

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

Order Instituting Rulemaking to Promote Policy and Program Coordination and Integration in Electric Utility Resource Planning.

Rulemaking 04-04-003  
(Filed April 1, 2004)

**ASSIGNED COMMISSIONER'S RULING  
REGARDING NEXT STEPS IN PROCURMENT PROCEEDING**

**I. Background**

The purpose of today's ruling is to provide respondents and interested parties an indication of the Commission's intention to close the existing procurement proceeding (Rulemaking (R.) 04-04-003) and commence new proceedings to handle future procurement related issues. This rulemaking will be closed in the near future, but the existing open proceeding will be used to begin work on some urgent issues, as described in this Assigned Commissioner's Ruling (ACR).

This ACR will:

- Review progress from the existing procurement proceeding and announce the Commission's intention to initiate new procurement related proceedings in the near future;
- Annunciate preliminary goals, priorities, and preliminary schedule for the upcoming long-term procurement plan (LTPP) proceeding(s) cycle;
- Announce workshops to commence work on the upcoming LTPP cycle;

- Invite parties to comment on the next LTPP cycle, as discussed in this ACR.

## II. Review Progress of Procurement Rulemaking

The Commission has made substantial advancements on addressing many of the key procurement policy issues facing the State of California. While there is still significant work to be done to get to a fully functioning and stable electricity market, the Commission has made significant progress to date on establishing a regulatory framework for procurement by the Investor-Owned Utilities (IOUs), and in particular on the goals set forth in this proceeding.

The Commission initiated this rulemaking in April 2004, as the successor to R.01-10-024, to serve as a forum to consider procurement policies in a coordinated and integrated manner across numerous proceedings at the Commission. R.04-04-003 was intended to be the policymaking forum to consider six issues areas, and a review of the progress made in the six issues areas is listed below.<sup>1</sup>

1. **Review and Adopt Long-Term Procurement Plans.** The LTPPs of the three large IOUs were reviewed in 2004, and the Commission adopted D.04-12-048 to approve the plans. The Commission will establish a successor rulemaking to consider the next biennial cycle of long-term procurement planning issues.<sup>2</sup>

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<sup>1</sup> See R.04-04-003, pp. 3-6, available at:  
[http://www.cpuc.ca.gov/PUBLISHED/FINAL\\_DECISION/35505.htm](http://www.cpuc.ca.gov/PUBLISHED/FINAL_DECISION/35505.htm)

<sup>2</sup> The Commission established that long-term procurement planning would occur on a biennial basis in D.04-01-050, an approach adopted to ensure appropriate coordination with the California Energy Commission's Integrated Energy Policy Report proceeding. (See D.04-01-050, p. 175.)

2. **Establish Resource Adequacy Requirements.** Resource adequacy (RA) requirements were established in Phases 1 and 2 of the RA portion of this proceeding, and the Commission adopted D.04-10-035 and D.05-10-042 to establish the requirements for one-year ahead for all load-serving entities. The Commission will establish a new rulemaking to consider future RA matters, including implementation issues related to existing requirements, as well as extension of RA mandates to local areas and multi-year requirements.
3. **Review Development of Procurement Incentives for Each Utility.** The Commission issued a staff proposal for an incentive procurement framework with the issuance of this rulemaking, and subsequently solicited comments from interested parties on the staff proposal and other incentive frameworks. In March 2005, the Commission hosted a procurement incentives workshop to further discuss threshold policy and implementation issues, and received opening and reply comments on the workshop report in April and May. The Commission is currently considering the record but has not yet adopted a decision in this area. There may be a decision issued in the near future in this rulemaking, or the procurement incentives issue may transfer to the long-term procurement planning successor rulemaking, or to another procedural forum, as appropriate.
4. **Review Treatment of Confidentiality Information.** Senate Bill (SB) 1488 directed the Commission to initiate a proceeding to examine its practices under Section 454.5 and 583 of the Public Utilities Code and the California Public Records Act. To implement SB 1488, the Commission issued rulemaking R.05-06-040. The first phase of this proceeding is examining the Commission's confidentiality practices in the context of electricity procurement activity. The Phase I hearings were held the week of November 28, 2005. The Commission is expected to issue a Phase I decision in spring 2006 to establish guidelines to address the concerns regarding meaningful public participation and transparency in the procurement proceeding.

5. **Review of Long-Term Policy for Expiring Qualified Facilities Contracts.** This issue is currently under consideration in tandem with the Avoided Costs rulemaking R.04-04-025, and hearings are now scheduled in the combined proceedings for January 2006.
6. **Review of Management Audits.** The Commission's staff has not yet concluded the management audits referenced in R.04-04-003. If not concluded by the close of this proceeding, this issue will transfer to a long-term procurement planning successor rulemaking.

In light of our significant progress on the issues central to this rulemaking, this rulemaking will be closed in early 2006.

### **III. Planning for 2006 Long-Term Procurement Planning Rulemaking**

All procurement policy will continue to be coordinated and integrated, even as this proceeding is closed and successor proceedings are initiated. As mentioned above, the Commission will initiate two new rulemakings related to procurement. First, the Commission will initiate an Order Instituting Rulemaking (OIR) on resource adequacy, probably in December 2005, as the forum to consider future RA issues, including implementation matters related to existing RA requirements, as well as the extension of RA mandates to local area and multi-year requirements. Since a new rulemaking is imminent, it is not necessary to elaborate further here on the goals of a new RA proceeding.

