

July 26, 2010

California Energy Commission
Docket Office, MS-4
Re: Docket No. **11-IEP-1**
1516 Ninth Street
Sacramento, CA 95814-5512
docket@energy.state.ca.us

DOCKET
11-IEP-1

DATE JUL 26 2010

RECD. JUL 26 2010

Re: California Energy Commission (Energy Commission)
Docket No. 11-IEP-1: 2011 IEPR Scoping Memo

To Whom It May Concern:

Southern California Edison (SCE) looks forward to once again participating in the Energy Commission's Integrated Energy Policy Report Proceeding (IEPR). The Draft Scoping Memo for the 2011 IEPR, issued July 12, 2010, discusses the Energy Commission's plans to focus on energy infrastructure planning and development for the State's future energy needs. The Draft Scoping Memo generally raises the appropriate subject matters. Implementing several, sometimes competing, energy policies will make the development of the infrastructure planning process challenging at best. While implementation of the State's environmental goals and policies is properly the focus of the 2011 IEPR, the development of feasible implementation strategies that will ensure system reliability should be the primary goal. From SCE's perspective, the proceeding should accomplish the following:

- Inform an understanding of the trade-offs associated with simultaneously meeting various state policy goals through different electricity supply pathways while "leveraging" existing efforts to understand environmental, cost, and grid reliability issues.
- Seek reasonable solutions to the State's electricity market challenges, support competition, and establish rules that can be applied fairly and efficiently to all market participants.
- Identify new implementation pathways for non-traditional energy efficiency initiatives, using both public and utility resources, and form transparent, well-reasoned forecasts based on a clear understanding of how such implementation will be achieved.

Environmental Policy Goals

Increasing the portion of electricity derived from renewable resources in California remains a worthy goal, despite the higher costs associated with implementation of such a strategy. However, increasing reliance on renewable resources can produce challenges. Specifically, renewable resources can have negative environmental impacts, and the intermittent nature of some renewable generation requires reliance on conventional generation resources to maintain system reliability. A large portion of existing conventional generation is affected by the State's policy to phase-out the use of once-through-cooling for electricity generation. In addition, new conventional generation is very difficult to permit and construct, particularly in the South Coast Air Quality Management District, in light of permitting requirements related to criteria air pollutants (*e.g.*, PM-10 emission reduction credits). Achieving California's renewable energy goals, meeting the State's greenhouse gas emission reduction targets, phasing out the use of once-through-cooling, and complying with numerous other applicable state environmental initiatives, will require a significant investment in new transmission and distribution infrastructure to connect renewable generation to the grid and ensure that system reliability is not adversely affected. Therefore, a holistic analysis of the simultaneous policies and their impacts on system reliability and cost should be pursued and the results should be used as the basis for policy decisions.

New Generation Development

California's wholesale electricity market is deregulated, and the development of generation infrastructure is dictated by market forces. Central planning exercises such as the IEPR and the California Public Utilities Commission's (CPUC) Long-term Procurement Plan Proceeding (LTPP) can inform policy makers about probable or likely trends in generation infrastructure development. However, the results of these planning exercises do not typically become templates for actual implementation, but rather provide policy guidance and insights for implementation via competitive market structures.

The California retail market allows certain energy service providers to procure electricity for retail customers (direct access). In addition, a number of local jurisdictions express interest in pursuing municipalization or community choice aggregation. Direct access load-serving entities appear to be reluctant to invest in new conventional generation or new renewable generation projects, and placing the cost and risk of contracting for new generation only on utilities is unfair to utility customers. In its 2006 Long Term Procurement Plan proceeding, the CPUC authorized investor-owned utilities to enter into long-term contracts for "system resources" (*i.e.*, resources acquired to meet a system need for which the costs are recovered from all benefiting customers). This was perceived (at least by some) as an interim "fix" to the problem of ensuring that sufficient new resources are built to maintain both transmission and distribution system reliability, in light of California's deregulated wholesale and retail energy markets.

The problems with power plant investment risks apply to both conventional (natural-gas fired) and renewable electricity projects. The CEC has advocated for new contractual

approaches to spur renewable investment, such as feed-in tariffs, but has not reconciled how such efforts can be made compatible with California's existing wholesale and retail market structure or how such feed-in tariffs are permissible given FERC's exclusive jurisdiction pursuant to the Federal Power Act to set wholesale power prices. SCE and many other parties actively pursued a forward capacity market proposal that would have allowed longer-term generation investment to be spread fairly across all load-serving entities; however, the CPUC recently rejected this proposal.¹ SCE continues to believe that a fair and self-sustaining market framework solution must be adopted to encourage long-term investments in the State's electricity generation infrastructure.

Energy Efficiency

Since the late 1970s, California utilities have been at the forefront of energy efficiency, pursuing a wide variety of programs that have encouraged the development of improved appliances, lighting and building shell. At the same time, the CEC has actively promoted improved building code and appliance efficiency standards. In combination, these improvements have significantly limited the growth of the State's per capita electricity consumption. Efforts to achieve greenhouse gas reductions have led to even more aggressive energy efficiency efforts. These go beyond traditional utility programs and codes & standards development, to include legislative approaches (*e.g.*, the Huffman lighting bill) and visionary efforts such as the Big-Bold Energy Efficiency Strategies (BBEES).

Program successes in these areas could lead to an unprecedented reversal of growth trends in electricity consumption. The latest Energy Commission Demand Forecast Incremental Energy Efficiency² projections show lower peak demand and total electricity consumption in 2020 than in 2010. However, the implementation pathways for a number of the non-traditional initiatives are not yet clear, so reliance on these forecasts could jeopardize electricity grid reliability. For resource planning purposes, forecasts should retain a reasonable level of certainty. Without implementation pathways, the savings forecasts of the non-traditional initiatives are speculative at best. More defined implementation methods are crucial to the development of a forecast that can reasonably be relied upon for planning purposes.

A successful 2011 IEPR would yield recommendations that position California on a trajectory toward achieving its ambitious environmental policy goals, developing wholesale market structures that foster the development of the new generation resources needed to achieve State policy goals, ensuring both transmission and distribution system reliability, and offering feasible policy choices informed by robust analysis and reliable forecasts.

¹ See Decision 10-06-018, issued by the CPUC on June 7, 2010.

² 2009 IEPR California Energy and Demand Forecast

SCE appreciates the opportunity to provide comments on the Scoping Memo for the 2011 IEPR. We look forward to a collaborative partnership and a successful proceeding. If you have any questions or need additional information about these written comments, please contact me at 916-441-2369.

Very truly yours,

Manuel Alvarez