SDGE Southern California Gas Company

Sempra Energy utilities

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California Energy Commission
1516 Ninth Street
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RE: Docket No. 08-IEP-1: 2008 Integrated Energy Policy Report Update and 2009 Integrated Energy Policy Report Scope

Dear Commissioners:

San Diego Gas & Electric Company (SDG&E) appreciates the opportunity to offer comments on the California Energy Commission's (CEC) 2008 Integrated Energy Policy Report (IEPR) Update and 2009 IEPR. Accordingly, SDG&E provides the following comments and recommendations for the CEC's consideration. The lack of comment on any particular topic should not be perceived as a lack of interest. Additionally, SDG&E intends to fully participate in the upcoming IEPR workshops, including any workshops regarding the scope for the 2009 IEPR.

Our brief comments follow below.

1. **Achieving 33 % Renewables by 2020 (and potentially more by 2050)**

SDG&E supports additional renewable energy, and in fact, has a Long Term Procurement Plan that contemplates moving toward 33 % renewables by 2020. However, we caution that the state must understand the impacts of exceeding the 20% Renewable Portfolio Standard (RPS) requirement prior to implementing as policy any increase in the requirement to procure renewable power. In particular, studies of the impact on reliability and rates must be completed. Further, the CEC should adopt an integration cost for renewables. It is important that the true costs of the RPS program be transparent, so that the proper selections can be made amongst various Greenhouse Gas (GHG) mitigation options.

Moreover, the CEC's analysis of achieving 33% renewables by 2020 must take into account the current constraints affecting the RPS program. For example, transmission is a vital component and a major barrier to achieving RPS goals. The timing of a 33% requirement for renewables should therefore be tied to construction of new transmission. While numerous studies are being conducted to assess transmission access to renewables, ongoing studies that duplicate completed work (e.g., the Renewable Energy Transmission Initiative (RETI) re-study of the IVSG conclusions) are redundant, cause delay, and result in uncertainty, which makes California a less desirable market for developers, as compared to other states. The state must take immediate action to build transmission to access renewable rich zones that we already know exist.

Additional flexibility in contracting, rather than becoming more prescriptive, is also vital to the success of a vigorous renewable market. In a new market, with new technologies, having limited procurement methods will limit procurement results. Important examples are the use of renewable energy credits (RECs) for compliance, relaxing the in-state deliverability requirement and the use of bilateral contracting in procurement. RECs will also provide LSEs with immediate contract flexibility, assisting LSEs in meeting RPS mandates. Additionally, SDG&E urges the CEC to support relaxation of the in-state deliverability requirement. Doing so will provide a more robust market for RECs, strengthening the development of a western region REC trading market. Moreover, relaxing the in-state delivery requirement would allow greater contract flexibility when dealing with conventional/renewable power swaps, and eliminate issues associated with scheduling power across inter-ties.

The CEC should also apply its political influence to ensure that Production Tax Credits and Investment Tax Credits are renewed for at least five years to create certainty that developers can move forward with projects that are often very lengthy. If the state is serious about meeting its RPS goals, we need to encourage an environment that will attract renewables investors.

In sum, SDG&E commends the CEC's commitment to conducting a thorough examination of the system requirements for a 33% renewable scenario, and looks forward to participating in the upcoming workshops.

2. **Evaluation of the California Public Utilities Commission (CPUC)'s Self-Generation Incentive Program**

SDG&E agrees with the CEC that a cost-benefit evaluation of the Self Generation Incentive Program is vital to the long-term success of the program and the ultimate market transformation of eligible program technologies into long-term sustainable industries. SDG&E is aware that the CPUC will also be conducting a similar study as referenced in the recent DG-OIR proceeding. To maximize ratepayer benefits in funding these studies, SDG&E suggests that the CEC work closely with the CPUC to ensure that efforts are not duplicated by the appropriate contractors working for both entities.

3. **Electricity Procurement Practices**

SDG&E remains interested in working with the CEC to develop analyses that will help guide the policy setting process. SDG&E also agrees that in some areas the use of common assumptions and analytical approaches will be helpful as the various agencies roll up the individual plans to get a statewide perspective. However, it is important that the planning process allow for flexibility, as the issues facing each service territory are different and each party should be given the freedom to tell its own story in whatever manner best illustrates the issues. Accordingly, we ask that the CEC combine efforts in this area with the CPUC's 2008 Long Term Procurement Plan Proceeding (R.08-02-007), so that any recommendations in the 2008 IEPR are consistent with the direction from the CPUC.

SDG&E thanks the CEC for soliciting public input on its preliminary list of key issues for the 2008 IEPR Update and 2009 IEPR, and looks forward to working with the CEC as it prepares the Report.

Yours sincerely,

Bernie Orozco