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

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

Rulemaking 13-12-010  
(Filed December 19, 2013)

**SCOPING MEMO AND RULING OF ASSIGNED COMMISSIONER  
AND ADMINISTRATIVE LAW JUDGE**

This ruling determines this proceeding's scope, schedule, and need for hearing in accordance with Rule 7.3(a) of the Commission's Rules of Practice and Procedure (Rules).<sup>1</sup>

**1. Background**

The December 19, 2013 Order Instituting Rulemaking (OIR) in this proceeding summarized the procedural and substantive background of this proceeding. Overall, the purpose of this rulemaking is to ensure a reliable and cost-effective electricity supply in California through integration and refinement of a comprehensive set of procurement policies, practices and procedures underlying long-term procurement plans.<sup>2</sup>

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<sup>1</sup> Rule 7.3(a) requires the assigned Commissioner to determine the scope and schedule of a proceeding.

<sup>2</sup> A core tenet is the concept of "least cost/best fit" portfolios as discussed in Decision (D.) 06-06-064.

This proceeding is the successor proceeding to rulemakings dating back to 2001 to ensure that California's major investor-owned utilities (IOUs) can maintain electric supply procurement responsibilities on behalf of their customers. The most recent predecessor to this proceeding was Rulemaking (R.) 12-03-014. As stated in this rulemaking, the record developed in R.12-03-014 is "fully available for consideration in this proceeding" and is therefore incorporated into the record of this proceeding.

In R.13-12-010, the Commission provided a preliminary scoping memo to be considered in this proceeding. On February 3, 2014, parties filed comments on the proposed scope and schedule for this proceeding. On February 25, 2014, a prehearing conference (PHC) was held to address procedural matters, and to consider the scope and schedule of this proceeding. In this scoping memo, we refine the preliminary scoping memo from R.13-12-010 pursuant to Rule 7.3(a).

## **2. Scope of the Proceeding**

There will be two major phases in this proceeding:

1. System Reliability Needs
2. Procurement Rules and Bundled Procurement

We establish here a detailed scope and schedule for 2014 for the System Reliability Needs phase. We discuss in less detail the scope and schedule for the System Reliability Needs phase in 2015 and the Procurement Rules and Bundled Procurement phase. We intend to issue one or more amended Scoping Memos or other Rulings at a later point in this proceeding to provide further detail on the scope and schedule for the remainder of this proceeding after 2014.

In Track 1 of R.12-03-014, the Local Reliability track of that proceeding, we authorized procurement of new infrastructure for local reliability purposes, per Decision (D.) 13-02-015. In Track 4 of R.12-03-014, we considered additional

procurement needs related to the early retirement of SONGS, resulting in D.14-03-004. As discussed at the PHC, because the Commission has reviewed long-term local reliability needs twice recently, at this time there does not appear to be a need to revisit this topic again in this proceeding. Therefore, we will include long-term local reliability issues in the scope of this proceeding, but will not schedule any filings or other procedural activities at this time. If circumstances change (as they did with the unexpected retirement of SONGS in 2013), it may become necessary to issue a Ruling to allow the Commission to consider local reliability issues.

### **3. Phase 1 -- System Reliability Needs**

A major purpose of this proceeding is to maintain and ensure reliability in CPUC-jurisdictional areas in California over a long-term planning horizon. This requires anticipation of changes in both supply and demand. To accomplish this, it is important to consider the potential retirement of existing plants, the likelihood of relicensing of nuclear power plants, changes in penetration levels of renewable power, development of energy storage facilities, increased energy efficiency and demand response resources, more flexible end-use of electricity, the development of distributed generation resources, and deeper 2030 and 2050 greenhouse gas reduction targets.

D.12-04-046 adopted a settlement among a number of parties in R.10-05-006, a precursor to this proceeding. In that settlement, parties agreed that no decision should be made in that docket about whether new resources would be needed to ensure system reliability through 2020. In the next LTPP proceeding (R.12-03-014), a Ruling deferred system reliability issues to this proceeding.

