

**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.

R.04-04-003  
(Filed April 1, 2004)

**OPENING COMMENTS OF THE  
UNION OF CONCERNED SCIENTISTS  
ON UTILITY LONG-TERM PROCUREMENT PLANS**

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**FOR: THE UNION OF CONCERNED  
SCIENTISTS**

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## **I. INTRODUCTION AND SUMMARY**

In accordance with Rule 77.2 of the Commission’s Rules of Practice and Procedure, the Union of Concerned Scientists (“UCS”) hereby submits these Opening Comments on the Proposed Decision of Administrative Law Judge Brown (“PD”). UCS commends the Commission for taking a leadership role in the protection of the environment by requiring that the investor-owned utilities (“IOUs”) in their future power solicitations recognize the cost risks imposed on all consumers of carbon dioxide emissions from fossil-fuel generation plants. The PD represents a positive step in the Commission’s effort to make the goals set forth in the Energy Action Plan (“EAP”) an integral part of the IOUs’ procurement process and to coordinate the numerous proceedings that impact IOU procurement.

While UCS overall supports the PD, there are several key areas that would benefit from revisions, in order to ensure greater consistency with the EAP and prior Commission directives, and facilitate a more orderly approach to future IOU planning and procurement. In addition, while UCS agrees with the substance of most of the numerous updates listed in the PD, we urge the Commission to adopt UCS’ suggested approach of a single supplement/compliance filing by the IOUs for their long-term procurement plans (“LTTPs”) as the vehicle for the updates, rather than piecemeal updates that will greatly hinder and likely eliminate an integrated approach to long-term utility planning and procurement.. The PD should also be revised to:

- ◆ Require the utilities to perform sensitivity analyses of greenhouse gas adders by using a range of values;
- ◆ Acknowledge UCS contributions on the issues of greenhouse gas adders and renewables planning;
- ◆ Clarify that renewable participation in all-source solicitations will be different from solicitations designed to meet renewable portfolio standard targets, and clarify that utilities should continue to utilize the latter type of solicitation pursuant to rules already established by the Commission;

- ◆ Streamline the requirements for transmission planning to accommodate renewable resources;
- ◆ Adopt a 5 percent debt equivalence factor for renewable resource contracts that result from all-source solicitations;
- ◆ Require the utilities to model a range of gas price forecasts;
- ◆ Provide greater guidance on how utilities should add clean, fossil-fueled generation, in accordance with the loading order adopted in the EAP; and
- ◆ Clarify that parties participating in energy planning activities at the California Energy Commission ordered by the decision in this case will be eligible for Commission intervenor compensation.

UCS' proposed changes to the PD, including the Findings of Fact ("FOF"), Conclusions of Law ("COL"), and Ordering Paragraphs ("OP") are provided in Appendix A to these Comments.

## **II. PROCEDURAL DIRECTIVES IN THE PD**

### **A. The Final Decision Should Require the IOUs To Provide Their Entire Revised/Supplemented LTPPs as a Compliance Filing in Early 2005**

UCS' testimony and briefs stressed that in order to comply with the EAP and Commission directives, the IOUs should be required to supplement their LTPPs. The PD declines to require such supplements explicitly, but as summarized below, identifies key areas in which the LTPPs do not comply with Commission directives and orders additional actions that the utilities are to take to achieve better compliance. These actions include annual compliance filings of accounting tables (PD, COL 5),<sup>1</sup> "incremental improvements" in forecasts provided to the California Energy Commission (Id.), and IOU updates as required in related proceedings (pg. 37). The PD states that the Energy Division will monitor whether individual transactions comply with the approved LTPPs through the Quarterly Transaction Reports submitted in each IOU's Energy Resource and Recovery Account proceeding. (pgs. 149-152.) The PD in essence piecemeals the corrections that need to be made to the LTPPs into several different timeframes and filings.

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<sup>1</sup> All further citations are to the PD unless otherwise noted.

The PD finds that the LTPPs: (1) are inadequate in the analysis of the potential for renewable resources (FOF 55), (2) are inadequate for transmission planning purposes (FOF 26, 58), (3) do not incorporate significant increases in energy efficiency goals ordered in Decision 04-09-026 (COL 19), and (4) are potentially inadequate in the gas price forecasts (FOF 28, COL 10). The PD also requires the IOUs to incorporate into their LTPPs two new cost factors in bid evaluation: (1) a greenhouse gas (“GHG”) adder, and (2) a debt equivalency factor. (OP 19, 22(f).) The PD confirms the Commission’s policy that the renewable procurement standards are a floor, not a ceiling, and requires the IOUs to procure the “maximum amount of renewable generation resources via all-source RFOs . . . .” (OPs 2, 6, 12, 19.)

These factors in combination, or indeed any single factor, could significantly change the IOUs’ procurement strategies set forth in the LTPPs. The analysis of resource needs in the LTPPs is already obsolete due to the new energy efficiency goals set by the Commission in Decision 04-09-060. Unless the IOUs are required to identify the changes to their LTPPs in response to this decision through filing of the revised plans, it will be impossible to determine whether any individual procurement decision is actually in compliance with this decision, much less understand what is the actual LTPP guiding each IOU’s procurement activities.

A far better approach is the one proposed by UCS – a single supplemental filing by March 1, 2005 (“March 2005 Compliance Filing”) in which all of the changes directed in the final decision are shown in each of the IOUs’ LTPPs. Without the March 2005 Compliance Filing, it will be impossible to understand what is the approved LTPP that is to guide IOU procurement actions over the next two years. The compliance measures cited in the PD could prove to be impossible to implement if the Commission staff and other parties do not have a single integrated document by which to measure compliance. It would be a modest but very

useful addition to the PD to require the IOUs to consolidate all revisions to the LTPP required by the final decision into a single IOU compliance filing in early 2005.

**B. The Final Decision Should Set Forth More Clearly the Scope, Timing, and Procedural Vehicle for the Resolution of Remaining LTPP Issues**

The PD fragments the procurement planning process by ordering that the IOUs implement the PD in a number of separate cases. For example, the PD requires the IOUs to revise the renewables procurement section of their LTPPs in R.04-04-026 (pg. 73); refers consideration of transmission planning for renewable resources to I.00-11-001 (Id.); refers consideration of integrated transmission planning issues to R.04-01-026 (pg. 74); defers development of a GHG adder to R.04-04-025; and requires compliance monitoring for individual IOU transactions in R.01-10-024 (pg. 152). The PD does not explain whether or how the final decisions in those proceedings will be incorporated into the LTPPs or provide integrated and timely guidance for preparation of the 2006 LTPPs.

