements.
Long-Term Congestion Revenue Rights ("LT-CRRs")	Financial instruments to hedge Locational Marginal Price ("LMP") congestion in MRTU for ten years.
Congestion Revenue Rights	Financial instruments to hedge LMP congestion in MRTU, including, for example, monthly CRRs and seasonal CRRs.
Biomethane (purchase or sale)	Pipeline quality natural gas produced from renewable (non-fossil based) resources. May include renewable or environmental attributes.
Contingent Forward (purchase or sale)	A contract entered into in advance of delivery time, the performance of which is contingent upon the subsequent occurrence of one or more events agreed upon by the counterparties.

APPENDIX B– ENERGY AUCTION JOINT SETTLEMENT AGREEMENT

D.07-12-044 adopted the following settlement agreement on energy auction principles and products, with the following clarifications:

- The Commission's ED staff, instead of the CEC, has the responsibility for allocating RA capacity;
- LSEs will be noticed in July (not June) of the amount of RA capacity they will be receiving;
- Capacity will be allocated based on the net qualifying capacity (NQC) or changes in NQC to a resource;
- All RA credit allocations will be provided to LSEs by the ED consistent with current practice that ensures that the LSEs receive the allocation information in time for their compliance filing deadlines; and
- ED will perform quarterly (not monthly) reallocation of capacity subject to the CAM.

APPENDIX C- QUARTERLY COMPLIANCE REPORT TEMPLATE

[UTILITY NAME]

PROCUREMENT PLAN COMPLIANCE REPORT

FOR THE _________ QUARTER OF [Year]

[Report Date]

Instructions

This document serves as the reformatted master data request for the quarterly compliance filings (QCRs) as directed by D.07-12-052. Quarterly compliance filings were first mandated in D.02-12-062, Appendix B, and were further clarified in D.03-06-076. This reformatted QCR master data request shall be the guiding document for all information to be reported in the quarterly filings, and all future QCR filings shall be submitted according to this new format. The QCR master data request is subject to revisions and updates based upon findings of subsequent Commission decisions and/or as deemed necessary by Energy Division staff.

IOUs are required to adhere to the following filing instructions:

1) All QCR reporting and data shall be submitted via CD through the quarterly advice letter process. Paper copies of the QCRs, including workpapers and the narrative, are no longer required.
2) All data shall be submitted in active Excel spreadsheets with all formulas explicitly reported/traceable, as applicable.
3) The QCRs shall be audited on a quarterly basis to determine compliance with AB 57 procurement rules. As part of the audit process, auditors may request any additional information deemed necessary to complete the review.
4) Responses to all data requests shall be submitted to the requesting division (e.g. Division of Water and Audits or Energy Division) within 10 business days of the initial request, unless staff grants a written extension[1].
5) Energy Division shall sign-off on the QCR advice letter filings at the conclusion of the audit process. Any findings of the quarterly audits shall be handled on a case by case basis, and approval of the QCRs is contingent upon satisfactory resolution of such findings.

[1] Written communication can occur in the form of an email between ED staff and the IOU or as a formal letter.

List of Attachments

Confidential Attachment A
Quarter [Year] Transactions

Confidential Attachment B
Quarter [Year] Counterparties Information

Confidential Attachment C
Quarter [Year] Electric Transactions

Confidential Attachment D
Quarter [Year] Natural Gas Transactions

Confidential Attachment E
Quarter [Year] Other Transactions

Confidential Attachment F
Quarter [Year] Key Briefing Packages

Confidential Attachment G
________ Quarter [Year] Independent Evaluator Reports

Confidential Attachment H
________ Quarter [Year] New Contracts Executed / Contracts Amended

Confidential Attachment I
Summary of Retained Generation Investments
Completed During ________ Quarter [Year]

Confidential Attachment J
System Load Requirements/Conditions

Confidential Attachment K
Risk Management Strategy Communication and Management Disclosure

Confidential Attachment L
Reasonable Number of Analyses
Models, Description of Models, and How Models Operate

Confidential Attachment M
Transactions Subject to Strong Showing

Article I. Introduction

(The following paragraphs serve as an example of language that an IOU could use in its QCR filing. IOUs may change the language as desired; however, IOUs, at a minimum, are required to address all information points contained in the example paragraphs (both highlighted and un-highlighted), in the order presented. IOUs may provide any additional information deemed important to fully understanding the quarterly transaction process.)