Phase 1 will be divided into two parts:

Phase 1a will consider system reliability needs. This inquiry includes issues related to grid operational flexibility needs, which may change depending on the state's future resource portfolio and environmental regulations. The schedule for Phase 1a is outlined below. Phase 1b will determine what specific resources should be procured to meet any need determined in Phase 1a. The schedule for Phase 1b will be determined in a future Ruling. Phase 1b is expected to be concluded no later than the end of 2015.

An Assigned Commissioner's Ruling establishing "Assumptions, Scenarios and Renewable Portfolio Standard Portfolios for use in the 2014 Long-Term Procurement Plan and the 2014-2015 CAISO Transmission Planning Process" was issued on February 27, 2014. This Ruling provides standard planning assumptions leading to specific supply and demand scenarios for the next 20 years. The assumptions and scenarios will be used by the CAISO and others to develop models to forecast system reliability needs through 2024.

At this time, it is unclear whether the Phase 1a models used by the CAISO and other parties will be deterministic, stochastic, or some combination of the two. Our preference is to use stochastic models in this phase of the proceeding, as such models, done correctly, are more likely to provide robust and improved results. However, stochastic modeling is complex and is still being developed for system planning. Parties may develop either deterministic or stochastic models (or a combination) for this phase.

At the PHC, parties discussed the possibility of a multi-party effort to develop common parameters for operational flexibility models and common questions that each model should be able to answer. The ALJ allowed those parties reaching agreement to file a report on and any recommendations resulting from this effort, with comments allowed from other parties, on the date

set forth in this Ruling. This potential filing may lead to a further ruling setting parameters and output requirements for use in operational flexibility modeling in this proceeding, in order to allow “apples-to-apples” comparisons between parties’ operational flexibility modeling results. One outcome of this effort could be the development of modeling efforts that look at scenarios that include assumptions related to greenhouse gas emissions reduction targets in the 2030 and beyond timeframe.

As indicated in the schedule herein, such a filing must occur no later than May 31, 2014 (and preferably sooner) in order to be useful and timely for this proceeding.

Within the broad scope of system reliability needs, we anticipate addressing the following specific questions in Phase 1a and 1b:

1. **Need for system resources.** Is there a need for new system resources (not necessarily local or flexible) to meet reliability through 2024?
  - a. If the Commission does need to procure additional system resources, what specific characteristics should these resources have, including factors like expected greenhouse gas emissions?
  - b. Is there a need for additional flexible resources to meet operational flexibility requirements during the forecast period, now through 2024? What is the preferred tool for determining whether there is a need for flexible resources?
2. **Procurement authorization for flexible resources.** Should the CPUC authorize the procurement of additional flexible resources now to ensure system reliability through 2024?
  - a. If procurement authorizations are not warranted at this time, are there other actions that should be undertaken in the future to continue to ensure long-term system reliability through 2024?

- b. How should any identified need for flexible resources be filled?
  - c. What, if any, changes to procurement rules and practices may need to accommodate fair consideration of zero emission resource in a procurement cycle?
  - d. To the extent that system level planning reserve margin data shows that the overall system capacity planning reserve margin to be 20% or higher through 2025, should the Commission nevertheless authorize additional procurement? If so, under what circumstances?
3. **Procurement Parameters.** If additional system procurement is appropriate, what procurement parameters should the Commission adopt?
- a. Should pre-existing procurement authorizations be modified to ensure that operational flexibility is required from new supply in the pipeline?
  - b. Should procurement authorizations resulting from this phase of this proceeding meet any particular procurement parameters (e.g. how many MW, with what characteristics, with what GHG emissions profile and in what locations)?
  - c. How should the Commission coordinate any procurement authorizations from this phase of this proceeding with other existing procurement programs, including storage, renewables, and demand response?
4. **Procurement Bid Evaluation.** Should the tool used to determine flexible resource needs and/or any system procurement authorizations be used to develop resource-specific flexibility impacts that could inform resource procurement decisions, such as through a renewable integration adder (or bid evaluation tool), and if so, how?
- a. Should the ability to provide operational flexibility be considered in resource bid evaluation?

