

JOINT PUBLIC MEETING
OF THE
CALIFORNIA POWER AUTHORITY
CALIFORNIA ENERGY COMMISSION
CALIFORNIA PUBLIC UTILITY COMMISSION

In the Matter of:)
)
DRAFT ENERGY ACTION PLAN)
_____)

CALPERS BUILDING
LINCOLN PLAZA AUDITORIUM
400 P STREET
SACRAMENTO, CALIFORNIA

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CALIFORNIA ENERGY COMMISSION

William J. Keese, Chairman

James Boyd

John L. Geesman

Robert Pernell

Arthur H. Rosenfeld

CALIFORNIA POWER AUTHORITY

S. David Freeman, Chairman

Barbara Lloyd on behalf of Phil Angelides

Sunne McPeak

Donald Vial

CALIFORNIA PUBLIC UTILITIES COMMISSION

Michael Peevey, President

Susan Kennedy

Lorretta Lynch

Carl Wood

ALSO PRESENT

Richard Katz, Senior Advisor
Office of Governor Gray Davis

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P R O C E E D I N G S

10:15 a.m.

CHAIRMAN KEESE: Thank you and good morning. And welcome to the second of what hopefully will be a number of en banc meetings of our three sister energy agencies.

I'm Bill Keese, Chairman of the Energy Commission. And I'd like to introduce to you those who are here. On the far right, Lorretta Lynch from the Public Utilities Commission.

UNIDENTIFIED SPEAKER: That's a joke. The far right.

(Laughter.)

CHAIRMAN KEESE: Susan Kennedy, Carl Wood, Don Vial, Mike Peevey, David Freeman, Sunne McPeak, John Geesman, Jim Boyd, Robert Pernell --

COMMISSIONER PERNELL: Good morning.

CHAIRMAN KEESE: -- Barbara Lloyd sitting in for Mr. Angelides, and Art Rosenfeld.

Before we get started with anything today of substance on our action plan, I'd like to ask Richard Katz to come forward and make some comments on behalf of the Governor.

MR. KATZ: Thank you, Mr. Chairman, Members. It is a pleasure to be here today and to

1 not only bring greetings from Governor Davis, but
2 his appreciation for the work that you have done
3 and are doing and will do in putting together an
4 energy proposal for California.

5 We are looking forward to your work with
6 great interest. We appreciate the fact that the
7 three organizations are working in concert to come
8 up with a plan.

9 As all of you know, because all of us
10 lived through the last several years of energy in
11 California, it's oftentimes difficult to do long-
12 term planning when you're working day-in and day-
13 out to keep the lights on.

14 And now that we have broken the back of
15 the energy cartel, at least in terms of what we
16 went through in the past, and we did that through
17 the hard work of a lot of you and the work of the
18 Governor and the Administration, we are committed
19 to putting a plan in place that ensures that this
20 doesn't happen again. That other California
21 citizens, taxpayers, ratepayers, governors,
22 legislators, commissioners don't have to go
23 through what we have experienced in the past
24 several years.

25 We believe that your work is very very

1 important; that not only the idea of having a
2 comprehensive plan, but having specifics, having
3 benchmarks, having goals in that plan is something
4 that we're looking forward to participating in
5 with you in developing.

6 From a standpoint of quality of life in
7 California, from a standpoint of the business
8 community and the economic climate in California,
9 we need stable, reliable, affordable energy-
10 sensitive, environmentally sensitive energy
11 policies in California.

12 And we look forward to working with you
13 as this proposal develops. And then we look
14 forward to working with you to implement the
15 proposal after we all have a chance to see the
16 final product.

17 And, again, on behalf of the Governor,
18 thank you very much for fighting for California
19 ratepayers; thank you very much for keeping us
20 focused and for working together to try and make
21 this a reality.

22 Thank you, Mr. Chairman, thank you very
23 much.

24 CHAIRMAN KEESE: Thank you, Mr. Katz.

25 Our purpose today is twofold. It's to hear

1 comments from you in the audience on our three-
2 agency draft energy plan. And it's to give our
3 members their first opportunity to discuss the
4 plan as a fully constituted group in the context
5 of both your comments and each agency's mandates.

6 We intend to follow the agenda as you
7 see it. We designed it to give as much time to
8 public comments as we could. Almost three hours.
9 And still leave some time for members to discuss
10 the action plan and your comments.

11 In deference to our San Francisco
12 colleagues who have a practice of not breaking for
13 lunch, we do not intend to break. We will go from
14 10:00 to 2:00. If you noticed, there is a small
15 kiosk where you can get coffee. It closes in
16 seven minutes.

17 (Laughter.)

18 CHAIRMAN KEESE: Across the way there is
19 a restaurant that, we understand, stays open till
20 3:30.

21 We have a rather large number of people
22 who have turned in their blue cards. I would
23 appreciate it if anybody who cares to speak would
24 fill out a blue card and get it in to us in prompt
25 order. That will allow us to determine how many

1 speakers we have, and to allocate our time as we
2 move on.

3 We realize you may have more comments
4 than we're going to allow you in time to give us;
5 and for that purpose we are going to accept email
6 comments. The address, I believe, is on the
7 agenda that was distributed. We welcome your
8 comments.

9 President Peevey has been instrumental
10 in the creation of our action plan. He's going to
11 lead us into the public comments by describing how
12 we went about developing this historic multi-
13 agency energy action plan, and giving you an
14 overview, as we see it, of the plan, itself.

15 However, in leading into this staff gave
16 me an introduction and they told me I had to read
17 the first paragraph. So I will read the first
18 paragraph of my introduction.

19 I want to thank the tireless and usually
20 unrecognized staffs --

21 (Laughter.)

22 CHAIRMAN KEESE: -- of the Energy
23 Commission, the PUC and Power Authority, without
24 whom this document would have been impossible. In
25 particular, Bob Therkelsen, Barbara Hale, Laura

1 Doll and Thom Kelly should be nominated to
2 sainthood.

3 (Laughter.)

4 CHAIRMAN KEESE: Failing that, please
5 give them a toast on St. Patrick's Day. Actually
6 they did a lot of work on this document with a lot
7 of contradictory instructions.

8 We told them the first version was too
9 short. We told them the second version was twice
10 too long. And we yo-yo'd back and forth till we
11 see what you have.

12 Without further ado, if you can give us
13 the courtesy of continuing our meeting, please,
14 President Peevey.

15 PRESIDENT PEEVEY: Well, thank you very
16 much, Chairman Keese. This will be very brief.
17 The origins or genesis of this effort really is a
18 reflection, I think, of the interest in working
19 together and the commitment to joint public policy
20 by -- this effort, the genesis of it and its
21 status today is a reflection of the commitment by
22 members of the various commissions and authorities
23 here in a public-spirited way to work together to
24 come up with a consensual document that, as Mr.
25 Katz said on behalf of the Governor's Office,

1 moves things forward here in California in the
2 years ahead.

3 And particular tribute goes not only to
4 the staff that worked so hard on this, but there's
5 one that left three-quarters through this effort,
6 and that was Steve Larson, the Executive Director
7 of the Energy Commission, who of course now is at
8 the Department of Finance of the State of
9 California, dealing with an issue even globally as
10 big as the energy crisis of a couple years ago,
11 and that's the state budget situation.

12 But, a particular thanks from me goes
13 to, at the Power Authority in particular, David
14 Freeman and Sunne McPeak and Don Vial who have
15 long-term interests in good public policy and
16 working together in a cooperative fashion.

17 And at the Energy Commission in
18 particular Bill Keese and John Geesman, who put in
19 a good bit of time on this effort.

20 We met many times as a committee, Keese
21 and Geesman, McPeak and Freeman, Peevey and Lynch
22 from the PUC. And we've worked hard in coming up
23 with the draft document. And I think, with one
24 exception perhaps, all of us are committed to the
25 draft document.

1 The document sets forth some background
2 and goals, as everyone here has read them. I
3 won't go through it all again because you wouldn't
4 be here if you hadn't already looked at it.

5 And then five specific areas for action.
6 And the first being energy conservation and
7 resource efficiency, the optimization of that.
8 And we have set out some specificity here. And,
9 of course, when you get into specificity you find
10 sometimes the consensus starts to break down a
11 little bit. But the intent is to have a document
12 that is meaningful. And a meaningful document, in
13 my view, requires a significant degree of
14 specificity.

15 The second piece is the details on how
16 we ensure a reliable and affordable electricity
17 generation in the years to come.

18 The third focuses on transmission and
19 the clear-cut need to expand California's
20 transmission network. And I think some
21 recognition that we have not always done as good a
22 job in that area as we could have in the past.

23 The fourth focuses on utility- and
24 customer-owned distributed generation.

25 And the fifth piece of the action plan

1 is on what to do about natural gas prices and
2 supply in the years ahead.

3 With that, Chairman Keese, that's about
4 my comments for this moment. And I look forward
5 to what the public has to say on this document.

6 CHAIRMAN KEESE: Thank you. Well, we're
7 going to get right into it. Timekeeper, we're
8 going to set our goal here at four minutes, if you
9 will.

10 I will call first on Mr. Jan Smutny-
11 Jones.

12 MR. SMUTNY-JONES: Thank you very much,
13 Chairman Keese and this distinguished group of
14 policymakers here. I think it's telling that
15 we've got three different state agencies, plus the
16 State Treasurer's Office, here. And this may, in
17 fact, in and of itself, be a historic occasion.

