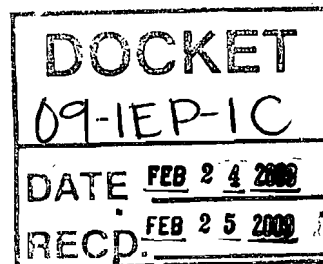




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February 24, 2009

California Energy Commission
Re: Draft Staff Revised Forecast
Dockets Office, MS-4
Re: Docket No. 09-IEP-1C
1516 Ninth Street
Sacramento, CA 95814-5512
docket@energy.state.ca.us



Re: California Energy Commission (CEC) Integrated Energy Policy Report
(IEPR) - Docket No. 09-IEP-1C: Draft Staff Revised Demand Forecast

To Whom It May Concern:

Southern California Edison Company (SCE) appreciates the opportunity to submit comments on the CEC's Draft Revised Load Forecast Report dated February 2009 (Draft Report). In the Draft Report, the CEC Staff (Staff) recommends that a load forecast that is lower than the currently adopted 2007 IEPR load forecast be used for SCE's area in the California Independent System Operator's (CAISO) 2010 local area capacity requirements (LCR) study. SCE supports the CEC's continuing efforts to develop a load forecast for use in the 2010 LCR study that incorporates the most recent information regarding the impact of current economic conditions. SCE concurs with Staff that the SCE area load forecast used in the 2010 CAISO's LCR study should be significantly lower than the 2007 IEPR load forecast. In the short-term, SCE's load forecast should be used in the 2010 LCR study. In the long-term, the current load forecasting process requires revision to better align the Staff's biennial load forecasting process with the CAISO's annual LCR study performed in coordination with the California Public Utilities Commission's (CPUC's) Resource Adequacy (RA) program.

In coordination with the CPUC's RA program, the CAISO performs the LCR study to determine the local capacity requirements for the CAISO grid. Consistent with the overall design of the CPUC's RA program, the LCR study is performed annually. While the system RA requirement is based upon a 1-in-2 peak load forecast for each month, the LCR study is based upon a 1-in-10 peak load forecast for the year. Therefore, the CAISO uses the 1-in-10 load forecast as an input into its study to determine the amount of generation that is needed to support local grid reliability requirements. Given that the LCR study is performed annually, there should ideally be an annual load forecast to feed into the CAISO's study. As indicated in the Draft Report, however, the current IEPR load forecasting process is performed biannually. Thus, the most recent CEC-adopted load forecast for 2010 is from the 2007 IEPR.

As the Draft Report acknowledges, the current severe economic downturn was not incorporated in the 2007 IEPR load forecast. Nevertheless, current economic conditions will have a significant impact on the 2010 load forecast. Therefore, SCE supports the Staff's effort to develop a revised load forecast for the LCR study outside of the normal IEPR cycle and supports the Draft Report's conclusion that a lower load forecast for SCE's service area should be used for the CAISO's 2010 LCR study.

Like the Staff, SCE has developed a revised load forecast to account for the severe economic conditions that have occurred. The economic data SCE analyzed to arrive at its load forecast includes significant recorded declines in applications for residential building permits, commercial construction, and industrial employment for SCE's area during the first ten months of the 2008 calendar year. All of those declining factors influence the reductions in the forecasts for the remainder of the 2008 calendar year through 2010. SCE's Fall 2008 forecast also incorporates SCE data that reflects a decline in customer additions, sales and average hourly loads (on a weather-adjusted basis), and a reduction in 2008 summer peak demand as compared to the 2007 summer peak demand (on a weather-adjusted basis). The combined effects of less growth due to fewer customer additions and reduced use by existing customers due to slower economic growth, result in a significantly reduced forecast for 2010 peak demand.

The Staff recommends assuming a cumulative growth rate of 3.7% from 2007 to 2010 to reach a 2010 "1 in 10" forecast for SCE Transmission Access Charge (TAC) Area load of 26,224 MW to reflect a growth rate that is "more typical of recovery periods."¹ SCE submits, however, that the current economic downturn is not a "typical recession," and at the time that the CEC was preparing its revised staff forecast it was evident from many media reports that the recession had already lasted about one year and could drag on much longer. Therefore, the prospect of SCE's area returning to the 2007 IEPR forecast growth of electricity demand for 2 of the 3 years between 2007 and 2010 is very improbable. As a result, SCE estimates its (1-in-10) 2010 peak load forecast for SCE's TAC Area as 24,936 MW,² a full 1,288 MW lower than the Draft Report. SCE requests that the Staff revise the proposed growth rate to better reflect the severity of the current economic situation, or in the alternative, not oppose the CAISO's use of SCE's more up to date demand forecast for the LCR study.

The load forecast used in the LCR study has a significant impact on local capacity procurement requirements for LSEs. Based on input from the CAISO, SCE understands that for every 1 MW change in the load forecast, the LCR requirements in SCE's area will change by approximately 0.9 MW. Thus a 1,000 MW reduction in the load forecast would reduce the LCR in

¹ CEC-200-2009-001-SD at Table 3 and p. 7.

² See SCE's January 28, 2008 Comments on the *CAISO 2010 Local Capacity Technical Study Base Cases*. The CAISO's LCR study uses an SCE TAC area load forecast as the coincidental peak demand of all substations in the SCE territory, including publicly owned utilities and California Department of Water Resources and Metropolitan Water District pumps.

SCE's area by approximately 900 MW. Inaccurate assumptions could lead to over or under procurement by the IOUs of up to 900 MW, which would negatively impact their customers

To avoid potential harm to IOU customers, going forward, the State should improve the load forecasting process for the LCR Study so that it will capture more recent economic and other changes and reflect current conditions. An LCR Study using a load forecast that most accurately reflects current conditions will better facilitate the CAISO's effort to identify local area reliability requirements and reduce the risk that load-serving entities (LSEs) will over-procure (thereby increasing the costs paid for energy by LSE customers) or under-procure (thereby creating a need for CAISO backstop procurement and raising reliability concerns) because the requirements were based upon outdated forecast information. The Staff should produce a limited forecast (approximately 2 years) annually, by November 30, for use in the LCR studies.³ SCE would welcome the opportunity to support the Staff in that effort.

SCE appreciates the efforts of the CEC to improve the LCR Study forecasting process and the opportunity to provide comments on the Draft Report. SCE is ready and willing to provide any assistance or additional information the CEC and CAISO may need to do so. SCE looks forward to continuing to work collaboratively with the Staff in the IEPR process. If you have any questions or need additional information about SCE's recommendations in these written comments, please contact me at (916) 441-2369.

Very truly yours,

/S/ MANUEL ALVAREZ

Manuel Alvarez

cc: Mike Hoover

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³ CR base case studies are performed in Dec. and due to the CAISO on Dec. 31.