

December 14, 2009

California Energy Commission
Docket Office, MS-4
Re: Docket No. **09-IEP-1A**
1516 Ninth Street
Sacramento, CA 95814-5512
docket@energy.state.ca.us

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Re: California Energy Commission (Energy Commission)
Docket No. 09-IEP-1A: Final 2009 IEPR

To Whom It May Concern:

Southern California Edison (SCE) appreciates the opportunity to review and submit comments on the Final 2009 Integrated Energy Policy Report (IEPR). SCE would like to acknowledge the Energy Commission Staff and Committee members for carefully considering SCE's comments on the Draft 2009 IEPR and making appropriate changes in the Final 2009 IEPR that encompass a wide breadth of issues including:

- Increased coordination with other agencies and key stakeholders,
- Needs assessment and conformance processes, and
- Improved models for Energy Efficiency (EE) accounting in the demand forecast.

In this cover letter, SCE summarizes its most significant remaining policy concerns with the Final 2009 IEPR. Attachment 1 to this letter discusses these specific areas of concern in greater detail. Attachment 2 contains Suggested Revisions to the Final IEPR, dated December 2009.

First, although the Committee softened its recommendation that completed AB 1632 studies be submitted as part of the license renewal application to a recommendation that the studies be made available during the review of the application, many of SCE's other concerns related to San Onofre Nuclear Generating Station (SONGS) have not been addressed in the final IEPR. Furthermore, SCE objects to the suggestion that it is unwilling to provide some of the studies and information requirements, as SCE has consistently stated that such SONGS studies will be made available. Accordingly, the statement that "both [SCE & PG&E] have indicated objections to providing some of the studies..."¹ should be revised to only reference PG&E.

Second, the Final 2009 IEPR should support equal rules, treatment, and enforcement obligations for all LSEs for programs and recommendations aimed at advancing the State's public policy goals, including equal Renewable Portfolio Standard compliance obligations and fair allocation of the costs of feed-in tariffs. This equal rules approach would promote equitable

¹ CEC-100-2009-003-CTF dated December 2009; pg 10

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treatment of all customers and LSEs in the State and ensure that all LSEs contribute to meet the State's energy policy goals. The Energy Commission is particularly well situated to advocate for equal rules, treatment and enforcement obligations.

Finally, SCE urges the Energy Commission to review and adopt all of the detailed changes to the Final 2009 IEPR discussed in Attachment 1, as illustrated in Attachment 2.

Again, SCE appreciates the opportunity to support the development of the Final 2009 IEPR through the provision of written comments. If you have any questions or need additional information about these written comments, please contact me at 916-441-2369.

Very truly yours,

/s/Manuel Alvarez

Manuel Alvarez

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I. Introduction

Southern California Edison Company (SCE) appreciates the opportunity to review and comment on the California Energy Commission's (Energy Commission) 2009 Integrated Energy Policy Report (IEPR) Final Report. SCE would like to acknowledge Energy Commission Staff and the 2009 IEPR Committee for their willingness to consider the recommendations of SCE submitted in its comments on the Draft 2009 IEPR. In particular, SCE would like to commend Energy Commission Staff for making a number of appropriate changes in the Final 2009 IEPR that encompass a wide breadth of issues including:

- Increased coordination with other agencies and key stakeholders
- Needs assessment and conformance processes and
- Improved models for Energy Efficiency (EE) accounting in the demand forecast

In the following comments, SCE identifies a few remaining policy concerns with the Final 2009 IEPR and urges the Energy Commission to address those concerns before adopting the Final 2009 IEPR Report.

II. Coordinating With Other Agencies and Key Stakeholders

SCE supports the Energy Commission's collaborative approach to the analysis and implementation of the State's various policy goals. Detailed analysis performed to gain a holistic view of the impacts of new requirements is the most appropriate way to identify the optimum solution. SCE considers coordination with the California Public Utilities Commission (CPUC), California Independent System Operator (CAISO), California Air Resources Board (CARB), utilities (both investor-owned utilities (IOUs) and publicly-owned utilities (POUs)) and other key stakeholders during the early phases

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of the analysis to be most important to the success of the effort. Specifically, collaborating on developing the scope of the analysis and the input assumptions is critical. SCE remains concerned regarding the use of the current version of the Cost of Generation Model and levelized costs, in general, as an element in the choice of resources¹.

