

March 9, 2011

California Energy Commission
Docket Office, MS-4
Re: Docket No. 11-IEP-1
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DOCKET	
11-IEP-1	
DATE	MAR 09 2011
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Re: California Energy Commission ("Energy Commission") Docket No.
11-IEP-1: 2011 IEPR – Revised Scoping Order

To Whom It May Concern:

On February 23, 2011, the Energy Commission issued a Draft Revised Scoping Order (the "Draft") for the 2011 Integrated Energy Policy Report ("IEPR"). As stated in the Draft, the revisions were made to include additional policies that were articulated in Governor Jerry Brown's Clean Energy Jobs Plan¹ (the "Plan") along with specific approaches from the California Clean Energy Future Overview and Implementation Plan.² Southern California Edison ("SCE") appreciates the opportunity to provide comments on the Draft.

SCE recommends that the Energy Commission carefully consider the actions included in the Draft and the Plan. SCE's view is that the Draft is overly ambitious. The Energy Commission should analyze the assumptions, feasibility and cost-effectiveness of all actions identified in the Draft before any policy is developed. Of particular concern is the feasibility and cost-effectiveness of 12,000 MW of localized energy, 8,000 MW of utility-scale renewables and any increase in CHP above that contemplated in the qualified facility ("QF") / combined heat and power ("CHP") Settlement Agreement adopted by the California Public Utilities Commission ("CPUC") in Decision ("D.") 10-12-025. In saying this, SCE, as the national leader in procuring renewable and alternative resources, is not suggesting that these forms of technologies do not have a role in California's energy future. Rather, SCE believes that these forms of technology should be pursued in an orderly manner that provides real benefits to all customers, while not jeopardizing the electric system reliability, service quality and greenhouse gas ("GHG") goals.

The Importance of a Broad Strategic Focus

As part of the process of formulating energy policy recommendations in this 2011 IEPR, the Energy Commission should maintain a broad strategic focus when addressing energy policy

¹ http://www.jerrybrown.org/sites/default/files/6-15%20Clean_Energy%20Plan.pdf

² <http://www.cacleanenergyfuture.org/>

priorities. Furthermore, the 2011 IEPR must be flexible in its implementation, as things never occur as planned due to changing policy concerns, economic conditions, environmental requirements and technology advancements.

Treating All Load Serving Entities Equally

SCE continues to support equal treatment for all load serving entities (“LSEs”). Achievement of State goals will require all LSEs to participate in energy programs. Allowing uneven implementation of programs across different types of LSEs creates the potential for selected LSE customers to shoulder a disproportionate share of State energy policy costs. For instance, Public Goods Charge (“PGC”) funds are collected solely from investor-owned utility (“IOU”) customers. However, the distribution and use of these funds benefit all California electric customers, not just IOU customers.

Energy efficiency is another area where equal treatment can be improved amongst the LSEs. The CPUC regulates the energy efficiency programs of the IOUs. The CPUC sets energy savings goals and evaluates achievements for the IOUs. The Publicly Owned Utilities (“POUs”) regulate their own energy efficiency activities consistent with Assembly Bill (“AB”) 2021 and managed by the Energy Commission. This 2011 IEPR proceeding will set the energy efficiency goals and achievement metrics for the POUs. As a result, it is important that the Energy Commission set energy efficiency goals and achievements for the POUs consistent with those set for the IOUs by the CPUC.

Lastly, the Draft suggests including “a system of renewable power payments (commonly called feed-in tariffs)”³ in its strategic plan for renewable energy development in California. The pricing for these feed-in tariffs must be consistent with Federal law such that prices are set based on a competitive solicitation or avoided cost established in the Public Utility Regulatory Policies Act of 1978 (“PURPA”). The Draft’s assessment of this issue must include an assessment of how these tariffs will affect all Californians. All customers receiving the societal benefits of renewable power should share in the costs and benefits of any tariff designed to achieve a statewide or broader goal to increase renewable energy development in the State.⁴

Increasing State Agency Coordination

SCE encourages increased coordination between all State agencies including the Energy Commission, California Air Resources Board, South Coast Air Quality Management District, California Independent System Operator (“CAISO”), State Water Resources Control Board (“SWRCB”) and the CPUC as they analyze the feasibility and cost-effectiveness of the suggestions in the Plan. These agencies have worked together on other initiatives (e.g., AB 1318 and SWRCB policy⁵) and SCE believes that continued coordination is necessary to achieve State energy goals.

³ Draft Committee Revised Scoping Order *2011 Integrated Energy Policy Report*, p. 4.

⁴ This type of cost distribution is a feature of the German feed-in tariff program where costs were spread evenly to all customers, as opposed to only those customers located in areas with high potential for renewables.

⁵ Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling (October 1, 2010).

