

CALIFORNIA ENERGY COMMISSION

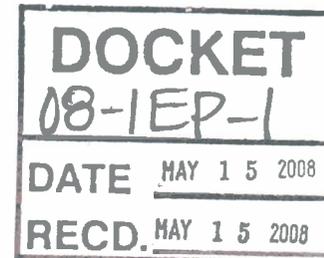
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**STATE OF CALIFORNIA
ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION**

In the matter of:) Docket No. 08-IEP-1
)
Preparation of the)
2008 Integrated Energy Policy Report)
Update and the 2009 Integrated Energy)
Policy Report)



COMMITTEE SCOPING ORDER

In this order, the California Energy Commission’s Integrated Energy Policy Report Committee (Committee) establishes the general scope and schedule for the 2008 *Integrated Energy Policy Report Update (2008 IEPR Update)*. Commissioner Jeffrey Byron is the Presiding Member and Chairman Jackalyn Pfannenstiel is the Associate Member of the Committee.

Background

Senate Bill 1389 (Bowen and Sher, Chapter 568, Statutes of 2002) requires the Energy Commission to “conduct assessments and forecasts of all aspects of energy industry supply, production, transportation, delivery and distribution, demand, and prices.” The Energy Commission uses these assessments and forecasts to develop energy policies that conserve resources, protect the environment, ensure energy reliability, enhance the state’s economy, and protect public health and safety.

The Energy Commission prepares these assessments and associated policy recommendations every two years, with updates in alternate years to address issues that have emerged since the release of the IEPR.

SB 1389 directs state government entities to use the information and analyses contained in the adopted IEPR to carry out their energy-related duties and responsibilities. During this proceeding, the Energy Commission will coordinate closely with other agencies to ensure consistency in the underlying information used to develop the report.

The Committee held a Scoping Hearing on April 28, 2008 to receive input from stakeholders on proposed topics for the 2008 *IEPR Update*. Not all of the topics or areas of focus suggested by stakeholders can be taken up in the 2008 *IEPR Update*; however, the Committee will consider those topics and/or focus areas in the scope for

the 2009 *IEPR*. A Scoping Hearing focusing on the 2009 *IEPR* will be held on June 3, 2008.

Scope of the 2008 Integrated Energy Policy Report Update

The Committee intends to address the following six broad topic areas in the 2008 *IEPR Update*:

1. Analysis of physical, operational, and market changes necessary for California's electric system to support a minimum of 33 percent renewables by 2020.
2. Analysis of the interaction of energy efficiency goals and programs and demand forecasting methods.
3. Changes to electricity procurement practices to standardize assumptions, extend the period of analysis, and more adequately incorporate risk in the portfolio of projected resources.
4. Discussion of the joint Energy Commission/California Public Utilities Commission (CPUC) Assembly 32 recommendations for the electricity and natural gas sectors anticipated to be adopted in August 2008.
5. Assessment of the Diablo Canyon and San Onofre Nuclear Generating Station nuclear power plants to determine the potential vulnerabilities to a major disruption from a major seismic event or plant aging, as required by Assembly Bill 1632.
6. Evaluation of the California Public Utilities Commission's Self Generation Incentive Program to determine the costs and benefits of providing ratepayers subsidies for renewable and fossil fuel "ultraclean and low-emission distributed generation" as required by Assembly Bill 2778.

Achieving Higher Levels of Renewable Resources in California

California currently has a mandate to achieve 20 percent of retail electricity sales from renewable resources by 2010, and the Governor and the state's energy agencies have identified a further target of 33 percent renewable by 2020. This higher target is a key strategy for meeting the state's greenhouse gas emission reduction goals.

The 2008 *IEPR Update* will not focus on the merits of the 33 percent target, as it is already state energy policy, or on providing solutions to all barriers associated with higher levels of renewables. Instead, the Committee will concentrate its efforts on identifying how the 2020 electricity system could be structured to accommodate higher levels of renewables, what studies have been or are being done on potential impacts to the system, and what further analysis and evaluation must be undertaken to identify barriers and strategies to address those barriers. Analysis and evaluation will likely continue in the 2009 *IEPR* as well.

Issues that the Committee directs Energy Commission staff to examine include:

- Bringing renewables more fully into electricity procurement processes.
- Impacts of contract delays or cancellations on meeting Renewable Portfolio Standard goals.