One of the stated goals of this proceeding was to ensure that there is integration in IOU planning and procurement. (R.04-04-003, pgs. 1, 11-13.) The final decision should require the IOUs to prepare the revisions required by the PD on renewable resource procurement, transmission planning, a GHG adder, and energy efficiency goals in the 2005 Compliance Filing. If the Commission does not adopt the requirement for the March 2005 Compliance Filing, the Commission should nevertheless require the IOUs to make separate compliance filings to implement the GHG adder and prepare revisions to the renewable procurement and transmission planning sections of the LTPPs through compliance filings in this docket in early 2005. Each of these topics is discussed in further detail in sections III. A, D, and E below.

To the extent that the remaining issues will be resolved in other proceedings, the final decision should clarify the scope, timing, and procedural vehicle for the resolution of these issues

and should require the IOUs to file reports in this docket describing the resolution of the issue in the other proceeding and describing the impact of the decision on their LTPPs. The specific clarifications requested by UCS are discussed in sections III and IV, below.

### **III. SUBSTANTIVE ISSUES ADDRESSED IN THE PD**

#### **A. The Carbon Adder**

UCS applauds the PD for adopting the UCS and NRDC recommendation that the IOUs assign a cost to carbon dioxide emissions in their consideration of bids. (pg. 134.) UCS has strongly advocated this position throughout the testimony, cross-examination, and briefing in this case and supports the PD's adoption of a "greenhouse gas adder," of \$8 to \$25 per ton,<sup>2</sup> to be used in the evaluation of fossil fuel generation bids. Inclusion of a GHG adder in future procurement evaluations is a key financial hedge instrument for the IOUs. UCS recommends the following modifications to the PD with regard to the issue of the GHG adder:

- Clarification of UCS' position on the GHG adder;
- Clarification that the GHG adder is to be used not only in evaluation of bids but also in the development of the LTPPs;
- Guidance on the selection and use of the GHG adder; and
- Clarification that the adder is being used to mitigate financial risk associated with future regulation of carbon emissions, and not to quantify externalities.

Each of these proposed changes is address below.

#### **1. Clarification of UCS' Position**

The PD should be revised to clarify UCS' contribution to developing a record on the GHG adder through testimony and cross-examination. The PD mischaracterizes the UCS position as advocating that the IOUs should be required to "consider" carbon costs, but not price

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<sup>2</sup> UCS Direct Testimony, pgs. 8-16; Cross of UCS Witness A. Roschelle, Vol. 8, pgs. 1172: 25-28, pg. 1173, pg. 1174:1-8; UCS Opening Brief, pgs. 11-12.

them, in current solicitations. (pg. 133.) In its Opening Brief UCS advocated that the Commission “direct the Utilities to include a range of costs of CO<sub>2</sub> emissions in their bid analyses, starting at no less than \$8/ton.” (UCS Opening Brief (10/18/04), pg. 27.) UCS stated that the GHG adder “should be factored into the modeling of resources in subsequent long-term plans and in the bid evaluation process for procurement of resources going forward.” (Id., pg 12.) UCS also recommended that the IOUs “model the impacts of carbon regulation, as well as gas price risk” on their current LTPPs in a proposed January 2005 supplement. (Id., pg. 27.) Finally, UCS proposed that the Commission direct PG&E to share with the Commission and other parties the methodology used in PG&E’s current long-term solicitation for evaluating bids with respect to carbon emissions. (Id., pg. 12.)

Appendix A to these comments provides specific changes to the PD that accurately reflect UCS’ position on these matters.

**2. The PD Should Be Clarified to State that the GHG Adder Must Be Used in the Development of the LTPPs as Well as the Evaluation of Procurement Bids**

The PD should be modified to state that the GHG adder should apply to *both* the development of the LTPPs (specifically the LTPP resource mix) *and* the evaluation of procurement bids. The PD should be modified to require the IOUs to incorporate the GHG adder in the resource analysis for future procurement plans. In other words, the Commission should adopt a unified approach to the GHG adder in which it is used not only for IOU procurement actions (e.g., in bid evaluations) but also in future IOU planning efforts that culminate in the LTPPs.

3. **The PD Should Clarify Important Items Relating to IOU Use of the GHG Adder and Also Require Sensitivity Analyses Using a Range of Values**

The PD requires that “[e]ach IOU will select a value within the adopted range and be prepared to respond to party comment on the value, before employing the adder in analyzing RFO responses.” (pg. 129.) The PD should be revised to provide guidance on the criteria the IOUs should use in selecting a value, the methodology for establishing the cost of the GHG adder, the process for receiving party comment on the adder ultimately selected, and how the adder should be employed by the IOUs in the bid evaluation process.

The PD states that the Commission will assign a dollar value to the GHG adder, rather than a range, in the avoided cost proceeding (R.04-04-025), and requires the IOUs to comply with this decision until an adder is determined in the avoided cost proceeding. (OP 17.) It is not clear whether the PD also intends that the question of implementation of the GHG adder will also be addressed in the avoided cost proceeding. Without a clear plan for implementing the GHG adder in writing, it will be very difficult for the Commission or for the parties to understand or monitor the IOUs’ implementation of it.

The final decision should require, as recommended by UCS, that the IOUs assess the range of GHG adder values in a sensitivity analysis. (UCS Opening Brief, pgs 9-12, 27.) Such an analysis should be done for the next LTPPs in order to provide the Commission with valuable information on how LTPPs change when different GHG adder values are employed -- that is, which resources stay in the plan and which are moved out. In addition, the final decision should require that the IOUs perform a sensitivity analysis of the GHG adder across the range of values adopted in the PD for the next bid evaluation. This analysis will demonstrate how the short-list

of resources may change, allowing the Commission, the IOUs, and their Procurement Review Groups to better measure the impact of the GHG adder on procurement activity.

