INDEPENDENT ENERGY PRODUCERS

March 7, 2011

California Energy Commission
Docket Office, MS-4
1516 Ninth Street
Sacramento, CA 95814-5504
Docket Nos. 11-IEP-1C, 11-IEP-1K, and 11-IEP-1L

RE: Comments of the Independent Energy Producers Association on the 2011 IEPR Joint Committee Workshop on Economic, Demographic, and Energy Price Inputs for Electricity, Natural Gas and Transportation Fuel Demand Forecasts. ***Docket Nos. 11-IEP-1C, 11-IEP-1K, and 11-IEP-1L***

Dear IEPR, Transportation, and Electricity and Natural Gas Committees:

The Independent Energy Producers Association (IEP) appreciates the opportunity to comment on the Joint Committee Workshop (convened February 24, 2011) related to the 2011 IEPR Demand Forecast. The CEC's Demand Forecast, based in part on the assumptions related to consumption, energy efficiency and demand response, will directly impact near- and long-term procurement activities of the investor-owned utilities (IOUs), as well as the Energy Commission's decisions with respect to the state's infrastructure needs. Thus, the Commission's conclusions about energy efficiency and future energy demand have a direct bearing on critical issues to California consumers, including impacts on overall system planning and grid reliability as the IOUs strive to procure needed resources to serve consumer demand with an adequate planning reserve margin.

I. Overview

The presentation that was given at the workshop entitled *Preliminary Electricity and Natural Gas Demand Forecast General Approaches and Economic Assumptions* appropriately included a high economic growth/high demand/low energy efficiency scenario as part of the range that will be used to develop the 2011 demand forecast. A high demand/low energy efficiency scenario, which is not unlikely as the economy begins to rebound from the current economic recession, will help frame the outcomes of the analysis and describe a possible consumer reaction to changing economic circumstances.

In addition to supporting a high demand/low energy efficiency scenario as a range in developing the 2011 demand forecast, IEP supports the Energy Commission's proposal to model a scenario that reflects high natural gas prices, presented as the "EIA no Shale Case—35% higher in 2022 vs. 2010."[1] With the current uncertainty surrounding oil imports, the potential for an increase in natural gas prices, and growing interest in the electrification of the transportation sector, it is imperative for assumptions like (1) a high demand/low energy efficiency, and (2) a high natural gas price scenario to be modeled when developing the 2011 demand forecast. If we do not recognize these scenarios as realistic possibilities, California's near- and long-term procurement activities could be jeopardized, leaving the state without the necessary resources to meet consumer demand.

II. Specific Comments/Observations

a. Uncertainty Surrounding Energy Efficiency Impacts Confirms the Need to Model a High Demand/Low Energy Efficiency Scenario.

The amount of energy efficiency that is included in the demand forecast will result in lower expected energy demand, which will affect short- and long-term procurement activities. Recently, measurement and verification studies completed for energy efficiency programs indicate that verified program savings are actually less than those that were reported by the IOUs.[2] In addition there is still uncertainty with respect to whether impacts from utility programs continue beyond the life of the measures installed; whether various energy efficiency measures translate into actual changes in consumer demand for electricity; and whether consumers will voluntarily pay for a replacement measure when the subsidized measure wears out.[3] Each of these uncertainties may reduce energy efficiency savings in the long run and consequently increase demand. If the modeled impacts do not adequately reflect this possibility, the state could be faced with more demand than it had planned to support. In light of these considerations, it is imperative that the CEC continue to include a high demand/low energy efficiency scenario in the range of measures used to develop the 2011 demand forecast.

b. Realization Rates for Energy Efficiency Should be Kept Conservative

In the *California Energy Demand (CED) 2009 Draft*, CEC staff proposed to move to a higher realization rate when reviewing energy efficiency attribution information, which is part of the assumptions that are used to determine energy efficiency impacts. The proposal in the 2009 Draft Demand forecast was to increase the energy efficiency realization rate for the IOUs from 70 to 85 percent, consistent with expectations of more efficient delivery mechanisms.[4] However, in

[1] 2011 IEPR Preliminary Electricity and Natural Gas Demand Forecast Rate, Efficiency, and Self-Generation Assumptions Presentation, February 24, 2011, page 6.
[2] CPUC Energy Efficiency Evaluation Report for the 2009 Bridge Funding Period, page 28.
[3] 2009 IEPR Final Committee Report, page 52.
[4] California Energy Demand 2010-2020 Adopted Demand Forecast, page 247.

the California Energy Demand *Adopted* forecast, no increase in realization rates were assumed because staff felt that realization rates should be based on empirical evidence, which consistently shows rates of around 60 to 70%.[5] While CEC staff decided to keep the rates consistent with empirical evidence in the 2009 Adopted CED, staff indicated that it would re-evaluate realization rates in the 2011 IEPR cycle to see if there is evidence of improved delivery in 2010.

