

# Electric Procurement and Energy Efficiency

## Financial Risk Considerations



*Presented by Joseph Henri*

# California Energy Action Plan

- Ensure that adequate, reliable, and reasonably-priced electrical power and natural gas supplies, including prudent reserves, are achieved and provided through policies, strategies, and actions that are cost-effective and environmentally sound for California's consumers and taxpayers.
  - **Meet California's energy growth needs while optimizing energy conservation and resource efficiency and reducing per capita electricity demand.**
  - Ensure reliable, affordable, and high quality power supply for all who need it in all regions of the state by building sufficient new generation.
  - Accelerate the state's goal for renewable resource generation to 2010
  - Upgrade and expand the electricity transmission and distribution infrastructure and reduce the time before needed facilities are brought on line.
  - Promote customer and utility owned distributed generation.
  - Ensure a reliable supply of reasonably priced natural gas



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## Energy Conservation— Proposed Actions

- Reduce peak demand by 1500+MW by 2007
- Improve building efficiency by 5%
- Customer incentives for demand reduction
- Provide IOUs a rate of return for demand reduction and customer energy efficiency investments



## EE and Electric Procurement

- An important element in PG&E's long term procurement plan
  - PG&E already administers \$100MM+/yr in energy efficiency funded through the public goods charge
  - PG&E proposes to increase EE funding by \$300MM over the next 5 years



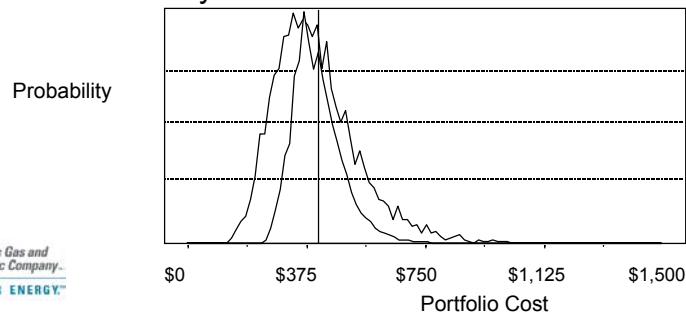
## Electric Procurement at PG&E

- Basic facts:
  - Service territory covers 70,000 square miles
  - Serve 13 million customers in 43 counties
  - Currently in Chapter 11 bankruptcy
- Resources:
  - Hydro
  - Nuclear
  - Fossil (natural gas)
  - Purchases (QFs, pre-restructuring contracts, DWR contracts, market purchases)



## Risk and Procurement

- PG&E makes substantial market purchases and sales (managing the 'net open position')
- Analytical toolkit has expanded
  - Probability distributions
  - Scenario analysis



## It's a Risky Business . . .

- Rating agencies, regulators, company risk managers
- Many types of risk and levels of risk tolerance:
  - Reliability                      ➤ Customer risk tolerance
  - Market / Price
  - Cash flow
  - Credit
  - Model                              ➤ Company risk tolerance
  - Regulatory



## Taking Credit

- Market purchases and sales require careful credit & capital management
  - Counterparty credit risk
  - Collateral requirements (working capital)
  - Rating Agency treatment of long term procurement contracts
- Building or purchasing generation requires careful credit management
  - Ability to attract capital
  - Other risks (e.g., construction, cost recovery, etc.)





## Enter Energy Efficiency . . .

- Energy efficiency investments meet needs and are gentle on credit
  - Reduce counterparty credit risks
  - No collateral requirements
  - Long lasting, no negative balance sheet impact
  - Opportunity to earn



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## Developing a Preferred EE Plan for Procurement

- Questions:
  - Can energy efficiency investment reduce procurement risks?
  - What is the optimal timing and magnitude of procurement-related EE investments?
  - Program preference?
- Analysis:
  - Assess Potential for cost effective energy efficiency
  - Compare to future resource requirements
  - Develop framework to deliver efficient programs



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