

October 16, 2000

## **ADVICE 2041-E**

Public Utilities Commission of the State of California  
(Pacific Gas and Electric Company ID U 39 E)

**Subject: Per se reasonableness Standards for Electric Market Bilateral Contracts (D. 00-08-023)**

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### **Purpose**

Pacific Gas and Electric Company (PG&E) hereby submits for filing and Commission approval *per se* reasonableness standards for purchases of energy, ancillary services and capacity products in the bilateral electricity market. The reasonableness standards were developed pursuant to Decision (D.) 00-08-023, issued August 3, 2000, and are set forth in the enclosed Attachment 1.

*The standards in Attachment 1 are being provided to the Energy Division, the Office of Ratepayer Advocates (ORA) and other Commission staff on a confidential basis pursuant to Public Utilities Code, Section 583. Attachment 1 contains market sensitive and proprietary information. Pursuant to Section 583 and General Order 66-C, PG&E requests a protective order for all of the contents of Attachment 1. PG&E is sending redacted copies of Attachment 1 to all parties on the attached service lists.*

### **Background**

At its August 3, 2000, meeting, the Commission issued D. 00-08-023 approving an Emergency Motion filed by PG&E on July 21, 2000. The decision authorized PG&E to enter into contracts with third parties in the bilateral energy market, with terms extending no later than December 31, 2005, to purchase energy and ancillary services and capacity products.<sup>1</sup>

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<sup>1</sup> On July 14, 2000, Southern California Edison Company (Edison) filed Advice 1469-E and 1470-E seeking authorization to use the bilateral option and capacity products offered by the California Power Exchange (PX). On July 18, 2000, PG&E filed Advice 2017-E for the same purpose. The respective advice filings were withdrawn and replaced with Emergency Motions filed by PG&E and Edison. The Commission issued D. 00-08-023 approving PG&E's Emergency Motion effective August

In its Emergency Motion, PG&E proposed *per se* reasonableness standards. The standards would determine prospectively whether a particular purchase or transaction is reasonable. The Commission accepted PG&E's proposed up-front standards as a "simple, market-based approach." (D.00-08-023, at p. 10.) The Commission stated:

[W]e find the proposed reasonableness standards of PG&E acceptable for near and interim purchases subject to the quantity restrictions previously adopted...PG&E will identify for the Energy Division and the Office of Ratepayer Advocates, ahead of time the specific sources of prices offered in the market for energy, ancillary services and capacity products that will be used to price the bilateral transactions. These identified sources will provide a target price range for PG&E's contracts. Any purchases made by PG&E within this approved range will be reasonable *per se*...The Energy Division and ORA will be able to validate the price range based on the same market price sources identified ahead of time. (*Id.*, at p. 9.)<sup>2</sup>

During the nine weeks since the issuance of D. 00-08-023, PG&E met on four occasions with representatives of the Energy Division. Members of the ORA's staff were present at two of those meetings. The purpose was to arrive at *per se* reasonableness standards, as directed by the Commission in D. 00-08-023. In extensive discussions regarding the electricity markets, PG&E identified the specific price sources, the "target price ranges," and other price factors to be used in evaluating proposals and in entering into bilateral contracts.

By way of brief background, PG&E intends to solicit and evaluate proposals in a Request for Offers (RFO) process. In an RFO, the market is invited to present bids for bilateral contracts to PG&E, based on specifications such as term (length of contract) and other factors. Offers would then be evaluated by PG&E against the confidential and proprietary standards in Attachment 1. The best offers, in order of value to PG&E, are selected based on the criteria in Attachment 1.

To meet the continuing threat of significantly higher wholesale energy costs, of voluntary curtailments, and of rolling outages (D.00-08-023, at pp. 6-7), PG&E initiated an RFO in September. PG&E expected that reasonableness standards under discussion with the Energy Division and ORA would be in place before bids for

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3, 2000. On August 8, 2000, PG&E filed Advice 2026-E, supplemented by Advice 2026-E-A dated August 15, 2000, to change its tariffs to implement the bilateral option. Commission approval of Advice 2026-E, as supplemented, is still pending.

<sup>2</sup> The Commission provided that purchases not meeting the up front standards would be subject to *post hoc* reasonableness review in PG&E's Annual Transition Cost Proceeding (ATCP).

bilateral contracts were accepted on October 11, 2000. Unfortunately, to date, Energy Division and the ORA had not confirmed that the price sources and ranges, and other reasonableness standards identified by PG&E, are in compliance with D. 00-08-023.

Before PG&E accepts additional bids for bilateral transactions, PG&E must have assurance that predefined reasonableness standards are in place. Therefore, PG&E is requesting approval of the reasonableness standards included in this filing. The standards in Attachment 1 are in compliance with D. 00-08-023 and have been previously identified to Energy Division and ORA staff. In support of the criteria in Attachment 1, PG&E has extensively discussed its view of the market with the Energy Division and the ORA, has provided supporting information to both entities, and run decision models for the Energy Division.

This advice filing will not change any tariff, increase any rate or charge, cause the withdrawal of service, or conflict with any schedule or rule.

### **Effective Date**

Pursuant to General Order 96-A, PG&E requests that the Commission approve this filing effective **November 25, 2000**, which is 40 days after the date of this filing.

### **Protests**

In order to expedite Commission review and approval of this filing, PG&E requests that protests, if any, be filed within 14 days of the date of this filing, which is **October 30, 2000**.

Anyone wishing to protest this filing may do so by sending a letter to the Commission at the address provided below. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. Protests should be mailed to:

IMC Branch Chief  
Energy Division  
California Public Utilities Commission  
505 Van Ness Avenue, Room 4002  
San Francisco, CA 94102  
Facsimile: (415) 703-2200

Copies should also be mailed to the attention of the Director, Energy Division, Room 4005 and Jerry Royer, Energy Division, at the address shown above. It is also requested that a copy of the protest be sent via postal mail and facsimile to Pacific

Gas and Electric Company on the same date it is mailed or delivered to the Commission at the address shown below.

Pacific Gas and Electric Company  
Attention: Les Guliasi  
Director, Regulatory Relations  
77 Beale Street, Mailcode B10C  
P.O. Box 770000  
San Francisco, CA 94177  
Facsimile: (415) 973-7226

**Notice and Service**

In accordance with Section III, Paragraph G, of General Order No. 96-A, PG&E is mailing copies of this advice filing to the interested parties shown on the attached advice letter mailing list and R.94-04-023/I.94-04-032. Redacted copies of Attachment 1 will be sent to all parties, with the exception of copies filed at the Commission and a copy sent to the ORA. Address change requests for the advice letter mailing list should be directed to Nel Avendano at (415) 973-3529.

Vice President - Regulatory Relations

Attachment

cc: Service List—R.94-04-031/I.94-04-032