- b. How can a bid evaluation tool accommodate the dynamic nature of resource portfolios?
  - c. What output or outputs from operational flexibility modelling could be used to support the development of a bid evaluation tool?
  - d. What, if any, tools need to be developed or improved to assess zero emission resources on equal footing with conventional resources?
- 5. Planning for 2016 LTPP Proceeding.** The Commission's 2016 LTPP proceeding may consider evaluating whether to modify the State's long-term procurement planning to ensure accomplishment of the State's 2050 climate goals in addition to ensuring long term sufficiency of local, system, and flexible capacity.
- a. What assumptions and scenarios should be developed for the 2016 LTPP to examine the best path to accomplishing the State's 2030 and 2050 climate goals?
  - b. Are there any other decisions required in this proceeding as a prerequisite to considering the above-mentioned changes to the 2016 LTPP proceeding?
- 6. CHP Settlement Issues.** Should the CHP Settlement's (D.10-12-035) MW and GHG targets be addressed in the 2014 LTPP? If so, how?

The CHP issues in question 6 may be considered in a separate decision from other Phase 1a issues.

The schedule below lays out the dates for important events in Phase 1a of this proceeding. In addition, we anticipate Energy Division will hold one or more workshops on modeling issues.

**Schedule for Phase 1a – System Reliability Needs**

ACR on Planning Assumptions issued	February 27, 2014
Status report and recommendations on Operational Flexibility Modeling parameters	May 31, 2014 (preferably earlier)
Comments on Operational Flexibility Modeling parameters recommendations	10 days after filing
Ruling on Operational Flexibility Modeling parameters	As necessary
Testimony of parties preparing models	August 13, 2014
Testimony of parties not preparing models	September 3, 2014
Reply testimony (all)	September 24, 2014
Last date to request evidentiary hearings	September 24, 2014
Evidentiary Hearings (if necessary) <sup>3</sup>	October 2014 (dates to be determined)
Briefing schedule (if necessary)	To be determined
Proposed Decision (if no evidentiary hearings)	November 2014
Proposed Decision (if evidentiary hearings)	February 2015
Start of Phase 1b	To be determined by Ruling after Phase 1a decision

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<sup>3</sup> If parties stipulate to the receipt of testimony without cross-examination, testimony will be received upon motion pursuant to Rule 13.8(c).



#### **4. Phase 2 -- Procurement Rules and Bundled Procurement Plans**

The LTPP proceedings generally operate on a two-year cycle with the IOUs responsible for submitting procurement plans that project their need, and their action plan for meeting that need, over a ten-year horizon. Pursuant to Assembly Bill (AB) 57,<sup>4</sup> codified as Section 454.5, by approving procurement plans, the Commission establishes “up-front standards” for the IOUs’ procurement activities and cost recovery. This obviates the need for after-the-fact reasonableness review by the Commission of the resulting utility procurement decisions that are consistent with the approved plans.

There were no updated bundled procurement plans filed in R.12-03-014. For this proceeding, we direct the IOUs’ filing of bundled LTPPs to be based on the Trajectory Scenario of the Assumptions, Scenarios and Renewable Portfolio Standard Portfolios adopted in the for use in the 2014 Long-Term Procurement Plan by the February 27, 2014 ruling. Our intent is to ensure that the IOUs’ plans can be more easily compared to each other and to maintain consistency, where appropriate, with Commission policy in other procurement-related proceedings. Parties may provide analysis on alternative assumptions in addition to those contained in the adopted Trajectory scenario.

There will be two portions of Phase 2, to be considered concurrently (subject to a subsequent Ruling). First we will consider what changes should be made to current procurement rules, as well as what new procurement rules should be adopted. Second, we will require the IOU to file bundled procurement plans. This Scoping Memo specifies the issues and schedule for the bundled

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<sup>4</sup> AB 57 (Stats. 2002, ch. 850, Sec 3, Effective September 24, 2002), added Pub. Util. Code § 454.5., enabling utilities to resume procurement of electric resources.

procurement phase of the proceeding. In a future amended Scoping (or other) Ruling, we may provide more detail and an updated schedule in this part of the proceeding.