SCE urges the Energy Commission to work with other State workforce agencies and educational institutions to ensure that the State's workforce goals are properly balanced against the achievement of the State's energy policies.⁶ However, the 2011 IEPR should not lead efforts designed to meet the Plan's workforce goals. Agencies such as the California Workforce Investment Board and the California Labor and Workforce Development Agency (the "Workforce Agencies") should assume responsibility for meeting the Plan's workforce goals. The Energy Commission should assess energy concerns associated with future California infrastructure additions, while the workforce agencies take the lead on workforce development. Coordination with other agencies will allow the Energy Commission to focus its limited resources on energy policy priorities.

Assurance That Actions Identified Are Cost-Effective and Appropriate

The Draft discusses targets of 12,000 MW of localized energy, 8,000 MW of utility-scale generation and increases in CHP development. The Energy Commission should carefully consider the feasibility and cost-effectiveness of these proposed actions. Further, when considering the feasibility and cost-effectiveness of any recommended policy, the 2011 IEPR should consider all the costs and constraints needed to integrate and deliver the power, reliably operate the localized systems, and provide any needed back-up resources. The overall impact to California's GHG profile, as a result of localized energy, utility-scale renewables and CHP based on both the levels of generation and speed of implementation is another consideration.

12,000 MW of Localized Energy

From both cost and feasibility perspectives, SCE is unsure whether the electrical system can absorb 12,000 MW of new localized resources on top of all the other State policies. Further, there are serious questions regarding the ability of localized systems to integrate large amounts of this power without substantial, time consuming and expensive upgrades of distribution and subtransmission facilities.

SCE is also concerned about the reliability of the localized distribution system as a result of having many of these localized resource systems operating in parallel. All of these facilities will be interdependent and may have differing automation systems and controls. Significant work is needed to determine the standards, controls, and operational oversight that is required to reliably integrate these systems under all conditions. The electric industry has just begun learning how to integrate utility-scale intermittent resources. This effort would become more complicated and dynamic with the addition of this level of localized resources.

As such, SCE believes it is imperative for the 2011 IEPR to consider and address the cost and feasibility of adding 12,000 MW of localized generation. This analysis should include

⁶ Based on the Global Insight Study for SCE's Solar Photovoltaic ("PV") Program (A.08-03-015), \$1 billion of solar PV (250MW) creates 2,000 jobs (600 direct jobs, 1,400 "multiplier effect" jobs) during each of its five years of operation, most of which are not in California unless fabrication of panels and balance-of-system components come to California as well. The 8,000 MW of utility-scale renewable generation would only create 64,000 jobs nationally (if all solar PV) throughout the entire value chain. Creating 500,000 jobs with solar PV would require an enormous investment and constant production and installation of renewable energy product in California.

exploration of whether the 12,000 MW of localized generation includes existing, new and in development resources. Additionally, the analysis should examine whether the goal includes renewable and nonrenewable generation that meets the definition of localized generation described as “onsite or small energy systems located close to where energy is consumed that can be constructed quickly (without new transmission lines) and typically without any environmental impact.”⁷

Considering this definition, the inclusion of only new renewables could mean that the policy goal is too high. A more appropriate definition should consider the inclusion of existing resources including, CHP resources, behind the meter solar facilities, small scale renewables, and small thermal generators that also meet the specific criteria outlined by the Plan. In addition to determining what the appropriate definition is for localized energy, SCE encourages the Energy Commission to explore how any selected definition affects grid interconnection processes and the downstream network.

8,000 MW of Utility-Scale Renewable Generation

As the Energy Commission examines the potential strategies for developing 8,000 MW of utility-scale renewable generation, it needs to consider the necessary expansion of transmission infrastructure and required back-up resources to reliably achieve this goal. It is unlikely that the existing transmission infrastructure can accommodate such a large addition of renewable generation. The existing transmission and distribution infrastructure will likely need to be expanded in order to maintain system reliability while integrating the additional megawatts. Further, the Energy Commission must consider where funding for such a significant capital investment would be obtained, along with the protracted permitting, licensing and construction timelines needed to achieve this goal.

Combined Heat and Power

The Draft also inappropriately identifies CHP as “energy efficiency.” CHP is not comparable to demand side energy efficiency such as efficient lighting and appliance programs. It is localized energy production.

SCE is supportive of cost-effective and efficient GHG reducing CHP systems without above-market-price utility subsidies. However, the Energy Commission should be cautious as it attempts to deal with the Draft’s proposal to “[d]evelop more combined heat & power projects.” The Draft fails to acknowledge existing policies and targets (especially those resulting from the recent QF/CHP Settlement of heavily litigated CPUC proceedings regarding CHP).⁸ These existing

⁷ http://www.jerrybrown.org/sites/default/files/6-15%20Clean_Energy%20Plan.pdf p. 3.

