

**STATE OF CALIFORNIA  
ENERGY RESOURCES CONSERVATION  
AND DEVELOPMENT COMMISSION**

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In the Matter of:

The Summer 2005 Electricity Supply  
and Demand Outlook

Docket 05-SDO-1

**COMMENTS OF APS ENERGY SERVICES AND STRATEGIC ENERGY  
ON THE SUMMER 2005 ELECTRICITY SUPPLY AND DEMAND OUTLOOK**

Pursuant to the Energy Commission's March 11, 2005, Notice of Committee Workshop, APS Energy Services, Inc. ("APSES") and Strategic Energy ("SE") hereby offer their joint comments with regard to the Summer 2005 Electricity Supply and Demand Outlook. APSES and SE are both Load Serving Entities serving direct access loads throughout the state of California. APSES and SE support and applaud the efforts of the California Energy Commission to study and evaluate whether there will be adequate resources to meet the summer load demand in the event of a 1-in-2 or 1-in-10 year weather related event.

APSES and SE do take issue with the recent statements of one utility, to the effect that energy service providers ("ESPs") are to be blamed for potential shortage events that might occur this summer. This effort to place blame and cast aspersions on other parties seems to be an attempt by the utility to seek to immunize itself in advance from blame in the event shortages and blackouts actually occur during the coming summer. At the same time, of

course, it engages in the now tired routine of seeking to paint ESPs as the source of all problems.

There are simply no facts to substantiate the claims that ESPs do not plan to meet their customer's loads. There is approximately 4,100 MW of total load served in California by ESPs. The practice of APSES and SE and, indeed, the normal industry practice for most ESPs, is to purchase firm power supply at the time they contract with a direct access eligible customer. Especially in light of Sarbanes Oxley requirements and best practices for risk management, ESPs are neither authorized nor in the business of taking on speculative risks. Therefore, APSES' and SE's direct access load is covered by purchases from the market. Southern California Edison Company ("SCE"), Pacific Gas & Electric Company ("PG&E") and San Diego Gas & Electric Company ("SDG&E") all use such firm power supply contracts as a means to serve a portion of their loads. In fact, the CAISO motivated the use of such contracts when the CAISO took on the responsibility for procuring reserves and regulation. This was the genesis of the firm liquidated damages contracts that are in use among all buyers and sellers in California today. For example, SCE has approximately 5,000 MW of load served by these contracts.

The fact is that ESP reliance on such contracts is far less in terms of impact on summer reliability than it is for SCE. The amount of direct access load served in the Southern California area can be assumed to be half of the statewide direct access load, i.e., approximately 2,100 MW. If the 7% operating reserves for ESPs were left un-purchased by either them or CAISO, it would have an impact of 147 MW to the grid out of 24,782MW (using the 1-2 CEC forecast for southern California). This represents approximately 0.6% of

the total load within the Southern California area, which is well within the every day error of forced outage rates and load forecasting errors. Even though the 147 MW may be seemingly insignificant in relation to the Southern California load, APSES and SE nevertheless utilize best practices in being resource adequate for the Summer 2005. By comparison, however, SCE's reliance on the same product, should the 7% operating reserves be un-purchased, would equate to 350MW, a number over twice that of the ESPs.

In summary, finger-pointing is unproductive and simply diverts parties from what should be the task at hand, which is to ensure that we identify every possible option to maintain reliable service during the coming summer. In that regard, APSES and SE support SCE's analysis that the CEC forecast methodology includes weekends and holidays in the assessment, which causes a very conservative outlook that represents something like a 1-in-14 year or more contingency. There is a 30.4% chance that a weather event will occur either on a weekend or during one of the two summer holidays.

APSES and SE also support the joint position of SCE, PG&E, and SDG&E that demand reduction programs should count as operating and planning reserves and be included in the analysis and forecasts to meet summer demand needs. We believe that demand reduction programs produce results that are dependable and deliverable. We further believe that demand-side solutions should be compensated on a similar basis as a generation-side solutions. APSES has successfully developed and administered a demand reduction program in the past and found these resources to be as reliable as or more reliable than a generation solution on a peak day occurrence.

APSES and SE additionally agree with the comments of TURN regarding the comparison of Projected Operating Reserves to a “Stacked Set of Circumstances” that can statistically demonstrate that some form of event is likely to occur. There certainly is a balance that needs to be maintained between forecast assumptions and a need for a reliable solution. We concur with TURN that if one considers a 1-in-10 load event in conjunction with a 1-in-6 outage level occurrence plus adding factors such as High Risk retirements (some of which may soon be under contract to meet summer needs) as well as other adverse factors, the picture painted is much less rosy and solutions much more costly than are likely necessary.

APSES and SE suggest that the Commission should be concerned about the low number of weather locations used in its forecasting methodology, as weather is the single largest driver of demand. For example, APSES and SE are concerned that the methodology for the 1-in-10 study uses only one weather location for SDG&E load and four weather locations for SCE load. There were also a limited numbers of cities used in the 1-in-2 scenario. SDG&E commented that the utility used three locations to calculate its long term forecasts, while SCE uses five cities to forecast loads and PG&E uses two cities. By comparison, APSES uses twenty-six different cities/locations to calculate load forecasts on a statewide basis because this sensitivity is so important to accuracy. APSES also uses stochastic and predictive tools to calculate forecasts by meter location and its associated weather location to greater ensure it covers its probable changes in load.

In closing, APS Energy Services and Strategic Energy wish to reinforce that we and most other active ESPs have been vigorous participants in identifying and helping resolve

resource adequacy issues through CPUC workshops and meetings with the legislature. We have provided expertise and input from an ESP point of view that we feel is of value. Further, APSES and SE commit to meet their fair share of the resource adequacy obligation and do their part to keep the lights on in California for all our customers.

Respectfully submitted,

APS ENERGY SERVICES, INC.

STRATEGIC ENERGY

By: 

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