**4. The PD Should be Clarified to State that the Purpose of the GHG Adder is to Mitigate Financial Risk Associated with Future Regulation and Not an Attempt to Quantify Externalities**

The PD states the GHG adder “will serve to internalize the significant and under-recognized cost of GHG emissions, and will continue California’s leadership in addressing this important problem.” (pg. 68.) UCS applauds the Commission’s leadership on climate change both in this docket and in the recent order directing initiation of workshops to further explore reducing GHG emissions in the procurement incentive framework.<sup>3</sup> However, as both UCS and NRDC have emphasized during this proceeding, the intent of using a GHG value in procurement should be to provide the utilities with a tool for managing the risk of increased costs due to regulation of GHG emissions. Thus, the PD incorrectly suggests the GHG adder will ultimately “include all appropriate environmental externalities – and, crucially, to *value them accurately*...” (Id.). While UCS certainly does not oppose valuation of externalities, its proposal for the GHG adder stems from the extremely high likelihood that GHG emissions will be regulated in the future at significant cost and taking steps to mitigate such environmental costs is a wise financial hedge. Appendix A contains UCS’ proposed clarifications to the PD on the purpose of the GHG adder.

**B. The PD Should Be Modified to Coordinate the Timing of the Staff Report on a Carbon Cap with the 2005 Renewables Portfolio Standard Proceeding**

UCS strongly supports the PD direction to Commission staff “to prepare a report analyzing the potential structure and merits of an IOU portfolio-wide ‘carbon cap’ as an efficient means of minimizing utility contributions to climate change.” (pgs. 134-135.) A carbon cap

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<sup>3</sup> “Administrative Law Judge's Ruling Scheduling Workshops on Procurement Incentive Framework,” R.04-04-003, Nov. 23, 2004.

would be an important supplement to energy efficiency and renewable energy programs to minimize long-run environmental compliance costs.

However, UCS is seriously concerned about the timing of this process and the ability of parties to effectively participate in it, in light of the Renewables Portfolio Standard (“RPS”) Phase II implementation process in R.04-04-026 that will unfold during the first quarter of 2005. It is highly likely that the same parties focusing on RPS implementation will also have an interest in the Commission’s carbon cap and procurement incentive mechanism processes. It is critical that the Commission complete implementation of the RPS statute, which necessitates the resolution of Phase II issues, and bring closure to the utilities’ renewables solicitations through the approval of new renewables contracts.

Renewables, energy efficiency, demand response, and other resources can be employed to reduce carbon emissions from other generation facilities, provide benefits for improving fuel diversity, hedge against fossil fuel price increases, and improve system reliability. However, in order to realize the full potential of these resources the Commission should first ensure that Commission staff resources, as well as the resources of parties, are successfully deployed throughout the various Commission proceedings affecting these resources. Diverting significant attention from those proceedings before they are complete (or substantially complete) to develop new policy directives on a utility sector carbon cap would be administratively inefficient and create market uncertainty.

UCS strongly supports the staff’s exploration of a carbon cap, but not at the expense of successful implementation of the RPS and other policy directives that are needed to support and complement a carbon cap. The final decision should clarify that public consideration of the staff

report will occur after implementation of the 2005 renewables procurement plans and resolution of substantial Phase II RPS issues.

**C. While All-Source Solicitations are Appropriate, It is Premature to Abandon Use of the Established RPS Process**

The PD appears to shift from use of the RPS to all-source solicitations as the main vehicle for the IOUs to use to obtain additional renewable resources. UCS supports the inclusion of renewable resources in all-source solicitations, and advocated this position in our opening testimony and opening brief.<sup>4</sup> However, further development of the record is needed before shifting renewables procurement into an all-source bid context with the established RPS process serving only as a back-up plan in the event of renewables procurement shortfalls. The PD seems to suggest that the all-source bid process would be used for this purpose as early as 2005, which does not allow parties to assess the possible outcomes.<sup>5</sup> UCS urges the Commission to develop a record on this proposal before limiting the role of the RPS to a backup approach.

The PD states:

“IOUs must procure the maximum feasible amount of renewable energy in the general solicitations authorized by this decision” (pg. 174.)

“Allowing an IOU to meet its RPS Annual Procurement Target via an all-source RFO, rather than RPS-specific solicitation is consistent with the Legislature’s clear intent that renewable procurement be integrated as closely as possible with general IOU procurement practices. To further this effort, we will be working over the course of the next LTPP cycle to fully imbed the RPS into long-term planning, placing renewable energy development where it belongs - central to the IOUs’ resource planning efforts.” (pg. 192.)

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<sup>4</sup> UCS Opening Testimony, p. 30; UCS Opening Brief, p. 19.

<sup>5</sup> “If an IOU succeeds in procuring sufficient renewable resources to meet its 2005 RPS Annual Procurement Target (APT) via an all-source RFO, it will not be required to undertake an RPS-specific solicitation next year.” (pg. 174)

No party in this proceeding argued for a recasting of the RPS. In fact, the RPS procurement process is the product of a substantial record developed both in R.04-04-026 and its predecessor phase of R.01-10-024 and should not be rejected lightly.

Many features of the RPS procurement process were carefully designed by the Legislature and the Commission to address the needs of renewable projects. A key example is the adoption of standard contract terms and conditions in D.04-06-014, indicating there are key differences (e.g., in credit terms) between conventional and renewable generation projects. The statute also envisioned the use of Public Goods Charge (“PGC”) funds to cover the above-market costs of renewable energy.

With the exception of the use of a GHG adder, the PD is silent on how renewables would compete with non-renewable resources in an all-source solicitation, and how at least two key functions of the solicitation would work: 1) whether renewables would be able to access PGC funds for above-market costs, and 2) how least-cost and best-fit evaluation criteria affect the selection of renewable resources. The least-cost and best-fit criteria are particularly problematic for renewables cast into the all-source RFO context due to the nature of existing DWR long-term contracts, and their effect on baseload and off-peak need and the creation of long positions. The PD correctly concludes “adding preferred resources upon existing resources somewhat exacerbates this long position, requiring utilities to be energy sellers in many off-peak and shoulder hours” and that the IOUs need to “balance expiring DWR contracts with meeting required targets in EE, DR and renewable generation.” (pgs. 164-165.)