⁸ See Decision 10-12-035 (adopting a settlement agreement between generator representatives, IOUs and ratepayer advocate groups that resolved a number of disputes related to CHP plants. As a result of the settlement agreement, SCE plans to procure up to 1,402 MW of incremental CHP, its portion of the statewide 3,000 MW target as determined by load share).

policies and targets must be considered and weighed in the examination of whether additional amounts are viable options for California.

The Draft further makes no attempt to address the importance of high efficiency standards in determining the level of CHP that will, in fact, allow California to achieve the stated goals of protecting the environment while ensuring energy reliability. Without a thorough recognition of efficient design and operational standards for CHP facilities, it is impossible to state that cogeneration units are cost-effective and efficient. Finally, SCE reiterates the importance of coordinating the 2011 IEPR's CHP policy statements with the other energy agencies. So any conclusions do not assume levels of CHP greater than presently planned as a result of the QF/CHP Settlement, current regulatory policies and law.

Feed-in Tariffs

The Draft notes that it intends to explore the issue of feed-in tariffs as part of the 2011 IEPR. SCE reminds the Energy Commission to include in its examination the issue of how to do so under lawful and appropriate pricing options. As a matter of general jurisdiction, only Federal Energy Regulatory Commission ("FERC") can set wholesale rates. The CPUC has adopted one form of feed-in tariff that works under Federal law. The CPUC's Renewable Auction Mechanism Feed-in Tariff appropriately relies on competitive procurement processes to determine pricing, which produces two main benefits. First, this approach does not cross the jurisdictional boundaries that exist between State and Federal regulators. Second, this approach allows developers to set prices in competitive solicitations rather than having regulators administratively set prices and potentially signal developers to build large numbers of expensive new projects in response. With this approach, California can avoid the mistakes that some major European countries have made in setting prices that were too high.

Electricity Demand and Infrastructure

SCE recently participated in a Joint Agency Workshop on Emission Offset Challenges for Fossil Power Plants in Southern California on February 15, 2011 and provided written comments to the Energy Commission on March 3, 2011.⁹ As stated in SCE's written comments, the CAISO studies suggest that there will likely be a need for additional flexible conventional fossil generation resources in the South Coast Air Basin ("SCAB") by 2020.¹⁰ SCE reiterates its support of the Joint

⁹ See SCE's written comments on the Joint Agency Workshop on Emission Offset Challenges for Fossil Power Plants in Southern California served to the Energy Commission on March 3, 2011.

¹⁰ CAISO's 33% Renewable Integration Study reports a need of about 2,000 to 4,300 MW of flexible conventional fossil generation resources to maintain grid system reliability across all of the CAISO area in 2020. *CAISO 33% RPS Study Presentation - CPUC LTPP Workshop 11/30/10*. Moreover, the CAISO's Load and Resource Analysis Screening Tool indicates that the L.A. Basin alone could need an additional 1,000 MW to 4,500 MW of resources to meet local capacity requirements for grid operations purposes. Released December 2010 – Based on the following assumptions (High Net Load, 33% by 2020, OTC retirements, Proposed Transmission) L.A. Basin (4660) MW and (Low Net Load, 33% by 2020, OTC retirements, Proposed Transmission) L.A. Basin (717) MW.

Agencies' efforts in developing the Joint Agency Draft Work Plan¹¹ to address issues related to balancing grid reliability in the SCAB with environmental goals.

Public Goods Charge Fund

The PGC fund is scheduled to expire on January 1, 2012.¹² The PGC fund has historically provided funding for energy efficiency programs, renewable energy and research development and deployment ("RD&D"). The energy efficiency programs have been a valuable asset in managing per capita energy consumption for California and the funding for these programs should continue.

Regarding State energy RD&D, SCE appreciates the need for strategic planning for energy research in California. California has set forth a number of leading environmental and energy policy goals that require immediate attention if those goals are to be timely met. SCE believes that State energy RD&D should be conducted in accordance with the following fundamental principles:

- Ensure funding for projects that support energy and environmental policy goals;
- Revamp administrative structures and practices to ensure program responsiveness and timeliness;
- Promote transparency and utility-involvement in program direction and project selection; and
- Ensure funding for State energy RD&D comes from all energy customers.

In closing, SCE hopes that the Energy Commission gives serious consideration to the issues presented here. SCE appreciates this opportunity to comment on the Draft and looks forward to continuing to work with the Energy Commission and be an active participant in the 2011 IEPR process. Should you have any questions regarding the foregoing, please feel free to contact me at (916) 441-2369.

Very truly yours,

/s/ Manuel Alvarez

Manuel Alvarez, Manager
Regulatory Policy and Affairs

¹¹ "Assessment of the Electrical System Reliability Needs in South Coast Air Basin and Recommendations on Meeting those Needs" (January 2011).

¹² Draft Committee Revised Scoping Order *2011 Integrated Energy Policy Report*, p. 1