



CPUC General Procurement Rules

Joint LTPP/IEPR Workshop on OTC Policy Implementation

July 28, 2009

DOCKET	
09-IEP-10	
DATE	<u>JUL 28 2009</u>
RECD	<u>AUG 03 2009</u>





Executive Summary

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- **Oversight/Advisory Requirements**
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 - **Goal: Strike balance between inducing retirements/repowering and containing costs.**





Background – Authority/Jurisdiction

Public Utilities Code 380 (RA), 454.5 (Procurement)

- **PU CODE 380 Resource Adequacy (RA)**
- Requires that each LSE maintain physical generating capacity adequate to meet its load requirements. The generating capacity shall be delivered to locations and at times may be necessary to provide reliable electric service.
- LSE's are required to submit sufficient information:
 - Ex.: anticipated load, actual load, and measures undertaken by the LSE to ensure RA. This information is to aid the Public Utilities Commission in determining compliance with RA requirements.
- All costs incurred on behalf of the IOU's customers are to be recovered in a non-bypassable 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 (Procurement)**
- 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.
- **Commission objective:** enable the electrical corporation to fulfill its obligation to serve its customers at just and reasonable rates.





General Procurement Requirements

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. (D.04-12-048 at 107-08.)
 - Short-term contracts are contracts of 3 months (one quarter) or less.
 - Medium-term contracts are contracts greater than 3 months and under five years in duration.
 - Long-term contracts are contracts of 5 years or more in length.
- Absent a Commission-approved procurement limit methodology, an IOU may execute a contract of under five years without pre-approval provided, per existing ED guidance, 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)





General Procurement Requirements

Preapproval Requirements (D.04-12-048)

- AB 57 changed cost recovery framework from after-the-fact reasonableness review to **preapproval/compliance** review.
- Procurement contracts are not subject to after-the-fact reasonableness reviews if the rules are followed.
- Long-term contracts must be submitted with an application to the Commission for preapproval.
- Short- and medium-term contracts do not require Commission preapproval, though IOUs must adhere to all relevant procurement requirements (i.e., the “upfront and achievable standards”).
- 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 an approved procurement limit methodology (i.e., a ratable rate, laddering, or layering methodology.)
- Greenhouse Gas (GHG) Adder
 - For contracts greater than or equal to five years in length, the IOUs shall employ a Greenhouse Gas Adder in evaluating the cost of power procured in 2007 and beyond when evaluating fossil and renewable generation bids received via an all source RFO. (D.04-12-048 at 152, 154.)
- Emissions Performance Standard
 - The EPS applies to baseload generation facilities.
 - 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)
 - Requirement to comply is triggered by a long-term financial commitment by an LSE.

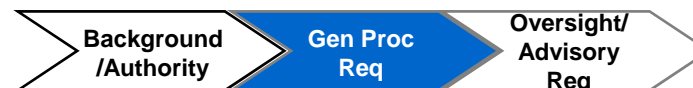




General Procurement Requirements

Cost Allocation Mechanism

- In D.06-07-029, the Commission adopted a Cost Allocation Methodology (CAM) that allows the benefits and costs of **new** generation to meet system/local needs to be shared by all benefiting customers.
 - The LSEs' customers **pay only for the net cost of this capacity**, determined as net of the total cost of the contract minus the energy revenues associated with dispatch of the contract.
 - The energy revenues are to be determined by the results of periodic energy auctions.
 - 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.(D-06-07-029 p.30)
- Only contracts for new or repowered resources selected through a competitive solicitation open to any fuel type or technology can be considered for the CAM.
 - The IOU should justify why any new contract procured on behalf of the entire system does not address local RAR.
 - IOU must elect in its application to the Commission whether it intends that the CAM should apply to the contract. The Commission's decision on the IOU's application will determine the CAM that will apply.
 - Utility built or owned resources, resources procured outside of a competitive solicitation process and renewable resources procured by the IOU to comply with the requirements of the RPS program are not eligible for the cost recovery mechanism.
- The maximum term of any cost paid by all customers for new generation that is eligible for the CAM is limited to the term of the contract or 10 years, which ever is less. (D-06-07-029, at 27)
- If the utility signs a 'hybrid' contract– 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. (D-06-07-029, at 29)





Oversight/Advisory Requirements

PRG/CAM Group Oversight

- Each IOU is to maintain and routinely consult with a Procurement Review Group (PRG).
 - Pursuant to CPUC confidentiality rules, the group consists of “non-market participants.”
- 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).
 - 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);
- PRG to consulted if:
 - 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 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.
- In order to ensure adequate representation of the various affected groups the Commission requires that at a minimum the CAM Group should include one member representing CCAs, two members representing ESPs, and one member representing other non-bundled customers.





Oversight/Advisory Requirements

Independent Evaluator Oversight

- An Independent Evaluator (IE) shall be contracted with and retained for all competitive solicitations that involve affiliate transactions or utility-owned or utility-turnkey bids and for all competitive RFOs seeking products two years or greater in duration regardless of the bidders. (D.08-11-008 OP 2)
- The IOU and PRG shall interview a subset of prospective IE candidates that the IOU, its PRG, and ED staff deem most suitable for the role. (D.07-12-052 at 137)
- For solicitations of products five years or greater in length, the IE report shall be filed with the IOU application
- For solicitations of products less than five years in length, the IE report shall be filed with the Quarterly Compliance report (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, as modified by PFM decision).
- The use of an IE is also required in resource solicitations where an IOU seeks authorization to allocate new generation costs in accordance with the CAM 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 to hold a meeting with the IE, PRG, and ED to outline their plans.
- 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)





Oversight/Advisory Requirements

RFO Approval/Energy Division Oversight

- 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).





Oversight/Advisory Requirements

Goal: Strike balance between retirements/repowering and containing costs.

- Commission encourages the retirement or repowering of older units which support the following policy goals: (D.07-12-052 p.89)
 - Reduction of once-through cooling units
 - Brownfield development per AB 1576
 - Air Quality Goals and reduction of GHGs.
- Strike balance through between retirements/repowering and containing costs.
- Support bids that encourage OTC retirements and GHG constrained portfolio: (D.07-12-052 pp.106, 111-112, 115)
 - Require IOU's to procure dispatchable ramping resources to adjust for intermittent types of renewable resources.
 - Preference given to procurement that encourages retirement of aging plant, particularly inefficient facilities with OTC in or near load pockets which units are located.
- Competitive Solicitations (D.07-12-052 pp. 209-213)
 - Commission believes in a “competitive market first” approach.
 - Unique circumstances can arise that dictate a need for OUG outside of a competitive RFO.





Thank You!

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