A GHG adder alone does not fully capture the value of renewable resources and thus a renewable resource may not be cost-competitive with a non-renewable product in filling the same need. (*See*, UCS Testimony, pg. 27.) Thus, if an IOU first fills its resource needs with non-

renewable resources in an all-source solicitation, the IOU has no reason to conduct a RPS solicitation unless necessary to comply with the RPS statute. (Pub. Util. Code §399.15(b)(1).) Therefore, it is more logical to stage the solicitations so that renewables are procured first, and remaining need is filled through an all-source solicitation.

No solicitations pursuant to the RPS program have been completed to date; therefore, there is no evidence to suggest that the process is defective or should be changed at this time. The Commission has no evidence on record that an all-source bid process would yield a robust renewables procurement or that a GHG adder will lead to this outcome. Rather, the proposed process will introduce considerable uncertainty in the bidding process for renewable developers, and potentially delay renewables procurement by creating a protracted two-step bidding process.

Accordingly, the PD should be modified to state the Commission's intent to open up all-source solicitations to aggressively pursue renewables, while not supplanting the RPS procurement process. The IOUs should be ordered to conduct renewables solicitations subject to adopted RPS rules and pursuant to their LTTPs and approved renewables procurement plans, independently of their all-source bid schedules. The IOUs should also be directed to solicit renewables bids in all-source solicitations, as proposed in the PD, but the all-source bid process should *follow* an RPS solicitation and should not become by default the primary renewables solicitation.

**D. The PD Should be Revised to Require Revisions to PG&E and SCE's Renewable Resource Analyses as Part of LTTP Compliance in This Case**

The PD properly finds that the PG&E and SCE LTTPs are inadequate in analyzing the potential for renewables. (pg. 73.) The PD orders PG&E and SCE to develop revisions to their renewable procurement sections of their LTTPs but orders that the revisions are to be prepared in the RPS proceeding (R.04-04-026) "following the guidance to be developed in that docket,"

rather than in this docket. The PD also orders all three IOUs to include a 10-year forecast of renewable resource potential and transmission upgrades in their 2006 LTTPs. (Id.)

UCS requests that the PD be modified to require the IOUs to prepare the revisions to the LTTPs in this proceeding. First, the administrative record for the required revisions is in this proceeding, not the RPS proceeding. The guidance to the IOUs on the revisions must be developed in this proceeding and the revisions must be reviewed and approved in this proceeding.

Deferral of the IOUs' analysis of renewables procurement to R.04-04-026 also creates a procedural limbo. R.04-04-026 has not demonstrated a well-coordinated and thorough process for renewables planning and procurement activity. First, the Commission hastily approved abbreviated renewables procurement plans in June 2004 in order to allow the utilities to commence RPS solicitations. (*See*, UCS Testimony, pg. 23.) Those plans did not provide a robust analysis of the IOUs' renewables needs, most notably SCE's plan, which merely stated that it had met its RPS target for 2004 and would not need to undertake additional renewables procurement. Second, as UCS pointed out in its Opening Brief, in Decision 04-07-029 the Commission declined to set a schedule for the 2005 RPS plans, instead stating that the Commission "intended to coordinate future renewable procurement plan filings with the Commission's schedule for overall procurement plan review." (D.04-07-029, pg. 7; *see also*, UCS Opening Brief, pgs. 18-19.) *In essence, the PD and D.04-07-029 have each deferred consideration to the other proceeding.* Third, although the Scoping Memo for Phase II in the RPS proceeding has not yet been issued, the ALJ ruling dated September 30, 2004 does not identify renewables procurement plan filings as an issue to be addressed in Phase II. (*See*, Ruling

## Setting Prehearing Conference For Phase Two Of The Renewable Portfolio Standard Rulemaking.)

The revisions to SCE and PG&E's renewable resource analyses could impact their analysis of their overall portfolios approved in this proceeding. If the Commission defers the revisions of PG&E and SCE's renewable resource analyses to the RPS proceeding there will be no means of integrating the new analyses into the LTTPs, unless the revised analyses are referred back again to this proceeding. For example, UCS has testified that renewable resource contracts are generally long-term contracts, but the SCE LTTP includes only short- and medium-term resources. (pg. 39; UCS Testimony, pg. 29.) The PD concludes that it "may be prudent" to add long-term resources and "authorizes" SCE to present a case for long-term resources through an application to the Commission. (pg. 39.)

The Commission has provided "clear direction" to the IOUs to "consider all cost effective energy efficiency, demand response and renewable resources prior to considering the addition of conventional supply or transmission resources in meeting future resource needs." (pg. 73, quoting, D.04-01-050, pg. 53.) If the revised renewable resource analysis demonstrates that additional resources are available, the LTTPs should be revised to incorporate these resources and to fulfill the Commission's direction that renewable resources must be considered before conventional sources, and the PD's direction that the RPS standards are a "floor – not a ceiling." (pg. 73.)<sup>6</sup> The RPS will be a de facto ceiling in the absence of further requirements for IOUs to revise their LTTPs.

The PD should be revised to include: (1) specific, detailed directions to PG&E and SCE on the contents of their revised renewable resource analyses consistent with the level of detail

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<sup>6</sup> UCS strongly supports the finding that RPS targets are a floor, not a ceiling, and took this position in both its opening testimony and opening brief. (UCS Opening Testimony, p. 30; UCS Opening Brief, p. 17.)

supplied in SDG&E's LTTP; (2) a requirement that PG&E and SCE submit their revised analyses in R.04-04-026 by March 1, 2005; and (3) at the same time, submit a report in this proceeding on the impact of their revised renewable resources analyses on the LTTPs.

**E. The Commission Should Require the Utilities to Address the Transmission Planning Deficiencies in the LTTPs Through Compliance Filings in 2005**

The PD finds that the IOUs presented only "sketchy" information on their transmission plans and concludes that "the IOUs' LTTPs did not fully, or adequately, integrate generation and transmission system planning." (pgs. 79, 80-81.) The California Independent System Operator ("CAISO") agreed that the LTTPs are insufficient to adequately assess future transmission needs and do not fulfill the key goal of integrating the CAISO's Transmission Expansion Planning Process with the LTTP process. (pg. 74.) While finding that the important goal of integrating the transmission planning process with the LTTP process has not been met, the PD defers the integration issue to R.04-01-026 (pg. 79), notes that the local capacity requirements and deliverability for resource adequacy will be addressed in this proceeding in 2005 (pg. 81), notes that the methodology for economic feasibility will be evaluated in Phase 5 of I.00-11-001 (pgs. 75-76), and does not require the IOUs to address transmission planning for renewable resources until the 2006 LTTP proceeding (pg. 73).

