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STATE OF CALIFORNIA
ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION

In the Matter of:

Informational Proceeding and Preparation of the *2007 Integrated Energy Policy Report*

Docket No. 06-IEP-1

COMMENTS OF THE ALLIANCE FOR RETAIL ENERGY MARKETS ON THE SCOPE OF THE *2007 INTEGRATED ENERGY POLICY REPORT*

On May 1, 2006, the California Energy Commission ("CEC") issued a notice for a hearing to be held in this proceeding on May 12, 2006. The purpose of the hearing is to obtain input from interested parties on the scope of the *2007 Integrated Energy Policy Report* ("IEPR"). In preparation for the hearing, the IEPR Committee has prepared a preliminary list of key issues for the *2007 IEPR*. The Alliance for Retail Energy Markets ("AReM") comments herein on additional topics and issues that should be addressed in this proceeding.

Absent from the Committee's preliminary list of key issues for the *2007 IEPR* is the reopening of direct access. AReM is surprised by this omission, given how much importance the CEC has given to reopening the retail electricity market in previous policy reports. For example, the Energy Action Plan II, in which the CEC and the California Public Utilities Commission ("CPUC") jointly identified "actions necessary to meet California's future energy needs," identified the need to "[p]romote the continued viability and efficient operation of the existing direct access market" and to "develop rules to promote an effective core/non-core retail market

structure" as key actions for California's electricity market structure.[1] Also, in the *2005 IEPR*, the CEC noted that the suspension of direct access hampers the ability of combined heat and power facilities to sell their excess power at the retail level,[2] and that the investor owned utilities have identified departing load as the single greatest source of uncertainty affecting their long-term procurement decisions,[3] and therefore strongly recommended that the CPUC develop a set of "coming and going" rules for departing load by the end of 2006.[4]

As the CEC is aware, the California Legislature has considered several bills providing for the reopening of direct access and the development of a core/noncore market structure for the retail electricity market during the past several legislative sessions. While the Legislature has thus far not acted on these legislative proposals, the reopening of direct access is clearly on the horizon. Moreover, under current law, the market will reopen automatically (i.e., without any further action required by the Legislative or the CPUC), possibly in a few short years and in no event later than 2013, when all of the contracts entered into by the Department of Water Resources pursuant to Assembly Bill 1X will have been terminated or expired. Indeed, the reopening of direct access has been a key topic in virtually every serious discussion among stakeholders about the structure of California's electricity markets that has taken place in the last several years.

AReM believes that the interests of California consumers are not well served by the continued suspension of direct access. Moreover, reopening the retail market under a core/noncore or similar market structure would greatly simplify many of the complex energy policy issues that the CEC and other regulators are currently considering as they look to ensure

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[1] *EAP II*, p. 9.
[2] *2005 IEPR*, pp. E-4 and 76.
[3] *Id.*, p. 58.
[4] *Id.*, pp. E-3 and 59.

the continued availability of reliable and competitively priced electric power for California consumers. A well designed retail electricity market that promotes customer choice will minimize the risk of new stranded costs, allow customers to manage their exposure to hourly markets through longer-term contracts with energy service providers ("ESPs"), eliminate cost shifting, stimulate infrastructure investment, encourage economic development in California and facilitate the ability of customers, ESPs, the IOUs and generators to contemplate longer-term positions that will support new infrastructure investments.

AReM therefore strongly recommends that the scope of the *2007 IEPR* include the reopening of direct access as a key issue.

Respectfully submitted,

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