

COMMITTEE WORKSHOP
BEFORE THE
CALIFORNIA ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION

In the Matter of:)
)
Informational Proceedings and) Docket No.
Preparation of the) 02-EIP-01
2003 Integrated Energy Policy Report)
Price Volatility)
)
)

CALIFORNIA ENERGY COMMISSION

1516 NINTH STREET

HEARING ROOM A

SACRAMENTO, CALIFORNIA

THURSDAY, JULY 10, 2003

9:30 A.M.

Reported by:
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COMMISSIONERS PRESENT:

James Boyd, Presiding Member

William J. Keese, Associate Member

STAFF PRESENT:

Jim Woodward, Energy Specialist

Cynthia Praul, Assistant Executive Director

Michael Jaske, Energy Commission

Al Alvarado, Energy Commission

ALSO PRESENT:

James Hendry, California Public
Utilities Commission

C. Anthony Braun, Attorney

Bruce McLaughlin, Attorney

Thomas C. Green, Roseville Electric

David L. Arthur, Ph.D., Redding Electric Utility

Dr. Mohammed J. Beshir, Ph.D., M.B.A, P.E.
Department of Water and Power

Dennis M. Keane, Pacific Gas and Electric Company

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P R O C E E D I N G S

9:30 a.m.

PRESIDING MEMBER BOYD: Well, good morning. Sorry for this late delay. There's no end of meetings at the Energy Commission. Welcome to yet another in the continuing series of workshops that the Commission is holding through this summer and into this fall in support of development of the Energy Commissions Integrated Energy Policy Report.

This is our workshop on Municipal Research Adequacy. I'm Jim Boyd, the Commissioner who's Chair of the Committee, Presiding Member of the Committee, responsibility to oversee the preparation and completion of this report. I'm joined by Commission Chairman William Keese, who is the second member of our committee.

And other Commissioners may or may not drop in on any and all of these hearings. This Committee was created to deal with the report, which was a mandated Senate Bill 1389 by Senators Bowen and Share, which was part of the legislatures process in finding that government has a responsibility to ensure a liable supply of energy that's provided to our citizens and

1 industry, that what is done is consistent with
2 public health, maintaining a sound economy and
3 preventing any degradation of our environment.

4 The Integrated Energy Policy Report is
5 designed to identify emerging trends and issues
6 related to energy supply, energy demand,
7 conservation and public health and safety issues,
8 and eventually to provide the committee, the
9 commission, and state policy makers a basis for
10 policy recommendations and actions that they might
11 take.

12 Our report is required to be submitted
13 to the Governor and the legislature by November of
14 this year, and is to be redone every two years
15 with the possibility of an annual update. Today's
16 workshop, like all workshops, has the purpose of
17 presenting staff findings and analysis on which
18 the Energy Commission Staff has worked.

19 And to, therefore, receive public
20 comments and technical feedback on that report,
21 and to establish a factual record that informs the
22 Committee, and ultimately the Commission, about
23 energy policy choices. Today's workshop is
24 different than many we've had to date in that the
25 report that is presented today is the product of a

1 collaborative effort of staff from the Commission
2 representatives of several of the municipal
3 utilities and the California Municipal Utilities
4 Association.

5 Senate Bill 1389 specifically called out
6 for an assessment in the forecast of system
7 reliability and a need for resource additions. So
8 today's workshop will help provide supporting
9 information on the subject of electrical and
10 electricity reliability.

11 We don't have to reference the events
12 for the last three years to indicate that we've
13 exposed some severe vulnerabilities of the state's
14 electricity and gas system. And municipal
15 utilities were exposed to price volatility in the
16 electric market just like the private utilities
17 and the public at large.

18 During the so called crisis of 2000/2001
19 several municipal utilities were asked to curtail
20 load. Even though they themselves had adequate
21 resources and had a good operating reserve to
22 serve their own customer load. Throughout these
23 difficult year the municipal utilities have
24 maintained their independence, have continued to
25 carry out resource client and procurement

1 activities and lead to operational reliability.

2 Municipal utilities, in our opinion, are
3 justifiably proud of their records of providing
4 reasonably priced and highly reliable supplies of
5 electricity in their service areas. The Committee
6 believes one of the most important issues is how
7 to ensure that adequate resources will be
8 available to match load growth of the long-term.

9 Recent vulnerabilities have been
10 addressed in part by licensing, constructing a
11 host of new power plants. Nearly everyone
12 understands that resources in this context
13 includes efficiency and demand response programs
14 that be counted on to reduce peak load.

15 And I want to reemphasize the importance
16 of that component of our plan for the future,
17 because the energy action plan, agreed upon by the
18 three principle (indiscernible) agencies, very
19 much perceives that latter approach. Today we
20 very much appreciate that the statewide
21 representatives of the utilities have been able to
22 craft a forward looking report with staff from our
23 Commission.

24 This is very much a good faith effort to
25 develop assessments and proposals. And we're

1 extremely appreciative of the cooperation that has
2 taken place. This report zeros in on an important
3 topic. Okay. All loads in California address the
4 obligation to serve, including resource planning
5 and procurement.

6 In other words, how can we encourage,
7 require or simply demonstrate that adequate energy
8 infrastructure and supply resources have been
9 secured in the future. And I think this
10 Commissioner, Governor, the legislature, and The
11 People of this state very much look for answers to
12 those questions.

13 So, again, this report is a joint
14 working document meant to promote dialogue and
15 agreement in the very broadest sense with many
16 details yet to be addressed and resolved. That
17 being said, I'd like to turn to Commissioner Keese
18 for any comments he'd like to make.

19 And then we'll turn the program over to
20 the Commission and CMUA staff, and specifically
21 Mr. Woodward will, let's say, MC the day for us.
22 Commissioner Keese.

23 CHAIRMAN KEESE: Thank you. I don't
24 think we need to emphasize too much the uniqueness
25 of this hearing, this meeting, and the unique role

1 that munis play in our system, an integral role,
2 but not under the PUC where virtually everybody
3 else is. I would just to suggest a long range
4 forecast here of a generation coming on line.

5 We have this year a significant amount
6 coming on by July 31st. The number for 2004 is
7 zero. And at this point it looks like all
8 generation from 2005 will be coming out of the
9 munis, unless some bankers free up money real
10 quick and let developers develop.

11 So munis have been important in the
12 system. They're very important because of their
13 transmission insets. They're very important
14 because they're, at this point, able to bank roll
15 future generation that will becoming on line. And
16 I think we use the word "integrated" in our
17 report.

18 We're trying to tie all of these
19 different aspects together, gas, electricity,
20 munis, highly used. This is a real important
21 part. And, again, rather unique, but we have to
22 put it in our integrated report. So I look
23 forward to a very productive day here.

24 PRESIDING MEMBER BOYD: Mr. Woodward.

25 MR. WOODWARD: Thank you, Commissioners.

1 I'm Jim Woodward with the Electricity Analysis
2 Office, California Energy commission. We have six
3 speakers with us today, including panelists, and a
4 small gathering here in Sacramento to exchange
5 information about resource adequacy.

6 There are also many listeners who have
7 tuned in to hear the audio broadcast on the web.
8 Fortunately for them, the meeting agenda is posted
9 on our website, along with the joint working paper
10 that we'll be discussing today. Also, fortunate
11 for our internet listeners throughout the state,
12 we do not have power point presentations today, or
13 other visuals to present.

14 For their benefit though, and for
15 everyone else here, we do ask the speakers to use
16 the microphone, and state your name and
17 affiliation at the outset, and offer a business
18 card. This will help our transcriber who's
19 creating a record of today's commentary.

20 Using the podiums we have to be very
21 close to the mike. We can use our new wireless
22 microphone that seems to be working fairly well if
23 I'm not too close to that. We have time dedicated
24 at the end for questions and comments. But we can
25 choose to accept more pressing questions or

1 clarifying questions and comments after each
2 speaker.

3 We have received one written comment
4 from a Mr. Larry Ravan on the subject of process,
5 information on process and apparatus for
6 conversion of biodegradable materials for product
7 (indiscernible) municipal wastewater system. If
8 there are other written comments or materials we
9 will accept them still today.

10 I would like to acknowledge and thank
11 several people who participated in our informal
12 working group over the past several weeks. These
13 individuals were not representing their utility in
14 the development of official policy. And I don't
15 mean to imply the endorsement of their employers
16 for every word or footnote in our working paper.

17 But I do want to thank these men for
18 sharing their expertise, insights, and for ably
19 representing the interest, the wealth of
20 knowledge, and many decades of experience in
21 serving load by various utilities around
22 California.

23 This includes Mike Frazee from the City
24 of Anaheim, David Dockahm of Northern California
25 Power Authority -- Power Agency, excuse me, Nick

1 Henrey of SMUD, Manny Robledo of Southern
2 California Public Power Authority, and John
3 Schuman of LADQP.

4 The other participants in our informal
5 working group are here with us today and are
6 included on the agenda, Tom Green of Roseville
7 Electric, Bruce McLaughlin, counsel for California
8 Municipal Utilities Association, Tony Braun, also
9 counsel for CMUA, Mike Jaske of the California
10 Energy Commission, and myself.

11 And with that, I'd like to introduce my
12 supervisor, Al Alvarado, who will share some
13 background and context on the Integrated Energy
14 Policy Report and the Electricity and Natural Gas
15 report. Al.

16 MR. ALVARADO: Thank you, Jim. My name
17 is Al Alvarado. I'm the project manager of the
18 Electricity and Natural Gas Report, which is one
19 out of three subsidiary reports that are being
20 prepared in support of the Integrated Energy
21 Policy Report that Commissioner Boyd referenced.

22 I just wanted to sort of add a little
23 prospective about the purpose of this workshop
24 today. We hope to discuss and receive public
25 comments on the findings of the joint work and

1 paper that was prepared by the Energy Commission
2 and California Municipal Utility Association
3 staff.

4 The subject being resource adequacy as
5 it applies to California Municipal Utilities. The
6 Commission staff has already released a number of
7 other staff draft reports that include the results
8 of energy system studies to evaluation the
9 implications of important uncertainties on both
10 the integrated electricity and natural gas
11 infrastructure.

12 These reports cover a whole variety of
13 different subjects. We discussed our demand
14 forecast and consider a number of different
15 scenarios. We've had workshops to discuss air
16 quality concerns. This Tuesday we had another
17 workshop on the draft environmental performance
18 report, which does cover an array of different
19 environmental concerns associated with electric
20 generation system.

21 Generally, our finding show that
22 California does have adequate generation supplies
23 for the next several years. But ultimately new
24 generation transmission and/or demand projects
25 will need to be added towards the end of the

1 decade. There are also liability concerns that do
2 require some immediate attention.