The PD essentially finds that the transmission planning sections of the LTTPs are inadequate, but does not require that the IOUs correct the deficiencies in their plans. The PD states:

As discussed earlier, the utilities' LTTPs should more fully integrate generation and transmission planning. It would be helpful to the Commission's review of the LTTPs if they included scenarios of potential resource portfolios to fully meet future resource needs, and identified the transmission expected to be needed to make the potential resource portfolios feasible. It is not acceptable for the IOUs to take a position of only responding to interconnection requests. (pgs. 80-81.)

UCS agrees with the PD's assessment. However, the current LTTPs are not a trial run for the 2006 plans and the Commission should require the IOUs to fix the inadequacies in a LTTP compliance filing. The Commission must be confident that the current LTTPs meet the Commission's directions for procurement in the short-, medium-, and long-term planning horizons.

The PD acknowledges that transmission projects take a very long time to implement. (pg. 81.) The PD's order that PG&E and SCE revise their analyses of renewable resource potential over the next 10 years is not meaningful without analysis of transmission access to the potential resources. UCS recommends the following revision to the PD: SCE and PG&E should supplement their long-term plans through a compliance filing to conform to SDG&E's renewable resource analysis including: (1) identification of assumptions for renewables procurement for the next ten years; (2) development of a resource "stack," identifying the preferred potential resources, estimated costs and benefits of each, and potential barriers to access; and (3) identification of transmission upgrades that the utility believes will be needed in order to access sufficient renewable energy to meet its RPS goals.

#### **IV. Additional Areas of the PD That Should Be Revised**

##### **A. The LTTP Compliance Filing Should Include the IOU Energy Efficiency Goals Adopted in D.04-05-060**

The PD requires the IOUs to incorporate updated energy efficiency ("EE") goals from D.04-09-060 into their LTTPs and to provide the list of energy efficiency data recommended by NRDC in future LTTPs. (pgs. 64, 85-86; OP 12, 13.) UCS strongly supports these provisions. Moreover, the PD recognizes that D.04-09-060 requires the IOUs to reflect the new EE goals immediately:

The energy savings goals adopted in this proceeding shall be reflected in the IOUs' resource acquisition and procurement plans so that ratepayers do not procure redundant supply-side resources over the short- or long term. To this end, our upcoming decisions in R.04-04-003 concerning the long-term procurement plans and 2005/2006 ongoing procurement authorizations of PG&E, SCE and SDG&E shall be made in full recognition of the aggressive energy savings goals we adopt today. (D.04-07-060, pg. 64; OP. 6.)

While the PD requires the IOUs to follow the Commission's direction in their LTPPs, the PD fails to require the IOUs to submit revised LTPPs that incorporate these goals. Without a supplemental compliance submission, the Commission has no means of verifying that the IOUs are following the Commission's order on EE in their 2005-2006 procurement decisions. The supplements should also include the list of EE data set forth in Ordering Paragraph 13.

**B. The PD Should Be Modified to Adopt a Lower Debt Equivalency Factor for Renewable Resources**

UCS supports the PD's adoption of a 10 percent debt equivalency ("DE") factor for long-term contracts, but requests that the PD be modified to adopt a lower factor for renewable resources. (See, OP 15(g).) UCS recommended that the Commission adopt a 10 percent DE factor for conventional resources and a 5 percent DE factor for renewable resources in recognition of the positive, risk management impact of diversification in the IOU portfolios. (UCS Opening Brief, pgs. 20-24.) The PD adopts the first half of the UCS recommendation, but rejects the second without discussion.

In D.04-07-029, the Commission refused to allow the IOUs to use DE factors in their RPS solicitations because the Commission had not yet approved a methodology and because DE factors "may discourage the long-term renewable energy contracts the Commission has indicated it favors." (D.04-07-029, COL 7.) The PD does not acknowledge the statutory requirement that renewable resource contracts be of at least 10 years duration, the Commission's clearly stated

objective to encourage long-term renewable contracts, or the evidence in the record that renewable resources mitigate procurement risk. (UCS Opening Brief, pgs. 23-24.)

The PD errs in its failure to justify its rejection of the Commission's previous conclusion and failure to adequately explain the evidentiary basis for applying the same DE factor to conventional and renewable resource contracts. The PD does not meet the requirement that the Commission's decisions must be based on substantial evidence in light of the whole record. (Cal.Pub.Util.Code §1757(a)(4).) In fact, as explained in the Opening Brief of UCS and Decision 04-07-029, the evidence in the record and Commission policy support adoption of a lower DE factor for renewable resource contracts. The PD should be modified to adopt UCS's proposal to use a 5 percent DE factor for renewables.

**C. The PD Should Be Revised To Address Gas Price Risk**

The PD fails to adequately address the IOUs' gas price forecasts. The PD notes that the concerns raised by the parties – e.g., the gas forecasts show little volatility and appear to be too low and each LTPP relies on a single price index for the forecasts -- were covered in the guidelines adopted in D.04-01-050 and the June 4, 2004 Assigned Commissioner's Ruling, in particular that the LTPPs should show a range of forecasts. (pg. 45.) However, the PD never explicitly finds that the IOUs complied with the gas forecast guidelines in their LTPPs. In fact, the evidence in the record demonstrates that the gas forecast filings do not comply with D.04-01-050 or the June 4 ACR.

The PD recognizes that D.04-01-050 and the June 4, 2004 Assigned Commissioner's Ruling require the IOUs to use a range of forecasts, but fails to acknowledge that while there is a range of forecasts between LTPPs of the IOUs, there is not a range within each LTPP. The IOUs' forecasts do not comply with this guideline.