18 We'd like to thank the joint agencies
19 here for taking what we believe to be a very
20 important first step in developing a comprehensive
21 energy plan for California. This cooperative
22 leadership, we think, will lead to a stable and
23 reliable energy future for California.

24 The Independent Energy Producers
25 represents about 40 percent of the generation in

1 the State of California, which includes about 90
2 percent of the renewables, a lion's share of the
3 almost 8000 megawatts of new generation that will
4 come online by the end of this year, plus a number
5 of the divested units and cogenerators, as well.

6 So we are well aware of the challenges
7 and opportunities facing California, and basically
8 believe that the work of this joint group will go
9 a long way in providing California with a stable
10 energy future based on the best features of a
11 vigorous competitive wholesale energy market and
12 renewed positive regulation. Those are your
13 words. We think that's a very very positive
14 direction.

15 We would like to make a couple of just
16 initial comments, and we recognize the fact that
17 this is a work in progress. But one of the key
18 areas here is resource adequacy, which seems to be
19 driving this entire document, which is a critical
20 component and one which the state has taken a
21 leadership role in.

22 Resource adequacy is important not only
23 for the state but the region, as well, to ensure
24 that we have adequate resources going in the
25 future. And a well designed resource adequacy

1 mechanism will allow California to continue to
2 play a leadership role regionally on this issue.

3 As you may be aware, the interagency
4 working group has taken a lead in resource
5 adequacy and suggests the ISO and others, that
6 they sort of forego work at the ISO until November
7 with respect to resource adequacy. As you know
8 the ISO is currently engaged in a significant
9 amount of market reform which resource adequacy is
10 a major component of.

11 It is very important that the work of
12 the state, through this group, basically move into
13 actually implementing a lot of this vision.
14 Because it is important as we move forward in
15 restructuring the market that, in fact, the ISO
16 can implement the recommendations of the state
17 into that market reform. Otherwise all this good
18 intention will be for naught. So it's critically
19 important that we move along, that's only eight
20 months away. And this is a critical component.

21 One of the major critical components,
22 from our standpoint, is accountability.
23 Ultimately who is it that is going to be in charge
24 of actually insuring that there's adequate
25 resources, whatever the state determines that

1 number ought to be, at the end of the day who is
2 responsible for insuring that the people of
3 California are adequately served by their market.
4 So the accountability issue is no small factor.
5 It needs to be addressed, we believe, in a little
6 greater detail here.

7 And more importantly, we need to move
8 forward on actual implementation of the adequacy
9 plan incorporated into the ISO market reform.

10 Two other quick issues that I will
11 address since I'm down to a minute, is timing of
12 transmission projects. It's important that we
13 move beyond good intentions. We believe that the
14 transmission projects identified in this report
15 are critical.

16 Two of them will add additional
17 wholesale opportunities for California. The
18 third, the Tehachapi project, will allow a
19 significant increase in new renewables to be
20 incorporated into California's market in
21 compliance with the RPS that the state has put
22 forward.

23 Last, but not least, I think in future
24 versions of this document we should perhaps look
25 to other opportunities; incorporating energy

1 projects into other important policy objectives
2 that may be out there.

3 For example, there's a significant
4 effort right now to help clean the air in the
5 Central Valley. The state of the art biomass
6 facilities can do a significant amount in that
7 area.

8 There's a current water crisis in
9 southern California. There could be an
10 opportunity to look at desalinization, for
11 example, in conjunction with energy projects.

12 Economic development. There's a
13 significant amount of interest in developing and
14 doing economic development. There may be some
15 opportunities in cogeneration and other
16 technologies to move that forward.

17 So in closing, we appreciate the
18 leadership shown by the Energy Commission, by the
19 Public Utilities Commission and by the CPA, and we
20 look forward to working with you in the future.

21 And thank you very much for your
22 attention.

23 CHAIRMAN KEESE: Thank you, Mr. Smutny-
24 Jones.

25 PRESIDENT PEEVEY: Just one further

1 comment, not directly related to what the speaker
2 just said, but I think we're a little derelict
3 here in not recognizing that, and this is my
4 fault, perhaps, that an active participant in this
5 process at the staff level was Cal-ISO. And that
6 Jim Demlers and Terry Winters both participated
7 significantly in this process, as did some of
8 their staff. And like the Treasurer's Office,
9 they, too, could be sitting up here today, but
10 they're not.

11 So we're quite mindful, Mr. Smutny-
12 Jones, of that. And as you said, on focusing some
13 of these points and facts.

14 CHAIRMAN KEESE: Thank you. And, Jan,
15 while you had the opportunity I know you didn't
16 want to waste any time of your allotted four
17 minutes, but on behalf of the panel I will
18 congratulate Mr. Peevey on both his confirmation
19 by the Senate. We'll have Mr. Peevey around for
20 awhile.

21 (Applause.)

22 CHAIRMAN KEESE: Julee Malinowski-Ball,
23 please.

24 MS. MALINOWSKI-BALL: Hi, good morning.
25 Thank you for having us here. I'm Julee

1 Malinowski-Ball, I represent the California
2 Biomass Energy Alliance.

3 I'd like to say a brief statement and
4 bring up an issue that I'm asking for help on, and
5 help in trying to figure out what will get biomass
6 facilities, and other renewables for that matter,
7 to be self-sustaining over the years.

8 As primarily a waste management industry
9 which generates electricity almost as a byproduct,
10 the California biomass industry provides numerous
11 environmental benefits and social benefits which
12 are far greater than the industry's small role in
13 the state's energy supply.

14 Although our technology is reliable and
15 has proven itself for many years, biomass power
16 plants struggle to survive in an era of
17 deregulation. Some have even shut down.

18 Far beyond the mere replacement of
19 fossil fuel generation, and in a dependable,
20 schedule-able, and baseload manner the entire
21 industry is down 30 percent from its earlier peaks
22 of generation. And the retention of the existing
23 biomass of generation is imperative.

24 For now biomass power is more expensive
25 than conventional power, but we have this

1 extremely elegant solution to a complex set of
2 problems. Who pays for clean air? Who pays for
3 having less destructive wildfires?

4 The support for the biomass industry
5 with the public good charge funds was based on the
6 expectation of cost shifting of the above-market
7 costs of biomass generation. But no such cost
8 shifting has occurred to date.

9 Cost shifting is one more direct
10 beneficiaries of the environmental benefits pay
11 for those benefits. Waste management. You know,
12 waste management benefits could logically be
13 allocated to waste disposal ratepayers. Forest-
14 related benefits. Clean air. I mean everyone's a
15 beneficiary of clean air, and there are lots more
16 electric payers than there are taxpayers, so
17 spreading the costs of cleaner air over the
18 ratepayers may be as close to having everyone pay
19 as the state can get.

20 We believe this answer is within the
21 capabilities of the agencies in front of us today.
22 We appreciate the tireless efforts of the Energy
23 Commission and its staff to come up with a funding
24 mechanism so that the PGC funds are distributed in
25 a manner that best serves the existing facilities.

1 And the CPUC for also recognizing the benefits of
2 our facilities that provide in giving those with
3 DWR contracts a chance to stay in the game.

4 But CBA is committed to seeking
5 solutions to sustaining this industry without
6 additional subsidies. I repeat that. We are
7 committed to seeking those solutions.

8 I speak for both the solar thermal
9 industry and the biomass industry, as both are
10 within this organization. And so speaking for
11 both of them, I ask you in your deliberations
12 please strongly consider what can be done to
13 change the economics for both solar and biomass
14 facilities to make them most cost competitive.

15 We have other solutions that we'd like
16 to talk with you more and keep the dialogue open,
17 but I think that, you know, the general comment
18 is, you know, think about this a little harder.
19 These are important facilities to keep open. I've
20 provided one solution, cost shifting. And we
21 would hope that you consider that.

22 CHAIRMAN KEESE: Thank you.

23 MS. MALINOWSKI-BALL: Thank you.

24 PRESIDENT PEEVEY: I just want to make a
25 brief comment before you leave. Excuse me, ma'am.

1 Mr. Keese referenced my confirmation. In making
2 the rounds to try to ensure that that went as
3 smoothly as possible, I had the opportunity to
4 speak to separate San Joaquin Valley legislators
5 who were most grateful for the vote of the
6 majority of us at the PUC a couple weeks ago to
7 continue those contracts in the Valley. Because
8 it is the most polluted air basin in America
9 today, the San Joaquin Valley.

10 It's kind of shattering to Californians
11 to recognize that. More so than Houston or Los
12 Angeles in terms of air pollution.

13 And absent those biomass facilities in
14 the Valley, I believe that it would be
15 agricultural open-field burning that would put
16 even more particulate matter into the skies of the
17 Valley in a way that would be very detrimental to
18 the residents there in terms of their public
19 health.

20 And so I think you make a good point
21 that the test for the economic viability of some
22 of these facilities has to be a broader one; it
23 has to look at air quality and other environmental
24 considerations.

25 Thank you very much.

1 CHAIRMAN KEESE: Thank you. Steve
2 Greenleaf, please.

3 MR. GREENLEAF: Good morning, Mr.
4 Chairman. Steve Greenleaf, here today on behalf
5 of the California ISO. Good morning, also, to all
6 the Commissioners and Board Members.

7 First of all, we wanted to commend the
8 state agencies for working together and moving
9 forward collectively to address the myriad of
10 issues that address California's energy
11 infrastructure.