As required by Ordering Paragraph 8 of Decision (D.) 02-10-062, and clarified in D.03-06-076, D.03-12-062, D.04-07-028, D.04-12-048 and D.07-12-052, ________ Company ("Name") hereby provides its report demonstrating that its procurement-related transactions during the period [Beginning Date] through [Ending Date] ("Quarter"), were in compliance with the latest CPUC-approved AB 57 Long-Term Procurement Plan ("Plan") adopted by the Commission in D. _______, and were in compliance with the most recent hedging authority as cited in D._____________.

Material deviations from the LTPP are explained herein or in a separate letter to be filed with this advice letter.

Article II. Summary

During the Quarter, ______ engaged in competitively priced transactions consistent with its Plan. All transactions were conducted using processes specified in the Plan. Any transactions executed with affiliates are disclosed in Attachment A and Advice Letter(s) (provide AL numbers). All non-investment grade counterparties that ____ transacted with during the Quarter are shown in Confidential Attachment B, *Counterparty Information*. Furthermore, the top 10 counterparties transacted with by dollar value or volume are also listed in Confidential Attachment B, *Counterparty Information.*

Confidential Attachments C, *Electric Transactions Summary* and D, *Natural Gas Transactions Summary* are summaries of the electric and gas transactions executed during the Quarter. Confidential Attachment E, *Quarter (year) Other Transactions*, is a summary of any additional transactions that occurred during the quarter. The quantities shown in these attachments are based on the delivery period specified in the transactions. Therefore, volumes received during the Quarter pursuant to transactions executed in prior quarters are excluded. Also excluded are transactions in the ISO's real-time and ancillary services markets, since these transactions are, for the most part, made by the ISO on behalf of ___ and are made without regard to the Plan.[2]

Article III. Master Data Request Documentation

D.02-10-062, Appendix B, as clarified by D.03-06-076, sets forth specific elements to be addressed in this report. Each element is discussed below.

1. Identification of the ultimate decision maker(s) up to the Board level, approving the transactions.

All procurement-related activity during the Quarter was approved and executed either by, or under the direction of [insert description of Company executive(s) responsible for procurement], consistent with the delegation of authority effective for the period.

[2] All ISO real-time transactions are excluded from the QCR process; other real-time transactions should be included, if applicable.

2. The briefing package provided to the ultimate decision maker.

The "decision-maker" for a particular contemplated transaction depends on many factors, including term, volume, notional value, etc. For many of the transactions during the Quarter, the "decision-maker" was a gas or power transaction employee executing transactions (e.g., day-ahead or hour-ahead power purchases and sales) per an established plan or to achieve a particular objective (such as balancing the portfolio supply and demand). For such transactions, briefing packages are not prepared. Briefing packages prepared during the Quarter for large or unusual transactions that required senior management approval are listed in Confidential Attachment F. These briefing packages are included in the workpapers (include workpaper citation in Appendix F).

In addition, copies of presentations made by [IOU] ___ to its Procurement Review Group (PRG) during the quarter are included in Confidential Attachment F, *Quarter* ____ *Key Briefing Packages*. To the extent that senior management decision maker briefing packages are the same as presentations made to the PRG, presentations are marked to reflect this fact.

3. Description of and justification for the procurement processes used to select the transactions.[3]

a) Electric

Description of Procurement Processes

The approved procurement processes used during the Quarter were as follows:

[3] Electricity and gas products can be separated or combined at the discretion of the IOU.

[The bulleted items below are illustrative. Each IOU to include those processes that apply to this QCR. This list should include electric procurement (both physical and financial).]