Second, the Commission will initiate a successor procurement OIR, slated for late January or February 2006, to handle the biennial long-term procurement planning cycle and other procurement issues. While the objectives of the next procurement rulemaking cycle will be established in the new OIR, an overview of initial thoughts about the goals of the upcoming proceeding is warranted here.

Parties are invited to comment on the ACR so that feedback can be used to further refine the rulemaking prior to its inception.

The future procurement proceeding will be the forum to consider a wide range of LTPP issues. As with the existing procurement rulemaking, the Commission will use its new LTPP rulemaking to handle procurement policy issues that do not warrant a separate rulemaking and/or issues which need to be considered in the context of our comprehensive procurement regulatory framework. Our future rulemaking will continue to serve as a place to coordinate all of our efforts ongoing in the other procurement related dockets, including:

1. Community Choice Aggregation, R.03-10-003;
2. Demand Response program plans (A.05-06-006 et al.);
3. Critical Peak Pricing (A.05-01-016 et al.);
4. Distributed Generation, R.04-03-017;
5. Energy Efficiency, R.01-08-028;
6. Avoided Cost and Qualifying Facility (QF) Pricing, R.04-04-025;
7. Renewable Portfolio Standards, R.04-04-026;
8. Transmission OII, I.00-11-001; and Renewable Energy Transmission, I.05-09-005;
9. Confidentiality, R.05-06-040; and
10. Resource Adequacy (rulemaking to be issued shortly).

Among the procurement planning issues that are not covered in any of the procurement related dockets above that need to be addressed in a future procurement rulemaking are the following:

1. A review of the need for new generation in California, including consideration of temporary and/or permanent mechanisms (e.g., cost allocation and benefit sharing, or some other alternative) which can ensure construction of and investment in new generation in a timely fashion;
2. A review of long-term resource plans, including an integrated resource planning process for all IOU planning areas;
3. Updates to IOU procurement policies and practices; including review and approval of new 10-year procurement plans; and
4. Any procurement policy issues not handled in R.04-04-003 or other procurement related dockets.

With respect to integrated resource planning, in the next procurement proceeding, respondents will be asked to generate integrated resource plans. These integrated resource plans will be the primary forum for considering resource alternatives, and plans will be reviewed in the context of existing procurement policies (including policy targets and constraints), resource planning trade-offs, the loading order and the least cost/best fit criteria. Plans will include analysis of the tradeoffs between transmission and generation, as well as different resource types, bearing in mind policy, availability, the loading order, and least-cost best fit. Once adopted, procurement plans will become the basis for numerous future infrastructure Applications.

We will use the recently adopted Energy Action Plan II (EAP II) as our guidepost in the future procurement proceeding.<sup>3</sup> Under the EAP II, the State's energy agencies have jointly developed a set of priorities for energy policy. Many of these priorities are directly relevant to the procurement rulemaking, and we will consider the EAP II priorities as we establish the priorities for the rulemaking. In addition, the California Energy Commission's (CEC) 2005 *Integrated Energy Policy Report*, has made numerous procurement-related recommendations which will be considered during the rulemaking.<sup>4</sup>

In the current procurement proceeding, Energy Service Providers (ESPs) have been respondents only to the resource adequacy portion of the proceeding, but not to the long-term planning portion of the proceeding. According to Assembly Bill (AB) 380, the Commission should establish resource adequacy requirements that: (1) facilitate the development of new generation capacity and (2) equitably allocate the cost of generating capacity.<sup>5</sup> Based on our review of the information necessary in order to accomplish the goals of our next LTPP proceeding, I expect that the Commission will name all load-serving entities (LSEs) as respondents to the long-term procurement planning proceeding.<sup>6</sup>

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<sup>3</sup> Energy Action Plan 2 was adopted in October 2005. See <http://www.cpuc.ca.gov/PUBLISHED/REPORT/50480.htm>.

<sup>4</sup> CEC's Integrated Energy Policy Report 2005 is available at <http://www.energy.ca.gov/2005publications/CEC-100-2005-007/CEC-100-2005-007-CMF.PDF>

<sup>5</sup> See Pub. Util. Code § 380(b)(1) and (2).

<sup>6</sup> D.05-11-025 has determined that Energy Service Providers, Community Choice Aggregators, and Small/Multi-jurisdictional utilities are required to comply with the fundamental aspects of the RPS program, including procuring 20% of their retail sales

*Footnote continued on next page*

although probably not to all portions of the proceeding. To meet the RA requirements of AB 380 while at the same time recognizing that LSEs include not just IOUs, but also ESPs and Community Choice Aggregators, the Commission will need the participation of all LSEs in the Commission's LTPP process.

Parties are invited to submit comments to this ACR. Filings may include comments on whether the procurement proceeding should include all of the items discussed above (or more), in what order, to what degree, and how the Commission should prioritize or order the work in this proceeding.<sup>7</sup> Parties are encouraged not to argue the merits of various issues, but focus exclusively on the upcoming process, content, and timing. The Commission's staff has developed a proposal that offers a draft proceeding work plan, see Appendix A. The proposal attempts to structure the proceeding to cover all of the issues identified above. Any record that is established in this proceeding may become the basis for a new long-term procurement planning proceeding, and if necessary, the record will be transferred to the new proceeding.

#### **IV. Workshops to Begin Work on Long-Term Planning Issues**

Based on our experience with the long-term procurement planning proceeding in 2004, we wish to do more work prior to the filing of procurement plans to ensure that the filings will meet the full needs of the Commission. To that end, there will be a workshop on December 14, 2005, from 9:30 a.m. - 2:00 p.m., at the Commission Auditorium, 505 Van Ness Avenue, San Francisco,

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from renewable energy sources by 2010. The extent to which they are to comply is to be determined in R.04-04-026.