12 And importantly, the California ISO also
13 appreciates the opportunity to work with the state
14 agencies and comment on the draft plan. And looks
15 forward to working with you in the future as
16 further details are developed.

17 Finally, going forward we urge the state
18 agencies to proactively and expeditiously address
19 the issues regarding transmission infrastructure
20 in the state. As we see a great need to move
21 forward and get the necessary infrastructure in
22 place to support the future functioning of the
23 California energy market.

24 Finally, thank you for the opportunity
25 to provide comment today. And we look forward to

1 working with you.

2 Thank you.

3 CHAIRMAN KEESE: Thank you.

4 BOARD MEMBER McPEAK: Mr. Chairman. I
5 do want to echo the sentiments that you and
6 Chairman Peevey have said. I know everybody else
7 here shares that, Steve, but please convey to
8 everyone at the ISO how much we have benefitted
9 from the technical expertise that you and your
10 staff have provided to this collective effort.

11 And we also appreciate your pledge to
12 continue to work with us as we go towards
13 implementation. So, just we really want to
14 acknowledge that and publicly thank you for all of
15 your cooperation.

16 MR. GREENLEAF: Thank you, I'll pass
17 that on.

18 CHAIRMAN KEESE: Thank you. We'll start
19 with Mike Florio and follow that with Marc Joseph
20 and Greg Blue. Mr. Florio, please.

21 MR. FLORIO: Good morning,
22 Commissioners. Thank you for inviting us to speak
23 here today. I want to join with the other
24 speakers in congratulating you on bringing all
25 three agencies together behind a common plan.

1 At the same time I think we have to
2 recognize that the hard work is still to be done.
3 Turning these fine ideas into real action and a
4 real integrated planning process that involves all
5 three entities is a hard job. And the tough part
6 still lies ahead.

7 We recognize the challenge you face in
8 trying to work together at the same time each
9 of -- well, certain the PUC and the Energy
10 Commission have litigated proceedings in front of
11 you that involve some of these same issues. And
12 preserving due process in those proceedings is a
13 challenge, as well, while maintaining a
14 cooperative policy at the interagency level.

15 Turning to the specifics of the plan, I
16 think our overall comment is that we need to have
17 a strong component of the action plan be to
18 achieve rate reductions for all classes of
19 customers in California.

20 Our rates are astronomical. There's
21 some hope of modest reductions for at least some
22 of the utilities in the near-term future, but to
23 revive the economy of the state I think we have to
24 focus like a laser beam on lower rates for all
25 classes of customers in order to really recover

1 from the energy crisis that hit this state.

2 A couple of positive notes in the plan.

3 We like the focus on using the CPA's financing
4 authority. I think it's important. There's some
5 folks who would like the CPA to disappear. We're
6 not among those. We think especially with the
7 crisis of confidence in the energy industry, that
8 the public financing authority of the CPA is
9 critical to moving forward with some of our near-
10 term needs. And also achieving ratepayer benefits
11 through the low-cost financing that the CPA can
12 access.

13 So we would urge that a focus on use of
14 CPA's financing authority be a central focus of
15 your efforts going forward.

16 We also like the so-called loading order
17 of resources, focusing on cost effective energy
18 conservation first; renewable resources and clean
19 efficient generation, to the extent necessary, to
20 fill out our requirements. But I think that order
21 is important and we should stick with that.

22 We have some concerns. I think a focus
23 on distributed generation is appropriate, but we
24 would like to make sure that clean, efficient,
25 cost effective distributed generation is what we

1 encourage, and not dirty, inefficient systems that
2 piggyback on the legitimate encouragement of
3 clean, efficient distributed generation.

4 There was mention of agreeing on a
5 standard definition of what distributed generation
6 is appropriate for public support. We strongly
7 agree with that, and believe that that definition
8 should focus on the ultraclean and efficient
9 distributed generation and not on things like
10 internal combustion engines that try to slip in
11 the door along with the nice words about clean DG.

12 We're also a little concerned on the
13 dynamic pricing front that the state has invested
14 a lot of public money in meters for large
15 customers that are not being used effectively; or
16 that may be used only on a voluntary basis. We'd
17 like to see a focus on making full use of that
18 public investment before we look at spending large
19 amounts of additional money on trying to bring
20 small customers into the fold. I think we've got
21 to capitalize on our sunk investment first.

22 We were a little concerned about some of
23 the language in the report about providing utility
24 financial incentives, or financial rewards for
25 energy conservation. We're worried about the re-

1 creation of the conflict that existed before
2 restructuring between utility investment in new
3 generation and utility management of energy
4 conservation funds. It's the one foot on the gas,
5 one foot on the brake problem that has not been
6 addressed. And we seriously question whether the
7 utilities can carry out both of those roles.

8 We could see a role for them in
9 generation if they weren't in conservation; we
10 could see a role in conservation if they weren't
11 in generation. But just throwing money at the
12 problem is not going to resolve the apparent
13 conflict. And I think that's one of the primary
14 issues that has to be addressed.

15 I'd also like to add to your list of
16 issues to be considered, the possibility of a
17 California strategic natural gas reserve. What I
18 mean by that is storage of a certain quantity of
19 natural gas for emergency use by electric
20 generation.

21 We have adequate gas storage capacity in
22 this state, but it is not always filled. And a
23 major problem in the last crisis was a lack of
24 natural gas in storage. We would like to propose
25 for your consideration that a certain amount of

1 natural gas be stored and held in reserve for
2 electric generation during extreme conditions.

3 The carrying cost of that for electric
4 ratepayers would be very minimal compared to the
5 costs that we experience when there is a shortage
6 of natural gas for generation. So, just like the
7 nation has a strategic petroleum reserve, we think
8 California should think seriously about a
9 strategic natural gas reserve for electric
10 generation.

11 Another issue -- and I know my time is
12 running out --

13 CHAIRMAN KEESE: It sure is.

14 (Laughter.)

15 MR. FLORIO: Okay. I'll let it go at
16 that. Thank you.

17 CHAIRMAN KEESE: Thank you, Mr. Florio.
18 Let me remind you and the audience again that
19 there is a CPUC site, and we do ask for written
20 comments. I was going to ask one of the drafters
21 to respond later in the program to your specific
22 comment, however my good friend, the Chairman,
23 would like to respond right now.

24 CHAIRMAN FREEMAN: Well, the comments
25 were pointed and very important and very

1 significant, and I'm just afraid that if we wait
2 until after everyone speaks we'll lose the flavor
3 of Mike's comments. And he should get some
4 response, at least from one of us.

5 I think everyone in this room from the
6 Governor on down would agree completely with your
7 number one point, that reducing the electric rates
8 in this state is job number one. And certainly,
9 you have comrades toward that end up here, and I
10 think throughout the audience.

11 But, you've never been one to overlook
12 the hardship of getting things done, and while we
13 will reduce the electric rates, the issue is how
14 much. And one of the real problems that you have
15 not touched on is these runaway natural gas
16 prices.

17 And it seems to me that in your
18 comprehensive comments on things that you're not a
19 person to shy away from the challenges here. Do
20 you have any comment to make about what we should
21 be doing in the near and in the long term to bring
22 those prices under control? Because we're
23 certainly going to reduce the electric rates, but
24 we have an enemy in these runaway gas prices. And
25 could you comment on that?

1 But before you do, let me just say that
2 the idea of giving people at least the same rate
3 of return on investments in conservation is
4 designed to do exactly what you want to do.

5 Right now a utility does not have the
6 same economic incentives to invest in the cheaper
7 resource, which is conservation. And if we
8 haven't articulated our point well enough, your
9 raising it maybe will help us.

10 But you need -- I want to be sure you
11 understand that this happened to be the idea of
12 someone else, not me, but I am enthusiastic about
13 the idea that the PUC will tell the utilities that
14 invest in the cheaper resource, you can make as
15 much money investing in conservation as you can in
16 generation. It's not to discourage the latter,
17 but it's to give the lowest cost option the
18 prominent place in the vice president for making
19 money over there, who has a lot to say about what
20 each of these companies do.

21 So I hope you understand that we're
22 together in our objective. And I think we can
23 work together in perfecting on how to do that.
24 But we would be interested in what you have to say
25 on this really big problem with dealing with

1 runaway natural gas prices for the commodity,
2 itself, which seems to be in a short situation.
3 And there's not much prospect for it coming under
4 the kind of scrutiny that we would have if we
5 regulated it.

6 We realize that wellhead prices of
7 natural gas are, by law, unregulated. And I'd
8 like to hear what you have to say on that subject.

9 MR. FLORIO: Well, I wish I had a silver
10 bullet for you. As you point out, the commodity
11 is deregulated at both the state and the federal
12 level, and I think the strategic gas reserve is a
13 way of at least leveling out spikes in the price.

14 But when the price is high all year long
15 we've got a big problem there. And, you know, I
16 don't have a silver bullet for what California, on
17 its own, can do to --

18 CHAIRMAN FREEMAN: Do you have at least
19 a bow and an arrow or something?

20 MR. FLORIO: Well, I thought i was
21 helping a little with the idea of enhancing the
22 storage to at least avoid the crisis we had a
23 couple of years ago.

24 And, you know, I don't think we have any
25 concern about potentially, you know, locking in

1 prices for a longer term. We've been pretty much
2 on the spot market in gas. But, as we learned on
3 the electric side, you don't want to lock in the
4 long-term price when prices are at their highest,
5 either.