- Request for Offers (RFO)
- Bilateral negotiations
- Voice and on-line brokers
- Etc.

Justification for Procurement Processes[4]

For competitive solicitations, describe the process used to rank offers and select winning bid(s).

- Request for Offers (RFO)
- Etc.

[Each IOU to describe the process used to rank offers and select winning bid(s) and to briefly describe why it selected the RFOs listed above]

For other transactional methods, provide the documentation supporting the selection of the chosen products.

- Bilateral negotiations
- Voice and on-line brokers
- Etc.

[Each IOU to briefly describe below why it selected the procurement processes / chosen products listed above]

[4] If the justification is already described in the IOU's LTPP, it is acceptable to make a notation of where this information can be found in the LTPP. Any deviations from the plan must be discussed with the PRG, and a reference to the specific PRG presentations in the Attachments should be noted here.

For all solicitations that involve affiliate transactions or utility-owned or utility PSA bids and for all competitive RFOs seeking products greater than two years in length (and subject to QCR filings) regardless of the bidders[5], list the Independent Evaluator (IE) reports in Attachment G, *RFO Independent Evaluator Reports*, along with a list of the workpaper citations.

For transactions subject to a strong showing standard per D.07-12-052, provide a discussion for any relevant transactions, compliance to the IOU's LTPP, and the approved Advice Letter(s) numbers. These transactions are disclosed separately in Confidential Attachment M, *Transactions Subject to Strong Showing.*

This activity was presented to the PRG and the presentations are in Confidential Attachment F. The executed agreements are in Confidential Attachment H, *Quarter [Year] New Contracts Executed / Contracts Amended.*

b) Natural Gas

Description of Procurement Processes

The approved procurement processes used during the Quarter were as follows: [The bulleted items below are illustrative. Each IOU to include those processes that apply to this QCR. This list should include fuel procurement (both physical and financial).]

- Request for Offers (RFO)
- Bilateral negotiations
- Voice and on-line brokers

[5] D 08-11-008

- Etc.

Justification for Procurement Processes

For competitive solicitations, describe the process used to rank offers and select winning bid(s).

- Request for Offers (RFO)

[Each IOU to describe process used to rank offers and select winning bid(s) and to briefly describe why it selected the RFOs listed above]

For other transactional methods, provide the documentation supporting the selection of the chosen products.

- Bilateral negotiations
- Voice and on-line brokers
- Etc.

[Each IOU to briefly describe below why it selected the procurement processes / chosen products listed above]

For all long term solicitations that involve affiliate transactions or utility-owned or utility PSA bids and for all competitive RFOs seeking products greater than two years in length (and subject to QCR filings) regardless of the bidders, provide the Independent Evaluator (IE) reports in Attachment G, *RFO Independent Evaluator Reports,* along with a list of workpaper citations where detailed information regarding affiliate transactions can be found.

For transactions subject to a strong showing standard per D.07-12-052, provide a discussion for any relevant transactions, compliance to the IOU's LTPP, and the approved Advice Letter(s) number. These transactions are disclosed separately in Confidential Attachment M, *Transactions Subject to Strong Showing.*

This activity was presented to the PRG and the presentations are in Confidential Attachment F. The executed agreements are in Confidential Attachment H, *Quarter [Year] New Contracts Executed / Contracts Amended.*

Examples of Information to Include in Above Discussions:[6]

Ex: Bilateral negotiations

[Insert discussion including the following specifics – Discussion will be provided for the contracts filed through this quarterly advice letter. The following is for example purposes only.]

- Needs analysis
- Contract summary and background
- Documentation supporting the selection of the chosen products.
- For transactions through OTC brokers or direct counterparty contacts, a statement should be made whether price equivalency was internally tested and supporting data was retained. Also, the method used to test market price equivalency should be documented. This could show a range of comparable benchmark data for the period and the source of the benchmark data (Platts, ICE, NYMEX, etc.) or evidence to support a strong showing if available.