The PD seems to recognize that there is a problem, and addresses it as follows:

Utilities shall file an advice letter with a new gas price forecast in the event they determine, based upon the analysis described in this decision, that the gas price forecast submitted in their LTPP is no longer valid and has a significant impact on the scenarios presented in their LTPP and procurement decisions. The updated gas price forecast advice letter shall include updated scenarios presented in their LTPPs and shall provide the rationale for the update and include a discussion on all the assumptions underlying the forecast and explain why the gas price forecast is reasonable in light of the availability of alternatives. (OP 6.)

The PD should be modified to order the IOUs to implement the UCS recommendation that the IOUs “be required to supplement their gas price forecasts using different gas price scenarios and clearly detail the variables and range of values assigned to each variable used in the simulations and use results to create portfolios that mitigate future gas price risk.” (pg. 45.) The IOUs should be required to submit the revised forecasts as part of the 2005 compliance filing.

**D. The PD Should be Modified to Address the Requirements for Clean Fossil-Fuel Generation in Future LTPPs**

UCS strongly supports the PD’s reaffirmation of the EAP loading order for preferred resources and the PD’s emphasis on *clean* fossil-fueled generation in the loading order. However, beyond the EAP “preferred” resources, the IOU plans identify only generic resources (*see*, NRDC Opening Testimony, pgs. 5-6) and contain no discussion of “clean central-station generation.” The IOUs do not discuss in their LTPPs what they believe constitutes a “clean” fossil resource, nor how the conventional resources modeled in the LTPPs achieve the goal of being clean. (Id.) UCS noted this shortcoming in its opening brief. (*See*, UCS Opening Brief, pg. 15.)

Unfortunately, other than the discussion of the GHG adder, the PD fails to provide any guidance to the utilities on procuring clean fossil resources. “Clean” should not refer only to low-

carbon resources. Reducing other emissions and environmental impacts is critical to improving air quality and reducing health and environmental impacts associated with fossil-fuel generation.

The PD should be modified to require the utilities in future plans to include a discussion of environmental factors related to the fossil-fuel resources contained in the plans. This could include a discussion and quantification, where applicable, of the following factors: heat rates; plant efficiency; best-available pollution control technologies; air versus water cooling; rates and anticipated quantities of emissions of multiple pollutants, including greenhouse gases; brownfield versus greenfield development; and other factors that may be suggested by parties in the further development of the record in this proceeding.

**E. The Commission Should Clarify that Qualifying Parties are Eligible for Intervenor Compensation for Activities Relating to Coordination with the CEC IEPR**

UCS supports coordination of the long-term procurement planning cycle with the CEC's Integrated Energy Policy Report ("IEPR") process. However, it would be very helpful for the final decision to state explicitly that activities ordered by the decision relating to coordination with the CEC IEPR will be eligible for Commission intervenor compensation.

Because 2006 planning analyses will be performed by the CEC in its IEPR proceeding, and not relitigated before the CPUC, intervenors will necessarily participate before both agencies. To the extent the proceedings are linked via formal or informal collaborative arrangement, intervenors should be able to claim compensation before the CPUC in its procurement docket. UCS urges the Commission to clarify such eligibility in the final decision.

**V. CONCLUSION**

The Proposed Decision continues the Commission's excellent work on climate change issues, and further cements the Commission's leadership in this area. The final decision would

benefit from greater clarity in several areas, particularly those relating to renewable planning and solicitations, and coordination of the many updates ordered in the Proposed Decision through consolidation of the updates into a single compliance filing of updated LTPPs early in 2005.

Respectfully submitted,

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**FOR: THE UNION OF CONCERNED  
SCIENTISTS**

Dated: December 6, 2004

## APPENDIX A

### RECOMMENDED CHANGES TO THE PROPOSED DECISION

#### A. Proposed Changes to Text of Decision

- page 72: NRDC and UCS seeks clarification that the RPS targets establish a floor, not a cap. The IOUs should not curtail their procurement of renewables once the target is met, but should consider investments in all cost-effective renewable resources beyond 20%. Also, transmission planning should involve an integrated comparison of alternative resources.
- page 133:

##### I. Range of values for the GHG Adder

Utilizing data from the record in this proceeding ~~(not doing this now)~~, following is a range of values for the GHG adder:

a. Final E3 Avoided Cost Report	-	\$5/ton CO2 today
		\$12.50 by 2008
		\$17.50 by 2013
b. PG&E internal RFO review	-	\$8
c. PacifiCorp 2003 IRP	-	\$8
d. UCS opening brief	-	<u>A range of values starting at \$8</u>
e. NRDC opening brief	-	\$12 beginning 2008
f. Idaho Power Co IRP	-	\$12.30 beginning 2008
EIA analysis of proposed legislation <sup>7</sup>	-	\$15-\$25 in 2010

#### B. Proposed Changes to Findings of Fact

- 17: The IOUs ~~did not comply~~ ~~complied~~ sufficiently with Commission direction in preparing their resource scenarios so we will ~~not require the preparation and resubmission of revisions to the LTPPs at this time~~ to be filed no later than March 1, 2005. The IOUs shall: (1) update gas forecasts to use different price scenarios, (2) identify the method by which the GHG adder will be chosen and implemented, (3) revise the renewables sections of the plans as described herein, (4) revise the analysis of transmission to consider potential future resources, particularly renewables, and (5) update energy efficiency program targets as set forth herein. Any deficiencies in the LTPPs can be addressed by requesting updates as the Commission gives new direction or clarification in other resource/procurement proceedings and can direct us in giving guidance for the next LTPP proceeding.
- 28. To address the concerns that the IOUs gas price forecasts were too low, that forecasts can become obsolete over time, and that underlying assumptions for the forecasts can change, the

<sup>7</sup> PacifiCorp, IPCC and EIA estimates cited in NRDC Opening Brief, 10/18/04, p.16-17

utilities should update their forecasts as new market information becomes available or assumptions used for forecasts in LTPP change, and should provide updated forecasts in their supplements filed on March 1, 2005.