6 CHAIRMAN KEESE: Well, thank you, Mr.
7 Florio. There's now a one in front of the four
8 that we gave you, so that'll have to do at this
9 time.

10 MR. FLORIO: Okay.

11 CHAIRMAN KEESE: Also, -- John Geesman,
12 Commissioner Geesman. Michael.

13 CHAIRMAN FREEMAN: Michael, don't leave
14 us. If you could come back --

15 MR. FLORIO: Sorry, I thought I was
16 gone.

17 CHAIRMAN KEESE: I thought you were,
18 too.

19 COMMISSIONER GEESMAN: When you and I
20 served on the ISO Board together last year, I
21 recall voting the same way to approve the Path 15
22 project, Miguel Mission project, Jefferson-Martin
23 project. In fact, as I recall, you actually made
24 the motion on Path 15 and seconded my motion, if
25 memory serves, on the other two.

1 Is it fair to say that you've seen the
2 expansion of the bulk transmission system as being
3 in the consumers' best interest?

4 MR. FLORIO: I think that's correct.
5 And obviously, you know, we have to do the
6 analysis on a case-by-case basis, but I do see
7 appropriate expansions of transmission as being in
8 the ratepayers' interest. And I think the Devers-
9 Palo Verde corridor is another area, as well as
10 the Tehachapi wind.

11 But we think our next up in queue for
12 serious analysis, if we're going to build to out-
13 of-state sources we may want to think about tying
14 up some contracts for that power, as well, so that
15 we can secure, you know, not just the transmission
16 but the power to back it up and be able to rely on
17 that on a firm basis.

18 But, yes, I think transmission is
19 definitely part of a least-cost energy strategy
20 for the state.

21 COMMISSIONER GEESMAN: Thank you.

22 CHAIRMAN KEESE: Thank you. At this
23 point we're going to divert for a second.
24 Commissioner Lynch has a speaking engagement at
25 lunch and she asked for a minute or two to comment

1 at this time.

2 COMMISSIONER LYNCH: Thank you, Chairman
3 Keese. Thank you, Mr. Florio, and all of those
4 who are going to talk. I hope that I can be
5 returning after that to listen to additional
6 comments.

7 And I do share the broad goals of the
8 energy action plan of insuring clean, green,
9 reasonably priced electric energy service that
10 California controls.

11 I also appreciate Mr. Florio's comments
12 that we need to do that while balancing the due
13 process requirement on all of us, all of our
14 committees. And I agree with Mr. Florio, it's not
15 an easy task to both work together and respect the
16 administrative and due process requirements we all
17 have.

18 And I hope that folks in the audience,
19 as well as us up on the dais, can explore how
20 acceptably to do that, because we do need to
21 figure out how we can do this in a public forum,
22 which is why I appreciate this public forum.

23 So, I appreciate everyone's
24 participation here in the public today. And I
25 look forward to reaching these goals in broad

1 respect through the specific actions of the
2 various Commissions. And I apologize I need to
3 leave, but I was happy to be here for this first
4 hour, and hopefully for the last hour of this
5 really important conversation that we're having,
6 both among the agencies of the state government
7 and with the public at large.

8 CHAIRMAN KEESE: Thank you, Commissioner
9 Lynch. Chairman Peevey -- President Peevey.

10 PRESIDENT PEEVEY: Yes, Mr. Florio, I
11 confess to being slightly confused by a couple of
12 things you said, and building on what John Geesman
13 said, I mean you represent TURN, but you're also a
14 member of the ISO Board.

15 Did I hear you say that you think that
16 there should be enhanced generation out of
17 Tehachapi, or it ought to be analyzed more? And
18 secondly, should there be a second line, Palo
19 Verde-Devers line? Is that a matter that ought to
20 be undertaken, or should it be a matter that -- I
21 thought you used the word analyzed more?

22 Now, there's paralysis by analysis
23 syndrome that I think that we're all a little
24 skittish of entering again, so I just wanted to be
25 clear, and then make sure what hat you're wearing.

1 Is it a Cal-ISO Board Member, or a TURN Board
2 Member when you speak on these transmission
3 matters?

4 MR. FLORIO: Well, I think with either
5 hat, and I'm certainly speaking primarily from the
6 ratepayer perspective today, but I think both
7 Tehachapi and Devers-Palo Verde appear to have
8 great promise. But, you know, I think that there
9 are appropriate proceedings that need to take
10 place to confirm that.

11 I have a hunch that they're good ideas,
12 but I do think that needs to be, you know, taken
13 up in an appropriate proceeding. And not just
14 done by fiat.

15 PRESIDENT PEEVEY: Well, of course not,
16 but isn't it inferentially at least that if Cal-
17 ISO votes in favor of a particular project or
18 transmission line that some analysis has gone on
19 and it's not just by fiat?

20 MR. FLORIO: Certainly, although neither
21 of those particular projects has come before the
22 ISO. That's why I say they're next in queue.
23 They should be undergoing that analysis, and I
24 believe they are as we speak.

25 PRESIDENT PEEVEY: Just one other point,

1 and that's something I think that was clarified by
2 David Freeman and you, but maybe not. The whole
3 idea behind having the utilities treat demand
4 response energy efficiency programs the way it's
5 expressed here, and perhaps clarification might be
6 in order, but is to treat them on a comparable
7 basis with putting steel in the ground.

8 So that I think several people, many
9 people feel that in the past the utilities' energy
10 efficiency efforts and all, while commendable, may
11 not have been taken up with the same vigor as
12 their pursuit of some other things, because in the
13 one case it didn't earn a return, and in the
14 second case they did earn a return.

15 And in a quasi-capitalist world that
16 they operate in, at least, there is some incentive
17 to put the steel in the ground and earn a return.
18 And we had ERAM and these other mechanisms to
19 protect them for loss of sales because of
20 conservation, but there was no reward.

21 So the attempt here is to put them on an
22 equal footing, at least, so that at the Commission
23 we would argue about what the proper return might
24 be and so forth, but there would be a clear
25 incentive, equal incentive, to pursue energy

1 efficiency and demand response programs, rather
2 than having one handicapped, unlike the other.

3 That is what is meant here; it's what
4 David articulated and I think what we've tried to
5 articulate. If you think that it is not -- if you
6 supported what I just said, but think that it's
7 not abundantly clear here, suggest some language
8 that would improve it.

9 MR. FLORIO: Okay. Just one question
10 for clarification then. We certainly understand
11 the utilities can invest money in power plants and
12 earn a return on that. I think where we were
13 concerned is the way conservation incentives have
14 been handled in the past is that it's been
15 ratepayer money that's been invested. And then
16 the utility has earned a return on the ratepayer
17 money.

18 And if what you're contemplating is
19 utilities investing shareholder capital on the
20 demand side and earning a return on that, I think
21 that's something that we could be supportive of.

22 But to try to give them an equal return
23 for investing ratepayer money that they get for
24 investing shareholder money, there seems to be a
25 disconnect there to me.

1 So I think that we do need to work
2 through this in some more precise terms to figure
3 out how you get that equality in practice.

4 PRESIDENT PEEVEY: Thank you.

5 CHAIRMAN KEESE: Thank you. Mr. Joseph.

6 MR. JOSEPH: Thank you, Chairman Keese
7 and Commissioners. My name is Marc Joseph; I'm
8 here today on behalf of the Coalition of
9 California Utility Employees. The members of the
10 unions in CCUE work at almost all of the electric
11 utilities in California.

12 The energy action plan has some good
13 features and some that are not so good. Most
14 important, of course, is that this conversation,
15 itself, is taking place. Obviously agencies need
16 to talk to each other and need to work together to
17 implement consistent policies.

18 But agencies also need to listen. They
19 need to really listen to those who challenge
20 conventional wisdom. I'm going to question some
21 of the things that are in the energy action plan,
22 and some things that are missing from the plan.

23 Before I do I want to emphasize that
24 most of the plan, we think, is well thought out.
25 Most of the mistakes of the past decade were made

1 not when agencies acted on a whim. Mistakes were
2 made when agencies and the Legislature implemented
3 the conventional wisdom d'jour.

4 For example, it was convention wisdom
5 that utilities should divest generation so they
6 don't impede robust competition among unregulated
7 generators. It was conventional wisdom the
8 utilities should have no obligation to plan for
9 the future, but instead we should rely on the
10 magic of the market to ensure reliable low-priced
11 energy supply.

12 It was conventional wisdom that our
13 transmission system should be turned over to a
14 federally regulated utility free from interference
15 by state regulators that may want to change things
16 in the future.

17 As ridiculous as these concepts now
18 appear, they were conventional wisdom not very
19 long ago. And they were implemented by people who
20 really believed that in 2003 we would have lower
21 rates and high reliability than we did in 1996.

22 Please don't make the same mistake
23 again. Question conventional wisdom.

24 There are two items of conventional
25 wisdom that are in your action plan that may turn

1 out to be flat wrong. And there's another issue
2 which is really boring, but it's more important
3 for reliability than anything that's in your plan
4 right now.

5 First, the energy action plan places
6 major emphasis on distributed generation. It
7 actually proposes to promote DG. The claim is
8 that DG can enhance reliability without
9 compromising environmental quality.

10 Well, maybe so, and maybe not. The
11 reliability of supply is an issue when generation
12 is unavailable. Like any other generator, when
13 distributed generation goes offline it does not
14 enhance reliability. It raises just the very same
15 questions of the adequacy of reserves. Something
16 individual customers do not provide.