3 As already introduced, today's topic
4 will discuss the electricity resource adequacy
5 guidelines that could be met by load serving in
6 the school utilities. The discussion, and any
7 feedback that we receive today, will serve to
8 support preparation of draft the electricity
9 report.

10 The draft report will be released for
11 public review on August 8th, and will be the
12 subject of a committee hearing on August 26th and
13 27th. We do have a list of key milestones for
14 different events associated with electricity
15 natural gas report. And the other subsidiary
16 reports that will lead towards the development of
17 the integrated policy report.

18 So as already indicated, we're here.
19 We're very interested in hearing from you and your
20 views. As Jim indicated, please do come to a
21 microphone if you have any comments. We want to
22 make sure that all of your comments are
23 transcribed for the records, and help us digest
24 the issues in preparation for the report.

25 With that being said, I will bounce it

1 back to Jim and Mr. Jaske.

2 MR. JASKE: I think Al said the magic
3 word, the report. So I'm going to actually in
4 this little overview background refer us all to
5 certain passages in the report. So if you'll turn
6 to that, as Jim indicated, we're not going to have
7 any separate visuals. Page one of this report,
8 you know, sort of sets the stage. What are we
9 trying to accomplish here.

10 As Commissioner Boyd, indicated, this is
11 a little bit different than the normal topic that
12 has been addressed in the IEPR proceeding to date.
13 The Energy Commission doesn't an authority to
14 impose a resource adequacy requirement on anyone.
15 So we're looking at this from a sort of policy
16 perspective, trying to encourage development in an
17 area that the Commission itself can't create a
18 mandate.

19 This paper, as the top half of page one
20 says, doesn't itself create anything. This paper
21 raises issues. This paper documents a series of
22 discussions over several months time. And I think
23 it sort of sets forth an initial position of this
24 issue that CMUA and CEC staff are comfortable
25 with.

1 There are undoubtedly further
2 developments that will happen in the entire topic
3 of resource adequacy, including things that the
4 Public Utilities Commission does, or perhaps even
5 FERC does. Looking at the bottom half of this
6 first page, what are we talking about when we say
7 resource adequacy?

8 We have a working definition here.
9 Essentially we're trying to suggest that resource
10 adequacy is a condition where there's evidence of
11 sufficient resources that cover future loads. So
12 we're looking at something that's future oriented.
13 And there's this magic word of sufficient, just
14 obviously tied to adequate.

15 I think we're a long ways at this point
16 from fully understanding what sufficient means.
17 And there's been a variety of efforts over the
18 past several years to sort of propose or analyze
19 some sort of metric that would describe
20 sufficient. And with that I'm going to sort of
21 remind us of some of the background that has led
22 us to this point.

23 The 2000/2001 clearly raised the whole
24 issue of market power, raised the issue of were
25 IOUs, or other LSEs for that matter, properly

1 making forward commitments, or were they relying
2 too much on spot markets and, therefore,
3 vulnerable to market power. And maybe last of
4 three items, but key is was there in fact a
5 shortage, a physical shortage, that contribute to
6 those problems?

7 Certainly the California ISO sort of put
8 us all onto one page by proposing its available
9 capacity component of ND02 back in January of
10 2002. And the first half of last year was really
11 in the ISO's arena. People debating features of
12 ACAP, and whether that was desirable or not.

13 In spite of a lot of concerns, ISO went
14 ahead and submitted ACAP language to FERC in June
15 of 2002, and early before parties could decide
16 whether to continue to adjust about that in FERC
17 forum. FERC itself issued the SMD NOPR and, you
18 know, raised resource adequacy from its own
19 perspective.

20 I think you could say the second half of
21 last year was devoted to a bunch of jurisdictional
22 concerns of is it appropriate for FERC to create a
23 resource adequacy obligation on the part of LSEs?
24 And if it was who is going to administer that?

25 What it going to be ISOs, or RTOs, and

1 what was the role of the state regulatory agencies
2 if any? November of last year was the key point.
3 David Freeman, on behalf of the Governor and the
4 State Energy Agencies proposed to the ISO board
5 that they defer ACAP, said that state was the
6 appropriate entity to create a resource adequacy
7 requirement, and ISO ought to give the state room
8 to do that.

9 The ISO board agreed. And so ISO has
10 effectively not pursued ACAP directly in any way
11 in the intervening period of time. The way
12 Mr. Freeman that idea to the ISO board, the PUC
13 would, in its procurement proceeding, address
14 resource adequacy for IOUs, and the Energy
15 Commission would examine the issue for municipals,
16 recognizing of course, as I said earlier, that the
17 Energy Commission doesn't have statutory authority
18 to impose any such requirement on municipals.

19 And so largely we are following the
20 suggestions that Mr. Freeman made at that time.
21 The PUC is in fact examining resource adequacy in
22 its procurement proceeding. Parties have filed
23 testimony in that proceeding. Hearings are
24 scheduled to start later this month.

25 And so the PUC is at least approximately

1 on the schedule that they announced for that
2 proceeding. As has been noted earlier, CEC staff
3 contacted CMUA and, through their great
4 cooperation, we've developed this working paper
5 and sort of brought us to this point.

6 A key perspective ought to be mentioned
7 before I return to the paper itself it that in
8 late April of this year FERC received a white
9 paper about the SMD. It was intended to respond
10 to the numerous criticisms that had been raised
11 over the eight or nine months that had been out on
12 the street, including in the industry in FERC
13 forms, and even in congress.

14 And in that white paper FERC essentially
15 backed off from its former prospective on resource
16 adequacy and indicated this was going to be an
17 issue. It is going to let the states and regional
18 entities resolve. And FERC has reiterated that
19 yet again in a white paper that was issued earlier
20 this week concerning the midwest independent
21 system operators.

22 So the field has been left to the states
23 to decide what to do. So hopefully this workshop
24 will be a contribution to one piece of how we make
25 progress on this issue. I think if you'll turn to

1 page four, first paragraph, purpose of this paper,
2 it's essentially what I just said, to make a
3 contribution, as I indicated at the outset.

4 There's a lot of things in flex. It's
5 not reasonable to think that the hole fleshed out
6 and complete resource adequacy proposal can be
7 made in the context of this piece of the industry,
8 namely Municipal Utilities in isolation from
9 others. And so from my perspective, this paper
10 documents what can be said on the part of
11 Municipal Utilities at this point.

12 It's like a tennis game, if there's, you
13 know, an active decision on the part of PUC that
14 might cause this process to want to go yet another
15 step itself. I think maybe let me wind up my
16 introductory remarks by saying there are parties
17 who would like to think that the Western Electric
18 Coordinating Council WECC has resource adequacy
19 well in hand.

20 That the biannual or annual planning
21 documents that control areas submit to WECC, and
22 WECC's analysis of those is sufficient indication
23 of whether the system is resource adequate and in
24 fact the motivation for it to be in a state of
25 adequacy. I personally question that. I think

1 WECC itself is beginning to question that.

2 In a report authored by the reliability
3 subcommittee of WECC earlier -- no, in last month
4 in June, and approved by the planning committee
5 late last month, they are portraying a series of
6 scenarios about resource adequacy in the west and
7 the various subregions, and themselves beginning
8 to raise questions about what is the right level
9 of reserves that should be held.

10 How does WECC contribute to firming up
11 the planning and commitment process? What is the
12 right metric for those sorts of plans? Is it a
13 peak demand, reserve margin? Is it something else
14 that deals with energy? Is it several metrics,
15 you know, all folded together.

16 So WECC is in the process evolving its
17 understanding of how to assure resource adequacy,
18 and may well play some helpful role in the future.
19 And with that I think I am finished with this sort
20 of introduction. Is there any questions? I'd be
21 happy to answer them?

22 MR. WOODWARD: Thank you, Mike for that
23 background. At that point we'll call on -- quick
24 remark from Tony Braun.

25 MR. BRAUN: Yes. Thank you, Jim. Just

1 for Bruce Johnson to his discussion on municipal
2 obligation serve, I just wanted to state on behalf
3 of my client, CMUA, how much we truly appreciate
4 the Commission's approach to this topic, the
5 outreach, and the collaborative effort that was
6 evidenced obviously by the policy direction, as
7 well as the Commission staff that worked on this
8 in particular.

9 And we obviously agree that we're not
10 done looking at this topic, but as an initial
11 matter, I think we've gotten off on an excellent
12 start and I appreciate your efforts in that
13 regard.

14 MR. WOODWARD: Thank you. Thank you,
15 Tony. Bruce McLaughlin, talking about California
16 Municipal Utilities Association.

17 MR. MCLAUGHLIN: Actually, what I'm
18 going to talk about first here is just a couple of
19 minutes on the process, what we followed and how
20 we came up with the working paper. Essentially,
21 in April CEC approached us over at Simi Way and
22 suggested this joint approach.

23 Tony collected the team of munis
24 representing control areas, cities. The team
25 represented control areas, cities, and other

1 municipal utility functions. And together we met
2 basically once per week. We would discuss our
3 plan. We would then go back to our respective
4 entities, discuss it with our in house people
5 who'd come back.

6 The conversation was very robust. I
7 think in our meetings we had people expressing
8 both their personal views, their (indiscernible)
9 views, and then of course Simi Way representing
10 the collective approach. The CEC was very helpful
11 in putting forth their views and presenting the
12 policy direction which to be edited.

13 Anyway, the Simi Way was primarily
14 responsible for the legal interpretations of some
15 of the statutes that apply here. All the work
16 product that was brought together into the
17 workshops were then discussed. We looked at all
18 angles, all work products, went through numerous
19 versions.

20 And the end result after about six
21 approximate meetings is what you have presented
22 before you. Probably reviewed and redrafted I'm
23 going to say at least 20 times. And that's a good
24 thing. And essentially, the collaborative
25 approach meant that no one was forcing anything

1 down each other's throat, but we both came with
2 our views.

3 And I think we have a very good work
4 product as a result. And with that I'll just
5 slide right into the obligation to serve. I think
6 the essential nature of what this is all about, do
7 the munis have an obligation to serve? And as
8 CMUA, we suggest that the legal structure of the
9 municipal utilities does have the necessary
10 structure to support and encourage resource
11 adequacy requirement.

12 We started, as we looked at this, on
13 page five, and we only have about four pages
14 you'll notice, and this is an extremely complex
15 issue. We certainly could have written the whole
16 book on it, but we're not going to go there. It
17 involved administration law, municipal law,
18 constitutional law, all these issues.