- 49. The utilities appropriately reflected the Commission's preferred loading order by including energy efficiency savings targets in their LTPPs as the priority procurement resource. Since the IOUs filed their LTPPs on July 9, 2004, the Commission issued D. 04-09-060 on September 23, 2004. D. 04-09-060 translated into a numeric goal the mandate from the EAP to reduce energy use per capita. For the electric IOUs the adopted savings goals reflect the expectation that energy efficiency efforts in their combined service territories should be able to capture on the order of 70% of the economic potential and 90% of the maximum achievable potential for electric energy savings over the 10-year period covered by the LTPPs. The LTPP supplements filed on March 1, 2005, should reflect these updated savings goals.
- 54. In general, IOUs must procure the maximum feasible amount of renewable energy in the general solicitations authorized by this decision, and will be allowed to credit this procurement towards their Renewables Portfolio Standards (RPS) targets in 2005 and beyond. ~~If an IOU succeeds in procuring sufficient renewable resources to meet its 2005 RPS Annual Procurement Target (APT) via an all-source RFO, it will not be required to undertake an RPS-specific solicitation next year.~~ IOUs may conduct RPS solicitations pursuant to an approved renewables procurement plan prior to an all-source RFO.
- 55. We agree that the renewable procurement sections in SCE's and PG&E's LTPPs are inadequate and need revision. ~~However,~~ the revisions, with a detailed analysis, will be developed in the IOUs' March 1, 2005 filings, which may also serve as the 2005 RPS procurement plans, which will be filed in R.04-04-026, following the additional guidance to be developed in R.04-04-026 that docket. The IOUs must provide detailed annual analysis of renewable resource potential over next 10 years and must include transmission planning for renewable resources in their March 1, 2005 2006 LTPPs filings. Transmission issues will be further addressed in I.00-11-001, in coordination with the RPS docket.
- 77. Consistent with established Commission policy, the positions of several parties, and the present actions of one IOU (PG&E), we adopt a range of values for a "greenhouse gas (GHG) adder" to be used in the evaluation of fossil generation bids and in modeling resource portfolios in future LTPPs as a means of mitigating the financial risk associated with greenhouse gas emissions. This range is taken from information in the present record. Each IOU will select a value within the adopted range and ~~be prepared to~~ respond to party comment on the value, before employing the adder in analyzing RFO responses.
- 78. The GHG value will be added to the fossil prices bid in future procurement and modeled in resource portfolios in future LTPPs, and will be used to develop a more accurate price comparison between fossil, renewable and demand-side bids. In the event that the fossil bid is ultimately selected, the adder will not be paid to that generator; it is an analytic tool only.

- 79. Consistent with established Commission policy, the positions of several parties, including PG&E, we adopt a range of values for a “greenhouse gas (GHG) adder,” of \$ 8 to \$25 per ton, to be used in the evaluation of fossil generation bids and preparation of long-term resource plans. This range is taken from information in the present record. A sensitivity analysis of the impact of the full range of GHG adders on the IOUs’ portfolios will provide valuable information to guide the selection and implementation of a GHG adder value. Each IOU will perform a sensitivity analysis across this range, select a value within the adopted range based on this analysis, and ~~be prepared to respond~~ to party comment on the value, before employing the adder in preparing the resource plan and analyzing RFO responses.
- 90. The IOUs and UCS have shown that ratings agencies employ various methodologies to assign debt equivalence on their balance sheets for power purchase agreements.
- 100. No change is necessary at this time to the gas supply plans ~~and biennial LTTPs~~.

### C. Proposed Changes to Conclusions of Law

- 3. We find all three LTTPs, as modified by this decision, consistent with the 2003 IEPR, are reasonable for planning purposes and that the medium, preferred case should be followed for making planning and procurement decisions.
- 5. It is reasonable to require a compliance filing of annual energy and capacity resource accounting tables, consistent with directions on baseline load forecasts, EE, QFs and DR. We do expect the IOUs to make incremental improvements in their next round of analysis to be filed with the CEC in 2005. It is also reasonable to require the IOUs to make a compliance filing of revised LTTPs on March 1, 2005. That March 2005 Compliance Filing should, (1) update gas forecasts to use different price scenarios, (2) identify the method by which the GHG adder will be chosen and implemented, (3) revise the renewables sections of the plans as described herein, (4) revise the analysis of transmission to consider potential future resources, particularly renewables, and (5) update energy efficiency program targets as set forth herein.
- 10. The utilities should track their gas price forecasts with actual gas market price information and other publicly available gas price forecasts and must record any divergence. It is reasonable to direct the utilities to re-run procurement scenarios included in LTTPs with the updated gas price forecasts and to require the utilities to ~~maintain copies of this analysis for staff review~~ include this information in the March 2005 supplements.
- 21. Allowing an IOU to meet its RPS Annual Procurement Target via an all-source RFO, ~~rather than RPS-specific solicitation~~ is consistent with the Legislature’s clear intent that renewable procurement be integrated as closely as possible with general IOU procurement practices. ~~To further this effort, we will be working over the course of the next LTTP cycle to fully imbed the RPS into long-term planning, placing renewable energy development where it belongs—central to the IOUs’ resource planning efforts. IOUs may conduct RPS solicitations, pursuant to an approved renewables procurement plan, prior to an all-source RFO.~~

- 22. To further California’s goal of promoting environmentally responsible energy generation and to mitigate the financial risk associated with future regulation of greenhouse gas emissions, it is reasonable to adopt a policy that reflects and attempts to mitigate the impact of greenhouse gas (GHG) emissions in influencing global climate change ~~patterns~~ and to direct the IOUs to employ a “~~GHG carbon~~ adder” when evaluating fossil generation bids and in modeling resource portfolios in future LTPPs. This method, which will be refined in future proceedings, will serve to ~~internalize~~ protect consumers from the significant and under-recognized cost of GHG emissions, and will continue California’s leadership in addressing this important problem.
- 31. We should adjust the S&P methodology for debt equivalence downward to a 10% risk factor to account for the fact that the California regulatory climate is improving, and we do not wish to disadvantage PPAs unduly over utility-owned generation, particularly when it comes to renewable generation. Renewable bids will be evaluated with a 5% risk factor in all-source solicitations.
- New Conclusion of Law following COL 36. Non-market participants who are eligible to receive intervenor compensation should be fully compensated for their participation in the energy planning activities of the CEC’s IEPR proceeding in accordance with all applicable laws and rules governing intervenor compensation.