III. Capacity Market

SCE supports the Energy Commission's efforts to coordinate with the CPUC and CAISO to determine system planning needs. To that end, SCE urges the Energy Commission to identify in the 2009 IEPR outstanding issues related to the CPUC's recently issued Proposed Decision in Rulemaking 05-12-03 on long-term RA structure. As noted in the Final IEPR Report, the CPUC proposes to adopt a multi-year forward capacity demonstration requirement ("Multi-Year Requirement") in the context of the CPUC's existing bilateral Resource Adequacy ("RA") program. The Final IEPR fails to note, however, that the CPUC's proposal creates numerous and significant implementation challenges that are not addressed in the Proposed Decision.

The most significant concern SCE has with the Proposed Decision is that it seeks to implement the Multi-Year Requirement in the context of a bilateral RA program as opposed to a centralized capacity market. In addition, the Proposed Decision does not indicate how the CPUC will account for load migration, market power, price transparency, backstop procurement, Public Utilities Code section 380(e) allocation, implementation of an electronic bulletin board, or long-term certainty of resource adequacy. SCE notes that the centralized capacity market proposed by the CFCMA, and

¹ As noted in SCE's October 30, 2009 comments on the Draft IEPR, "levelized costs can be misleading when used to compare resources with different capacity factors and different operating characteristics." In addition, levelized cost comparisons are also problematic for resources with differing useful lives and the assumed recovery period.

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advocated by SCE, would overcome many of these obstacles. SCE recommends that the 2009 IEPR highlight the significant amount of work that remains before an equitable and workable capacity market materializes, including the Energy Commission's proposed assessment of alternative market models.

IV. Nuclear Power Plants

SCE's comments on the Final Report's treatment of nuclear power plants concern the following issues: (1) the characterization of SCE's position regarding AB 1632 studies; (2) the State Water Resources Control Board's (SWRCB) Draft Once-Through-Cooling (OTC) policy as it relates to the San Onofre Nuclear Generating Station (SONGS); (3) the new generation and/or transmission facilities needed in the event of an extended shutdown of SONGS. SCE addresses each of these topics below.

1. AB 1632 Studies

The Final Report discusses issues related to SCE's completion of AB 1632 studies. The Final Report suggests that SCE objects to providing some of the studies and/or requirements in the AB 1632 Report and that it intends to request funding for completing the AB 1632 studies in its CPUC application. To the contrary, SCE intends to either have completed the AB 1632 studies or have sufficient, substantive results from the studies to support the CPUC Application. Several studies will be completed and included in the CPUC Application. Other studies, such as the work currently underway on the seismic and tsunami studies and the lessons learned from the effect of the 2007 Japanese earthquake on the Kashiwazaki-Kariwa plant, will have sufficient and substantive results available and included in the CPUC Application so that the CPUC can reach an informed decision. Moreover, as the AB 1632 studies are completed, SCE intends to make the studies available to the Energy Commission and CPUC.

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Some of the studies may result in the development of projects and/or programs. For example, addressing the AB 1632 Report's recommendation to develop an active seismic research program involves not only the initial study of the current seismic hazard at SONGS, but also the on-going review of the seismic setting for SONGS over the remaining years of plant operation. This will be an ongoing effort after completion of the AB 1632 studies and submission of the CPUC application. The CPUC application and/or SCE's future General Rate Cases (GRC) will request funding for these types of programs and projects.

Based on the foregoing, SCE requests that Final 2009 IEPR be clarified to indicate that SCE does not object to providing some of the studies and/or requirements in the AB 1632 Report and that it intends to request funding for completing the AB 1632 studies in its CPUC application or future GRCs.

2. Considerations regarding implementation of the SWRCB's Draft OTC Policy at SONGS

The Final Report recommends that the options and costs for complying with the SWRCB draft OTC policy be assessed and included in the cost-effectiveness assessment as a part of SCE's CPUC Application. SCE opposes this recommendation for three reasons.

First, SONGS employs state-of-the-art engineering and operational measures to minimize impingement and entrainment of marine organisms and has already performed mitigation measures that restore any remaining adverse impact on marine organisms caused by the plant's operation, with an added margin.

Second, the SWRCB's current draft OTC policy requires plants utilizing OTC to reduce their intake of cooling water by installing closed-cycle wet cooling systems, or by reducing intake to a commensurate level by alternative means. As stated

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in SCE's October 30, 2009 comments on the Draft IEPR, implementing closed-cycle cooling or its equivalent is simply not feasible at SONGS.²

Third, the independent studies proposed by the SWRCB will not be completed until three years after the effective date of the OTC policy. Therefore it would not be possible to include them in the CPUC application, which must be submitted in 2010 to ensure timely processing and subsequent review at the Nuclear Regulatory Commission.

