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September 7, 2004

California Energy Commission
Docket Nos. 03-IEP-01 & 02-REN-1038
Docket Unit, MS-4
1516 Ninth Street
Sacramento, CA 95814-5512

Dear Commission:

Re: Southern California Edison Company's Comments on the 2004-2005 Integrated Energy Policy Report (IEPR) Committee's "Accelerated Renewable Energy Development Draft Staff White Paper", "Resource, Reliability and Environmental Concerns of Aging Power Plant Operations and Retirements", "Upgrading California's Electric Transmission System: Issues and Actions for 2004 and Beyond"

Southern California Edison Company ("SCE") offers the following comments on the 2004 Integrated Energy Policy Report ("IEPR") Update proceeding.

Transmission Issues

SCE supports the white paper in general and the staff is on the right path in addressing majority of the issues involved in upgrading California's transmission system. SCE generally agrees with Staff's recommendation to conduct strategic benefits of a transmission line project in the upcoming 2005 Integrated Energy Policy Report process.

SCE supports multi-use corridor planning and development, as described in the report. Corridor planning will provide better information for transmission planning and improve local public involvement, which is crucial in the successful siting of a new transmission line project.

Transmission provides a myriad of benefits beyond those related to energy and capacity, including improved reliability, stability, system efficiency, voltage support, reduced congestion and reduced potential for local area market power. SCE supports the concept of considering DSM and DG options in either in the load forecast or in resource planning processes, but does not support considering these non-transmission alternatives in the transmission planning process.

SCE urges the Commission to adopt a new appliance standard for single-phase residential air conditioners to require under voltage relay capability to trip the unit in the event of a stalled

condition. As addressed in hearings, action on this matter is important to preserve the reliability of California's transmission system.

Accelerated Renewable Development

The White Paper represents a significant effort by Commission Staff. SCE agrees with Staff that there are challenges, risks and barriers to accomplishing even the current goals of the state's renewable portfolio standard ("RPS"). Staff has identified a number of factors, including "access to available and cost-effective transmission," the "adequacy of public goods charge funds," and the ability to construct certain projects by 2010 in light of permitting issues that may hinder achieving the current RPS goal. As discussed below, these uncertainties and other factors demonstrate that it is premature to consider utility specific targets at this time. Considerably more analysis, thought and discourse should take place before any recommendations are made, much less adopted, with respect to utility specific targets.

In general terms, the RPS requires each investor owned utility ("IOU") to attain a goal of renewable procurement equal to 20% of its retail sales by 2017. SB 1478, now enrolled and awaiting signature by the Governor, accelerates that date to 2010. Each IOU is required to move towards achieving this standard by increasing its procurement from eligible renewable resources by 1% each year. The California Public Utilities Commission ("CPUC") has issued a series of decisions implementing the RPS that define these standards and other aspects of the legislation. Implementation of IOU-specific targets would be inconsistent with this statutory scheme and with the CPUC's decisions implementing the scheme.

It is also premature to consider utility specific targets because the CPUC has yet to fully implement the RPS legislation as it applies to ESPs and community choice aggregators ("CCAs"). Moreover, the RPS does not apply to publicly owned utilities, such as the Los Angeles Department of Water and Power ("LADWP"). Neglecting to apply the RPS to such entities results in public confusion and disproportionate distribution of the benefits and burdens of the RPS. Policy makers should ensure that the RPS is applied evenhandedly across the state before efforts to implement utility-specific targets are considered.

Any effort to impose utility specific targets is premature for another reason. The White Paper offers no analysis of whether the existing PGC fund allocation will allow for an overall statewide standard greater than 20% if utility specific targets are implemented. Whether current levels of PGC funding are sufficient is a function of bid price and the market price referent ("MPR") determined by the CPUC over time. It is too early to tell whether the combination of bids and MPR values will draw down on the PGC fund and at what rate. Staff agrees. As stated in the White Paper, at p. 63, "[T]here is too much uncertainty regarding MPRs, ;winning bid prices maintenance of baseline, and interest rates to determine whether public goods charge funds will be adequate to meet the acceleration of the RPS," even without an increase in SCE's target under the RPS. Even modest commitments of PGC funding may deplete the fund before the current 20% target is met. It is reasonable to assume, however, that over time bids will increase (because the increased cost of extraction, diminished capacity factors, greater technology risks or any combination of these an myriad other uncertainties).

The White Paper does not quantify, much less justify on economic terms, the range of potential costs associated with an increased target for SCE. As recognized by the authors of the White Paper, at p. 45, "it is difficult to measure the gross technical potential that can be readily

developed." Further, as conceded in the White Paper at p. 41, no "filters" have been applied to account for "economic, environmental, social, or cultural sensitivities." At p. 36, it is recognized that harvesting of renewable resources to achieve our current leadership and to meet existing RPS goals, will place "upward pressure on the cost of developing remaining technical potential." The White Paper suggests that future technological advances, spurred by additional investment, **may** make these resources cost effective. No analysis supports the assumption that the likely increased cost of extraction will be offset by economies of scale or technology improvements.

The principal argument offered in support of utility specific targets is found at p. 40 of the White Paper, where it is stated that the "availability of cost-effective renewable resources also varies widely from utility to utility." Based on this observation, the White Paper appears to assume that it would be more cost-effective for SCE procure from such resources than it would be for other IOUs or LSEs. This assumption is unsubstantiated by hard analysis. The cost of developing a particular resource should be the same, regardless of who contracts for it. The physical location of a resource does not constrain the ability of the resource developer to contract with LSEs other than the one in whose service territory the resource it is located. SCE itself has contracted for power from the Geysers in NP15, and the CPUC has approved this contract for purposes of SCE's baseline and IPT. Further, although SCE is unaware of the details of current PG&E and SDG&E RFOs, SCE believes that many of the bidders into those RFOs are located in SCE's service territory.

The White Paper acknowledges several times that transmission constraints represent a significant barrier, but fails to quantify the additional cost that would be associated with increased, utility specific targets. Substantial transmission-related costs will be incurred regardless of which IOU procures renewable power. Even achieving the 20% statewide standard will require substantial investment in infrastructure. Procurement from major renewable resources that would enable SCE to exceed the 20% RPS goal by 2010 would require the outlay of substantial additional capital. SCE's very preliminary analysis suggests that transmission cost associated with achieving 30% may be double that of achieving and maintaining 20%. It is unlikely that such additional facilities would be completed by 2010 even under the most optimistic circumstances. Before recommending increased utility-specific targets, staff should attempt to quantify the risk that PGC funding will be insufficient to sustain development at a level warranting additional investment in infrastructure.

The White Paper also fails to address fundamental operational, market design and economic issues. Among other things, the impact on overall resource planning within the ISO of substantially increasing the amount of must take generation in SCE's portfolio is not considered. Nor does the White Paper discuss the impact of increasing intermittent and must take generation on system reliability and congestion management. The White Paper also fails to consider and account for the effect of increased procurement from must take resources on SCE's net long position.

In summary, the White Paper raises more questions than it answers. Further consideration should be given to these questions before any recommendations are made concerning utility specific targets.

SCE appreciates the opportunity to provide comments to the IEPR Committee. If you have any questions, please call me at (916) 441-2369.

Sincerely,

Manuel Alvarez

cc: Commissioner John L. Geesman
Commissioner James D. Boyd