17 Customer-side DG also does nothing to
18 reduce the need for distribution infrastructure
19 that's adequate to serve those customers when the
20 DG is offline.

21 And as for environmental quality, I'm
22 not aware of any study that shows that putting
23 emissions from a small turbine close to customers
24 is environmentally preferable to putting emissions
25 from a large generator, large turbine far from

1 customers.

2 I fear that DG is the new conventional
3 wisdom much loved by individual customers anxious
4 to avoid their fair share of past costs; and by DG
5 manufacturers looking for market opportunities,
6 but whose real pros and cons have not been
7 adequately analyzed yet.

8 Second, the energy action plan would use
9 price signals to reduce peak demand. I'm sure
10 that it's possible to give the large manufacturer
11 economic incentive to voluntarily shut down its
12 manufacturing plant on the 10 or 15 peak days per
13 year. This may make perfect economic sense for
14 the manufacturer and for the electrical system.
15 But it could be very bad for the hourly employees
16 who find themselves laid off at that factory for
17 two or three weeks a year.

18 Is this really good for the California
19 economy? Is it fair to those employees?
20 Shouldn't we have an electric system that is
21 designed to fully support the economy and fully
22 support economic activity all the time rather than
23 to limit it so as to serve the needs of the
24 electric system?

25 Again, I fear that using price signals

1 to reduce peak demand is conventional wisdom that
2 will look mistaken in hindsight.

3 Finally, I want to mention a major
4 omission from the energy action plan. During
5 2001, the year of the infamous rolling blackouts,
6 it seemed like a lot of customers were out of
7 power a lot of the time.

8 The facts are that customers were in the
9 dark five to ten times longer because of outages
10 on the transmission and distribution system than
11 because of a failure of generation supply.

12 The facts are that reliability is mostly
13 a function of work by utility employees operating
14 and maintaining the wires and substations; and
15 especially, repairing the T&D system after storms.

16 And the facts are that regulatory
17 authorities have paid only scant attention, while
18 PG&E's representative workforce, the people who
19 actually do the work, has declined from 17,000
20 people to 12,000 people, while at the same time
21 the number of customers increased by perhaps 20
22 percent.

23 Other utilities are not very different.
24 It's no wonder that a modest sized storm leaves
25 thousands of people in the dark for days. There

1 simply aren't enough people to repair the system
2 in a reasonable period of time.

3 Now, while this sounds like a parochial
4 issue, the shrinking of the utility workforce is
5 likely to have more impact on customers than most
6 of the elements in the energy action plan.

7 As you develop the plan we suggest that
8 you take a look at this issue and that you add a
9 new action item, to look carefully at how to
10 ensure that the utilities have an adequately sized
11 and trained workforce to provide the level of
12 reliability that California deserves.

13 Thank you.

14 CHAIRMAN KEESE: Thank you, Mr. Joseph.
15 Mr. Blue. Followed by Mr. Braun.

16 MR. BLUE: Good morning. My name is
17 Greg Blue; I'm Senior Director, Governmental
18 Affairs for Dynegy.

19 Dynegy supports the concept of a well
20 reasoned coordinated energy plan which will deal
21 with the fundamental infrastructure issues that
22 caused the supply shortages, transmission
23 constraints and natural gas bottlenecks that
24 plagued the state during the recent energy crisis.

25 Now is the time for policymakers to

1 rebuild California's energy markets by adopting
2 sound integrated power policy that will lead to a
3 return to regulatory stability and will attract
4 new private capital.

5 In order to accomplish this it is
6 imperative that legislators, regulators, suppliers
7 and consumers work collaboratively to forge a
8 working consensus in order to bring amicable and
9 timely resolution to many of these critical
10 issues.

11 Dynegy owns generation that is at the
12 end, and in some cases past the end, of its useful
13 life. And we need to start making decisions about
14 our future now.

15 The number one question that we have
16 that we do not see in this plan is who is going to
17 be the buyer. Is it the utilities? The CPA? The
18 ISO? ESPs? Or a combination of such? What will
19 they be allowed to buy? What types of energy
20 products, terms and the conditions associated with
21 it?

22 These questions need to be answered so
23 that we can continue to serve California,
24 including adding investment and adding critical
25 synergies to our existing sites, such as

1 desalination projects at our coastal power plants.

2 Dynegy agrees with the need to send a
3 signal to the market that California is a good
4 place to do business. And this plan is certainly
5 doing that, in the absence of inflammatory
6 rhetoric. And this plan is a positive step in
7 that direction.

8 However, the state needs to think
9 through the implications of signals being sent
10 today as a result of processes that are currently
11 taking place today. How the CPUC implements
12 generator maintenance standards, log book
13 requirements and operation standards will send a
14 signal to the market.

15 The current RFP for peaking generation
16 by the Power Authority. And the potential for
17 preferential treatment for state-owned generation
18 in a competitive wholesale market will send a
19 signal to the market -- is sending a signal to the
20 market.

21 Legislation being introduced that would
22 do away with the ISO. Legislation that would re-
23 regulate the California energy markets. These are
24 sending signals to the market.

25 In closing, Dynegy is glad to see the

1 different state agencies pledging to work together
2 with the Legislature. And by working together we
3 can all start California on the road to recovery.

4 Thank you.

5 CHAIRMAN KEESE: Thank you very much.

6 Tony Braun. Steve Ainsworth, and then Maureen
7 Lennon. Mr. Braun.

8 MR. BRAUN: Good morning, Mr. Chairman.
9 My name is Tony Braun; I am here on behalf of the
10 California Municipal Utilities Association. And
11 we greatly appreciate the opportunity to address
12 the panel today.

13 We can't say strongly enough how much we
14 applaud vigorously that the state agencies have
15 initiated this debate. We believe it is long
16 overdue, but perhaps understandably so.

17 Indeed, we see it as the foundation of
18 making the key policy decisions on what the energy
19 industry in this state is going to look like. It
20 is the foundation, for example, on what we think
21 our market should look like going forward. It is
22 the foundation, for example, on what we would like
23 our regulatory structure to look like.

24 And so this, we believe, is the key
25 precursor to making those fundamental and more

1 technical decisions.

2 The municipal community looks forward to
3 doing its part, at least its part, in the energy
4 action plan, as directed, of course, by our local
5 duly elected governing bodies. We've never
6 shirked from that responsibility and we look
7 forward to continuing in that fashion.

8 There are a host of elements of the plan
9 that we support. And let me just tick off a few
10 in the most general fashion. The emphasis on
11 restoring the obligation to serve; the emphasis on
12 resource adequacy; the emphasis on self reliance
13 through self generation; and transmission
14 expansion and other infrastructure issues.

15 Let me focus just briefly on the issue
16 of self generation and self reliance. And by
17 using those terms I don't mean any particular type
18 of technology, or any particular size, et cetera.

19 This is a model that we support in
20 conceptual terms. And is one we believe the
21 municipal community adopts. Right now our
22 utilities are building generation close to load
23 sites within their service territories. Examples
24 might include the Magnolia Power Plant in Burbank
25 that several public power entities are

1 participating in. Turlock, Modesto, SMUD,
2 Redding, L.A. Repowering of in-basin facilities.
3 These are all examples of locally owned generation
4 that's close to load.

5 And one thing we would like the panel to
6 consider is making the rules of the road friendly
7 and nurturing to encourage that type of
8 investment. Whether it's self generation at a DG
9 level, whether it's generation by customer-owned,
10 or whether it's municipal generation it is
11 different in character than a merchant power plant
12 that's hooked up to the high voltage grid and
13 relies on markets for its stream of revenue. It's
14 meant for self supply; it's meant to meet load
15 obligations.

16 And we need to consider how the grid
17 rules are going to accommodate these plants. And
18 this gets into issues of the ISO tariff. It gets
19 into issues of rate recovery. But, we've got to
20 make it friendly. We can't have rules -- we can't
21 ignore the grid operation rules and expect these
22 power plants to coexist with and be viable.
23 They're built for self supply, and the rules need
24 to accomplish that.

25 Second, Mr. Florio mentioned some of the

1 transmission expansions, particularly the Palo
2 Verde-Devers, and the potential that perhaps the
3 associated generation on the other end of that
4 line ought to be locked up at the same time. That
5 makes a heck of a lot of sense. That's what
6 municipal utilities do, they lock up the
7 transmission and generation together to meet their
8 load-serving obligations.

9 And we would just like you to consider
10 that perhaps the market design that we're in the
11 throes of fighting about right now isn't very
12 friendly to that model of serving load. It relies
13 on financial instruments to hedge congestion risk.
14 It relies on short-term financial instruments to
15 hedge congestion risk.

16 And if even you want part of your
17 portfolio to be long-term contracts or owned
18 generation, and we think that both of those
19 options are prudent, then we need to develop
20 market rules that make that a cost effective and
21 viable option. So we put that and ask you to
22 consider how the market rules are going to impact
23 those types of decisions.

24 Thank you.

25 CHAIRMAN KEESE: Thank you, Mr. Braun.

1 I assure you, on behalf of everybody up here, that
2 we will accept your full participation in the
3 process as we move forward. We hope that we can
4 count on the participation of everybody who has
5 joined us today. I see a light on at my left.

6 CHAIRMAN FREEMAN: Since we have a rare
7 opportunity to have a conversation with public
8 power, I'm going to try to take advantage of it.

