California Public Utilities Commission

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News Release

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PUC ADOPTS LONG-TERM POWER PURCHASE PLANS FOR UTILITIES TO ENSURE ADEQUATE ENERGY SUPPLY FOR STATE

SAN FRANCISCO, Dec. 16, 2004 – The California Public Utilities Commission (PUC), in its ongoing efforts to ensure adequate electricity for the state, today adopted long-term energy procurement plans for Pacific Gas and Electric Company (PG&E), Southern California Edison, and San Diego Gas and Electric Company (SDG&E) and provided direction to the utilities on the procurement of the resources identified in their plans.

"Today the Commission not only approved plans for the utilities that will ensure there is sufficient power for the state, we also reaffirmed our commitment to energy efficiency, demand-side resources, and renewable energy," said Michael R. Peevey, president of the Commission. "This is another step in shaping and defining the state's hybrid energy market, while promoting environmentally responsible energy generation and procurement."

For PG&E, the Commission approved the utility's strategy of adding 1,200 MW of reserve capacity and new peaking generation in 2008 and an additional 1,000 MW of new peaking and dispatchable generation in 2010 through competitive solicitations, because it is compatible with PG&E's resource needs, does not crowd out preferred resources, and is a reasonable level of commitment given load uncertainty. Those commitments may need to be increased or expedited for PG&E to meet its 2006 resource adequacy obligations.

Edison has demonstrated that its primary residual resource need through 2011 is for peaking, dispatchable, and shaping resources. Edison has considerable need for peaking and shaping resources, which should be obtained through a short, medium- and long-term acquisitions. The Commission determined that Edison's strategy of relying primarily on short- and mid-term contracts during this planning period is reasonable, but it may be prudent to add some long-term resources.

The Commission determined that SDG&E is essentially fully resourced through 2009, other than needed investments in renewable resources to meet Renewables Portfolio Standards (RPS) targets.

The Commission determined that following the "loading order" contained in the joint agency Energy Action Plan is the highest priority, meaning that energy efficiency and demand-side resources should be employed first. When these opportunities are exhausted, renewable generation is to be procured to the fullest extent possible – whenever a utility issues a solicitation for generation resources, it must be prepared to defend its selection of fossil generation over renewable generation offers.

In general, the utilities are directed to procure the maximum feasible amount of renewable energy in the all-source solicitations authorized by today's decision, and will be allowed to credit this procurement towards their RPS targets in 2005 and beyond. This augments but does not replace RPS solicitations that are underway. This is in keeping with the Legislature's clear intent in creating the RPS program that renewable procurement be integrated as closely as possible with general utility procurement practices.

To further the state's clear goal of promoting environmentally responsible energy generation, the Commission also adopted a policy that reflects and attempts to mitigate the impact of greenhouse gas (GHG) emissions in influencing global climate patterns. The utilities are to employ a "carbon adder" when evaluating fossil generation bids. This method, which will be refined in future Commission proceedings, will serve to internalize the significant and under-recognized cost of GHG emissions, as well as offset the future financial risk of these emissions, and will continue California's leadership in addressing this important problem.

The Commission approved a mixed portfolio of different contract terms and lengths, which will help to ensure that the utilities will not over-subscribe to long-term contracts that will crowd out future opportunities.

There are numerous other provisions in this decision, including allowing utilities to consider debt-equivalence in their evaluation of offers received in response to solicitations. This is the practice by rating agencies of attributing debt to utility balance sheets for long-term power purchase agreement commitments. In addition, the Commission continued an automatic rate trigger mechanism that allows utilities to more closely align rates with costs.

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