This activity was presented to the PRG and the presentations are in Confidential Attachment F. The executed agreements are in Confidential Attachment H.

[6] Additional products include, but are not limited to CRRs, SO_2 allowances, etc.

c) Other Commodities [if applicable]

Please use the same format as electric and natural gas above.

4. Explanation/justification for the timing of the transactions.

Throughout the Quarter, ____ attempted to enter into electric transactions needed to match forecast supply and demand ahead of the deadline for submitting final hour-ahead schedules to the ISO. This objective was achieved by gradually reducing the forecast open (i.e., short or long) energy positions through the use of [the following product types are illustrative] month-ahead, balance-of-month, day-ahead, and hour-ahead transactions, etc., employing both standard and non-standard products. When selecting electric transactions to match forecast supply and demand, the best-priced bids/offers were selected first (merit-order selection) among those available for the required products at the time of the transaction, subject to credit and other limitations and operational constraints. Such operational constraints include the local area reliability requirements of the ISO, as set forth in D. 04-07-028.

The timing of gas transactions was largely driven by the requirement to ensure that the delivery of fuel to the gas-fired electric facilities managed by ____ matched such facilities' forecast burn.

[Each IOU to briefly discuss and justify the timing of its quarterly transactions here.] Detailed explanation/justification for the timing of the transactions is included in the workpapers (insert workpaper citation)

5. Discussion of the system load requirements/conditions underlying the need for the Quarter's transactions.

[Each IOU to discuss its monthly system conditions and RNS (or RNL) positions here related to the transactions reported in the quarter.

Confidential discussion of the monthly system conditions is included in Confidential Attachment J, *System Load Requirements/Conditions Underlying the Needs for the Quarter's Transactions.*

6. Discussion of how the quarter's transactions meet the goals of the risk management strategy reflected in the Plan.

[Each IOU to discuss its risk management transactions here].

Throughout the Quarter, (IOU) _____ executed transactions in accordance to its risk management strategy and approved Plan. A list of information regarding CRT notifications and management is included in Confidential Attachment K, *Risk Management Strategy Communication and Management.*]

7. Copy of each contract.

A list of contracts executed and/or modified by ___ during the Quarter are included in Confidential Attachment H. Copies of these contracts are contained in the workpapers (insert workpaper citation here), unless already filed by separate Advice Letter (include AL numbers, if applicable).

[Copy of contract is required for all contracts that are filed via this quarterly advice letter and should be listed in Attachment H, *New Contracts Executed/Contracts*

Amended and filed in the workpapers. Master agreements to be listed in Attachment H and included in the workpapers as well.][7]

All Final RFO contracts subject to QCR filings along with the IE reports should be reported in Attachments G and F, respectively.

7. The valuation results for the contract(s) (for contracts of three months or greater duration).

[ED guidance suggests that break even spot price equivalent to the contract(s) equals the valuation results of the contracts].

(IOU) _____ provides the valuation results for the contracts filed via this QCR in Attachment H, with details of the valuation method contained in the workpapers (include workpaper citation in Attachment H).

9. An electronic copy of any data or forecasts used to analyze the transactions.

Because transaction personnel are continuously monitoring a wide range of market information on a 24-hour-per-day, 7-day-per-week basis, it is not feasible to provide all the data and forecasts used to analyze all potential and executed transactions. However, key analysis data utilized during the Quarter is contained in the workpapers (include workpaper citation(s) here).

10. Provide a reasonable number of analyses requested by the Commission or the Procurement Review Group (PRG) and provide the resulting outputs.

To the extent any analyses requested by the Commission or PRG during the Quarter were not already included as a part of ___'s response to items 1 through 9 above,

[7] Note that the Attachment serves as a summary document and points to the information in the workpapers.

such additional analyses are contained in the workpapers (include workpaper citation (s) here). For any such analyses, the models used, analytic processes, and how the models operate are described in Confidential Attachment L, *Reasonable Number of Analyses.*

11. Any other information sought by the Commission under the Public Utilities Code.

To the extent the Commission requested information for the Quarter not already provided in the Master Data Request, such information is included in the workpapers.