9 Our action plan -- we're quite open to
10 supporting the thrust of the plan, but I want to
11 point out that it puts great emphasis on energy
12 efficiency and conservation as being the number
13 one option. And it makes quite a point of
14 suggesting that the goal for renewable resources
15 be moved up from 2017 to 2010.

16 And I wonder if you would be willing to
17 comment as to whether the municipalities are ready
18 to join in the renewable resource goal,
19 recognizing that it should be done individually at
20 city council level. But perhaps you could give us
21 some feel for whether that process is underway,
22 and whether that large segment of California
23 energy family is going to join in that.

24 And then the other comment is what would
25 it take, and I ask this in a friendly way, but

1 what would it take to get the municipalities that
2 own transmission to seriously consider joining the
3 ISO?

4 MR. BRAUN: Well, let me take those in
5 reverse order. First of all, you may be aware
6 that four cities, bringing the total to five, have
7 either become participating transmission owners in
8 the ISO --

9 CHAIRMAN FREEMAN: Yeah, I'm aware that
10 they're not the ones that own a lot of
11 transmission.

12 MR. BRAUN: In fact, they own the
13 transmission that is associated with the lines,
14 some of the lines in the areas we're talking
15 about, including paths to the desert southwest
16 where a lot of the new generation is being sited.
17 And which all of a sudden we're seeing congestion
18 at a time when just five years ago we thought that
19 area was overbuilt.

20 But, here's the answer to your question,
21 Mr. Chairman. They will join the ISO or an RTO or
22 some other like organization when they find the
23 rules of the road to be beneficial to their
24 customers. And it touches upon some of the areas
25 in which I touched upon in my testimony.

1 One, flexibility with regard to
2 accommodating different types of entities. When a
3 Turlock or a Modesto or a Redding or an Azusa or a
4 Holton builds a power plant in its service
5 territory to meet native load obligations, it's
6 antithetical to those entities to have a third
7 party redispatching those plants for economic
8 purposes. They're already dispatched for the
9 economic purposes of the customer that are
10 building and paying for the power plant.

11 And the rules of the road that we
12 developed five years ago, and I don't want to
13 rehash that, but what we are considering to do,
14 going forward, still contemplate that type of
15 model. Where they just do not recognize that all
16 the power plants in this state or in this country,
17 since it is a nationwide debate, are not built on
18 a merchant model.

19 Second, we have grave concerns that the
20 transmission rules, specifically allocation of
21 transmission rights to load-serving entities going
22 forward, just do not comport with the basic load-
23 serving obligation of certainly our utilities, and
24 perhaps for the larger utilities in the state, as
25 well.

1 The inability to reserve transmission
2 for customers that are paying for the transmission
3 seems to be nonsense, frankly. And we don't
4 understand the religious preoccupation with
5 opening it up to auction on the highest bidder for
6 such a core, fundamental, common carrier service.

7 So, when the rules of the road
8 accommodate that type of model of load-serving
9 entities, with some flexibility on control of
10 generation and transmission asserts, then we're
11 certainly going to be there.

12 CHAIRMAN FREEMAN: If I could just make
13 this comment, it seems to me that you have a
14 common cause with us in dealing with FERC, is what
15 you're saying.

16 MR. BRAUN: Yes. The RPS issue. I
17 would be remiss if I did not point out the recent
18 developments in this area regarding development of
19 renewable portfolios, including the over-100-
20 megawatt wind project that LADWP has announced for
21 development, the RFP that the Southern California
22 Public Power Authority has out for over 100
23 megawatts, and I believe -- and I can confirm this
24 later for the panel -- that they are actually
25 looking to expand that to make that RFP larger.

1 Of course, in this area we have SMUD
2 that has a windfarm that they're looking to
3 expand. And I know their board is going through a
4 process right now.

5 So I think that we have handled at the
6 local level building renewables. I would raise
7 one issue that I know, Mr. , you're well familiar
8 with, and a really good example is in the Valley
9 here. Particularly when you're looking at smaller
10 utilities like Redding or Modesto or Turlock, and
11 they get even smaller, Biggs, Gridley, Lodi, when
12 they look to get the biggest bang for their
13 dollars, public benefit dollars, and they look at
14 how many inefficient air conditioners they have in
15 their service territories, industrial facilities,
16 things like that that they can change out and get
17 a real bang for the buck to reduce their peaking
18 load in the summer time, they really -- I mean
19 that looks to them to be the most economic
20 decision they can make with that money. And that
21 pot of dollars is finite. It's not infinite.

22 And so while recognizing fuel diversity
23 is a good thing, when they look at that and
24 they're spending ratepayer dollars, they
25 oftentimes err on the side of conservation. And

1 as we consider renewables, perhaps we ought to
2 look at the whole package, whether it be
3 conservation or fuel diversity. Because I think
4 we're trying to accomplish perhaps two similar
5 goals, but one overarching goal, and that is less
6 reliance on the fossil fuel supply.

7 Also, and I know you're well familiar
8 with, you have utilities like Palo Alto and others
9 in northern California that have very high
10 preponderance of hydro already. Now, it's not
11 counted because it's existing large hydro. But
12 well over 50 percent, I want to say 65 to 70
13 percent of Palo Alto's energy comes from hydro.
14 Obviously a wind resource on top of that wouldn't
15 be a very reliable source of supply, given that
16 both are energy limited in nature.

17 And so there has to be some real
18 flexibility if we're going to make these
19 generic --

20 CHAIRMAN FREEMAN: Thank you very much.
21 They're going to start charging your time against
22 me.

23 CHAIRMAN KEESE: Thank you, Mr. Braun.
24 Actually, my goal -- our goal up here is to finish
25 the public comment at 12:30 and leave an hour and

1 a half for our Commissioners to ask questions,
2 make comments, and hopefully, perhaps, bring
3 people up from the audience to continue this
4 dialogue. So I hope, Mr. Braun and others, that
5 you can stay around for when our Commissioners get
6 there.

7 I have 16 more speakers. And we're
8 going to try to do it in one hour.

9 Mr. Ainsworth. Steve Ainsworth.
10 Maureen Lennon.

11 MS. LENNON: Thank you, Commissioner
12 Keese. I'm Maureen Lennon and I'm here this
13 morning representing the California Cogeneration
14 Council. I'm their Executive Director.

15 Our primary reason for being here is to
16 be publicly supportive of the effort that all of
17 you and your supporting staffs have put into
18 putting this consolidated energy plan together.

19 We've heard from many of you in
20 different forums about the challenges that you
21 face when you try to do things differently, and we
22 really appreciate the fact that you've done this.

23 I'll skip the cogeneration commercial
24 because I know you're all really familiar with the
25 benefits of combined heat and power. But one of

1 the things that we think would benefit the EAP in
2 its next iteration is to just a little more
3 explicitly recognize the place for combined heat
4 and power in the plan.

5 We're particularly pleased that the goal
6 you've already stated is so aligned with the
7 objectives of combined heat and power. Now, more
8 than ever, in these times of increasing energy
9 costs and market uncertainty, combined heat and
10 power gives you a tool to get the energy
11 efficiency and lower costs, the reduction on fuel
12 supply demand and infrastructure, and the
13 diversity that you're looking for and that you've
14 articulated in your plan.

15 One of the means you've identified in
16 here is to minimize the unnecessary increases on
17 electricity and gas demand, and then we also
18 applaud your loading order of resources that
19 you've built into here.

20 But we think that cogeneration
21 facilities are the ultimate distributed generation
22 resource and they can play a great role in meeting
23 the objectives you've already defined.

24 Another -- your point five in here is
25 about the increasing reliance and concerns about

1 California's increasing reliance on natural gas to
2 power the electric power plants. And our view is
3 that given that that's the case, all of the
4 natural gas that we do use should be used the most
5 efficiently. And as you know, if we can get two
6 uses out of each Btu of gas in combined heat and
7 power, that's better than using it for the single
8 electric power use.

9 We've come to look at combined heat and
10 power as energy recycling. We think it recaptures
11 the thermal energy as a recyclable resource; and
12 we think that this supports the objectives that
13 you've set forth in the plan.

14 We also thought that the implicit
15 benefit that you didn't articulate when you were
16 talking about self generation and company
17 generation and distributed generation is the
18 benefit from this approach of reduced need for
19 transmission facilities. And we find that in all
20 of our manufacturing companies that use
21 cogeneration, obviously you're reducing the
22 transmission requirements near there.

23 So just in summary I wanted to say that
24 at the federal level the Department of Energy and
25 the EPA have jointly set a goal to double combined

1 heat and power by the year 2010. And I wanted you
2 to consider, since California's always been the
3 leader of combined heat and power facilities since
4 the '70s when many of you up there first promoted
5 this technology in this state, I wanted you to
6 consider that in this state plan as you're going
7 forward.

8 CHAIRMAN KEESE: Thank you very much.

9 MS. LENNON: Thank you very much.

10 CHAIRMAN KEESE: We'll have Barbara
11 George, Gary Ackerman and Lee Schavrien.

12 MS. GEORGE: Good morning,
13 Commissioners. My name is Barbara George; I'm the
14 Executive Director of Women's Energy Matters.

15 When I heard there was going to be
16 another interagency meeting I was excited about
17 it. I thought that it was going to provide
18 opportunities like the one last year for a
19 refreshing conversation, and seemed to break down
20 barriers between agencies, and get some new ideas
21 out there. And that was really what I thought
22 would be a wonderful opportunity to do that again.