<sup>7</sup> Parties may include previous filings from earlier proceedings or earlier phases of this proceeding that cover the same issues.

to consider the process and schedule for the long-term procurement proceeding. Now is the appropriate time to consider how to prioritize all of the work of the 2006 proceeding so that procurement filings will meet the needs of the Commission.

The workshop will be a forum to consider the goals presented in this ACR, and in particular, staff's draft work plan (see Appendix A) on how to structure the upcoming proceeding. The goal of this effort is to attempt to reach consensus on the list of priority issues that can be reasonably addressed in the 2006 long-term procurement plans. The workshop will focus on the **process, not the substance**, for addressing the issues in the 2006 LTPP proceeding. Respondents and interested parties should be prepared to discuss the critical steps and timetables for addressing each issue. Respondents and interested parties should also carefully review and consider how these steps and timetables relate to ongoing activities of the California Independent System Operator (CAISO), California Energy Commission (CEC) and the Federal Energy Regulatory Commission.

Respondents and interested parties are invited to file comments on this ACR that will serve as pre-workshop comments. Comments on this ACR should be filed by December 12, 2005. Through the comments on this ACR, as well as the workshop and post-workshop comments, staff will develop a road map for the 2006 procurement proceeding that allows sufficient time for respondents and interested parties to develop the full record required to take action on the proceeding's key issues. This process will guide the development of the new OIR.

## **V. Interagency Collaboration Issues**

### **A. CEC Transmittal Report**

As part of its Integrated Energy Policy Report (IEPR) proceeding, the California Energy Commission adopted the Committee Final Transmittal of 2005 Energy Report Range of Need and Policy Recommendations to the California Public Utilities Commission (Transmittal Report) on November 21, 2005.<sup>8</sup> As indicated in a March 2005 ACR, the CEC's Transmittal Report is expected to be used as a basis to establish the range of need for the IOUs. The Transmittal Report summarizes procurement-related policy recommendations from the 2005 Integrated Energy Policy Report. In addition, the Transmittal Report provides the "CPUC with the data and analyses used by the Energy Commission to assess the demand forecasts and resource needs for the state's three largest investor-owned utilities (IOUs)."<sup>9</sup> The report focuses on the IOU range of need, and specifically on the contractual net short for each IOU. The Transmittal Report provides information on IOU supply and demand, with a focus on the years 2009-2016. For the supply side, the CEC suggests that the Commission have the IOUs update information on renewables and other bilateral contracting when they file their long-term plans. For the demand side, the CEC suggests that the Commission: (1) use an updated demand forecast for 2007-2008 based on new developments using the demand forecast methodology used to establish the resource adequacy requirements, and (2) adopt and use the unmodified CEC

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<sup>8</sup> CEC's Transmittal Report is available at:  
<http://www.energy.ca.gov/2005publications/CEC-100-2005-008/CEC-100-2005-008-CTF.PDF>.

<sup>9</sup> *Id.*, p. 1.

staff annual forecast for 2009-2016 as the long-term planning forecast for the IOUs, IOU service areas, and planning areas. Other CEC IEPR documents referenced in the Transmittal Report, including the California and Western Electricity Supply Outlook Report from July 2005, provide an extensive record on the physical capacity supply outlook for the state, including the outlook for each IOU planning area.<sup>10</sup>

Parties were provided the opportunity to comment on the CEC's Draft Transmittal Report. The CEC included those comments in its final Transmittal Report, as well as an itemized reply, in the final Report. Parties are not invited to comment here on the contents of the Transmittal Report; however, parties are invited to comment on how the Transmittal Report can be used as an input in the 2006 proceeding. Parties should consider both the Transmittal Report, as well as the full record developed in the CEC's IEPR proceeding (much of which is carefully referenced in the Transmittal Report), in considering how the IEPR work can be a starting point for the 2006 LTPP proceeding. Parties should also consider whether any additional CEC inputs need to be updated as part for the 2006 LTPP proceeding, especially in light of the draft schedule proposal in Appendix A.

## **B. Transmission Planning Effort**

Respondents to the 2006 LTPP proceeding will be expected to file plans that take into consideration the CAISO's forthcoming Statewide Transmission Plan. The CAISO planning process will incorporate the CEC recommendations

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<sup>10</sup> See the following link for all documents related to the *California and Western Electricity Supply Outlook Report*.  
[http://www.energy.ca.gov/2005\\_energypolicy/documents/2005\\_index.html#072605](http://www.energy.ca.gov/2005_energypolicy/documents/2005_index.html#072605)

from the IEPR process. The expectation is that the CAISO plan will identify high priority transmission projects that can be implemented in the short- and long-term. Respondents will be able to consider the projects identified in the CAISO study when they file their long-term plans with the Commission.

Attached as Appendix B is a Transmission Planning Collaboration document worked on collaboratively by the staffs of the Commission, CEC, CAISO.<sup>11</sup> The Commission, CEC, and CAISO will jointly host a workshop on December 14, 2005, from 2:00 p.m. - 5:00 p.m., at the Commission's Auditorium, 505 Van Ness Avenue, San Francisco, in order to present the transmission collaboration document and take public comment on the document. In addition, parties may submit comments on Appendix B in their comments on this ACR. Filings should include comments on how transmission planning information can be incorporated into the 2006 LTPP proceeding. In both the written comments and at the workshop, parties are encouraged to comment on the approach set forth in Appendix B, as well as the role of third-party developers and options for competitive procurement of transmission in the processes described in Appendix B.