Additional Reporting Requirement Pursuant To Decision 07-01-039

As required by Ordering Paragraph 12 of D.07-01-039, [IOU] _______ has included in Confidential Attachment I, *Summary of Retained Generation Investments,* investments in retained generation that were completed during the Quarter, as well as any multiple contracts of less than five years with the "same supplier, resource or facility." (Section 5.1, p. 152).

If applicable, the costs and revenues associated with CAM-elected resources should be identified separately in the QCR.[8] The IE report for CAM-elected resources should be included in Confidential Attachment G, Quarter [Year] Independent Evaluator Reports.

[8] At a minimum, the IOU should include information the auction results including final products and bid prices as well as how it is being allocated to the CAM.

List of Attachments and Workpapers
(Please list all attachments and workpapers in the table below
the following table is an example)

Description	**File/Attachment Name**	**Attachment/Workpaper**
Electric transactions	Electric Deals.xls	A
Gas physical transactions	Gas Deals.xls	A
Gas financial transactions	Gas Financial Deals.xls	A
Briefings to senior management	Key Briefing Packages	F
Contracts	See Confidential Attachment H	H
Key data used for transaction analyses	Various	Workpaper B. pdf
Analyses requested by the PRG/Commission	Various (if applicable)	Workpaper A. pdf
Other data requested by the Commission	Various (if applicable)	Workpapers C,D,E

Confidential Attachment A
_______ Quarter [Year] Transactions

[The items in the attached QCR Standard Workpaper Format are illustrative. Each IOU to include those transactions that apply using the approved workpaper format.]

QCR Transaction Spreadsheet

QCR Transaction Legend

Confidential Attachment B
_______ Quarter [Year] Counterparty Information

Non Investment Grade Counterparties

Non Investment Grade Counterparty	Acronym	Collateral Type/Credit Mechanism	Collateral/Credit Agreement (workpaper citation)

Top Ten (10) Counterparties[9]

[Provide listing of the top 10 counterparties based on transactions volume or dollar value to be indicated. Information related to counterparty concentration- # of transactions, # of MWs/bcf etc.]

Counterparty	Acronym	Transaction Volume (MWh/bcf)	Transaction Total Dollar Value	Number of Transactions

[9] Gas and Electric transactions only.

Confidential Attachment C
______ Quarter [Year] Electric Transactions

[The items below are illustrative. Each IOU to include those transactions that apply to this QCR. *These are actual quantities, not initial confirmation volumes*]

Electric Physical

Deal Type	Capacity: MW	Energy: GWh	Average Price:	Notional Value: Million $	No. Of Deals
Spot Purchases					
DA On-Peak					
DA Off-Peak					
DA Non-Standard					
HA					
Subtotal Spot					
Other Purchases					
On-Peak					
Off-Peak					
Non-Standard					
Subtotal Other					
Total Purchased					
Spot Sales					
DA On-Peak					
DA Off-Peak					
DA Non-Standard					
HA					
Subtotal Spot					
Other Sales					
On-Peak					
Off-Peak					

Non-Standard					
Subtotal Other					
Total Sold					
Total Transacted					

Note: The transactions above exclude locational spreads.

Electric Locational Spreads (Physical)

Deal Type	Energy: GWh	Average Price:	Notional Value: Million $	No. Of Deals
Purchases				
DA On-Peak				
DA Off-Peak				
DA Non-Standard				
HA				
Other				
Subtotal Purchased				
Sales				
DA On-Peak				
DA Off-Peak				
DA Non-Standard				
HA				
Other				
Subtotal Sold				
Net Transacted				

Electric Financial

Product Type	**Volume**	**Average Price or Premiums ($ millions)**	**Notional Value ($ millions)**	**Number Of Deals**
Forward				
Futures				
Call Options				
Basis Swap				
Index Swap				
Total Transacted				