19 But the culmination of what we found was
20 that there is enough in the body of law to support
21 resource adequacy for the munis. We start with
22 the source of flow authority for the munis. If
23 they don't have the authority to act than the
24 point is moot.

25 But in the California Constitution and

1 the legislative enactments, the munis do have
2 various levels of authority, depending on whether
3 a city control area, municipal utility district or
4 an irrigation district, etcetera, all the
5 utilities that are mentioned in PUC 9604.

6 Although there are different
7 authorities, they're basically treated the same,
8 and as far as the nature of this conversation
9 here. The first distinction we have to make when
10 we're talking about obligation to serve is the
11 distinction between the private utilities and the
12 public utilities.

13 And because the private utilities have a
14 monopoly to serve the public, they have the
15 control and regulation by the PUC. Section 451
16 particularly requires the utilities to serve the
17 customers. There is no such rule for the munis.
18 And so someone might throw up their hands and say
19 then what's the point?

20 The thing is the obligation to serve for
21 the munis is based in our American system of law.
22 It goes back to the fact that governments that
23 provide services for their residence, the
24 constituents, since the nation began. And that's
25 where the research eventually landed.

1 Our rules, regulations are made by the
2 local government authority. They're responsible
3 to the voters themselves directly. And that seems
4 to be a very efficient way to work things. In
5 fact, the Supreme Court of California said so back
6 in 1986. In a sense they were discussing an issue
7 where this was the only the second time in history
8 that they had dealt with muni rates, and they
9 mentioned that it must be a sufficient system,
10 otherwise we would have probably dealt with it
11 more often.

12 I like that one. The legal obligation
13 to serve, therefore, flows from these local
14 governing authorities. They propound ordinances,
15 rules, regulation, etcetera, and they're
16 accountable, not only to the people, but to the
17 courts, judicial review. There have been a number
18 of cases supporting this view, and it deals in
19 tort contract and also administrative law.

20 Munis cannot refuse to offer service
21 once they have held themselves out to their
22 constituents. Annexation is another issue where
23 it brings on the obligation to serve, as well as
24 acquiring the service area of private utility.

25 All in all, this structure we maintain provides a

1 necessary obligation based in constitutional law
2 and legislative enactments to provide the
3 necessary support for resource adequacy plan.

4 Any questions?

5 MR. WOODWARD: Could you come forward
6 please to the microphone, introduce yourself.
7 Thank you.

8 MR. KEANE: I'm Dennis Keane from PG&E.
9 I had a question.

10 MR. WOODWARD: Closer please.

11 MR. KEANE: I had a question about
12 traditionally munis have had -- they typically
13 serve the entire cities and, you know, they do I
14 think have an obligation to serve (inaudible). In
15 the last several years we've seen, probably a
16 dozen or so, (inaudible) that are only looking to
17 serve new development.

18 And it seems like they can pick and
19 choose which (inaudible). How does that
20 (inaudible).

21 MR. MCLAUGHLIN: You're making the
22 cherry picking argument. And it's a little bit
23 different than obligation to serve an area that
24 you've held out to provide service to. So we
25 could probably go down the rabbit trail. However,

1 some of the court cases have held that there is no
2 obligation for a muni to serve those outside of
3 service area, outside its boundaries.

4 They are empowered to do so. And cities
5 have a different level of power in regards to that
6 as irrigation districts. In fact, AB2638 a couple
7 years back dealt with the irrigation districts and
8 certain limited or restricted their ability to go
9 outside their boundaries without PUC regulation.

10 THE REPORTER: Would you please speak
11 up.

12 MR. KEANE: I'm talking about inside the
13 boundaries, like just for example the City of
14 Hercules. That's one. The City of Hercules has
15 formed (inaudible). That's the one I'm most
16 familiar with. But I think there's probably eight
17 or ten Southern California (inaudible) where
18 within their boundaries when new developments come
19 up they can pick and choose which ones to serve.

20 And they don't serve anybody else. So
21 that seems like it's different from (inaudible).

22 MR. WOODWARD: Well, they have an
23 obligation to serve those who they have chosen to
24 serve. That sounds sort of fluid, however, they
25 do have freedom, because they're not coerced to

1 serve as the IOUs are, because they're not under
2 the regulation of the PUC. They have the
3 authority to serve.

4 And when they extend and hold out that
5 service, that's when they have achieved the
6 obligation to serve. As far as going out to new
7 sub divisions, etcetera, there's going to be a
8 reasonable standard. They are not allowed to
9 unjustly discriminate once they hold out service.

10 So there's a number of legal issues that
11 can pop up, and I would suggest that each of these
12 might have particular facts and circumstances that
13 would have to be applied individually beyond the
14 scope of our paper at least.

15 Any other questions? We have an expert
16 here to ask any questions on a very complex
17 topics. We thank you for the research that was
18 done for this and excellent summary in the report,
19 as well Bruce. Without further ado then, I will
20 address the next topic, which are general
21 principles that we identified .

22 There are six general principles that we
23 consider essential for guiding the development of
24 any resource adequacy proposal. These principles
25 could also be called vision statements or ideals,

1 and are listed on page 14 of the joint working
2 paper. These general principles are offered to
3 help ensure that all load serving entities, not
4 just municipal utilities, are resource adequate.

5 Put simply, no one should be covered by
6 a resource adequacy requirement unless everyone
7 is, with roughly equivalent standards. One small
8 surprise, to me at least, is that LSE is a general
9 term, not precisely defined anywhere. We would
10 like to see all LSEs brought up to what is already
11 standard practice for municipal utilities,
12 including a written recitation of their obligation
13 to serve, incentive to plan accurately, incentives
14 to forecast loads and schedule resources, some
15 regular report to this effect and protections for
16 others who share the interconnection.

17 I'd like to mention first principle
18 number five at the bottom of page 14. LSE
19 discretion within the framework of its regulatory
20 authority in planning, procurement, and operation
21 of its portfolio is maintained. During our
22 informal meetings several utility representatives
23 had strong supportive comments in this regard.

24 What we've got works. We have the
25 obligation to meet load. Our plans are flushed

1 out through a politically elected body. We have a
2 three-to-five year plan done in phases. It
3 includes risk management, price and weather
4 forecast. At three years out there's more
5 reliance on resources that can be purchased.

6 Then there are monthly updates and a lot
7 of fine-tuning, especially for cost. It's done
8 for the annual peak load first, to make sure that
9 capacity is available when that occurs. Again,
10 some other comments from our meetings. When we've
11 made our evaluation we create a portfolio, not
12 just focused on the peak.

13 Firm resources will be secure in one
14 example for 85 to 95 percent of forecasts total
15 energy load. We always identify going to the spot
16 market for some periods. The key criteria are did
17 we plan for next year's peak, and did we address
18 the level of risk that we're willing to assume?

19 Another comment, we do many assessment
20 matching loads to resources, including detailed
21 assessments three, six and 12 months out. They
22 include risk assessments. They are revised
23 monthly, weekly, even biweekly when things are
24 fluid. Some of this a matter of commercial
25 sensitivities.

1 We do regard that CAISO could not be
2 here with us today to participate in today's
3 dialogue, primarily due to the short reviews times
4 on our part, and also their busy schedules. I
5 would like to share a few comments without
6 attribution though, from their staff who have
7 reviewed our joint working paper.

8 One gentleman clearly said municipals
9 are responsible operators. They do secure
10 resources to meet load, and continue to be
11 trustworthy. Why CAISO believes uniform reporting
12 requirements are needed for all LSEs and more so,
13 one said nothing in this report jumps out as
14 alarming, as far as it goes.

15 Many representative affirmed throughout
16 our process that while certain activities are
17 subject to the jurisdiction of state and federal
18 regulators, they're primarily self-regulated. One
19 said, we do have a planning process, and it's
20 appropriate for our customers, and it's done well
21 for us.

22 Unlike planning by the state, municipal
23 planning is tied to budgets. Baseline load
24 forecasts and rates are normally adopted well in
25 advance of resource procurement. Maintaining rate

1 stability for customers is one of the drivers for
2 integrated resource planning by municipals. m

3 Part of operating in this volatile world
4 is hedging risks by including use of the spot
5 market, futures contracts, options, and other
6 financial mechanisms. For some these continuous
7 adjustment are about economic optimization.

8 Principle number three logically after
9 this. Appropriate application of a resource
10 adequacy program is in place for each LSE so that
11 free riding on the resource adequacy provided by
12 others is minimized. Principle number three can
13 be put another way, if the LSE is short and the
14 system is not, then the incremental cost are
15 tracked down and assigned to the LSE so they are
16 not leaning on the ISO.

17 Being able to lean on others is an
18 operational issue. This is not just about
19 resource adequacy. So the topic of leaning is not
20 free comprehensively here. For example, Roseville
21 Electric already has ample incentives not to
22 impose a burden on CAISO or anyone else, including
23 penalties when they and the ISO are both short,
24 and non-billing of energy provided to the grid
25 when they are long beyond a certain deviation

1 band.

2 We did conclude that any reporting of
3 resource adequacy should be developed so that it
4 does not facilitate more leaning. Then the
5 question of leaning really goes to a matter of
6 scale. For example, the City of Shasta Lake,
7 which sold 68,000 megawatt hours of retail
8 electricity in 2000 is resource inadequate, and
9 they're leaning on the system.

10 The system might have a hard time
11 detecting that. The same for some of the smaller
12 utilities like Banning, Lompoc, just about 100,000
13 megawatt hours a year. The leaning is more
14 important for those loads that become larger. And
15 municipals were fairly clear that if they were
16 resource inadequate it would not often be a
17 problem of scale the way it has been for investor
18 owned utilities and energy service providers.

19 We turn now to principle number one, a
20 public demonstration by LSEs of a performance-
21 based resource adequacy plan, approved by the
22 LSE's applicable regulatory authority. Municipal
23 authorities utilities are public bodies. So their
24 performance criteria are available and are
25 reasonably transparent.

1 The term performance base also refers to
2 using historical data on availability and
3 dependable capacity of resources. The main idea
4 here though is that the condition of resource
5 adequacy is continuously maintained and clearly
6 demonstrated through reliable service.

7 The proclamations and reporting about
8 resource adequacy are secondary. Principle number
9 four says that demonstration that each LSE has the
10 necessary authority to implement its resource
11 adequacy obligations. Bruce has already reviewed
12 how this obligation to serve is addressed by the
13 municipal utilities.

14 This demonstration could be a high level
15 policy process with assessment considerations.
16 And for some municipal utilities documentation and
17 demonstration of this authority becomes a
18 contractual issue. Principle number three says
19 periodic reporting by LSEs to their control area
20 operator, or RTO, if established, to demonstrate
21 that planned resource commitment are matched to
22 load forecasts.

