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July 22, 2005

California Energy Commission
Attn: Docket No. 04-CCCA-1 and
Docket No. 04-IEP-1B
1516 Ninth Street
Sacramento, CA 95814-5504

RE: Docket Nos. 04-CCCA-1 and 04-IEP-1B

Dear Commissioners:

In response to the July 11, 2005 Climate Change Advisory Committee quarterly meeting and the July 12, 2005 Integrated Energy Policy Report Committee Workshop, SDG&E offers the following with respect to the Policy Sector Recommendations.

The "demand cap" concept discussed raises concerns on how the costs of GHG reductions will be absorbed. As the Commission is aware, LSE's have an obligation to serve electric demand in California. If load demand is higher than the available GHG credits under the cap, then LSE's will either have to procure lower carbon-intensive electric energy (if available) which will likely be more expensive than imported grid power, or will have to pay a penalty for exceeding the cap. In either case, there will be a higher cost of providing electric energy creating a financial risk for the LSE. This higher cost would ultimately need to be recovered from the customers; anything less than that would run the risk of returning to the disastrous scenarios of the 2000-2001 energy crisis.

The draft Power Sector Policy Recommendations discusses the potential for a multi-sector cap and trade program but it appears that it would be limited to California. Should any mandatory GHG mitigation or reduction obligations be imposed, we believe that it must be on an economy wide basis. A program that is on a sector by sector basis and/or in California alone would not be an efficient way of meeting reductions goals. Additionally, it is only equitable that since all sectors of the economy contribute to GHG emissions that all sectors should be involved in the solution. California should not act alone as it would likely not yield the most meaningful reductions. Absent a national program, we believe that California should work with the 14 western states represented within the WECC. Any mandatory program to reduce GHG emissions must include: multi-sector trading; offsets without geographic restriction; and safeguards against economic disruption. Additionally, to be successful in ultimately lowering GHG emission levels, California must increase its efforts in development of low carbon intensive technologies; carbon capture; and carbon storage methods.

Lastly, we encourage the Commission to facilitate use of PIER funds to be applied to development of CO_2 emission reduction technologies along with CO_2 sequestration technologies or pilot-projects.

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Again, thank you for the opportunity to provide comments on this matter. If you should have any questions regarding these comments, please contact me at (916) 492-4244.

Sincerely,

Bernie Orozco