Confidential Attachment D
______ Quarter [Year] Gas Transactions

[The items below are illustrative. Each IOU to include those transactions that apply]

Gas Physical

Deal Type	**Capacity: Bcf**	**Volume: MMBtu**	**Average Price ($ million)**	**Notional Value ($ million)**	**Number Of Deals**
Commodity Purchases					
Location	--	XXX		YYY	ZZZ
Location	--	XXX		YYY	ZZZ
Total Purchased		XXX		YYY	ZZZ
Commodity Sales					
Location	--	XXX		YYY	ZZZ
Total Sold		XXX		YYY	ZZZ
Transportation	XXX	--		YYY	ZZZ
Storage	XXX	--		YYY	ZZZ
Total Transacted	XXX	XXX		YYY	ZZZ

Gas Financial

Product Type	**Volume**	**Average Price or Premiums ($ millions)**	**Notional Value ($ millions)**	**Number Of Deals**
Forward				
Futures				
Call Options				
Basis Swap				
Index Swap				
Total Transacted				

Confidential Attachment E

_______ Quarter [Year] Other Transactions[10]

[If applicable, insert table here]

[10] Please include a brief overview defining the "other" transactions in addition to the table.

Confidential Attachment F
_______ Quarter [Year] Key Briefing Packages and PRG Presentations

[The items below are illustrative. Each IOU to include those presentations that apply]

Description	**Workpaper Citation**
Management Review of Spring RFO – 6/20/05	Spring 2005 RFO 6-20-05.ppt
Gas Storage Contract With Company X PRG Presentation – 5/15/05	Company X Deal 5-15-05.ppt
Risk Manager Briefings	
Etc	

Confidential Attachment G
________ Quarter [Year] Independent Evaluator Reports[11]

Contract Description/ Counterparty Name	Contract Term	Execution Date	IE Report Workpaper Citation

[11] If an IE report is produced for CAM auctions or other CAM transactions, please include it here.

Confidential Attachment H
________ Quarter [Year] New Contracts Executed / Contracts Amended[12]

[The items below are illustrative. Each IOU to include those contracts that apply]

A summary of RFO contracts executed/signed during the quarter filed via this quarterly advice letter (Each IOU to include copy of contracts subject to this QCR filing in the workpapers) (Please provide method for valuation results calculations in the workpapers):

Contract /Counterparty	**Execution/ Signed Date**	**Product**	**Term**	**Volume**	**Price ($/MW or $/MWh)**	**Nominal Value**	**Workpaper File Name**	**Valuation Results**
Company A 4-Year Capacity Deal –		RA Capacity					Company A Deal.pdf	
Gas Storage Contract With Company X –		Gas Storage					Company X Deal.pdf	
Etc								

A summary of bilateral contracts executed/signed during the quarter filed via this quarterly advice letter (Each IOU to include copy of contracts subject to this QCR filing in the workpapers) (Please provide method for valuation results calculations in the workpapers).

[12] Table to serve as a summary. IOU may make reference to an AL number, if applicable, but summary data should be included.

Contract /Counterparty	Execution/Signed Date	Product	Term (Sorted by length)	Volume	Price	Nominal Value	Workpaper File Name	Valuation Results
Company A 4-Year Capacity Deal –		RA Capacity					Company A Deal.pdf	
Gas Storage Contract With Company X –		Gas Storage					Company X Deal.pdf	
Etc								

Information purposes only: A summary of the contracts executed during the quarter filed via separate applications or advice letters:

Contract/Counterparty	Execution/Signed Date	Product	RFO or Bilateral	Filed	Approved	Valuation Results
		Renewable		XXXX-A	Res. E-XXXX	
		QF Extension		XXXX-E	Pending	

Confidential Attachment I

Summary of Retained Generation Investments
Completed During ________ Quarter [Year]

Facility	Type of Alteration	Date Started	Date Completed	Investment (Thousand $)
Plant A, Unit 1	Description			
Plant B, Unit 3	Description			

Multiple Contracts of Less Than Five Years in Duration
Executed During ________ Quarter [Year]
With The Same Supplier, Resource or Facility

Contract Description/Counterparty Name	Contract Term	Execution Date

Confidential Attachment J

System Load Requirements/Conditions Underlying the Needs for the Quarter's Transactions (RNS/RNL Positions)[1]

[1] Any graphical representation of the RNS/RNL position may be included at the IOU's discretion.