**D. Proposed Changes to Ordering Paragraphs**

- 2b. For further resource needs, procure the maximum amount of renewable generation resources ~~via~~ in RPS solicitations and all-source RFOs, and be prepared to defend any selection of fossil over renewable resources; and
- 2c. Employ the GHG adder, described herein, when evaluating fossil generation bids and modeling resource portfolios in future LTPPs.
- 3. We find that PG&E’s LTPP plan is reasonable, subject to the revisions required by this decision and as reflected in PG&E’s March 2005 Compliance Filing, . . . .
- 4. We find that SCE’s LTPP plan is reasonable, subject to the revisions required by this decision and as reflected in SCE’s March 2005 Compliance Filing, . . . .
- 5. We find that SDG&E LTPP plan is reasonable, subject to the revisions required by this decision and as reflected in SCE’s March 2005 Compliance Filing, . . . .
- Replace Ordering Paragraph 6 with the following: Each utility shall make a compliance filing of its revised LTPP on March 1, 2005. The March 2005 Compliance Filing should, (1) update gas forecasts to incorporate different gas price scenarios, (2) identify the method by which the GHG adder will be chosen and implemented, including a process for public participation and comment (3) revise the renewables sections of the plans as described herein, (4) revise the analysis of transmission to consider potential future resources, particularly renewables, and (5) update energy efficiency program targets as set forth herein.

- New Ordering Paragraph 6A. To the extent that this decision refers issues for resolution in related proceedings, within 30 days of the issuance of a final decision approved by the Commission on the relevant issues, the IOUs shall file a report in this proceeding describing the resolution of the issue and the impact of the resolution on the IOUs' LTTPs as reflected in the March 2005 Compliance Filing.
- 9. We adopt the same 10-year standard for new fossil-fueled resources acquired by the utilities. We are also proposing a 10-year standard for new renewable resources, but ~~seek comment if~~ may modify this time-period if it is not sufficiently long enough that it will not and ~~deters the development of these resources, recognizing that some renewable resources may seek contracts greater than 10 years.~~ For all other contracts, the utilities should be allowed recovery over the life of the contract.
- 12. Consistent with D.04-09-060, PG&E, SCE, and SDG&E shall meet or exceed the Commission's EE goals over the next ten years and specifically over the next EE funding cycle (2006-2008) and to revise and update their plans to be in alignment with these goals. PG&E, SCE and SDG&E are to incorporate the goals from the EE decision into their ~~LTTPS~~ March 2005 supplements, and as these energy savings goals are updated and amended by subsequent decisions, the IOUs are to incorporate the most recently adopted energy savings goals into their plans.
- 17. In addition to the GHG adder, the IOUs are directed to employ, when finalized and approved by the Commission, the ~~externality~~ environmental avoided cost values under development in the Avoided Cost Rulemaking (R.04-04-025). It is anticipated that these values will be adopted in approximately March 2005, and will include a fixed value for GHG (not simply a range) as well as values for other, non-GHG pollutants. In preparing their 2006 LTTPs, the utilities should perform a sensitivity analysis across the range of GHG adders adopted in this decision. This analysis will also be used to assist the Commission in gauging the appropriateness of the value to be adopted in R.04-04-025. These values should be appropriately added to any fossil bids the IOUs receive in response to an RFO. It is anticipated that the Commission will adopt these values in a decision in R.04-04-025 before the IOUs undertake any procurement as a result of this decision. ~~Therefore,~~ All procurement undertaken subsequent to this decision should employ the GHG adder adopted in this decision, until replaced with a decision in R.04-04-025, when analyzing bids.
- 19. The IOUs shall employ the Standard and Poor's methodology for debt equivalence, except they shall use only a 10% risk factor instead of S&P's 30% risk factor, and a 5% risk factor for renewables, when evaluating bids in an all-source solicitation.
- 22. We continue the Monthly ERRR Report and Monthly Portfolio Risk Report. The objective of the report is to show that the transactions entered into are in compliance with the upfront standards identified by the Commission, in particular the LTTPs as revised in the March 2005 Compliance Filing. In regards to the Quarterly Transaction Report, the IOUs are ordered to file a joint proposal to reformat the report in a way that will provide the Commission concise and coherent information, thereby streamlining the review process. The

objective of the report is to show that the transactions entered into are in compliance with the upfront standards identified by the Commission. These reports will be reviewed by the Energy Division staff. If there are no protests and the staff concludes that the transactions entered into in that quarter comply with the utility's approved procurement plan as reflected in the March 2005 Compliance Filing, then by the Commission's Expressed Delegation of Authority, the Energy Division Director can approve the reports. However, if there are substantive protests and the staff takes issue with certain transactions, the staff will issue a draft resolution for the Commission's approval. We adopt the following requirements for an All-Source Solicitations: . . .

- 22d. IOUs are directed to procure the maximum feasible amount of renewable energy in the general solicitations authorized by this decision, and will be allowed to credit this procurement towards their Renewables Portfolio Standards (RPS) targets in 2005 and beyond. ~~If an IOU succeeds in procuring sufficient renewable resources to meet its 2005 RPS Annual Procurement Target (APT) via an all-source RFO, it will not be required to undertake an RPS-specific solicitation next year.~~ IOUs may also conduct RPS solicitations pursuant to an approved renewables procurement plan prior to an all-source RFO. See Section A.2.6.;
- 22g. Debt equivalency will be considered when evaluating individual PPA bids, ~~regardless of whether the bids are from a fossil, renewable, or an existing QF resource. IOUs are not to consider resource-specific debt equivalency risk factors.~~ See Section C.6.;

**CERTIFICATE OF SERVICE**

I, Jack McGowan, certify that I have, on this date, caused the foregoing OPENING COMMENTS OF THE UNION OF CONCERNED SCIENTISTS ON UTILITY LONG-TERM PROCUREMENT PLANS to be served by electronic mail, or for any party for which an electronic mail address has not been provided, by U.S. Mail on the parties listed on the Service List for the proceeding in California Public Utilities Commission Docket No. R.04-04-003. I declare under penalty of perjury, pursuant to the laws of the State of California, that the foregoing is true and correct.

Executed on December 6, 2004, at San Francisco, California.

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Jack McGowan