23 Periodic reporting by generators of
24 commitments to LSEs and remaining available
25 capacity reported by generators to their control

1 area or other other RTO. Again, if that were to
2 be established. Some disclosure to the ISO about
3 the aggregate level of remaining available
4 capacity is needed, and probably done
5 confidentially.

6 CAISO would like better information
7 about the remaining generation that is available,
8 partly to minimize out of market purchases as the
9 operating day approaches. One of the information
10 reporting deficiencies noted by CAISO is that they
11 do not have forward data on how bilateral
12 contracts are used to meet load, especially
13 imports into the control area.

14 Several participants in our working
15 group believe a resource adequacy element needs to
16 be present throughout the western interconnection.
17 Intent is to force people to focus on never having
18 an operating problem due to inadequate planning
19 and procurement. There may still be operating
20 shortages for other reasons such as difficulty in
21 forecasting weather, as happened in May or other
22 contingencies that happened throughout the system.

23 But establishing a resource planning
24 requirement, and manifesting that in sanctions
25 clearly will be tough to coordinate and establish.

1 It is from the operating requirements of the WECC
2 that planning obligations and guidelines are
3 derived. Unfortunately, the operating reserve
4 margin criteria of the WECC does not have a
5 correspondingly firm planning criteria.

6 One could argue that CAISO has done its
7 best to demonstrate that it's meeting the WECC
8 criteria, operating criteria, on future
9 assessments of research adequacy. Using the form
10 they've developed that is included attachment B of
11 our report, municipal utilities have been very
12 good at reporting on this form, better than some
13 IOUs.

14 But without more complete reporting,
15 there's doubt in some quarters that this reporting
16 to WECC is sustainable and credible. Principle
17 number six says arrangements, perhaps formalized,
18 through tariff provisions or protocols exist to
19 describe the actions that the LSE and its control
20 area operator will take when LSE resources do not
21 cover its loads and appropriate reserves.

22 Three of the largest munis, this is a
23 rather moot point since LADWP, SMUD and Imperial
24 Irrigation District operate their own control
25 areas. But put another way, for this principle in

1 application, each LSE would bear some pre-arranged
2 financial consequences of being short, either
3 financially or through load shedding.

4 The latter scenario is considered
5 extremely unlikely by most municipals, especially
6 those who operate their control areas. By some
7 arrangements if the LSE is short and the system is
8 short, then the LSE might be first in line for
9 curtailment. But for most municipal utilities the
10 primary motivation to plan adequately and
11 effectively is to manage and reduce exposure to
12 higher costs.

13 If they don't have enough resources to
14 cover forecast load and operating reserves,
15 they'll get hammered economically. They operate
16 in an environment that requires due diligence and
17 imposes costs if that's not met. During the
18 energy crisis the IOUs and ESPs did not have these
19 same incentives and disincentives, and the
20 financial and legal capabilities.

21 And that led directly to the under-
22 scheduling of resources. It's still a potential
23 problem as CAISO identified in their testimony
24 regarding long-term procurement plans of
25 industrial utilities, to the PUC. Yes.

1 If I may quote briefly, it said in the
2 event that a LSE, including utility does not
3 procure adequate resources in the forward markets,
4 the CAISO anticipates it will secure adequate
5 resources to cover connected load and a sure
6 system reliability, and that it will allocate the
7 cost of such purchases to the entity that gave
8 rise to the need to make that purchase.

9 And a little later, CAISO recommends
10 that the CPUC adopt clear ex-anti procedures that
11 detail the necessary and appropriate actions to be
12 taken should a utility fail to procure adequate
13 capacity in the forward market. Here today we are
14 hesitant to speculate about what the next steps
15 might be to formalize and implement this
16 principle.

17 Among the possibilities are agreements,
18 MOUs, tariffs, and other requirements, some of
19 which might be voluntarily accepted. What we have
20 done though is put together, in a more transparent
21 fashion, what we have now and what we are doing in
22 this context.

23 I'd now like to call on our next speak,
24 Mr. Tony Braun, council for California Municipal
25 Utilities Association, to describe how the

1 existing framework supports resource adequacy for
2 municipal utilities.

3 MR. BRAUN: Thank you, Jim. As an
4 initial matter I think it would be helpful to
5 provide a little context for those for those that
6 don't deal with municipal utilities every day.
7 There are 30 in the state, and so obviously not
8 all 30 look identical. And so we use
9 generalizations, which sometimes can be helpful,
10 and sometimes confusing.

11 But you'll have to bear with me if you
12 don't want a recitation of everybody's policies,
13 which I probably couldn't give you. What I think
14 that that means for us as far as policy making is
15 concerned though is that we need to take a
16 flexible rather than a dogmatic look at what is
17 being done to ensure resource adequacy.

18 And I think that has lessons looking
19 backward in time, or examining what is done now.
20 But also as we start thinking about next steps,
21 how that would translate into a more formal
22 policy. Jim has already I think made the central
23 point about what is done today with respect to
24 municipal resource adequacy and what the
25 incentives are.

1 And that is that when (indiscernible) is
2 over-exposed to short-term prices it is very
3 difficult to set stable rates. It is very
4 difficult to make the right economic choices to
5 come up with the decisions that were made to fit
6 within the municipal rate structure and budget
7 process.

8 And so the option of over reliance on
9 spot markets just doesn't exist. When you combine
10 that with still perhaps more of a hangover for
11 municipal utilities of the old world of utility
12 collaboration and cooperation that exists in other
13 quarters or in the market as a whole, you come up
14 with I think a combination of an old fashioned
15 planning process.

16 Layered on top of that a recognition
17 that over exposure to short-term involved with
18 spot markets is not good for our consumers and
19 it's not direction they would like to go. And so
20 as you turn to page 15 of the report you'll note
21 that we examined the existing municipal framework
22 and how it fits with the principles that Jim just
23 enumerated, at least that was our intent in this
24 section.

25 We'd appreciate your comments on whether

1 we accomplished that objective. We restate that
2 we have the obligation to serve of which resource
3 adequacy we believe is simply a part of that
4 obligation. That there's no buffer or lack of
5 clear direction in our current regulatory
6 environment as to what happens with costs.

7 When we incur costs they are passed
8 through to our customer owners, and they tell our
9 elected boards whether they like that outcome or
10 not. And so there's clear lines of
11 accountability. And so we have the economic
12 incentives to ensure that our exposure to
13 short-term spot markets is minimized.

14 I'd like to use the example of the
15 Lassen Municipal Utility District, although I'm
16 not sure they like it to be used in which they had
17 considerable exposure to short-term spot market
18 prices. Roughly around the same timeframe as the
19 state hit its crisis, and they suffered a very
20 similar economic consequences to that of large
21 utilities in the state.

22 And each and every one of their elected
23 board members was replaced during special
24 elections. So there is evidence that this clear
25 accountability exist and it has teeth. Municipal

1 utilities still actively participate in planning
2 processes, both at the local level and with
3 regional reliability councils.

4 We take our assessments that are filed
5 at the WECC very seriously, because it fits into
6 our own local planning process, and it's simply
7 another tool to make sure we do our job correctly.
8 We've attached as one of the attachments to this
9 work product a resolution that was adopted by the
10 SMUD board, which doesn't really lay out all the
11 analysis.

12 But I think if you have a chance to take
13 a look at it really sets for the affirmative facts
14 that went into them adopting a particular plan
15 dealt with their direct access program. It deals
16 with their goals, their rate goals of achieving
17 rates as compared with other local service
18 providers.

19 It deals with their exposure to gas
20 markets, their financial plans. And, therefore,
21 lays out a course of action. We just throw it out
22 there as a (indiscernible) of the result of what
23 happens from a local planning process when they
24 take the goals that they've achieved, that they've
25 set out for themselves, and lay out a plan on how

1 to achieve them.

2 For municipals within the ISO control
3 area they are already reporting requirements of
4 load forecasts and resource commitments that are
5 done through the utility distribution company
6 agreement, a Pro Forma agreement that all UDCs had
7 entered into with the ISO as a course of doing
8 business.

9 I use that term UDC in a legal fashion
10 because it means something in the tariff. They
11 are load serving entities within California that
12 have not signed that agreement. One of the
13 commitments I think we've come out of this process
14 is that we need to make the filings that we do
15 with the ISO and the submissions at the WECC and
16 make them available in a more transparent form,
17 and a more easily usable form for the Commission
18 in order to facilitate the processes EPR or any
19 other processes that come down the pipe.

20 And that's certainly a commitment that
21 we have made during this collaborative effort is
22 we already undertake these efforts. The data is
23 there and we certainly have no objection in making
24 it available in the most usable form. One of the
25 things that I think we would benefit most from as

1 a State of California is just to make this
2 information more transparent so that it is out
3 there for everyone to see, and people can reach
4 their own conclusions as to where we're at.

5 We have a host of municipal utilities in
6 the northern part of California that has signed a
7 metered subsystem agreement through the Northern
8 California Power Agency, as well as the individual
9 utilities of Santa Clara, Silicon Valley Power,
10 and the City of Roseville. This agreement is
11 somewhat specialized, but for various purposes it
12 includes a showing of a planning reserve level of
13 a certain percentage in order to be exempted from
14 certain ISO summer reliability programs.

15 It also, translating this to the
16 operation level, requires the MSS operators to
17 actually schedule their resources and loads within
18 a certain deviation band or face penalties. Those
19 penalties are essentially if they over-schedule.
20 That the energy is free to the system. And if
21 they under-schedule they pay a penalty above the
22 real time energy price.

23 So that is another existing mechanism
24 and framework, which certainly the utilities have
25 agreed to in order to, A, cement their planning

1 obligation for certain purposes under the
2 agreement. And then, B, make sure that their
3 operating practices meet with their load serving
4 obligations.

5 And then for control areas, and this is
6 currently Sacramento Municipal Utility District,
7 Los Angeles Department of Water and Power, and the
8 Imperial Irrigation District, although Turlock
9 Irrigation District is soon to be operating their
10 own control area. And other municipal utilities
11 are considering control area options.

12 They have arrangements with WECC, which
13 include the reliability management system and the
14 reliability management system carries its own set
15 of sanctions if they do not meet certain operating
16 criteria. Now, not any one of these components
17 ensures resource adequacy.

18 Not all of these components go to a
19 formal planning process or a number of 15, 17
20 percent planning reserve that is sometimes and has
21 been thrown out in other guideline statements.
22 But taken as a cohesive whole, what we believe is
23 that they establish the necessary framework to
24 ensure that our load serving entities are meeting
25 the guidelines that Jim spelled out, namely making

1 a public demonstration of resource adequacy.