- Potential wholesale and retail rate impacts (positive or negative) and strategies to mitigate negative impacts.
- Necessary transmission and distribution expansions and upgrades.
- Identifying promising technologies to improve grid resiliency and affordability.
- Operational and physical changes needed to integrate renewables while maintaining reliability, including an evaluation of when those changes would be needed and at what level of renewable penetration, the potential for energy storage technologies, and the impacts of using peaker plants.
- Potential impacts on natural gas supplies and prices.
- Environmental concerns with developing large-scale renewable facilities and mitigation strategies.

Energy Efficiency Projections and Demand Forecasting

The *2007 IEPR* identified the need to better understand the overlap between the Energy Commission's demand forecasting methodology and projections of the impacts from the CPUC's goals for investor-owned utility voluntary energy efficiency programs.

The Committee has several objectives in including this topic in the *2008 IEPR Update*. The first is to clarify the amount of efficiency already in the Energy Commission's demand forecasts, whether explicit or implicit, as the foundation for understanding the incremental impacts of additional utility programs, market effects, direct price impacts, and other motivations. The second objective is to determine the amount and cost of achieving additional energy efficiency potential. The third objective is to ensure that the various agencies and proceedings that use the demand forecast use consistent assumptions about the amount of energy efficiency contained in the forecast.

Issues that the Committee directs staff to explore under this topic include:

- How best to present a clear explanation of how electric and natural gas efficiency is incorporated in the demand forecast that allows parties to understand how utility programs, standards, codes, and so on are included as inputs to the models used to develop the demand forecast.
- Evaluation of what effects, such as price response, market effects, or trends in the market, are either included or not included in those models.
- Clarifying what amount of efficiency programs or potential are embodied in the forecast and what effect that will have on decisions to go forward with programs to achieve additional efficiency potential.
- Evaluation of potential new projection capabilities to use in conjunction with the demand forecast to examine long-term alternative energy efficiency strategies, such as zero-emission building goals, in support of long-term greenhouse gas reduction goals.
- Identifying what collaboration is needed or desirable among utilities, the CPUC, the Energy Commission, and others to refine demand forecasting methods and create needed energy efficiency projection capabilities.

Electricity Procurement Practices

The *2007 IEPR* recommended developing a common portfolio analytic methodology as a core focus of the *2008 IEPR Update* with the objective of influencing the long-term procurement plans filed by investor-owned utilities with the CPUC.

The *2007 IEPR* also recommended that long-term procurement plans should use common assumptions across utilities to the maximum extent practicable; extend over a 20- to 30-year period of analysis; discount future fuel costs at the same social discount rate used in standard-setting activities unless these costs are shown to be shareholder liabilities; and evaluate potential costs to consumers of procurement decisions, including costs of environmental impacts.

This issue is within the scope of Phase I of the CPUC's Order Instituting Rulemaking on long-term procurement, and CPUC and Energy Commission staff are working collaboratively in this phase of the proceeding, with a decision tentatively expected from the CPUC in December 2008.

The Committee directs the staff to report in the *2008 IEPR Update* on the status of those collaborative efforts, and to examine the following issues:

- How environmental impacts could be incorporated into long-term procurement.
- Whether utilities should be using a 20-year or longer analysis period.
- Identifying consequences of using a social discount rate.
- Additional investigation and analysis needed in the 2009 IEPR on this topic.

Greenhouse Gas Implications for the Electric and Natural Gas Sectors

The California Global Warming Solutions Act of 2006 requires the California Air Resources Board (ARB) to consult with the CPUC and Energy Commission on establishing an effective structure to reduce greenhouse gas emissions for the electricity and natural gas sectors. In March 2008, the CPUC and the Energy Commission made joint recommendations to the ARB on the point of regulation and complementary principles for implementing AB 32.

The final phase of the joint proceeding will focus on developing a recommendation to the ARB on the preferred approach to the allocation or auctioning of allowances, expected in August 2008. In addition, the next phase will conduct detailed modeling and analysis for the electricity and natural gas sectors to estimate cost and rate impacts of different compliance strategies.

However, it is not expected that all questions will be answered in that time frame. The Committee will include in the *2008 IEPR Update* a brief summary of the August decision and identify outstanding questions and any need for additional analysis or discussion to be undertaken in the *2009 IEPR*.