**IT IS RULED that:**

1. Any record that is established in this proceeding may become the basis for a new long-term procurement planning proceeding, and if necessary, the record will be transferred to the new proceeding.

2. Parties are invited to submit comments to this Assigned Commissioner's Ruling (ACR), specifically addressing: (a) the goals of the future long-term

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<sup>11</sup> An earlier version of this collaboration document was issued as an Appendix to a ruling on September 16, 2004.

procurement planning proceeding described herein, (b) the preliminary staff proposal attached as Appendix A, and (c) the transmission planning collaboration document in Appendix B. Comments on the ACR should parallel the structure of the ACR, and its Appendices. Comments are due on December 12, 2005.

3. A long-term procurement planning workshop is scheduled for December 14, 2005, from 9:30 a.m. to 2:00 p.m., at the Commission's Auditorium, 505 Van Ness Avenue, San Francisco, to be hosted by the Commission's Energy Division. The purpose of the workshop is to plan for the long-term procurement plan (LTPP) proceeding. Workshop participants will discuss the goals for the upcoming procurement proceeding, the staff proposal for the proceeding work plan (attached as Appendix A), and comments to this ACR. Post-workshop comments will be due on January 5, 2006, and if necessary, reply comments will be due on January 12, 2006.

4. A Transmission Planning Collaboration workshop will be held on December 14, 2005, from 2:00 p.m. - 5:00 p.m., at the Commission's Auditorium, 505 Van Ness Avenue, San Francisco, to be jointly hosted by the Commission, CEC, and CAISO. The purpose of the workshop is to discuss the Transmission Planning Collaboration documents attached in Appendix B.

Dated December 2, 2005, at San Francisco, California.

/s/ MICHAEL R. PEEVEY  
Michael R. Peevey  
Assigned Commissioner

## APPENDIX A

### Staff Draft Proposal for Long-Term Procurement Planning Proceeding Work Plan

#### I. Introduction

The Commission's Energy Division Staff has developed a draft work plan proposal for how to prioritize and organize the 2006 procurement proceeding. This draft work plan will be discussed in a workshop on December 14, 2005, from 9:30 a.m. to 2:00 p.m., at the Commission's Auditorium, 505 Van Ness Avenue, San Francisco. Parties are invited to submit comments on this Assigned Commissioner's Ruling that will serve as pre-workshop comments.

The purpose of this draft work plan is to identify activities and timelines required to accomplish the proposed goals of the 2006 long-term procurement planning proceeding. For the goals already identified below, staff provides a brief overview of the topic and provides questions that may be addressed as part of that section of the proceeding. The "Proposed Activities" sections outline the process for addressing the issues identified.

Parties are asked to provide comments on Appendix A in a format that mirrors the structure of this document, i.e., along the suggested goals of the proceeding. Additional goals may be suggested. Comments are requested on whether the proposed activities and timelines are feasible and/or sufficient to meet the requirements of the Commission's procurement policy framework, as well as AB 57 and AB 380. Comments are requested on whether the questions to be addressed as part of each phase of the proceeding are appropriate. *Parties should not feel compelled to **answer** the questions asked below; instead, parties should focus on whether we are asking the right questions, in the right order.* Parties are encouraged to identify additional questions or topics which need to be addressed

in each phase. Parties may consider the process of the 2004 LTPP cycle in their comments (e.g., what parts of the process worked best).<sup>1</sup> Parties are asked to comment on staff proposals about the process proposed, i.e., the use of workshops, briefs, testimony, and/or hearings to establish the record required to act in this proceeding. **Parties are reminded the purpose of this document and the December 14<sup>th</sup> workshop are to establish the process and issues, not to argue the merits of the issues.**

## **II. Proposed Goals of Long-Term Procurement Proceeding**

As outlined in the attached ruling, the following are the proposed goals of the long-term procurement proceeding.

1. A review of the need for new generation in California, including consideration of temporary and/or permanent mechanisms (e.g., cost allocation and benefit sharing, or some other alternative) which can ensure construction of and investment in new generation in a timely fashion;
2. A review of long-term resource plans, including an integrated resource planning process for all IOU planning areas;
3. Updates to IOU procurement policies and practices, including review and approval of new 10-year procurement plans; and
4. Any procurement policy issues not handled in R.04-04-003 or other procurement related dockets.

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<sup>1</sup> For reference, parties may wish to refer to the summary of the 2004 LTPPs that was attached to D.04-12-048 as Appendix A. The document is available at [http://www.cpuc.ca.gov/word\\_pdf/FINAL\\_DECISION/43225.PDF](http://www.cpuc.ca.gov/word_pdf/FINAL_DECISION/43225.PDF).

### **III. Draft Activities to Accomplish Proceeding Goals**

For each goal outlined above, staff has prepared a tentative timeline and list of activities required to accomplish the goal. Questions that need to be answered by this proceeding are included to illustrate the type of facts that need to be established.

#### **1. Review the Need for New Generation**

Given rising concerns about the state's electricity supply outlook, the lead time required of new generation, and IOU concerns about contracting for new long-term resources, it appears that the review of the need for new generation should be the first issue addressed in the proceeding. In the D.04-12-048, the Commission found that it may be necessary for PG&E and Southern California Edison (SCE) to add some new generation.<sup>2</sup> Since that time, IOUs (SCE in particular via A.05-06-003) have expressed concerns that adding the specified new generation amounts when only bundled customers pay for new generation may be problematic. It is far from ideal to separate this issue from the full integrated resource planning process we envision for 2006, but it may be necessary to address this question first.