2 And having planning procurement
3 practices to ensure that they minimize free ride
4 so that they're not essentially benefitting from
5 the procurement policies of other load serving
6 entities. Sequeing this into what I think will be
7 the discussions that are going to be upcoming
8 here, is that we're not taking -- we don't believe
9 for a moment this is the end all and be all of a
10 resource adequacy plan.

11 What we do think is that the public
12 demonstration, the principle that I think should
13 agree that we should minimize free writing. A
14 much greater degree of transparency on the
15 resource planning process and procurement
16 practices of load serving entities will take us a
17 great deal down the road of ensuring that we have
18 prudent planning in the State of California.

19 And we would -- I think one of the
20 lessons that we took away from this collaborative
21 process is that it's probably not the time for
22 giant leaps in this area, but that we ought to
23 learn from the incremental steps that can be
24 taken.

25 In California we do not have a central

1 pool that operates all the units in a centralized
2 fashion. We do not have yet a pool like they have
3 in many parts of the east, which does at least
4 cost dispatch of units in real time. In fact, the
5 history of the western interconnection has been a
6 barrier on dead approach where everyone is
7 expected to take care of their own problems.

8 And there are a lot of resource adequacy
9 proposals on the table that we are concerned will
10 be very costly. And that will have considerable
11 operational impacts. Those may be the right
12 answers in the ultimate outcome. We don't know
13 that. We have some suspicion about it.

14 But what we'd certainly like to advocate
15 going forward is that we take a circumspect and
16 prudent approach to moving towards a system of
17 resource accuracy. And we need the principles
18 outlined in a report, as well as some incremental
19 steps that we are certainly willing to take to
20 make our information more transparent to policy
21 makers are certainly a helpful necessary first
22 steps.

23 And we look forward to hearing comments,
24 as well as examining other proposal that come down
25 the pipe, whether they be from the PUC or from

1 elsewhere.

2 MR. WOODWARD: Thank you, Tony. Are
3 there any questions about the existing framework?
4 If not we'll turn now to our panelist starting
5 first with Mr. Tom Green of Roseville Electric.

6 MR. GREEN: Thank you, Jim. I really
7 don't have anything further to add beyond what was
8 already well expressed as far as the motivations
9 of the municipal utilities, particularly speaking
10 for Roseville. We are definitely creatures of
11 economics. We're primarily motivated by services
12 at stable cost and rates for our customers and
13 customer constituents.

14 They are our pointer so to speak, and
15 have a direct -- there's no cushion between those
16 owners and the events and costs that we impose
17 upon them. You know, uncertainty is anathema to
18 low stable rates. And certainly the inability to
19 respond to unplanned events would increase the
20 likelihood of our having to face higher costs and
21 volatility in those costs.

22 So it would be an unattainable
23 situation, particularly for the City of Roseville
24 to expose our customers to a lack of planning, a
25 lack of resource adequacy over a prolonged period

1 such as we have experienced in California the last
2 three years. So with that, I would just like to
3 reiterate or support what has been said up to this
4 point, given the economic motivations that
5 entities such as Roseville deal with every day.

6 And I guess finally just to underscore
7 this, for the City of Roseville, in 2005 a number
8 of generators are being developed and being put in
9 place by Municipal Roseville is one that's
10 pursuing a generating facility in 2006. And in
11 the process of preparing an AFC we hope to bring
12 to the Commission some (inaudible) that's planned
13 toward the end of this year.

14 So on that basis, I think we have a
15 responsible approach to providing a stable and low
16 rates to our customers, and would support things
17 that have been said here today.

18 MR. JASKE: Let me just add a couple of
19 items that I give some context of where we go
20 next. I think Tony quite rightly pointed out the
21 differences between the western interconnection
22 and the tight power pools that existed in the
23 east, and that are more directly into ISOs.
24 Clearly here in the west utilities like to make
25 their own arrangements.

1 But the consequences of that is that
2 they need to be responsible for their own actions.
3 I think as Jim Woodward indicated in his extra act
4 from the ISO's testimony to the PUC and its rule
5 making procurement, that the ISO's view, the
6 Energy Commission's view that was put out in
7 testimony, our own testimony in that proceeding a
8 couple of weeks ago, and this paper indicate broad
9 support for the notion that -- or this at the
10 level of principle where an LSE causes a shortfall
11 it needs to accept those consequences both
12 financial and if at that point physical.

13 Tremendous angst among municipals back
14 in 2000, late 2000, early 2001, with being asked
15 to participate in rotating outages that came out
16 of economic problems caused by IOUs and that
17 system that was in place at that time. Pre-broad
18 agreement among parties that that's not where we
19 want to be.

20 So how to translate that into operating
21 practices, procedures is still a bit murky. ISO
22 has tariff language they adopted in one of their
23 more recent amendments to the tariff. It seems to
24 say that, but it hasn't yet been translated into
25 operating procedures, as best we understand.

1 So there's a going forward challenge
2 there, how to take that principle and deal with
3 it. Another challenge that seems to be given the
4 west legacy and history is how to get everyone on
5 at least the same page, if not, you know,
6 observing the same print about resource adequacy.

7 I have, myself, been participating
8 through the CREPC process in dialogue with other
9 state agencies around the west. And there is
10 limited recognition of resource adequacy as a
11 topic. It's out there. It's at some minimal
12 level. But most states are not yet moving forward
13 in any formal fashion to create a resource
14 adequacy standard requirement, or even sort of the
15 principles that we have here.

16 So while there's I think recognition of
17 a problem, and a very large degree of innominate
18 about FERC not being the way to solve the problem,
19 how the west organizes itself to achieve resource
20 adequacy is still very much an unknown probably
21 multi-year proposition. So some steps in that
22 direction through principles and individual one
23 step at a time type actions may be necessary.

24 And finally, I want to build upon the
25 point that Tony made concerning transparency of

1 planning process. I think most of you out there
2 understand that SB1389 made major changes to the
3 Warren Alquist Act portions that had to do with
4 the traditional planning process that we undertook
5 for more than 20 years.

6 It threw away, you know, 25 pages of
7 public resources code and replaced it with
8 something that is probably broader, more general,
9 less specific. And in this initial integrated
10 policy report we obviously are not resurrecting
11 the CFM process and calling upon utilities to, you
12 know, make filings that demand forecast and
13 resource plans.

14 But it may well be that some
15 resurrection of submission of forecast and
16 resource plans, as Tony mentioned, is a necessary
17 step to assure that everyone in fact is doing what
18 they generally say they're going to be doing, to
19 have some public visibility that that is going on,
20 and to just help build information base to assure
21 that we're making progress.

22 And with that, I'd be happy to try to
23 respond to any questions from the audience.

24 MR. WOODWARD: Well, thank you,
25 Dr. Jaske. I saw others writing some notes here

1 on the panel with responses here.

2 MR. BRAUN: Thank you, Jim. There's no
3 green light. Does that mean I'm off? I want to
4 ensure that there's no lack of clarity on this
5 topic, that municipal community in California
6 supports a more formalized approach to resource
7 adequacy. We've told that to the regulatory
8 commission and other policy makers for a few years
9 now since the issue has begun to be discussed.

10 We also recognize and encourage everyone
11 to get down to tackling some of the hard issues if
12 you're going to start determining what's adequate.
13 And those hard issues include how you count
14 certain types of resources, intermittent
15 resources, other types of resources that don't
16 have all of the same capacity factors.

17 What's a prudent planning horizon? I
18 mean there's all kinds of proposals out there.
19 And they have tremendous cost impacts and
20 different cost consequences. And speaking
21 personally, what I think is a fundamental and
22 perhaps threshold issue is whether or not there is
23 a hard link between an operating environment in
24 real time and the planning horizon.

25 And whether or not you translate that

1 planning requirement into hands on centrally
2 dispatched requirement as was generally proposed
3 in the ACAP proposal by the ISO. And so these are
4 threshold policy issues. These are hard issues.

5 We don't mean to shirk them in any
6 regard by talking about any incremental approach
7 to this problem. And we look forward to working
8 on these issues. We would commend the Commission
9 to become highly involved in that process, and we
10 look forward to working with you.

11 And these are, I think, in the theme
12 next steps, some of the things that we all can
13 really start to roll up our sleeves on, because
14 they'll be necessary, necessary hard issues to
15 tackle if we do want to move forward with a formal
16 resource adequacy proposal.

17 MR. WOODWARD: Thank you. I just want
18 to appreciate again that we presented here the
19 areas where we have agreement. And there's a
20 wealth of prospectives and some differences on the
21 topic among those that work here.

22 But I especially want to credit Dr.
23 Jaske, Mr. McLaughlin for being principle writers
24 in the leadership of Mr. Braun here, without which
25 we would not be here today and seeing this as a

1 priority where we could find areas of agreement
2 knowing there are many other difficulties toward
3 implementing a requirement down the road.

4 Now I think we'd like to turn to the
5 Commissioners first for questions and comments
6 that they may have.

7 CHAIRMAN KEESE: I have a general
8 question, and this is more appropriate later in
9 the program. We're talking about a willingness to
10 have transparency so that people will know what
11 the planning process is. I'm just wondering if
12 there is a distinction here, if a distinction can
13 be drawn between the munis and let's say the IOUs
14 as to how much of the future demand has been
15 locked up supply.

16 I mean would you suggest that perhaps
17 the munis have more assurances of where their
18 supplies are going to come from than the IOUs who
19 rely on a shorter term? Is that significant?

20 MR. BRAUN: Mr. Chairman, I don't think
21 I know the answer to that question. I mean
22 factually, and that's one of the things that has
23 troubled me, and in dealing with -- you can go way
24 down a series of events here, but has troubled me
25 with attempted to address certain issues in the

1 market design is it to become evident that maybe
2 we're just not looking hard enough.

3 CHAIRMAN KEESE: We don't know.

4 MR. BRAUN: I don't know the answers to
5 those questions. And one issue, and this
6 translates to market design, but, you know, there
7 were a host of contracts that were entered into by
8 SERS and now being managed by the IOUs. Most of
9 them are still in order, six by 16 or 24/7 type
10 surprise.

11 And we don't have really a good idea of
12 what portion of the load is met by those
13 contracts, whether it's leaving unhedged peak
14 requirements, or whether there are peaking
15 requirements that are met by these contracts, and
16 how that will spill over into ISO operations and,
17 therefore, cost implications for everybody.

18 Speaking personally, and I think for
19 CMUA as we fork through the ISO process, is there
20 is, I think, a remarkable lack of transparency on
21 those types of issues. And I couldn't answer your
22 question with any degree of confidence as to
23 whether -- you know, how we are situated.