Confidential Attachment K

Risk Management Strategy Communication and Management Disclosure

Description	Workpaper File Name
Risk Management Strategy	Risk Mgmt Strategy 6-20-05.ppt
List of CRT notifications	Company X Deal 5-15-05.xls
Risk Manager Briefings	
Etc	

Confidential Attachment L

Reasonable Number of Analyses

Models, Description of Models, and How Models Operate[2]

[2] If the model is already described in the IOU's LTPP, IOU's may reference the plan with page numbers here.

Confidential Attachment M

Transactions Subject to Strong Showing

Contract Description/ Counterparty Name	Contract Term	Execution Date	Reason for Strong Showing	Approved Advice Letter Number

APPENDIX D – PRG PARTICIPATION WORKING GROUP PROPOSAL

PRG Participation Working Group **August 30, 2007**

PROPOSAL FOR NEW ADVISORY GROUP FOR PROCUREMENT USING COST ALLOCATION MECHANISM

Article IV. Objective:

Development and use of a separate advisory group by the utilities when considering procurement using the "all benefiting customers" cost allocation mechanism ("CAM") approved in D.06-07-029 or a successor CAM that would allocate costs to both bundled and non-bundled customers.

Article V. Rationale for Separate Advisory Group:

The Procurement Review Groups ("PRGs") were established as advisory groups for the utilities' bundled procurement process. With the CAM, certain customers, including bundled customers and customers supplied by direct access ("DA") suppliers and by community choice aggregators ("CCAs"), will now be required to pay part of the costs of utility procurement for certain new generation projects that are procured to ensure system reliability. The current PRGs do not include any individuals who solely represent end-use customers served by DA providers or by CCAs. A separate advisory group, the "CAM Group," should be established to represent *all* customers paying the costs of procurement when a utility is engaged in procurement activities where the costs may be allocated using the CAM. The CAM Group will include bundled customer representatives, as well as DA, CCA, and other non-bundled customers' representatives, as described in more detail below.

Article VI. When Use of the Separate Advisory Group is Required:

The utility will use the CAM Group as its advisory group when procuring new generation resources and recovering the costs associated with these resources through the CAM. When the utility specifies that it will procure new generation resources and recover the costs associated with these resources solely from bundled utility customers, the PRG will continue to serve as the utility's advisory group.

Article VII. Triggering the Separate Advisory Group:

The utility will use the CAM Group whenever it is engaging in procurement where the costs may be recovered using the CAM. The utility will notify the Energy Division and the participants of the CAM Group at the time of its decision to begin such procurement. If the utility is undecided at the time it begins its procurement process, the utility will employ the CAM Group for all associated advisory group meetings until such time as it decides to restrict procurement solely to meet its bundled customers' needs.

Article VIII. Activities of Separate Advisory Group:

The CAM Group will operate identically to the PRG, except that it will only review and consult on procurement activities for which costs may be recovered using the CAM. The CAM group will not convene during the planning (*i.e.*, the load and system net-short forecasting) process for meeting bundled utility customers' needs. The CAM Group will convene at least seven days prior to a utility's issuance to the marketplace of the RFO solicitation for which costs may be recovered using the CAM.

Article IX. Access to Information:

The CAM Group participants will have access to the same types and quality of information as do PRG participants, except that the scope of the procurement review will be limited to that for which costs may be recovered using the CAM (*i.e.*, CAM Group participants are not entitled to receive information that is related to bundled-service procurement, except that PRG participants may request such information through the PRG process). The CAM Group participants will have the same right to request and receive additional information from the utilities as do PRG participants for bundled procurement-related activities.