##### **a. Establishing Factual Need for New Generation**

The purpose for addressing this issue first would be to confirm whether there is a factual need for new generation in the state (not just the IOU bundled customers), and if so, identify where is the need. Questions that may be considered in this part of the proceeding include:

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<sup>2</sup> See D.04-12-048, Ordering Paragraphs (OPs) 4 and 5.

- Does the CEC Transmittal Report, or the Transmittal Report in concert with other IEPR documents, establish the timeline on which there is a need for new generation? Do any of the CEC IEPR documents (if so which?) need to be updated in order to identify when there is a need for new generation, and if so, on what timeline should such documents be updated?
- At what level does the need for new generation need to be established – statewide, IOU planning level, zonal, local, or other – in order for the Commission to effectively authorize the construction of new generation? Is this information already readily available in the public record?
- Do OPs 4 & 5 in D.04-12-048 suffice to establish the need for new generation? (If so, is there any further need to review this in an early phase of this proceeding?) Is it possible to separate off cost-allocation treatment of new generation need already acknowledged for Pacific Gas & Electric Company (PG&E) and Southern California Edison Company (SCE) in D.04-12-048, and treat that separately than any additional need for new generation that may be established by the integrated resource planning process later in this proceeding?
- Should the need for new generation be distinguished between generation needed for “reliability,” versus generation needed for “aging plant replacement,” versus generation needed for “compliance with renewable portfolio standards”? Should new generation be divided into different categories so that cost allocation can be apportioned relative to the purpose served by the new generation?
- Is it possible for an early phase of this proceeding to set the need for new generation at a number (e.g., X MW, or a range of X-Y MW) in a set location (e.g., in NP15 or the Greater Bay Area or the Oakland sub-area) in this phase of proceeding, and have the later phase of this proceeding examine the resource supply plans used to meet the need for new generation? Given that the integrated resource planning process described below may

reveal that transmission investments obviate the need for some new power plants, how can the State adopt a need determination prior to conducting a full review of the integrated resource plans?

*Activity Proposed:* Staff proposes a workshop be held in late January to identify the facts already available in the public record to support the need for new generation. The workshop will consider whether additional facts need to be developed as inputs into the Commission's procurement proceeding. Parties are invited to comment whether this issue requires testimony and hearings, or whether workshops can be used to establish a record. The Assigned Commissioner has already stated that the Commission's procurement proceeding will not be the forum to relitigate the IEPR proceeding, and parties should identify how the facts available in the public record are insufficient to meet the goals established above if they argue testimony and hearings are required.

**b. Temporary and/or Permanent Mechanism (e.g., Cost Allocation and Benefit Sharing or Other Alternative)**

After establishing the need for new generation, the Commission will need to establish the range of options for cost and benefit allocation for new generation. It has been assumed that IOUs will build new generation on behalf of IOU bundled customers. If there is a need to reconsider this issue to ensure additional investments in new generation, then this question may be addressed here.

Questions that may be considered in this part of the proceeding include:

- Does the state immediately require an interim and/or permanent mechanism that allows the costs and benefits of new generation to be allocated across all load-serving entities, or all load-serving entities in a defined geographic location?

- Is it possible or desirable to establish a “new portfolio standard” for all LSEs, so that all LSEs would share in the costs and benefits of new generation?
- Should the cost and benefit allocation mechanism apply to all new generation in IOU planning areas, only new generation identified to meet system reliability needs, or some other specified subset of new generation?
- What are the options for cost and benefit allocation of new generation? (For example, IOUs invest in all new generation in support of IOU bundled customers only, IOUs invest in all new generation in support of all customers in IOU planning areas, a third party invests in new generation in IOU planning areas, or others, etc.) In addition, how should the cost/benefit allocation be integrated into integrated resource planning?
- The Commission has already issued a White Paper that contemplates the creation of a capacity market; however, it is not expected that an independent capacity market will be in place in 2006. Furthermore, it is not expected that, initially, a capacity market alone will support the development of new generation. Is it possible to choose an interim cost and benefit allocation mechanism (or some other alternative) that does not foreclose the possibility of capacity markets?

*Activity Proposed:* Staff proposes that this issue be the subject of briefs and reply briefs submitted by parties in February 2006.<sup>3</sup> The Commission could jointly consider the need for new generation, and the cost allocation issue, and issue a draft decision on an interim cost allocation mechanism in April 2006. Issuing a

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<sup>3</sup> An alternative is for hearings to be held on these issues. Hearings may be required because of the fact that this issue deals with treatment of costs. Parties are welcome to comment here on the process proposed.

decision by April 2006 would allow IOUs to move forward with any new generation Request for Offers (RFOs) in an expeditious manner. Any decision on this issue would be limited, and it would not cover (a) approval of specific contracts; or (b) approval of specific resources to fill resource needs.

**2. A Review of Long-Term Procurement Plans, Including an Integrated Resource Planning Process for All IOU Planning Areas**

A main driver of the procurement proceeding is to ensure that long-term procurement planning is happening consistent with the laws and policies of the State. To that end, we expect that all load serving entities (including IOUs, ESPs, and CCAs) will submit long-term procurement plans so that resource planning can be conducted in an integrated fashion.