24 And so my intuition would tell me that
25 we probably have a higher percentage of our demand

1 requirements locked up in a more forward manner,
2 but I don't have anything here that would
3 demonstrate that. So I think it goes back to the
4 issue of transparency.

5 CHAIRMAN KEESE: Living in a rural
6 electric cooperative that Lassen attempted to lean
7 on during the crisis, I had a little familiarity
8 with that. There is -- would it apply some
9 consistency? Do you think that most of the munis
10 are going about as good a job, or not like Lassen
11 was, are they together generally speaking in their
12 planning for the future.

13 MR. BRAUN: Well, I think it would
14 probably be more accurate to say that their
15 incentives, their procurement and incentives, are
16 very similar. And so that leads them to a
17 (indiscernible) is similar, which leads them to
18 similar types of procurement decisions on whether
19 they're going to be long, etcetera, and things
20 like that.

21 But if you boil it down the actual
22 procedures that are adopted by individual
23 utilities, at that point in time you start having
24 more (indiscernible).

25 MR. JASKE: I think there is some

1 distinction in muni practices that separates along
2 the lines of this metered subsystem concept, you
3 know. A sort of crude way of putting it is that
4 in return for being looked at from the ISO in
5 terms of their net impact to the ISO as opposed to
6 gross loads and resources, participants in MSS
7 agreements, you know, are going to be operating.

8 It's a very narrow band, you know, three
9 percent. And as Bruce and Tony indicated, you
10 know, there's these asymmetric consequences of
11 going below or above, too far. So those, munis
12 participating in meter subsystem agreements, you
13 know, are going to be playing the spot markets and
14 short run markets differently I would think than
15 munis who are not in those arrangements, and who
16 essentially have greater latitude to play the
17 short run game.

18 And they could be wrong or they could be
19 right. But, again, as we've indicated, they will
20 bear the consequences.

21 CHAIRMAN KEESE: One other factor that
22 contributes is the historical relationship between
23 the host utility and the municipal utility. In
24 Northern California for the last couple of decades
25 they've had what are standard -- not standard, but

1 an interconnection agreement type of approach,
2 which really embodied this deviation band concept
3 before there was a metered subsystem.

4 But while in Southern California there
5 was more of an integrated approach, and where a
6 lot of these types of reliability services were
7 provided by Edison and was much more than
8 integrated agreement. And what we've seen over
9 the last couple of years as those agreements with
10 Edison have expired, is that many of the
11 utilities, municipal utilities, in the South
12 Colton, Riverside, Anaheim and Burbank, all of
13 Burbank is in LA's control area.

14 There's other people that actually were
15 participating in the project there, have built
16 internal generation, picking units and things like
17 that, that are their response to the fact that
18 Edison is not there to operate in an integrated
19 fashion with them anymore instead of approach to
20 manage their risk.

21 PRESIDING MEMBER BOYD: I was wondering,
22 in listening to Mike Jaske's closing comments in
23 the panel, having kind of heard that the municipal
24 forum includes more accountability, thus resource
25 adequacy, but for the one example perhaps

1 mentioned is ingrained in the whole concept, but
2 recognizing that the munis are part of the whole
3 system.

4 I was wondering, and I don't know if
5 this is a Mike Jaske question or for anybody to
6 comment, resource adequacy is something being
7 debated, as you all indicated, many indicated, all
8 over the place. So I was wondering, you know,
9 we've got FERC dealing with resource adequacy.

10 We've got the PUC dealing with resource
11 adequacy. We've got our own CPA, which set a
12 resource adequacy band for itself, if no one else.
13 Exactly what is going on out there and how does
14 this all fit into the total puzzle that we have to
15 deal with of integrating together, thinking of
16 integrating in our minds per playing purposes the
17 needs of the whole state so to speak?

18 What's happening in say at the PUC and
19 FERC that effect the non-munis, and how do we
20 think about it in terms of where the muni program
21 is at present?

22 MR. JASKE: Well, we start, and I may at
23 some point here at a person in the audience to
24 chime in, as part of this CREPC involvement that I
25 mentioned earlier, CREPC conducted a survey of all

1 the regulatory agencies in the western states.
2 This is in April of this year. And it was sort of
3 an initial foray to just illicit what everyone was
4 doing.

5 And while California was the only state
6 that was sort of officially doing something that
7 you would call resource adequacy, using that term,
8 there were several states renewing integrated
9 resource planning, you know, kinds of processes or
10 looking more closely at the procurement and the
11 resource commitment process than they had in the
12 past.

13 Or beginning to rethink the role of
14 demand site management energy efficiency, so
15 forth. So there's some degree of activity
16 throughout the west, but it's not very well
17 organized. In fact, it isn't organized at all.
18 And I think it suffers from this issue that Tony
19 mentioned is the west, you know, is just so
20 oriented to individual utility economy, individual
21 states, you know, doing their own thing.

22 Even though we're all part of this
23 western interconnection, and sort of minimal
24 legacy of working together, there really isn't
25 even truly appropriate forum, or one that hasn't

1 yet sort of taken on how it is we think about
2 resource adequacy from an overall west wide
3 prospective.

4 CREPC is the best thing going, but as a
5 voluntary organization, you know, it can't commit
6 to anything. It's sort of a talking forum. And
7 even then it's maybe only recently, you know,
8 going far enough, or feeling courageous enough, to
9 sort of take this on officially.

10 That being said, from the western
11 perspective, clearly here in California we are
12 doing things, you know, we're doing something here
13 and at this point I might ask Jim Hendry of the
14 PUC if he might be willing to say anything about
15 where things are at the PUC with respect to
16 resource adequacy in the PUC's procurement
17 process, which we all have to understand is at the
18 state of, you know, utilities and intervenors of
19 filed testimony.

20 And we're at that position where there
21 is yet a whole lot of their process in front of
22 them.

23 MR. HENDRY: Good morning. Is this on?
24 I'll just try to speak loudly, maybe it might be
25 better. Good morning, Commissioners. My name is

1 James Hendry with the Public Utilities Commission.
2 And Mike graciously invited me up here to kind of
3 update you on what the Public Utilities Commission
4 is doing on resource adequacy.

5 And about 80 percent of the load in the
6 ISO is served by the investor owned utilities, and
7 about ten percent is by direct access, within the
8 ISO about another ten percent is served by the
9 municipal utilities. And the Commission is taking
10 seriously the need to address sort resource
11 adequacy both in terms of resource adequacy
12 itself, but also just in terms of the larger issue
13 of resource procurement.

14 And so for the 80 percent of the
15 resources, you know, of the ISO resources, that
16 belong to the -- okay. As you know, the
17 Commission has in its procurement role making is
18 looking the issue of resource adequacy. And
19 unfortunately, we're still at the beginning stages
20 of it, or the middle stages where we need to
21 address resource adequacy issue.

22 But the Commission, you know, did
23 realize that the need to address resource adequacy
24 was very important and the issue of resource
25 procurement. So we did solicit comments from the

1 parties as to how to address it for the investor
2 owned utilities. And we also issued rulings
3 asking to then how we may address this for the
4 direct access load as well.

5 And the energy services providers would
6 also serve the California market. So as Mike
7 said, we just got the testimony in from the
8 intervenors. The CEC a number of well thought out
9 comments. The California ISO offered a number of
10 well thought out comments.

11 And as the Commission proceeds through
12 its decision making process we will take those
13 into account and trying to ensure that at the end
14 of the day what the goal of the Commission was is
15 to ensure, you know, safe, adequate, reliable,
16 reasonably priced services.

17 The format, you know, in how much detail
18 the Commission ends up adopting clearly will be
19 developed in the proceeding. Clearly there's
20 some, you know, as Tony mentioned, the issue of
21 count resources will be an issue that will have to
22 be addressed.

23 They'll be some of the inter-regional
24 issues will also be important that we'll have to
25 address such as, you know, how you count resources

1 that come from the pacific northwest or the
2 southwest, which may or may not be under the
3 degree of contracting specificity that some
4 parties may want. But it may or may not turn out
5 to be reliable, depending on what you view them
6 as.

7 Tony sort of mentioned about the
8 Department of Water Resources contracts, which how
9 you treat those contracts under sort of resource
10 adequacy mechanism is an issue that the Commission
11 will have to look at as well. Those are a very
12 significant part of the resource mix that are out
13 there.

14 Clearly, I think the position of the PUC
15 and our comments to FERC in this I think follows
16 on the comments (indiscernible), which the CEC was
17 a part as well, is that resource adequacy is a
18 state issue. And we were very grateful in the
19 FERC white paper with their recognition that
20 resource adequacy is a state issue, and that ISOs
21 and RTOs can't act in that issue unless the state
22 gives them the authority to do so.

23 And I think we've made it very clear to
24 the ISO that we envision that California will
25 address these issues, working through the forms of

1 our procurement rule making, your IEPR process.
2 And that we view this basically as a state issue
3 that needs to be resolved. And that we'll work to
4 resolve it.

5 In the last filing of the ISO to FERC
6 with the conceptual filing that they'll be making
7 soon, I think they've made similar recognition of
8 that as well. That it's going to be largely a
9 state issue and that the appropriate forms will be
10 here in the CEC to try and address those issues.

11 And we're grateful that the CEC and the
12 ISO are both just (indiscernible) in our
13 proceedings.

14 PRESIDING MEMBER BOYD: Thank you.

15 MR. BRAUN: You know, we have to deliver
16 something by November 1st. And then work with the
17 Governor to get something out by I think it's
18 March 1st. That is a much shorter timeframe I
19 believe than you're probably looking at the PUC.

20 Well, the original commitment to the ISO
21 is that we get back to them by November. And as
22 David Friedman testified before the board noted in
23 June is we'll probably end up lapsing a month or
24 two into December or January just given the
25 complexity of issues, you know.

1 I think there's the -- you know, Tony
2 had raised the issue of what the planning horizon
3 is. And I think there is clearly we've met the
4 good faith effort that, you know, we have the
5 process going and we're working on it. And
6 clearly, for the short-term we've made sure that
7 the investor more or less forward contract and
8 procured almost all of their resource needs.

9 And given the supply situation we're,
10 you know, fairly comfortable, even under
11 reasonable stressed conditions for the next two
12 years. So I think clearly the timing is something
13 that we have to move forward on very quickly. But
14 in terms of, you know, the actual sort of power,
15 you know, in the ground or under contract, I think
16 we're fine for the next two years.