23 Then I saw this energy plan that was
24 attached to the notice, and I felt differently
25 about this meeting. I'm hoping that it's not

1 really a serious plan. I think that there are
2 some indications that it's not, which would be
3 really great.

4 It does give lip service to clean green
5 energy, which is something that I am very much in
6 favor of. However, it ratifies a lot of obsolete,
7 ill thought measures. And some of them are the
8 subject of current proceedings.

9 I, myself, my organization is involved
10 in two energy efficiency cases at the Public
11 Utilities Commission where incentives for utility
12 energy efficiency programs have been roundly
13 rejected. I found it astounding that this energy
14 plan would bring them back.

15 The plan has some other disturbing
16 features. It just has also some careless
17 language. I like the statement that the agencies
18 would ensure a reliable supply of natural gas. I
19 wondered if you got a chance to talk to God, along
20 with the Attorney General.

21 But the most alarming thing about it is
22 the process, or the lack of process. It says
23 California's principal energy agencies have joined
24 to create an energy action plan. We heard about
25 who was involved in creating this plan. I didn't

1 hear one public representative of a public
2 interest organization on that committee.

3 And I think that having a draft plan
4 before you've heard from any members of the public
5 is -- really doesn't make sense in this day and
6 age. There's no public process. There's no
7 evidence. There's no opportunity to give
8 testimony. There are no workshops. There are no
9 hearings.

10 The plan says implementation will be a
11 challenge, and I find that comforting. But I'm
12 really sad that this has been presented as a done
13 deal; and that what we're talking about here may
14 or may not be considered in any realistic way.
15 And I really hope that you think again about how
16 to put together a process which honors the work
17 that is being done in each of your agencies, and
18 also provides a chance for the public to give
19 their input, which I think is central for
20 maximizing the public interest.

21 Thank you.

22 CHAIRMAN KEESE: Thank you. Some
23 thought this was a public hearing for that
24 purpose, but we also have a website so that the
25 public and you can give us more response.

1 MS. GEORGE: Well, I don't consider
2 three-minute comments and an email a real public
3 process, excuse me. The energy efficiency
4 proceedings that I've been involved in have been
5 going on for a year and a half. There are many
6 things that have been discussed and brought
7 forward in testimony in that proceeding that are
8 being -- that have no -- that are just being swept
9 aside by a tribunal that is going to make
10 decisions completely away from that process.

11 So I have real problems with that. And
12 I hope you can resolve that in a way that honors
13 those other proceedings, because I think those are
14 important and they're your agencies' work. So I
15 hope you would consider them important, too.

16 CHAIRMAN KEESE: Thank you. Mr.
17 Ackerman.

18 CHAIRMAN FREEMAN: Before he speaks, I
19 don't want the record to lie barren of reaction.
20 The word draft is written very prominently in
21 front of this. An administrative agency
22 customarily starts a rulemaking proceeding with a
23 proposed rule, which is then, can be torn apart.
24 And there will be a tremendous amount of public
25 process that will follow this in the

1 implementation phase.

2 We felt an obligation to put something
3 on the table that you could tear apart. The word
4 draft is here. This is the beginning of the
5 public process. You have mischaracterized our
6 work and our intention. And I appreciate your
7 coming here and making your points, but you are
8 not in a quarrel with us about the need for this
9 to go through public processes.

10 And I just wanted you to know that we
11 hear what you're saying, but you're
12 mischaracterizing our work.

13 Thank you.

14 MS. GEORGE: Well, I appreciate your
15 comment, and I'm hoping that you will clarify what
16 the public process is, because three minutes and
17 an email --

18 CHAIRMAN FREEMAN: I just did.

19 MS. GEORGE: -- doesn't constitute what
20 I consider a public process, a legitimate public
21 process.

22 CHAIRMAN KEESE: Well, you're joining
23 nine of our fellow Commissioners who are seeing
24 this for the first time, also.

25 Mr. Ackerman, please.

1 Commissioner Wood.

2 COMMISSIONER WOOD: I have just a
3 comment to Ms. George's comments. I think perhaps
4 some of my colleagues have been a little bit harsh
5 here because in a lot of respects she's reiterated
6 what Mr. Florio stated earlier, which is simply a
7 concern over that we not bypass process.

8 And that issues that are before our
9 respective agencies that are in a litigation mode
10 be accorded the appropriate due process. And that
11 they not be prejudged here. And that's certainly
12 my intention, as well.

13 We're not only bound by a moral and
14 ethical obligation to the people of the state, but
15 we're bound by statute, as well, at least at the
16 Public Utilities Commission, to fairly litigate
17 issues; to invite the presentation of evidence and
18 comments; and to consider that in good faith in
19 forming our decisions. And not to prejudge those
20 decisions in any other forum, including this one.

21 I think that the usefulness of this
22 forum is precisely the opportunity to do some
23 intellectual cross-fertilization among the
24 agencies; to discuss openly and before the public
25 issues at a high level; and take that conversation

1 and discussion and use it to inform our judgments
2 in assessing the cases that are before us, before
3 our respective agencies.

4 So, hopefully that will be the outcome
5 here. That your participation in two of our
6 proceedings will not be short-cutted by this
7 proceeding, but, in fact, will be perhaps enhanced
8 by it.

9 MS. GEORGE: Thank you so much.

10 MR. ACKERMAN: Thank you, Mr. Chairman.
11 My name is Gary Ackerman. I'm thankful for four
12 minutes any time I get it, anywhere, anyplace.

13 I'm also Executive Director of the
14 Western Power Trading Forum, a nonprofit
15 California trade association dedicated to
16 enhancing competitive energy markets in the
17 western states.

18 We're very pleased to offer these
19 comments to the joint California energy agencies
20 that participated in the development of the draft
21 energy action plan released two weeks ago.

22 WPTF strongly supports the effort of the
23 joint agencies to provide a roadmap for
24 California's energy future. If it's done right
25 then, and now I'm going to quote from your own

1 plan, "actions will help attract private
2 investment into California's energy infrastructure
3 to stretch and leverage public funds and consumer
4 dollars."

5 In short, you folks are the chefs, we're
6 one of the ingredients. WPTF believes that the
7 best future for California is one where consumers
8 to not have to put up their dollars to build
9 energy infrastructure when private entities are
10 willing to take those same risks. The caution, of
11 course, if the rewards are equitably fashioned.

12 As noted in your draft plan, quoting
13 again, you intend to use market forces and
14 regulatory approaches to operate the system in the
15 best long-term interest of the public, the
16 consumers, the ratepayers and the taxpayers.

17 WPTF wholeheartedly endorses this tenet,
18 and very much wants to be engaged in the public
19 process. We are committed, as you are, to working
20 with federal government agencies to redesign
21 market rules and prevent manipulation of the
22 energy markets. Positive results will occur only
23 when all parties, that's state and federal and
24 commercial, work together.

25 The best action plan will come about as

1 a result of mutual trust and cooperation. Without
2 such the stagnant remains of the energy crisis
3 will impede everyone's efforts to improve
4 California's energy outlook.

5 WPTF believes that when suppliers
6 compete for the right to develop new power plants,
7 to build transmission facilities and serve retail
8 customers then consumers are afforded the most
9 favorable deal. Competition forces prices down
10 without the burden of regulatory oversight to make
11 the same thing occur if profit-motivated utilities
12 are granted exclusive rights to do the same.

13 Therefore, in order to achieve the
14 numerous objectives in your draft, including
15 adding new resources in the state at a rate of
16 1500 to 2000 megawatts per year, we endorse
17 competitive solicitations that are open,
18 transparent and give rise to long-term agreements
19 that are binding upon the seller and the buyer.

20 As noted in the soon to be released
21 study by my group, competitive wholesale markets
22 produce prices that fluctuate far more than
23 consumers are willing to accept. Yet, also,
24 produces lower average prices that consumers
25 enjoy.

1 Power trading smoothes the apparent
2 conflict between the price fluctuations and the
3 consumers' desire for lower prices, and that
4 function is called risk management. Trading
5 allows third-party risk takers to purchase risk
6 from consumers for a fee, much like insurance
7 companies, offer its services to hedge against
8 unwanted consequences.

9 We encourage California's principal
10 energy agencies to consider when and where power
11 trading best fits into your action plan.

12 By its absence in the draft energy
13 action plan, WPTF also notes any discussion
14 regarding direct access and retail competition.
15 The membership of WPTF includes entities that
16 currently serve retail load in California. And it
17 is widely held by WPTF that a market composed of
18 many buyers and sellers provides the best
19 assurance for consumers to receive the lowest
20 average price for energy.

21 WPTF believes that the suspension should
22 be lifted on retail choice with respect to
23 electricity. It also believes that all load-
24 serving entities, whether regulated utilities or
25 competitive energy service providers, should carry

1 their fair share of the reserve margins as
2 necessary to assure grid reliability.

3 In closing, the Public Utilities
4 Commission, the Energy Commission and the Power
5 Authority should be congratulated on undertaking
6 the effort to develop an energy action plan and
7 WPTF looks forward to working with the California
8 agencies in creating a comprehensive plan that is
9 acceptable to your constituents and achieves your
10 worthy objectives.

11 Thank you.

12 CHAIRMAN KEESE: Thank you very much.
13 Lee Schavrien, followed by Mike Evans and then
14 Bill Campbell.

15 MR. SCHAVRIEN: Thank you for the
16 opportunity to comment. My name is Lee Schavrien;
17 I'm the Vice President of Regulatory Affairs for
18 Sempra Energy Utilities.