All respondents to the proceeding will file resource plans, covering 10 years, with additional detail on the near term (defined as the next two years). Parties will be expected to update the resource plans every two years. As noted in D.04-12-048, the Commission prioritizes resources in a loading order that emphasizes energy efficiency and demand response on the demand side, and favors renewables over fossil-fueled resources on the supply side. Where plans anticipate the need for conventional resources, it will not be acceptable to simply assume that new generation occurs in the anticipated amount, but rather each respondent must describe in detail its plans to acquire or otherwise ensure the investment in such new generation. Resource plans will meet the requirements set forth by the Renewable Portfolio Standard long-term planning decision, D.05-10-014. Filed resource plans should incorporate the ISO's Transmission Plan (as discussed further below) and explain why alternative resources (such as generation or demand response) are preferred to the transmission projects proposed by the ISO.

Questions that may be considered in this part of the proceeding include:

- How can the Commission establish a process for implementing integrated resource planning as part of the long-term procurement planning proceeding?
- Should electric service providers and/or small IOUs be required to file long-term resource plans? Can they file a subset of information required by the three large IOUs?
- Does the Commission need to establish or adopt an Integrated Resource Planning (IRP) methodology prior to having parties file plans? How much guidance should the Commission provide respondents in filing their resource plans? Given that the development of an IRP methodology is expected to be iterative (i.e., 2006 plans will not be perfect), what can the Commission expect to do in 2006 vs. reserve for future year iterations?
- Can parties use the Supply Plans submitted to the CEC in February 2005 as the basis (or framework) for submitting supply plans to the Commission?
- How should the parties represent local area needs in their resource plans? What are the local areas that need to be considered on a stand alone basis?
- What should be the content (and organizational structure) of the resource plans?
- How should CEC 2005 IEPR (including Transmittal Report, policy recommendations, and other documents, as appropriate) and CAISO Transmission planning study be incorporated into the IRP methodology?
- What should the basis be for the review of plans submitted to the Commission? What should the evaluation metrics be and how should they be established?

- How should parties treat risks and uncertainties in their resource plans?
- What assumptions need to be established prior to parties filing resource plans? (For reference, the Commission provided IOUs with a lengthy set of planning assumptions in a June 4, 2004 ruling.)
- What should be the method for validating predicted performance to determine whether integrated resource planning objectives of the Commission are met?
- What response should the Commission take if plans are inadequate, or approved plans are not implemented?

*Proposed Activities:* Staff proposes that integrated resource planning be the subject of a two-day workshop in late February 2006. Staff would like to provide a IRP straw proposal prior to the workshop and ask parties to file pre-workshop comments.<sup>4</sup> Parties are invited to comment on how that workshop can be structured to facilitate the development of robust resource plans. Parties are encouraged to identify other integrated planning resources that will help the Commission establish an integrated resources planning methodology or framework.<sup>5</sup> Prior to the February workshop, parties will be invited to submit

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<sup>4</sup> Staff is interested to know whether parties could cooperate to prepare such a proposal in advance of the workshop.

<sup>5</sup> In D.04-01-050 (p. 178), we directed parties to look at the PacifiCorp 2003 Integrated Resource Plan (see <http://www.pacificorp.com/File/File47422.pdf>) as a sample for integrated resource planning. Some other Integrated Resource Planning Resources identified by staff include:

- Puget Sound Energy 2005 IRP Plan, [http://www.pse.com/about/supply/LCP/20050503/LCP\\_no%20appendices.pdf](http://www.pse.com/about/supply/LCP/20050503/LCP_no%20appendices.pdf);

*Footnote continued on next page*

proposals on how to refine the IRP issues identified here. In addition, staff proposes that a second set of workshops be held in March 2006 so that each respondent can present its proposed/draft resource plan for discussion prior to filing. Each IOU would host a half-day workshop to present their plans and get feedback. The workshop comments would help the IOUs refine their plans, as well as establish the contents of a ruling (if necessary) in April 2006 directing parties on how to file plans in May 2006. After filing the final plans in May 2006, additional presentations on the final plans may be held. If necessary, hearings may be held in July 2006 and a draft decision issued by November 2006.

### **3. Updates to IOU Procurement Policies and Practices; Including Review and Approval of New 10-year Procurement Plans**

Consistent with AB 57 (Pub. Util. Code § 454.4), the IOUs are required to file procurement plans every two years. In addition to the resource plans discussed in Number 2 above, the IOUs are required to file updates to any of their procurement policies and practices.

Questions that may be considered in this part of the proceeding include:

- Which of the following issues needs to be filed as part of the IOU procurement plans?

- 
- Great River Energy 2005 IRP Plan,  
[http://www.greatriverenergy.com/partners/\\_images/2005\\_irp\\_public.pdf](http://www.greatriverenergy.com/partners/_images/2005_irp_public.pdf);
  - Avista Utilities 2005 IRP plan,  
[http://www.avistautilities.com/resources/plans/documents/Avista\\_2005\\_IRP\\_Final.pdf](http://www.avistautilities.com/resources/plans/documents/Avista_2005_IRP_Final.pdf);
  - Western Resource Advocates' Balanced Energy Plan for the Interior West,  
<http://www.westernresourceadvocates.org/energy/bep.php>;
  - Best Practices Guide: Integrated Resource Planning for Electricity,  
<http://www.iie.org/programs/energy/pdfs/Integ%20Resource%20Planning.pdf>

- IOU gas hedging practices for electricity portfolios and procedures for modifying gas hedging strategies
- IOU use of TeVar to measure the customer risk tolerance threshold in its procurement practices
- Impact of resource adequacy on costs and procurement practices
- Use of GHG adder in procurement practices of IOUs
- Credit risk policies used by IOUs in procurement
- Portfolio risk policies used by IOUs in procurement
- Use of Independent Evaluator in procurement bid evaluations
- Evaluation of the Level Playing Field in IOU procurement (i.e., contracting for utility owned generation vs. power purchase agreements)
- Role of Procurement Review Groups in IOU procurement
- Practices and procedures used by IOUs in their Requests for Offers (RFOs), including use of all source or all party RFOs (open to new only or existing generation)
- Others to be identified?
- Are any workshops required to discuss specific procurement issues?
- How should the procurement-related policy recommendations noted in the CEC's Transmittal Report be handled in this phase of the proceeding?
- Should the IOUs prepare and file comprehensive procurement policies & practices that incorporate the numerous decisions, rules and laws that govern their procurement?