17 And then what really I think is
18 important from your process and our process is the
19 fact that we are setting up the process basically,
20 is that the IPR process will be an ongoing process
21 that will go to (indiscernible). And that the
22 PUC's procurement role making will be an integrate
23 process as well.

24 So I think as much as the fact that the
25 process is there is I think equally as important

1 as the fact that whatever, you know, final, you
2 know, recommendations that will guide, you know,
3 short and midterm procurement choices.

4 CHAIRMAN KEESE: Recognizing that at
5 least for the IOUs, and I guess for the direct
6 access, that 90 percent of the market you can work
7 with. I mean there's this other part of the
8 market. But it's going to be vital that they're
9 totally consistent. Seamless is another word that
10 we use in other debates.

11 Are you suggesting that as far as some
12 of these initial parameters about resource
13 adequacy you may have something by the end of the
14 year?

15 MR. BRAUN: That's our plan, yes. I
16 think we said the framework will be more developed
17 maybe then some of the other --

18 CHAIRMAN KEESE: Yeah.

19 MR. BRAUN: -- process going forward.
20 We're trying to, you know, tread a fine line
21 because we realize those needs, you know, so try
22 to get consistent sort of framework between the
23 states. But since we don't regulate them as
24 utilities we tend to sort defer to their own
25 judgments, and your judgments, and your oversight

1 of them.

2 And so there's a need to work together,
3 but, you know, we don't want to, you know -- we
4 need to work cooperatively, but we don't want to
5 sort of realize that, you know, they have no time
6 to give to their own. And it's really not one of,
7 you know, jurisdictional responsibilities.
8 There's a balance there that we're trying to work
9 with.

10 CHAIRMAN KEESE: And then this would be
11 the balance that we do have to deal with our
12 border states. The problem of northwestern hydro,
13 to me, their peaking needs are one thing. But the
14 fact that we rely directly on Wyoming coal,
15 Arizona coal, nuclear, we have these connections
16 with other states who are going to have to look at
17 the same issue.

18 As I recall, most of our off line
19 discussions with FERC about California wanting to
20 be on its own was taken into context of California
21 wants to be on its own. Arizona wants to be on
22 its own. Mexico wants to be. But we basically
23 said we recognize as a western interconnection we
24 have to do this together.

25 So the resource adequacy issue is one

1 that's going to be in the ultimate western
2 resource adequacy. After we do it state by state
3 and work out how we'll do it. Since I've spent
4 the six, seven and a half years with the CREPC
5 format where the decision making process is
6 unanimity or nothing, CREPC is not a problem
7 solving entity.

8 It's a problem discussing entity that
9 can then refer the issues to the other policy
10 makers. So I'm glad to hear our timeframes are
11 reasonably closer.

12 MR. BRAUN: Yes. I think that was the
13 goal of both of our proceedings. And I think one
14 of the kind of follow up in the CREPC issue I
15 think we have to look at the evolving, you know,
16 west connect models. And it's my understanding is
17 a couple months ago they haven't really looked at
18 resource adequacy per se as well.

19 And there's a sort of symmetry issue of
20 if you, you know, impose your (indiscernible) in
21 California that maybe don't get imposed on the
22 other states then are you disadvantaging
23 California or are you making California try and
24 lock up everything under long-term contract, but
25 not imposing similar obligations on others.

1 And so there's a tension I think in FERC
2 vision of the world where they want resource
3 adequacy, but then they also say one of the
4 benefits of having this interconnected regional
5 market is the flexibility of taking account of
6 seasonal diversity and that at any given time
7 certain generators of certain utilities may have
8 extra power that's available at a reasonable
9 price.

10 And there's sort of a tension between
11 those two that I think FERC needs to look toward
12 and work out. I'm not quite they have resolved
13 that tension. And I think that's something that
14 the PUC is looking at, and I think you are as
15 well.

16 CHAIRMAN KEESE: Thank you.

17 PRESIDING MEMBER BOYD: Well, needless
18 to say, resource adequacy remains a policy issue
19 of concern to all of us. Certainly we'll have to
20 report on in this first iteration of integrated
21 energy policy report. But I'm encouraged to hear
22 pieces of the puzzle are at least being addressed.

23 I don't think its meshed together yet,
24 but anyway, thanks gentlemen. Another question
25 that I'd like to ask the panel was a combination

1 of two things I heard, Mr. Green from Roseville
2 pointing out that there are economic motivations
3 for everything, or everything is economically
4 driven more or less.

5 It drives me to ask the question what's
6 been the reason, or benefit gain, for munis to
7 become their own control areas?

8 MR. GREEN: Well, I can't speak to
9 motivations of municipals who have decided to
10 become their own control areas. Roseville is not
11 electing to pursue that route. As you know, the
12 Western Area Power Administration is looking at
13 becoming a control area. Roseville would have to
14 look at that question as to whether we would be
15 affiliated with that control area or remain with
16 the ISO.

17 But we're not motivated to be our own
18 control area. So I think someone from SMUD could
19 answer that more directly.

20 PRESIDING MEMBER BOYD: And it wasn't
21 necessarily just directed at you. I just used
22 your quote as a driver here that maybe Tony or
23 somebody --

24 MR. BRAUN: Well, it probably does vary
25 from entity to entity, but perhaps I can give some

1 general insights into it, and that is that I think
2 the course over the past five years, I mean it's
3 no secret that municipal utilities have concern
4 with several aspects of the grid operation under
5 the new market system of the last few years.

6 One is just the absolute cost level of
7 doing business within the ISO. And that's just
8 administrative charges. Two, the decisions to
9 operate, at least for certain municipal utilities,
10 the decisions that the grid operator has made to
11 operate their units, not only at times when the
12 municipal utility themselves wouldn't operate them
13 for reasons of, you know --

14 For example, hydro resources that they
15 would generally save for a time like now being run
16 in the January, February timeframe, or emissions
17 limited combustion turbines that they would run,
18 have limited run times during the year. And the
19 decisions that the grid operator was making
20 wouldn't have been the same decisions that the
21 local utility were made to run at a particular
22 time.

23 And then I think this can't be,
24 underestimated. There are a host of charges that
25 are associated with grid operation. I don't know

1 what the number is. The last time I checked it
2 was 70 some charge types that you get on a bill
3 from the grid operator. And they reflect all
4 kinds of energy charges, (indiscernible) charges,
5 losses, etcetera, etcetera, that are variable, and
6 that are very difficult to predict and can swing
7 wildly from month to month.

8 And so when the entities are looking at
9 forming their own control area, they're looking at
10 what my absolute levels of cost exposure if I'm
11 operating within that ISO environment? And
12 moreover, how can I get a handle on predicting
13 what my cost exposure is going to be so that I can
14 have a prudent rate setting practice.

15 And what municipal utilities have found
16 that are considering control area option is that
17 their charges that they aren't going to get just
18 from being hooked up to the grid, can vary
19 extensively by millions of dollars from month to
20 month. And that makes their rate setting process
21 more complicated than they would like it to be.

22 So they balance the certainty. They
23 balance the cost exposure, and they balance the
24 cost. And there are costs forming in the
25 uncontrolled area, and make a decision with those

1 factors in mind.

2 PRESIDING MEMBER BOYD: It sounds like
3 it's very heavily an economic decision.

4 MR. BRAUN: It is. And, you know, I
5 translated the issue of operational control into
6 economics there, but there is that, you know,
7 which category you want to put that in is probably
8 less important than recognizing that it's there.
9 That someone is running your generating units at a
10 time, taking into account a set of decisions that
11 aren't coterminous with your own.

12 So running at times when you wouldn't
13 prefer to run them, or running hydro at times when
14 you think you'd rather save the water. Those
15 kinds of things, which obviously translate into
16 economics.

17 PRESIDING MEMBER BOYD: Thank you.

18 MR. WOODWARD: Are there any other
19 questions here from the audience, comments?

20 MR. ARTHUR: My name is Dave Arthur from
21 the City of Redding. First I would like reiterate
22 the comments made earlier that we're extremely
23 appreciative of the effort that the CEC made with
24 CMUA and the various members to address this
25 question constructively. Redding wishes it had

1 been able to participate in that, but there was a
2 scheduling conflict.

3 And so at least in this first phase we
4 were not able to participate, but we certainly
5 hope that as discussions continue we will be able
6 to do that. I would like to address, and I guess
7 hopefully sufficient abstract us not to either
8 endorse or criticize one of the principles, and
9 that has to do with the free rider problem.

10 I would go back to an observation that I
11 used to make when I was working in the northwest
12 and had responsibilities from time to time in the
13 area of resource planning. That for a period of
14 somewhere between ten and 15 years there was
15 interesting phenomena that went on in which the
16 northwest said we don't have to build resources
17 because California will take care of us.

18 And having come down to California I've
19 discovered that California reached the same
20 conclusion because the northwest was going to take
21 care of them. And the reason for this is really
22 very simple, and it's an issue that has not been
23 explicitly addressed, but needs to be, and that is
24 it cost money to hold power plants that don't run
25 very often.

1 And because of the volatility and
2 weather, because of the uncertainties with respect
3 to hydro years, the reality is is that a
4 significant number of dollars must be spent each
5 year to carry the fixed cost associated with
6 resources that don't operate because they aren't
7 needed most of the time. But they're desperately
8 needed some of the time.

9 And a lot of the resource adequacy
10 question, and a lot of these others, is really a
11 dodging game to say I don't want to be the one
12 that has to carry those fixed costs. I'll let
13 someone else do it. And then I'll take advantage
14 of it when I need it. And that's simply
15 unacceptable.

16 It is the view of the City of Redding
17 that we have to some extent been victimized by
18 that because we did carry the associated cost. We
19 were called upon, and then when a reasonable
20 amount of those costs were passed along, there was
21 an unwillingness to continue to pay for them.

22 So the core issue here is the question
23 of who's going to carry the cost of plants that
24 aren't needed very much to ensure that there's
25 reliability? It's not a big forecasting problem.

1 It's not something that's of enormous complexity.
2 It's well understood. It's been addressed.

3 It's been fought about in the region for
4 the last 25 years. It's not a new issue. When I
5 was in the northwest we had one or two parties up
6 there that steadfastly attempted to under carry
7 their fair share of the associated cost, and the
8 rest of the members in the region made every
9 possible effort to ensure that they did carry
10 their fair share of costs.

11 And it is Redding's view that everybody
12 needs to carry their fair share of the costs.
13 It's Redding's view that having a little too much
14 resources is much less harmful than having too few
15 resources. We think the events of the past
16 several years are living proof of that. And we
17 certainly hope that that doesn't repeat itself in
18 the future.