Assessment of Nuclear Plant Vulnerability

Assembly Bill 1632 (Blakeslee, Chapter 722, Statutes of 2006) directs the Energy Commission to compile and assess existing scientific studies to determine the potential vulnerabilities of Diablo Canyon and the San Onofre Nuclear Generating Station to a major disruption due to a seismic event or plant aging. This assessment is to be adopted on or before November 1, 2008 and included in the *2008 IEPR Update*.

The Committee directs staff to proceed with developing the assessment as outlined in the study plan for this effort that was finalized in January 2008 (available on-line at http://www.energy.ca.gov/ab1632/documents/2008-01-30_STUDY_PLAN.PDF). That plan envisions Energy Commission adoption of the assessment in late October 2008, and the Committee directs staff to include a summary of the assessment's findings in the *2008 IEPR Update* as required by AB 1632.

Evaluation of the Self Generation Incentive Program

Assembly Bill 2778 (Lieber, Chapter 617, Statutes of 2006) requires the Energy Commission, in consultation with the California Public Utilities Commission and the California Air Resources Board, to evaluate on or before November 1, 2008 the costs and benefits of providing ratepayer subsidies for renewable and fossil fuel "ultraclean and low-emission distributed generation," and states that this evaluation should be conducted as part of the IEPR.

In developing the evaluation, the Committee directs staff to coordinate with CPUC efforts to conduct a similar evaluation under its distributed generation proceeding to ensure that there is no duplication of effort.

2008 Integrated Energy Policy Report Update Schedule

The Committee directs the staff to use the following schedule of key milestones:

Task/Event	Date(s)
Initiate data collection and analysis activities	April 28, 2008
Issue IEPR Committee Scoping Order for 2008 IEPR Update	May 15, 2008
Hold public workshops on specific topics	June-July 2008
Release Committee Draft <i>2008 IEPR Update</i>	Early September 2008
Committee hearing on draft report	Late September 2008
Issue Committee Final <i>2008 IEPR Update</i>	October 2008
Commission adopts final <i>2008 IEPR Update</i>	November 5, 2008

Participation in the Integrated Energy Policy Report Proceeding

The policy recommendations contained in the *2008 IEPR Update* will be based on the record developed during the proceeding, including data and technical analyses by the

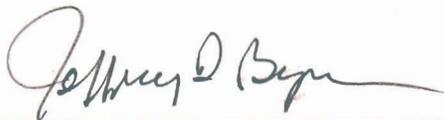
staff and other parties. Analysis and information developed in other proceedings at the Energy Commission and by other agencies will be incorporated as appropriate. Parties are directed to use the IEPR docket, 08-IEP-1, when submitting information for the Committee's consideration. The Committee encourages the active participation of all interested and affected parties because party input is essential to ensure a complete and thorough evidentiary record.

As in previous proceedings, the Committee recognizes that close coordination with federal, state, local, and other agencies is critical to identifying and addressing energy infrastructure and related environmental challenges. The Committee directs staff to continue working with these agencies to ensure their participation in this proceeding. In particular, the Committee welcomes the participation of Commissioner John Bohn on behalf of the CPUC to ensure a more coordinated implementation of the two agencies' responsibilities. The Committee also directs staff to seek the participation of the California Independent System Operator to assist in the evaluation of grid impacts resulting from the recommendations contained in the *2008 IEPR Update*.

The Energy Commission's Public Adviser's Office provides the public assistance in participating in Energy Commission activities. If you want information on how to participate in this proceeding, please contact the Public Adviser's Office at (916) 654-4489 or toll free at (800) 822-6228, by FAX at (916) 654-4493, or by e-mail at [pao@energy.state.ca.us].

The service list for the *2008 IEPR Update* and associated key topic proceedings is handled electronically. Notices and document for these proceedings are posted to the Energy Commission website at [http://www.energy.ca.gov/2008_energypolicy/]. When new information is posted, an e-mail will be sent to those on the energy policy e-mail list server. We encourage those who are interested in receiving these notices to sign up for the list server through the website [<http://www.energy.ca.gov/listservers/index.html>].

Technical questions should be directed to Suzanne Korosec, Assistant Director for Policy Development, at (916) 654-4516 or by e-mail at [skorosec@energy.state.ca.us]. News media inquiries should be directed to the Media Office at (916) 654-4989 or by e-mail at [mediaoffice@energy.state.ca.us].



JEFFREY D. BYRON
Commissioner and Presiding Member
Integrated Energy Policy Report Committee



JACKALYNE PFANNENSTIEL
Chairman and Associate Member
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Date: May 15, 2008