BERMAN ECONOMICS
The Berman Group

DOCKET
11-IEP-1D
DATE DEC 27 2010
RECD. DEC 27 2010

December 27, 2010

California Energy Commission
Dockets Office, MS4
1516 Ninth Street
Sacramento, CA 95814-5512

RE: Docket # 11-IEP-1D
Infrastructure Need Assessment Staff Draft Comments

To Whom It May Concern:

Berman Economics is an economic consulting firm specializing in energy, environmental, and natural resource issues; and has substantial experience with electric utilities. Berman Economics is pleased to provide comments on the CEC's Staff Draft – Infrastructure Need Assessment. Our comments are based on analyses of the potential for substantial energy savings resulting from efficiency improvements on distribution systems generally, and on distribution systems of California utilities in particular.

Berman Economics commented on the IEPR raft Scoping Order. Our comments reflected our concern that the IEPR did not address the efficiency with which electric power is delivered by California utilities. Although California is a national leader in encouraging demand reduction and energy conservation in the use of electric power, California has not yet articulated a policy regarding energy efficiency in the provision of electric service, including avoidable losses on transmission and distribution systems. Although 2007 IEPR acknowledged that, "The distribution system accounts for a higher share of delivery losses than transmission, and may offer a significant opportunity for improvements in efficiency." (2007 IEPR, page 157), to date there has been no consideration of distribution system delivery losses or policies or programs to address those losses.

In response to our concerns, the CEC explained that, "While the IEPR Committee has not explicitly included your suggestion to include the efficiency on the distribution systems within the Scoping Order itself, the Committee does intend to look at the distribution system as part of the IEPR's overall assessment of the infrastructure needs of the electricity system." However, the current staff draft gives no consideration to distribution system efficiency.

Reducing losses reduces fossil fuel consumption to the same extent as reduction in end-use demand, but requires no change in consumer behavior. However, in measuring energy efficiency improvements, California appears to measure only reductions in consumer demand; and does not appear to provide any credit towards energy savings targets for reduction in losses, even though such losses are typically easier to measure, are less costly than either the renewable or fossil generation alternative, and may be less costly than demand reduction conservation.

1915 Grand Court
Vienna, VA 22182

703.281.0490
703.655.8398 (cell)
www.BermanEconomics.com

Although failure to acknowledge the benefit of reduced losses would not be expected to impact efficiency investments by California's municipally owned utilities, failure to recognize loss reductions may actually serve as a disincentive for California's investor-owned utilities. Because ratepayers and stockholders are the same for a municipal utility, minimizing long-run costs is a common interest. To the extent that investor-owned utilities can earn a higher return for stockholders in their unregulated investments, they have an incentive to avoid investment in regulated infrastructure, diverting earnings into unregulated activities, as the additional fuel and generation costs are simply passed through to the ratepayer.

In summary, Berman Economics strongly encourages the CEC to broaden its infrastructure considerations to include distribution system efficiency and losses, and transformers on California distribution systems. Policies in this area are important to providing guidance to California utilities.

Sincerely,

Robert A. Berman, Principal