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7. UTLITIES: Calif. PUC will allow competition for power supplies *(12/21/2007)*

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Reversing a policy that has prevented the state's three big electric utilities from competing with non-utilities in solicitations for generation resources, the California Public Utilities Commission yesterday conditionally approved long-term procurement plans by investor-owned utilities (IOUs) to meet power needs over the next decade.

But while granting the authorization for utilities to accept bids for more than 3,400 megawatts by 2016, the commission imposed restrictions on communication among utility employees involved in bidding and selecting winners.

And while commissioners affirmed their commitment to the competitive marketplace for new electric supplies, the order was highly critical of utility plans to fill their short-term needs with traditional fossil-fuels rather than adhering to the "loading order" that is now a foundation of state energy policy.

"This is not a blank check to go out and procure traditional energy," CPUC President Mike Peevey said. "Utilities should seek clean, efficient fossil-fuel resources only after maximizing energy efficiency and renewables."

The ruling says the three utilities' plans were "deficient and spotty" with regard to their intentions to fill "net-short" energy needs with market purchases from gas-fired power plants and "inadequate" in accounting for greenhouse-gas reduction goals.

In particular, the ruling criticizes a lack of sufficient information to judge progress toward meeting the required 20 percent renewables portfolio standard. "In addition, the plans fail to provide the timing and parameters of the expected [requests for offers] or other means to fill identified renewable needs" or properly address the possibility of contract failure, the order noted.

"Going forward, the utilities will be required to reflect in the design of their auctions compliance with the preferred resource loading order and with GHG reductions goals and demonstrate how each application for fossil generation comports with these goals," the order says. The utilities will be expected to "aim for even higher levels of performance" than the minimum requirements, the CPUC held.

In the meantime, the IOUs were told to return in 90 days with compliance filings to deal with the issue, before the full procurement order can take effect.

Though the commission found that the utilities' total new load requirements may be as much as 4,800 MW by 2015, regulators will set up to 3,400 MW as an initial procurement goal.

Pacific Gas & Electric will seek between 800 MW and 1,200 MW; Southern California Edison will solicit between 1,200 MW and 1,700 MW; and San Diego Gas & Electric may take bids on up to 530 MW if its pending application to build a 500 kilovolt Sunrise Powerlink transmission line is rejected. That figure includes 130 MW of peaking power units already approved, but SFDG&E may also replace any capacity from aging power plants in its territory that may be retired.

For the first time, renewables will be able to compete head-to-head with gas-fired power in the solicitations, but the utilities may continue to hold renewables-only bids if they choose.

The IOUs had sold off most of their fossil-fuel power plants as part of the state's market restructuring program but have since acquired several generation units that were initially developed by non-utility players. There have been no utility-sponsored bids in any resource requests since the IOUs were put back in the procurement business following the Western power crisis of 2000-01.

This week's ruling supersedes all prior procurement processes and "reaffirms support for our competitive-markets-first approach," Peevey said. "Utilities must use competitive procurement except in extraordinary circumstances," he said.

Solar project approved

In other action, the commission approved PG&E's contracts with Israel-based Solel Solar Systems for a 554 MW solar thermal power station in the Mojave Desert.

The 25-year deal that resulted from a 2005 RPS solicitation will cost somewhat more that the benchmark "market price referent" of 12 cents per kilowatt-hour used by the PUC to judge projects, but Energy Division head Sean Gallagher said that it would put PG&E much closer to its RPS goal of 20 percent renewable energy.

The ruling did not specify the total cost of the project, which is expected to start operating in 2011, but said it would produce 1.34 million megawatt-hours. While all contract terms are being kept confidential, industry sources speculated the facility will cost about $2 billion and generate roughly $150 million per year of electricity.

The Solel design is an update of the original SEGS solar thermal projects originally built by now-defunct developer Luz Solar, but which have been steadily producing 354 MW of power for more than 20 years. Solel, which makes the thermal collection tubes that capture heat reflected by mirrored parabolic troughs, has made improvements that allow for 25 percent more thermal efficiency than the older designs, Gallagher said.

"This has a substantial chance of being the first large solar project to come on line in California since the 1980s," Gallagher told commissioners as they approved the contract.

Finally, the commission approved new cost-of-capital returns for the IOUs during 2008, largely maintaining the currently allowed returns on equity for the utilities between 11.1 percent and 11.5 percent.