19 And we think if we can even adopt that
20 basic philosophy that most of the problems will go
21 away. A lot of the reasons we don't have the
22 difficulties right now are because we do have
23 adequate resources in place, and that has had the
24 beneficial result of bringing cost down quickly in
25 the spot markets.

1 And if we have inadequate resources we
2 will see the spot markets will go up to very high
3 prices. We've heard that it is only economics
4 that drives all of us, which I think is partially
5 true, but if you think about that very carefully,
6 and you look at game theory, which actually in the
7 northwest we used to spend a lot of time thinking
8 in that context, if I can get you to go along,
9 then I can afford to go short.

10 And that becomes the optimal low cost
11 strategy to minimize the cost for your respective
12 utility. And that's at the expense of others.
13 So, again, I just want to reiterate, we very much
14 appreciate the work that the CEC is doing.
15 Redding cannot emphatically enough say that we
16 believe resource adequacy is the lynch pin for
17 bringing stability back to the west, to
18 California, to Northern California, Southern
19 California.

20 If we have a good resource adequacy
21 program that is equitably applied, we think issues
22 will go away. If we have an inadequate or
23 inequitable resource adequacy standards, we think
24 problems will reemerge because people will be
25 (indiscernible) to try to take advantage of that,

1 to their advantage and the disadvantage of others.
2 Thank you.

3 CHAIRMAN KEESE: Thank you. You may not
4 have wanted to participate in that, but we welcome
5 your participation throughout our proceeding here,
6 the numerous trips you've been down from Redding
7 to join us.

8 MR. WOODWARD: Thank you, Dave. That
9 comment about maintaining resources for those few
10 hours in the location curb where they are needed
11 to meet peak load brings to mind a possible policy
12 option involving those plants that economically
13 may be ready for retirement, but perhaps there's a
14 pooled approached possibility for keeping those
15 available for a larger area of serving load.

16 Much like we tend to, when some staff
17 are ready to retire, we may keep them available as
18 retired annuitants for serving a few hours. You
19 know, the fixed capital and training costs are
20 already there.

21 MR. ARTHUR: Without casting dispersion
22 on the policies of several years ago, it could
23 only be viewed as novel from the perspective that
24 of the northwest that one would go out and take
25 one's least efficient plants and sell them, even

1 though were located in extremely critical places
2 and provided a very low cost formal reserves for
3 those unusual circumstances.

4 PRESIDING MEMBER BOYD: Well, thank you.
5 You put on the table one of my favorite subjects,
6 and that is who provides the insurance policy and
7 who pays the premium if that's the way we choose
8 to go? And I think we're all, the government
9 agencies, are wrestling with that. I don't know
10 if I see light at the end of the tunnel or not
11 quite frankly.

12 And the other thing you entered into
13 today that I recall you've entered on the record
14 before is the need to take into account human
15 behavior in designing systems.

16 MR. WOODWARD: Thank you, Commissioner.
17 Are there other questions, comments, please?

18 MR. BESHIR: My name is Mohammad Beshir
19 from the Los Angeles Department of Water and
20 Power. Again, I would like to also commend the
21 people who worked on the reports. And I think it
22 was a really excellent discussion on the subject.
23 I just want to mention DWP participated in the
24 discussion as well.

25 We are a controlled area. We are

1 municipality. We are also I guess the largest
2 municipality in the country. We have worked for
3 the process from resource adequacy prospective.
4 We do have long-term planning. We do also have
5 obligations to serve. So primarily that has
6 served that well as far as providing resource
7 adequacy for our citizens of Los Angeles.

8 One thing I guess I just want to mention
9 is the issue of resource adequacy is not really
10 limited to a certain small region. It's really a
11 regional from a perspective of WSCC, for instance,
12 or WECC. It's really a regional issue. So we
13 really have to underscore that process. And we
14 should not really (indiscernible) ourself looking
15 at it from limited point of view.

16 Another thing which I would like to
17 underscore is also to really do resource adequacy
18 in a more adequate fashion they did a requirement
19 that's very large. So we don't want to
20 haphazardly come as a requirement to which it
21 requires utilities provide large set of data,
22 which is really could be a waste of time and,
23 therefore, a lot of people.

24 So I think previously in the old days
25 that was done at the BSCC level. There was a lot

1 of data set that required and that served the
2 purpose. And I think it should be looked at from
3 that perspective on an ongoing basis also. And I
4 guess, again, I really appreciate the opportunity.

5 MR. WOODWARD: Thank you, Mr. Beshir.
6 And we appreciate your involvement as well, along
7 with John Schuman, during our discussions, even it
8 was just by telephone. Are there any other
9 questions or comments from the audience? Yes.

10 MS. PRAUL: I'm Cynthia Praul with the
11 California Energy Commission. Sorry for this
12 impromptu to appearance here. Mike Jaske and I
13 work with a group of westerners, technical staff,
14 on the westside resource assessment team. And I
15 just thought I would try to deepen the record a
16 slight amount today about the WECC and its role in
17 resource adequacy.

18 It's certainly true that the RTOs are
19 not yet well organized, and there isn't any kind
20 of clarity about what sort of assessments or roles
21 they would play for the west or for themselves
22 with respect to adequacy. But Mike actually has,
23 you know, a long standing role in this arena.

24 And what's particularly important right
25 now is that they're in the middle of what would

1 really be considered a C change in their
2 perspective on adequacy of the resources in the
3 west. I know that some folks are aware that
4 they're more traditional over the historical
5 reports of which they add the data provided by the
6 different control areas together.

7 And in the fall of last year there was a
8 document that indicated there were, you know,
9 extremely high reserve margins in different
10 subregions and for the region as a whole. The
11 WECC board reviewed that product and they made a
12 decision not to approve it.

13 They accepted it, but they directed the
14 staff and the member committees to revise their
15 approach to the document, and to ensure that they
16 use more recent information, and to produce the
17 document twice a year. They've done that, and the
18 WECC planning coordination committee has just
19 approved the first of what is now a biannual
20 adequacy assessment.

21 It's called the spring adequacy
22 assessment. But it's not related to spring. It's
23 just that it's the first of the two for 2003. And
24 why this is significant is that the product has
25 shifted from showing very high reserve margins

1 based on outdated information about resource
2 additions to now showing multiple subregions
3 falling below the seven percent reserve lines in
4 this decade at various years out in the future.

5 And this is done using a reasonable, in
6 fact, you know, higher estimate of committed
7 resources or, you know, pretty much an equal set
8 to that that the Energy Commission uses. It
9 relies only on one and two -- request for one and
10 two year load forecast from the controlled areas.

11 So for an operating reserve that's a
12 pretty minimum level that you want to look at.
13 It's not a one and five or a one and ten. So if I
14 can just conclude by saying that it's very
15 important for California overall to have
16 confidence in its own resource adequacy
17 calculations.

18 And it's, you know, process with the PUC
19 and the ISO, and all players involved, because we
20 can make a major contribution to the stability and
21 the overall calculations related to the
22 interconnection, or a large part of its load and
23 its resource contribution. At the same time, it
24 is a western picture.

25 And I was listening on the internal

1 system to the morning, and I heard Mike referring
2 to CREPC some of the work there, and Bill's
3 comments. And my best summary could be that the
4 more we understand how assessment, you know,
5 counting the generation and load in the west is
6 done, the more questions that we see need to be
7 raised.

8 And the more we step and understand what
9 individual regional entities as they currently
10 exist believe their roles are, or are not, there's
11 increased confusion. I really think it's possible
12 that the individual states and subregions of WECC
13 can take it upon themselves to fill the resource
14 adequacy function.

15 And that it can, you know, successful
16 bubble up from some sort of, you know, the bottom
17 up. That's a workable model. But that puts a lot
18 of responsibility on the individual market
19 participants, the load serving entities, and the
20 regulatory bodies at the state level to make sure
21 that it's happening.

22 And then to participate in a broader
23 forum where we have some kind of basic agreement
24 about how to count the resources, which is what
25 WECC is moving toward, that sort of agreement

1 about counting them. And then on an annual basis
2 consistently the regional entities kind of step
3 back and they look at how big the pile of beans
4 are, and they say, yeah, you know, that's good
5 enough.

6 We don't have to worry. We can tell the
7 Governor that things are comfortable for the next,
8 you know, five years. And that's an optimistic
9 view of how this could all work out. But that's
10 what we think is a reasonable approach given that
11 we don't have a regional entity. And we don't
12 want a regional west wide standard for what
13 adequacy has to be maintained.

14 In closing I'd say that in California
15 and in the northwest in particular the municipals
16 are a very important significant part of the load.
17 And so we want to make sure that we are very
18 conscious of how they're addressing this issue.
19 Thank you for listening.

20 CHAIRMAN KEESE: Thank you. Again,
21 having participated in (indiscernible) for the
22 last six years it became so apparent that the
23 counting as it's done state by state is so
24 inconsistent and so disconnected from reality that
25 it leads to the, what I called it, the old WSCC

1 reports, which were this just adding up numbers
2 that somebody had submitted.

3 I recall one of our border states at one
4 of our meetings putting on a program where they
5 bragged about all the generation that was coming.
6 And later in the meeting representatives from the
7 same state talked about the crisis they were going
8 to see in three years. And that was because one
9 of them was using every press release everybody
10 had released about a new power plant coming out of
11 the state.

12 And the other one was dealing with the
13 fact that none of them had started yet. And this
14 is what leads to that absolute misinformation
15 being out there. And when you aggregate
16 misinformation, even if you have some true
17 information, you get total misinformation.

18 PRESIDING MEMBER BOYD: Certainly you
19 weren't speaking of California.

20 CHAIRMAN KEESE: I'm not even going to
21 name the border state I'm talking about.

22 PRESIDING MEMBER BOYD: Thank you,
23 Cynthia.

24 MR. WOODWARD: Well, if there are no
25 further questions or comments from the audience,

1 or Commissioners, I'd like to conclude this
2 workshop again with appreciation for those that
3 prepared and participated, all of you today. I do
4 believe a small step forward in many areas, but
5 progress will come, I hope and believe from
6 collaborative and cooperative approaches like
7 this, while respecting the independence of
8 obligations and responsibilities that are present
9 for all participants, especially municipal load
10 serving entities and others.

11 And thank you, and good day.

12 (Thereupon, at 12:05 p.m.,
13 the workshop was adjourned.)

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CERTIFICATE OF REPORTER

I, ALAN MEADE, an Electronic Reporter, do hereby certify that I am a disinterested person herein; that I recorded the foregoing California Energy Commission Workshop; that it was thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to said workshop, nor in any way interested in outcome of said workshop.

IN WITNESS HEREOF, I have hereunto set my hand this 20th day of July, 2003.

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