3. Need for new generation and/or transmission facilities in the event of an extended shutdown of SONGS

As previously identified in SCE's comments on the Draft IEPR, depending on system conditions, extended shutdown of both SONGS units would require significant mitigation, such as construction of new transmission lines and voltage support equipment to prevent potential negative effects to the grid that include line overloads, low voltages and system instability that could lead to rotating blackouts and other service reductions in the region. The CPUC Application will include a cost-effectiveness analysis that will identify replacement generation and transmission additions needed for the SONGS "shutdown" scenario where the SONGS license renewal is not obtained.

V. Energy Efficiency

SCE supports the changes to the Draft IEPR on EE, but continues to note that utilities should have access to the data, methodologies, and models used for EE goal development. The goals should be developed through a transparent process that provides opportunities for parties to review work-in-progress by Energy Commission and CPUC staff and to provide comments. The need for transparency is accentuated by the

² See SCE's Comment Letter on OTC Policy, September 20, 2009 (posted at http://www.swrcb.ca.gov/water_issues/programs/npdes/cwa316comments2009sept30.shtml).

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recommendation in the CPUC Energy Division's Straw Proposal in Rulemaking 08-02-007 that the IOUs develop the deliverability risk assessments for their EE forecasts included in the 2010 LTPP.³ Unless the IOUs have access to the data and models used by the Energy Commission and CPUC to develop EE goals, it will be difficult for the IOUs to propose specific methodologies to use for their EE deliverability risk assessments. California utilities should have access to training on Itron's SESAT model, along with Energy Commission and CPUC staff.

VI. Net Energy Metering Cap

The current net energy metering (NEM) cap is 2.5% of peak load.⁴ The Final IEPR recommends that the Legislature require utilities to increase this cap to 5%. As stated in the IEPR Final Report, the CPUC is about to release an NEM cost-benefit study that will be submitted to the Legislature by January 1, 2010. SCE hopes that this report will shed light on the cost-effectiveness of NEM for all customers and not just participants. If the report does not provide sufficient detail for policy-makers, SCE recommends that additional work on the cost-effectiveness issue be completed prior to raising the NEM cap so informed decisions are made that represent the interest of all utility customers.

VII. Equal Treatment

1. Renewable Portfolio Standard Penalties

SCE appreciates the Energy Commission Staff's consideration of its comments regarding RPS penalties and recommending only that the CPUC *consider* penalizing IOUs for non-compliance, rather than commit to penalizing them. SCE must

³ Energy Division's Straw Proposal on LTPP Planning Standards, filed in CPUC Rulemaking 08-02-007, July 2009, p. 92.

⁴ See Pub. Util. Code § 2827(c)(1).

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reiterate, however, that no evidence has been presented to demonstrate that the IOUs have ever been out of compliance. Indeed, every compliance filing submitted by the IOUs to the CPUC to date yields no showing of noncompliance in any year. California's RPS program appropriately recognizes the flexibility needed for new renewable projects to be developed. As such, the California program includes accounting rules that allow for banking and earmarking of renewable delivery to demonstrate compliance. California's program also recognizes the challenges with needed transmission and without this transmission, most of the renewable projects will not be able to be interconnected in timelines consistent with California's goals. Since none of these facts are considered in the IEPR, this recommendation should be removed.

2. Feed-in Tariffs

SCE supports the development of a feed-in tariff program for smaller projects as a supplement to competitive solicitations for renewable power. Feed-in-tariffs can be effective for smaller renewable projects that can interconnect at the distribution level and do not require the completion of new transmission systems for delivery. In its previous comments on the Draft IEPR, SCE outlined its current streamlined contract offerings, similar to feed-in-tariffs, available for generators less than 20 MW including the CREST (California Renewable Energy Small Tariff) feed-in tariff for projects up to 1.5 MW and the Renewable Standard Contracts SCE voluntarily offers for projects up to 20 MW at a fixed energy price and for up to 20-year contract terms.⁵ Accordingly, SCE and the State have already begun the process to implement standard contract and feed-in tariff programs similar to those recommended in the Final Report and those efforts should be recognized.

⁵ See SCE's Comments on the Draft IEPR, filed October 30, 2009, Attachment 1, Section IV.B.2.

