

## PUBLIC UTILITIES COMMISSION

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October 13, 2004

California Energy Commission  
Docket Unit, MS-4  
1516 Ninth Street  
Sacramento, CA 95814-5504

RE: Docket Nos. 03-IEP-01, 02-REN-1038, 03-RPS-1078 and 04-DIST-GEN-1

Dear Commissioners Geesman and Boyd,

I write to share the views of the California Public Utilities Commission on your draft *"Integrated Energy Policy Report: 2004 Update."* In general, we share many of the concerns stated in the report and appreciate the effort of the IEPR Committee to bring important issues forward for policy makers to consider and re-examine. We appreciate the Draft Reports' acknowledgement of our on-going, productive collaborative efforts, and the PUC implementation activities on a number of the report recommendations.

#### **Reliability and Supply Management**

Staff shares the Draft Report's concern with respect to reliability of supplies and the potential for supply shortfalls in the event of aging power plant retirement. Reliable electric service is critical to the state's economy and the quality of life of its citizens. Reliability however, is not limited to just having adequate supplies. It also means that supplies must be available "when and where" needed. In taking actions to assure adequate supplies over the next few years, we must not only address potential supplies from aging power plants, but also pay close attention to how these plants can be used for reliability purposes, specifically how they can contribute to enhancing local reliability and delivering power to load centers.

The CPUC took actions in June and July to make it clear that investor-owned utilities must take local reliability and deliverability into account when procuring and scheduling resources and take appropriate actions to maintain reliable service and to increase local area reliability. The CPUC decision on the utility long-term procurement plans, targeted for the end of this year, will provide further guidance and authority to CPUC-regulated utilities. That decision will ensure appropriate investments in and commitments to generating resources, including those that may enhance local reliability, are timely made.

The Draft Report points to multi-year contracts as an important part of securing reserves and resources. However, in doing so, it misstates the current authority utilities have to procure power. The CPUC did not limit the utilities to one-year contracts under the approved short-term procurement plans. Rather, we required utility 3-5 year contracts to begin deliveries in 2004.

The Draft Report recommends "developing a capacity market to help meet the state's proposed resource adequacy requirements and deliverability standards." (p. 4, emphasis added.) It favorably acknowledges the CPUC proposed decision on resource adequacy as a "significant step forward in stabilizing California's electricity market and providing adequate future supplies," and

we understand the reference in the Draft Report to the state's proposed resource adequacy requirements and deliverability standards to be those proposed by the CPUC. Additionally, the Draft Report acknowledges the CPUC, EOB and ISO jointly sponsored an educational conference October 4 and 5 on capacity markets. (p. 21.) Clearly, the CPUC is already taking actions supportive of the Draft Report recommendations.

### **Demand Response Issues**

The Draft Report recommends implementation of a full-scale rollout of advanced metering systems for smaller customers of investor owned utilities. (p. 20.) As the Draft Report acknowledges, facts are being gathered at the CPUC on the particulars of implementing advanced metering for customers with less than 200 kW demand levels. Implementation plans will be evaluated in the "business case" each investor-owned utility is scheduled to submit by mid-October. The CPUC and CEC have a process, which is being collaboratively pursued, and should reserve judgment on full-scale roll out until after submission and evaluation of the business case data. In addition, our collaborative efforts will include considering and resolving cost recovery and rate design issues before any full-scale rollout is begun.

### **Transmission Planning**

The Draft Report recommends that the CEC, in collaboration with the CAISO, and CPUC and stakeholders establish a comprehensive statewide transmission planning process. As we have stated before, the CPUC agrees that improvements in the processes for planning and licensing transmission in California are called for to ensure that transmission infrastructure gets added in a timely and efficient manner. In this regard, the CPUC has a rulemaking to address transmission planning and the licensing and permitting process for the investor-owned utilities, whose transmission assets encompass a majority portion of the state's transmission grid as well as that under CA ISO operational control. The Draft Report does not acknowledge this effort or the current collaborative efforts, led by the CA ISO in which your staff participates, to revise the transmission assessment methodology. That process has been the venue for incorporating the sorts of changes outlined in the Draft Report. (pp. 31 and 32.)

The Draft Report identifies that California has no formal process to plan for transmission corridors and recommends a collaborative process for corridor planning in the future. We agree that identifying the needed transmission corridors and rights of way is an important step in planning and designing a reliable transmission grid for the state. Siting transmission facilities and obtaining rights of way have become increasingly difficult, especially in areas where needed transmission infrastructure development overlaps with populated areas. Planning transmission corridors and expanding necessary rights of way in advance of this growth will become of significant importance in designing a reliable transmission grid for the state. I agree that advanced corridor planning should be incorporated into the investor-owned utilities' transmission planning efforts, and applaud CEC leadership on this statewide planning issue.

### **Renewables**

The Draft Report recommends including municipalities in the Renewable Portfolio Standard program. We agree. These entities serve a significant portion of California's electric load. The CPUC and CEC collaborative staff will be assessing involvement for small and multi-jurisdictional utilities, as well as energy service providers and community choice aggregators in phase 2 of the CPUC RPS proceeding.

The Draft Report recommends an ambitious goal of 33% renewable procurement by 2020 consistent with the governor's action plans. We agree that post-2020 targets should be established. Any supporting analysis for the 33% target, and its application to the investor owned utilities should be considered in the collaborative CPUC RPS proceeding. At that time, the impact of the target on the utility resource portfolios and ratepayers may be analyzed, and ultimately implemented for the investor owned utilities, as appropriate.

The Draft Report recommends individual utility targets be implemented depending on each utilities' renewable potential. The Draft report recommends increasing SCE's renewable target to 25 % by 2010, 30% by 2015, and 35% by 2020. The Draft Report recommends maintaining the 20 percent target by 2010 for SDG&E and PG&E. The individual targets can be further reviewed to determine whether and how they fit with the rest of the investor owned utilities' resource portfolio in the next collaborative CPUC long term procurement proceeding.

The Draft Report recommends a higher net metering cap for the utilities, citing the fact that SDG&E is bumping up against its legislatively-set cap. We are working with the administration and the CEC in evaluating and considering implementation options for this proposal.

The Draft Report suggests that the CEC and CPUC collaborative staff further investigate the advantages and disadvantages of incorporating unbundled Renewable Energy Certificates (RECs) into the RPS for investor owned utilities as well as for electric service providers and community choice aggregators. We support this effort. In fact, its already underway. The CPUC issued a ruling on September 1, 2004 and requested public comment on the definition of REC ownership in the context of Distributed Generation facilities. The CPUC and CEC collaborative staff will continue to examine the relevant definitional REC questions during phase 2 of the CPUC RPS proceeding.

Very truly yours,

Steve Larson  
Executive Director

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