Article X. Meetings of Separate Advisory Group:

The meetings and conference calls of the CAM Group will solely address procurement using or potentially using the CAM. Meetings of the PRGs addressing procurement for bundled utility customers may be held immediately before or after the meetings of the CAM Group or at any other time. Unlike the PRG, the utilities will not be obligated to conduct quarterly face-to-face meetings with the CAM group.

Article XI. Requirements of CAM Group Members:

Participation in the CAM Group – The current PRG participants will be participants of the CAM Group, if they so choose, subject to their execution of a Non-Disclosure Agreement ("NDA") for the CAM Group. Commission personnel may participate in a utility's CAM Group under the same conditions that they participate in the utility's PRG. A reasonable number of non-wholesale market representatives that are end-use DA, CCA, and other non-bundled customers, as well as non-wholesale market participant groups whose representation includes such customers, shall be allowed to participate in each utility's CAM Group.

Intervenor Compensation – PRG participants should continue to be eligible to obtain intervenor compensation for their participation in the CAM Group under the same conditions that the Commission's rules govern such compensation for PRG participation. Non-PRG participants who are authorized to receive intervenor compensation shall qualify for such compensation for their activities in the CAM Group pursuant to the Commission's rules that govern such compensation.

Qualities of Non-PRG Participants – Each non-PRG participant in the CAM Group will either be an end-use customer or an individual hired to represent end-use customers' interests, and shall not be a wholesale market participant or represent a wholesale market participant. For example, the representative for DA customers could be a non-wholesale market participant end-use customer who has accounts supplied through DA service. The CCA representative could be a non-wholesale market participant resident of the community that has implemented a CCA. Alternatively, the non-PRG CAM Group participants could be consultants or attorneys for groups that represent DA end-use customers, CCAs, or other non-bundled customers in whole or in part in proceedings before the Commission, provided that the representatives execute and comply with the CAM Group NDA.

Obligations of non-PRG Members – The non-PRG participants of the CAM Group are obligated to sign the same NDA that is signed by the PRG participants, except that it will be modified only as necessary to reflect the new organization of customer interests in the CAM Group. Subsequent changes to the PRG and CAM Group NDAs shall be done in a consistent manner, except as necessary to delineate the composition of each advisory group.

Disputes – Disputes regarding the appropriateness of an entity (or its representatives) participating in the CAM Group shall be submitted to the Commission for resolution.

Effective Period – Each utility shall be required to establish its CAM Group for solicitations of new generation projects subject to the CAM in advance of the commencement of such procurement activity. However, utilities shall be permitted to continue to utilize their existing PRG process in lieu of the CAM Group process to conclude existing, on-going CAM procurement activity, provided that the utilities shall make final contract selection decisions within 60 days of a final decision in Track 2 of the 2006 Long-Term Procurement Plan Proceeding (R.06-02-013)

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APPENDIX E-INDEPENDENT EVALUATOR REPORT TEMPLATE

(Long form) http://docs.cpuc.ca.gov/efile/RULINGS/82438.pdf
(Short form) http://docs.cpuc.ca.gov/efile/RULINGS/82439.pdf

APPENDIX F-RFO SOLICITATION CONTRACT APPROVAL REQUEST TEMPLATE

http://docs.cpuc.ca.gov/efile/RULINGS/82440.pdf

APPENDIX G-MODEL PROTECTIVE ORDER

http://docs.cpuc.ca.gov/word_pdf/FINAL_DECISION/94608.pdf

APPENDIX H-MATRIX OF ALLOWED CONFIDENTIALITY TREATMENT

(IOU MATRIX – original from D.06-06-066)
http://docs.cpuc.ca.gov/WORD_PDF/FINAL_DECISION/57774.PDF

(IOU MATRIX – changes from D.08-04-023)
http://docs.cpuc.ca.gov/word_pdf/FINAL_DECISION/94611.pdf

(ESP MATRIX)
http://docs.cpuc.ca.gov/word_pdf/FINAL_DECISION/94610.pdf