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Additionally, the Report fails to suggest any size restrictions and variations in program design for projects at various sizes in the recommended program. This is an important design feature of a feed-in tariff program, which has been addressed in legislation, but is lacking from the Report recommendations.

Finally, it is unnecessary for a feed-in tariff to be technology-specific for two reasons. First, California's RPS program does not currently support one technology over another. Second, the CREST and SCE's renewable standard contracts already produce incentives for on-peak generation through time-of-delivery factors applied to the market price referent paid to renewable generators under this program.

Should the CPUC or Legislature follow the Report's recommendation, SCE submits that delivery and performance standards and equal distribution of costs be key components of any feed-in tariff design. Delivery and performance standards ensure consistency and stability in terms of planning and scheduling energy. Any costs associated with a feed-in tariff program should be distributed equally to all customers receiving the societal benefits of increased renewable power, as opposed to simply to those customers located in areas characterized by a high potential for renewable resources.

VIII. Conclusion

SCE once again expresses its appreciation for the opportunity to provide comments on the 2009 IEPR. SCE urges the Energy Commission to make the few remaining recommended changes described above before adopting the Final 2009 IEPR Report.

Attachment 2

Suggested Revisions to Final IEPR – Dec 2009

SCE recommends the following changes be made to the Final 2009 Integrated Energy Resources Report (IEPR). A page citation to the IEPR is provided in brackets for the changes that SCE proposes. Added language is indicated by **bold type**; removed language is indicated by ~~strike-through~~.

[Pp. 5, 226]

Staff is planning to use and possibly modify Itron's forecasting model, SESAT, for this new purpose, with Itron providing **the model and** training for the model **to Energy Commission staff and the utilities** in early 2010.

[Pp. 7, 227]

The Energy Commission will **coordinate studies of** ~~complete an initial study of~~ the surplus generation issue. **In conjunction with the other state agencies and key stakeholders, the Energy Commission will develop the scope and input assumptions.** **The initial study** to identify specific resource and data needs **will be conducted** as part of the *2010 Integrated Energy Policy Report Update*, with an in-depth analysis forthcoming in the *2011 Integrated Energy Policy Report*.

[P. 10]

In addition, ~~both utilities have~~ **PG&E has** indicated objections to providing some of the studies and/or requirements indicated by the *AB 1632 Report* and the California Public Utilities Commission General Rate Case Decision.

[P. 12]

The IEPR Committee believes these issues deserve a fuller vetting **through performance of,** ~~including~~ an assessment of alternative market models, **including the structure recommended by the CPUC in its Proposed Decision in Rulemaking 05-12-03**, that would better serve the goal of reduced cost to customers.

[Pp. 88-89]

~~The renewable energy data used in the Energy Commission's Cost of Generation Model could provide a good starting point for developing either cost-based or hybrid feed-in-tariffs in California.~~ A review of the feed-in-tariff rate-setting processes in Europe and

the United States suggests that ~~using cost of generation data to calculate~~ calculating feed-in-tariff levels would require decisions on the following key criteria:...

~~The renewable energy data used in the Energy Commission's staff Cost of Generation Model could provide a good starting point for developing either cost-based or hybrid feed-in tariffs in California. A review of feed-in tariff rate-setting processes in Europe and the United States suggests that using cost of generation data to calculate~~ **calculating** feed-in tariff levels would require decisions on the following key criteria:

[P. 112]

The utility plans to submit an application to the CPUC in late 2010 ~~for funding~~ to pursue an NRC license renewal application and to address issues from the *AB 1632 Report* and the CPUC

[P. 115]

~~The IEPR Committee believes that these studies should also be included in the cost-benefit assessment of the plants' license renewal feasibility studies.~~

[P. 227]

~~Because of the importance of achieving the state's 33% RPS goals, the IEPR Committee recommends, as the Energy Commission has in past IEPRs, that the CPUC ensure that investor-owned utilities meet RPS targets and consider imposing strong penalties for noncompliance.~~

[P. 230]

To help meet the goal of the RPS and expand the amount of renewable energy located near load, the CPUC should ~~require the investor-owned utilities to offer~~ **consider** simplified and standardized contracts ~~set at reasonable prices~~ for renewable energy projects 20 MW or less in size.

[P. 238]

~~The Energy Commission's Cost of Generation model will be used where applicable as a transparent tool for upcoming integrated resource planning studies. A reasonable range of inputs will be used to generate a range of potential levelized cost estimates for the 2011 IEPR.~~