*Activities Proposed:* Staff proposes a workshop in late February 2006 to identify the procurement policies and practices that need to be review in coordination with the long-term resource plans. IOUs would file updates to their procurement plans in May 2006. After filing the final plans in May 2006, hearing may be held in July 2006 and a draft decision issued in November 2006.

**4. Any Procurement Policy Issues not Handled in R.04-04-003  
or Other Procurement Related Dockets**

Numerous other policy issues not handled in R.04-04-003 may be shifted into this successor proceeding. Potential issues for consideration here are review of management audits and others to be identified.

*Proposed Activities:* Staff proposes no specific activities at this time.

**Draft Schedule**

December 12, 2005	Comments due on this ACR
December 14, 2005	9:30 a.m. – 2:00 p.m. - Commission Workshop on Long-Term Procurement Planning 2:00 p.m. – 5:00 p.m. - Commission, CEC, and CAISO Workshop on Transmission Planning Collaboration Location: Commission’s Auditorium, 505 Van Ness Avenue, San Francisco
January 5, 2006	Post Workshop Comments
January 12, 2006	Post Workshop Reply Comments
January 2006	CAISO issues draft Transmission Study
Late January 2006	Establish New Long-Term Proceeding Rulemaking

Late January 2006	Staff Workshop on Need for New Generation (with Post Workshop Comments and Reply Comments Cycle)
February 2006	Prehearing Conference on new Rulemaking
Late February 2006	Staff Workshop on Integrated Resource Planning (two-day) + Staff Workshop on Procurement Policies to be considered in 2006 Filings (with Post Workshop Comments and Reply Comments Cycle)
Late February 2006	Parties File Briefs on Cost and Benefit Allocation of New Generation
March 2006	Staff Workshop on Long-Term Resource Plan Filings. All respondents will present draft proposals on contents of filings based on February workshops; each IOU will present draft plans in half-day workshops
Spring 2006	Draft decision in Confidentiality OIR Phase I
April 2006	Interim Draft Decision on New Generation + Cost and Benefit Allocation
April 2006	Ruling on Resource Plan Filings (if needed)
May 2006	Long-Term Resource Plans Filed Staff Workshops Hosted for Respondents to Present Plans
June 2006	Results of Quarterly Transaction Report Audits
July 2006	Hearings on Procurement Plans
August/Sept. 2006	Post hearing briefs and reply briefs
November 2006	Draft Decision to approve long-term procurement plans

**(END OF APPENDIX A)**

## **APPENDIX B**

### **Transmission Planning Collaboration**

This draft slides attached herein will be discussed in a workshop on December 14, 2005, from 2:00 p.m. to 5:00 p.m., at the Commission's Auditorium, 505 Van Ness Avenue, San Francisco. The workshop will be jointly hosted by the CAISO, Commission, and CEC.

# Coordinated Infrastructure Planning and Development

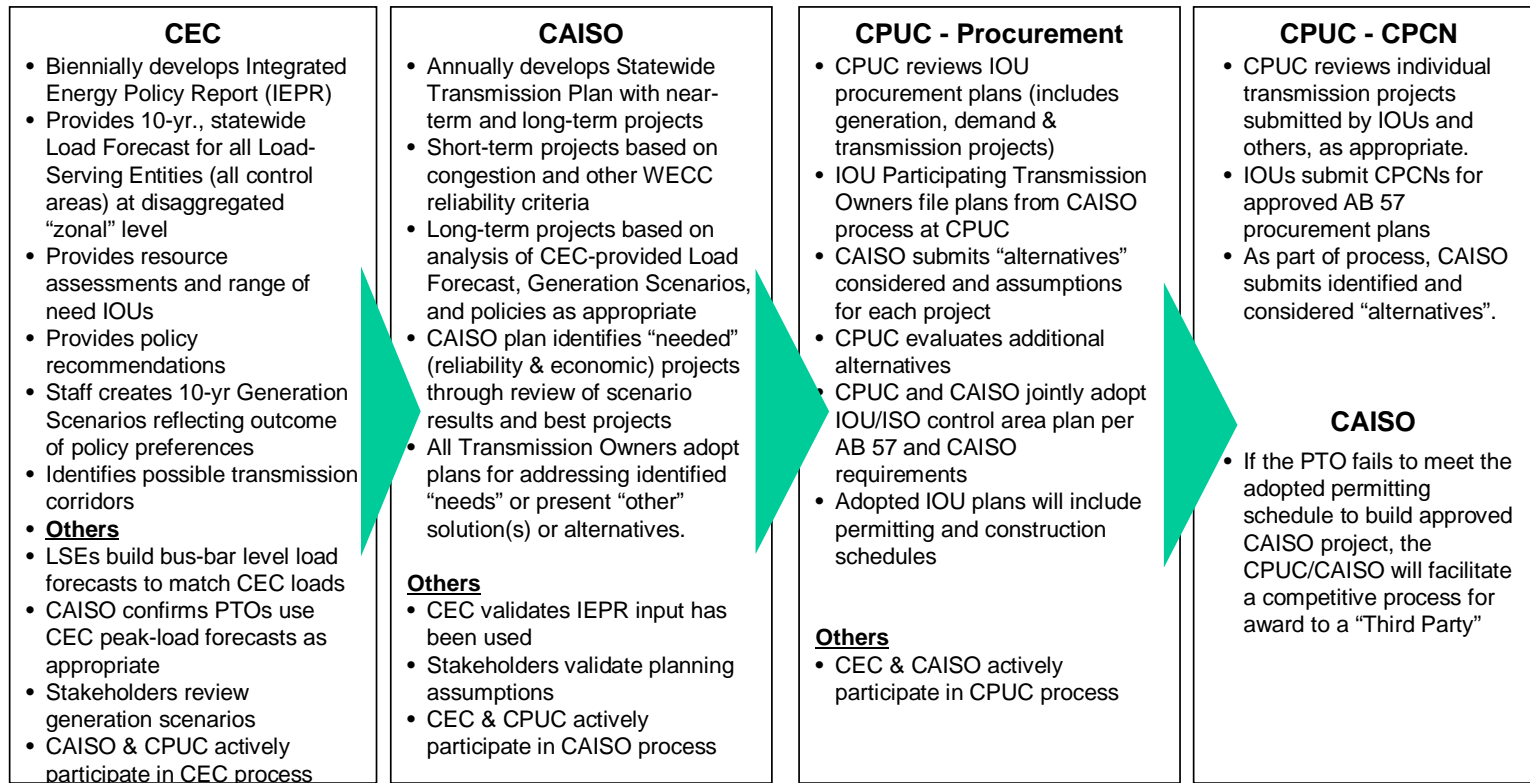
## Purpose:

*A statewide infrastructure planning and development process to ensure timely identification and commitment to generation and transmission infrastructure.*

## Key Assumptions:

- No change in statutory responsibilities among state agencies and CAISO.
- Principal focus is on the 5 to 15 year horizon.
- CPUC, CEC, and CAISO willing to adapt traditional processes to facilitate coordination.

# Infrastructure Development Process



# CEC Activities

- IEPR develops “range of need” and other key planning and policy assumptions for state and subregions with input from all LSEs and other market participants.
- Strategic transmission projects and corridors, consistent with state policies, are identified.
- CEC load forecasts are prepared at a zonal level and LSEs build bus-bar loads to conform to zonal totals.
- Resource scenario forecasts reflecting resource preference policies are developed with CAISO support for use in transmission assessments.

# CAISO Activities

- ISO guides PTO assessments and supplements them with its own analyses of need (reliability, economic and policy) to develop:
  - Short-term transmission projects based on congestion management and WECC reliability criteria,
  - Long-term transmission projects complementary to IEPR range of need and generation development scenarios consistent with statewide policy goals regarding EE, DR and renewables, and
  - The ISO will propose a method for allocating portions of the cost of alternatives to transmission revenue requirement.
- Final ISO Plan provides transmission benchmark projects along with generation and demand alternatives for each projects that were identified by PTOs.
- All TOs either adopt CAISO projects or propose alternatives that provide comparable solutions for problems.

# CPUC Procurement Process

- IOUs submit procurement plans to the CPUC consisting of generation and transmission projects and demand-side programs that are consistent with:
  - CEC IEPR for range of need determinations and general resource preference policies, as appropriate,
  - CAISO Transmission Plan projects, or
  - IOU-proposed alternative projects.
- CPUC evaluates, with significant CAISO and CEC input, tradeoffs identified for specific transmission projects and makes final planning decisions for generic generation and transmission additions or demand-side programs.
- CPUC provides direction to IOUs for procurement activities to secure specific projects compatible with planning decisions.
- Adopted IOU plans will include permitting and construction schedules
- CEQA review not triggered by overall process.

# CPUC CPCN Activities

- Public Utilities Code Section 1001 requires CPUC to make finding of public convenience and necessity for transmission projects with parallel CEQA review.
- CPUC CPCN analysis would rely on non-transmission alternatives analysis conducted in CAISO Transmission Plan and supplemented in CPUC procurement proceeding.
- Focus of alternatives assessments in project-specific CPCNs is alternative routes within a corridor compatible with path needs, not revisiting alternatives rejected in planning processes, to extent allowed by CEQA.
- If the IOU fails to meet proposed schedules for a project, then CAISO/CPUC facilitates identification of a “third party” sponsor.

# Transmission Infrastructure Development Process

(Immediate Activities – 2005/2006)

- For use in CAISO analysis, CEC and CAISO jointly develop:
  - Load assumptions based on most recently CEC-adopted IEPR assumptions
  - Generation retirement scenarios
- CAISO reviews 2006 RMR Analysis, 2006 LCR Analysis, and congestion data
- CAISO performs analysis to identify high priority transmission projects that can be implemented in 1-2 years as well as longer-term projects
- CAISO shares preliminary results with PTOs and seeks input

# Transmission Infrastructure Development Process

(Immediate Activities – 2005/2006 - Continued)

- CAISO transmits to CPUC proposed transmission plan based on pre-existing data and analysis and may include “high level concepts” from IEPR
- IOUs submit long-term procurement plans to CPUC with base case scenarios incorporating ISO proposed transmission plan, and IOUs proposing alternative solutions, if any
- Alternatives analysis occurs in CPUC procurement proceeding with significant input from CAISO and CEC
- CPUC (as part of its procurement process) and CAISO Board approval of IOU transmission plan