The following issues related to procurement rules are within the scope of the proceeding; as in previous LTPP proceedings, it is likely that not all of these issues will be adjudicated:

1. Flexible resources procurement and contract policies;
2. Procurement rules, policies and guidelines related to zero emission and preferred resources;
3. Preserving competition in the resource adequacy market;
4. Ensuring utilities reduce their need to procure GHG compliance instruments by pursuing cost-effective GHG emissions reductions on a portfolio-wide basis;
5. Addressing issues related to GHG compliance product procurement authority and policies necessary to facilitate compliance with California Air Resources Board's cap-and-trade program;
6. Making enhancements to the Energy Resource Recovery Account compliance filing requirements;
7. Policies related to ISO new markets and market products, including flexi-ramp products and intra-hour products;
8. Refinements to the Procurement Review Group;
9. Refinements to the independent evaluator process;
10. Multi-year forward procurement requirements;
11. Long-term contract solicitation rules; and
12. Changes to the Commission's rules regarding the treatment of CCAs and DA, including those adopted

related to the CAM per SB 695,<sup>5</sup> SB 790, D.11-05-005 and any relevant previous decisions.

The CCA and DA rules issues in question 12 may be considered in a separate decision from other Phase 2 issues.

For Phase 2, the following issues related to bundled procurement plans are within the scope of the proceeding:

1. Maximum and minimum limits on IOU forward purchasing of energy, capacity, fuel and hedges;
2. Specification of the products that the IOUs can purchase;
3. Specification of rules that, if followed, would exempt the IOUs from reasonableness review; and
4. An integrated plan to comply with state policies, including the loading order.

**Schedule for Phase 2 – Bundled Procurement and Procurement Rules**

IOUs file Bundled Procurement Plans	October 3, 2014
Remainder of schedule	To be determined in future Ruling

Depending on procedural needs, there may be Energy Division workshops, evidentiary hearings, briefs and/or other procedural activity in this track. There may be a separate proposed decisions on bundled procurement plans and procurement rules.

**5. Alignment with Other Agencies**

The Long Term Procurement Plan proceeding is one of three core electric infrastructure planning processes in California. The LTPP is strongly

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<sup>5</sup> SB 695 required the Commission to impose non-bypassable charges associated with certain ISO procurement on direct access and community choice aggregator customers.

interdependent with the CAISO's annual Transmission Planning Process (TPP), and depends on the demand forecasts produced as part of the CEC's biennial Integrated Energy Policy Report (IEPR). In recognition of the strong interdependencies between these three planning processes, the CPUC, CAISO and CEC have undertaken extensive efforts to better align them.

The CPUC, CAISO, and CEC collaborated in 2013 to develop the Process Alignment framework and the 2014 LTPP has been structured to implement that framework. The most significant features of the process alignment changes to LTPP are the following:

1. The two-year LTPP cycle begins in an even-numbered year and concludes at the end of an odd-numbered year. The LTPP has been restructured into two phases to facilitate alignment with the IEPR cycle and TPP cycle. For example, the 2013 IEPR cycle recently concluded and feeds directly into the 2014 LTPP and the 2014-15 TPP.
  - a. LTPP phase 1 (e.g. 2014) assesses needs for system, local, and flexible capacity, and culminates in a CPUC decision quantifying these needs.
  - b. LTPP phase 2 (e.g. 2015) determines how best to meet the needs identified in phase 1 (by evaluating generation and non-generation alternatives such as demand response), and culminates in a CPUC decision authorizing procurement.
2. In the fall of each year the CEC, CPUC, and CAISO collaborates to develop assumptions and scenarios to be utilized in the LTPP and TPP activities of the coming year. The assumptions and scenarios are formally adopted in a CPUC Assigned Commissioner Ruling (ACR) early in the next year. In parallel the CPUC, with input from the CEC, also develops the RPS resource portfolios to be used in the CAISO TPP to identify needs for public-policy transmission upgrades. For example, in the fall of 2013, the CEC, CPUC, and CAISO collaborated to develop assumptions, scenarios, and RPS resource portfolios. As noted herein, these were

adopted by an ACR in this proceeding in February 2014 to feed into 2014 LTPP and 2014-15 TPP activities.