Recent information indicates that the realized results from the utilities' programs have been below the reported efficiency savings. Accordingly, IEP does not support adjusting realization rates upwards in expectation of improved delivery mechanisms in the 2011 IEPR demand forecast. The realization rates that are used to signal the actual effectiveness/impact of the IOUs' energy efficiency programs should be based solely on empirical evidence and not on potential or projected impacts. In fact, the Energy Commission should adjust the realization rate downwards from 70 to 60 percent, to reflect the lower and most conservative realization rate that has been demonstrated in proven empirical evidence. If the Energy Commission does not adopt the lowest of the proven 60-70% realization rate, IEP recommends that the Commission continue to use the 70% realization rate for assessing energy efficiency impacts of the IOU energy efficiency measures.

c. "Uncommitted Energy Efficiency" Hinders Responsible System Planning

IEP reiterates its concerns regarding the use of assumed "uncommitted energy efficiency" in the Commission's modeling efforts as part of the Demand Forecast. There is historical evidence that the application of "uncommitted energy efficiency" in the modeling of future demand can skew the perception of real demand and, thus, understate the real amount of electrical generation needed to adequately serve consumer demand. While recognizing the value and importance of integrating real, "committed" energy efficiency in demand forecasting, IEP is concerned that assumptions about "uncommitted energy efficiency" undermine the critical need for accuracy in forecasting based on what is known or has a relatively high probability to occur. To do otherwise, e.g. by applying "uncommitted energy efficiency," risks undermining the integrity of demand forecasting altogether if misapplied.

IEP urges the Commission to not include "uncommitted energy efficiency" in its demand forecasting. Uncommitted savings is defined as the savings from energy efficiency and demand management associated with uncommitted programs or policies (for which funding and/or an implementation plan has not yet been approved), and therefore are not included in the Energy Commission's base demand forecast.[6] IEP interprets this definition as referring to programs, policies, etc., for which savings calculations and/or estimates are not presently

[5] California Energy Demand 2010-2020 Adopted Demand Forecast, page 247

[6] "Incremental Impacts of Energy Efficiency Policy Initiatives Relative to the 2009 Integrated Policy Report Adopted Demand Forecast," Committee Report, May 2010, p. A-5.

available for validation or approval. It is the absence of validation associated with uncommitted programs that makes the savings estimates problematic and potentially harmful to responsible system planning and grid reliability. The concern over the harmful effects of adopting/applying invalidated and speculative assumptions to the demand forecast is what draws IEP's concern and comments.

As IEP understands it, the Energy Commission is to employ an approach that segregates between committed and uncommitted energy efficiency and only include "committed" impacts in the baseline demand forecast.[7] However, to the extent that the Commission does integrate "uncommitted energy efficiency" in its demand forecasting to any degree, then the Commission should apply a conservative approach to its assumptions and adopt a "low scenario" as the most likely scenario to occur.

While California has positioned itself as a progressive policy leader, it would be irresponsible to predicate near-term energy procurement needs around uncertain future policy. Fundamentally, the CEC's Demand Forecast, which drives IOU procurement, should be based on "the knowns," i.e. committed programs, savings, etc.

III. Conclusion

In summary, IEP supports the Energy Commissions inclusion of a high demand/low energy efficiency scenario as part of the 2011 demand forecast. We urge the Commission to consider the long-term ramifications of developing a Demand Forecast driven by speculative, unmeasured or unverified energy efficiency programs and/or savings. The Commission has a broader responsibility to reliable system planning, and the Demand Forecast should remain grounded in committed programs and savings. We look forward to working with the Committee and staff to develop a useful Integrated Energy Policy Report to guide California energy policy into the future.

Respectfully submitted,

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[7] 2009 IEPR Final Committee Report, page 181.

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