## **6. Need for Evidentiary Hearings**

The OIR stated that the issues evidentiary hearings are anticipated in this proceeding. This Ruling confirms the preliminary determination in the OIR that factual issues in Phases 1 and 2 may require evidentiary hearings.

## **7. Procedural Schedule**

The schedule delineated herein is adopted, subject to modification by the assigned Commissioner or Administrative Law Judge (ALJ) as required to promote the efficient and fair resolution of the issues.

We anticipate Phases 1 and 2 will be resolved as set forth herein and completed by December, 2015. In any event, we anticipate that this proceeding will be resolved with 24 months of the date of the issuance of this Scoping Memo. Pursuant to Public Utilities Code Sections 1701.5, we anticipate resolution of issues may require more than 18 months from the date of this Scoping Ruling due to the complexity of analyzing new stochastic and/or deterministic system flexibility models, as well as consideration of bundled procurement plans.

## **8. Alternative Dispute Resolution**

The Commission strongly encourages all parties to every proceeding to consider whether a means other than litigation can more efficiently and effectively resolve the matter. As discussed herein, one or more workshops are expected to be held by Energy Division to narrow issues in dispute and to work toward consensus. Issues which are not resolved in the workshop process may be able to be resolved or narrowed through an alternative dispute resolution process.

The Administrative Law Judge Division has ALJs trained in all Alternative Dispute Resolution techniques, as well as extensive subject matter experience, available to assist parties in resolving disputes. Requests for appointment of an ALJ to assist with Alternative Dispute Resolution should be made to ALJ Jean Vieth ([xjv@cpuc.ca.gov](mailto:xjv@cpuc.ca.gov)).

## **9. Intervenor Compensation**

The PHC in this matter was held on February 25, 2014. Pursuant to Pub. Util. Code § 1804(a)(1), a customer who intends to seek an award of compensation should have filed and served a notice of intent to claim compensation no later than March 27, 2014.

## **10. Final Oral Argument**

In Phase 1a and 1b, any party wishing to request final oral argument before the full Commission per Rule 13.13 shall do so no later than the date of opening briefs in that sub-phase, or 30 days after the date for reply testimony or reply comments in that sub-phase if no evidentiary hearings are held. In Phase 2, any party wishing to request final oral argument before the full Commission per Rule 13.13 shall do so no later than the date of reply comments or opening briefs (whichever comes later), or a date established by a subsequent ruling in this proceeding.

## **11. Categorization**

This Scoping Memo confirms the preliminary determination in R.12-03-014 that Phases 1a and 1b of this proceeding will be “ratesetting,” as defined by Rule 1.3(e), while Phase 2 of this proceeding will be quasi-legislative, as defined by Rule 1.3 (d).

**12. Presiding Officer**

The assigned ALJ is David M. Gamson, who will act as the presiding officer in this proceeding.

**13. Ex Parte Communications**

In accordance with Rule 8.2, *ex parte* communications in the ratesetting phases of this proceeding are allowed, subject to the reporting requirements in Rule 8.3 and the restrictions in Rule 8.2.

**IT IS RULED that:**

1. Evidentiary hearings may be needed for Phases 1a, 1b and 2 of this proceeding.
2. The scope of this proceeding is as stated herein.
3. The schedule for the Phase 1a of this proceeding is as stated herein. The Schedules for Phase 1b and Phase 2 are preliminary set forth herein, and will be set forth in more detail in a future Ruling.
4. Administrative Law Judge David M. Gamson shall be the presiding officer in this proceeding.
5. The preliminary determination in Rulemaking 13-12-010 that this proceeding is categorized as ratesetting for Phases 1a and 1b is confirmed. Phase 2 is categorized as quasi-legislative.

Dated May 6, 2014, at San Francisco, California.

/s/ MICHAEL PICKER  
Michael Picker  
Assigned Commissioner

/s/ DAVID M. GAMSON  
David M. Gamson  
Administrative Law Judge