19 Sempra Energy Utilities applaud the
20 efforts of the three state agencies to craft a
21 comprehensive plan to guide the state out of the
22 energy market chaos of the past few years.
23 Adequate, reliable and reasonably priced
24 electrical power and natural gas supplies for
25 California's consumers are laudable goals and we

1 support those.

2 SEU welcomes the development of an
3 interrelated and coordinated policy decisions. We
4 hope that this effort will result in joint policy
5 decisions that will be endorsed and supported by
6 the Governor and the Legislature.

7 I would like to address several comments
8 in the energy action plan. The first one is that
9 we do endorse the continued emphasis on energy
10 conservation, resource efficiency and demand
11 response as a key component of the state's energy
12 policy. Both SDG&E and SoCalGas have long been
13 active proponents and participants in the state's
14 energy conservation programs, and have been
15 working to develop additional demand response
16 programs in current proceedings.

17 Recent state regulatory actions that
18 have diminished the utilities' rules have hampered
19 the efficient delivery of energy efficiency
20 services. The utilities must be placed in a
21 leadership role once again if the state wants to
22 achieve its energy efficiency goals that are set.

23 We agree with the plan's conclusions
24 that utilities should be incented to pursue all
25 cost effective energy conservation and demand

1 response.

2 Secondly, we recognize the state's need
3 for additional generation resources and we believe
4 that the utilities may be a part of the solution
5 to the problem. But what are the rules?

6 In 1996 the CPUC lowered our return on
7 equity for our gas-fired generation to 7 percent.
8 What rate would be allowed today? If the answer
9 is that it would be the rate that we're currently
10 authorized today, I'd point out that our return on
11 equities today have been lowered because we are no
12 longer in the risky generation business. And what
13 will the reasonable test be, and how will it be
14 applied? What assurances of recovery would we
15 have?

16 Before the utilities would be willing to
17 consider re-entering the generation businesses the
18 rules under which we would recover our investments
19 and earn returns for our shareholders must be well
20 understood. We urge that you address this as soon
21 as possible.

22 Third, we concur with the need for new
23 transmission projects to move power from point of
24 generation to load centers. Recently SDG&E
25 proposed one such project, the Valley Rainbow

1 Interconnection. Despite the ISO's finding of a
2 need for the project, and the support of a huge
3 coalition, it was recently rejected by the
4 Commission. Such projects are important to
5 meeting the energy action's plans and goals of
6 adequate, reliable and reasonably priced
7 electrical power for consumers in SDG&E's service
8 area.

9 For example, the energy action plan's
10 quest to encourage and promote the increased use
11 of clean, renewable generation cannot be fully
12 achieved in our service area without the Valley
13 Rainbow Interconnection.

14 And, in closing, we support the further
15 development of the document into a clearly
16 articulated plan of action for the state's energy
17 future. The energy action plan is a thoughtful
18 summary of most of the issues that define
19 California's energy situation today. But
20 unfortunately, the devil is in the details as to
21 whether these actions can solve our current
22 problems.

23 To be usable as a guide to all of the
24 affected parties more detail must be developed,
25 including a clear delineation of how the state

1 agencies are going to assure a coordinated set of
2 actions and policies among themselves.

3 When completed, such a document will go
4 a long way towards assuring public concerns,
5 investor jitters and business decision makers
6 nervousness about the future of California's
7 energy markets and the economic attractiveness of
8 our state.

9 Thank you.

10 CHAIRMAN KEESE: Thank you very much,
11 and I will say you have pointed the finger at
12 exactly what we recognize our future problem is.
13 It's a daunting task ahead of us.

14 Mr. Evans.

15 MR. EVANS: My name is Mike Evans; I'm
16 with Shell Trading, and I have a handout that's
17 being passed across. And I'll refer to the five
18 pages of PowerPoint presentation.

19 CHAIRMAN KEESE: Thank you.

20 MR. EVANS: And it's also available in
21 the back on the table for the people in the
22 audience.

23 Thank you, Commissioners, for allowing
24 me to provide this input to your draft energy
25 plan. We're encouraged to see a collective effort

1 to address for a long-term, sustainable energy
2 infrastructure.

3 Page two, please. The draft energy plan
4 identifies at least three new vital transmission
5 corridors which need immediate expansion. Path
6 15, the link between Palo Verde and Devers, and
7 the interconnection with the Tehachapi wind
8 resource area.

9 We are asking the agencies to understand
10 the importance of another critical transmission
11 project. The IV-Devers 500 kV backbone completion
12 project will provide access to important
13 geothermal renewable resources in the Imperial
14 Valley; and also provide access to new generation
15 resources.

16 Of importance, to meet the State of
17 California RPS goals, we need to add the
18 equivalent of 3400 megawatts of geothermal
19 generation resources and 5000 megawatts of wind or
20 photovoltaic resources. These quantities can
21 justify bulk transmission upgrades, and will
22 likely not develop without those bulk upgrades.

23 For your reference we have brought the
24 importance of this line to the attention of the
25 Utilities Commission in the AB-970 proceeding on

1 January 14th of this year, and we continue to move
2 the line forward to the southwestern transmission
3 expansion planning process, or STEP process.

4 Page three, please. As you see on the
5 map the IV-Devers line has the ability to access
6 both new generation connected directly to Imperial
7 Valley substation, as well as to provide for the
8 transmission of energy from geothermal resources
9 through the Devers substation.

10 Further, with new series capacitors
11 proposed for the existing lines between Arizona
12 and California which will create additional
13 transmission capacity between 400 and 700
14 megawatts there's further need for an IV-Devers
15 cross-over.

16 We've done preliminary flow studies as a
17 model to a basic transport model. Additional
18 transmission capacity from IV's -- from Imperial
19 Valley into SCE service area appears economic,
20 based on a reduction in the SP-15 market clearing
21 price.

22 We proposed the IV-Devers line as a
23 solution which has a routing which is less complex
24 from a land issues point of view; as a shorter
25 distance than some other options, and thus lower

1 constructions costs. And can connect renewable
2 resources to load.

3 Page four, please. Most geothermal
4 resources are either depleting, in the case of
5 Geysers, or distant from load centers, often
6 blocked by the Sierra Nevada Mountains. In the
7 case of the Imperial Valley area there's at least
8 1700 megawatts of undeveloped geothermal
9 generation.

10 Page five, please. What can you do?
11 Congestion within zones was expected to be
12 upgraded by load participants. This has not
13 happened, and this will not happen. Price-driven
14 expansion doesn't work for numerous reasons,
15 including freeriders in the lumpy nature of
16 transmission upgrades; flat rolled in rates
17 resulting in no price signals to buyers; and the
18 complex process of defining incremental FTR rates.

19 The regulatory approval process needs to
20 be addressed. At present, jurisdiction is unclear
21 and overlapping.

22 In conclusion, to bring generation and
23 renewable resources to load, the agencies should
24 together support a transmission line, possibly a
25 double circuit, from IV to Devers. We are

1 confident that if you look at the southern
2 California region as a whole you will come to a
3 similar conclusion, that the IV-Devers 500 kV
4 backbone completion project is one of the most, if
5 not the most, important transmission projects in
6 the state.

7 Thank you very much.

8 CHAIRMAN KEESE: Thank you. Appreciate
9 the input. Senator Campbell.

10 SENATOR CAMPBELL: Good morning, Mr.
11 Chairman and distinguished members of this august
12 interagency panel. It's a pleasure to be with you
13 this morning. I would like to say beforehand that
14 I want to congratulate you on selecting the PERS
15 Board room in which to hold this meeting. It is
16 obviously one of the nicest hearing rooms in the
17 State of California. Great wisdom on your part.
18 I hope you continue it if you hold further
19 meetings here.

20 I'd like to say that I want to reject
21 the policy of the PUC that says one should not
22 take a lunch break. I have never missed a lunch
23 break in my life that I can remember.

24 (Laughter.)

25 SENATOR CAMPBELL: Mr. Chairman, as we

1 are gradually approaching an hour, so, Mr.
2 Chairman, in the interest of that, I will try to
3 engage in a de-escalation of the rhetoric here
4 this morning.

5 I have three or four questions that I'd
6 like to ask, and rather than ask you to respond at
7 this time, if sometime during your own up time you
8 have the opportunity to do that I would appreciate
9 that.

10 On page 2 of the action plan -- and by
11 the way, let me congratulate you for the action
12 plan. It's taken a lot of work and a lot of
13 effort, and a lot of interagency cooperation. And
14 that doesn't come easy, and I want to congratulate
15 you all for that.

16 On page 2 of the action plan you make
17 the statement about promoting customer and
18 utility-owned distributor generator -- distributed
19 generation. The question that we have is does
20 this include municipals, or just investor-owned or
21 both?

22 And also on page 2, you say that the
23 state should license, and where new energy
24 facilities are consistent with the reliability
25 economic public health and environmental needs of

1 the state. Does this mean that they will also
2 facilitate expanding, permitting and funding or
3 expediting permitting and funding of these types
4 of projects such as the Chino Organic Power,
5 Incorporated, which I represent today? And
6 renewable energy digester projects? And if so,
7 how.

8 And in section two of the five action
9 items, points one and two are kind of the same
10 questions as the previously asked question.

11 And thirdly, will the state develop
12 and/or -- of these, or will the private
13 independent operation companies be expected to
14 perform this role?

15 And in section four of the five action
16 items, point number two calls for the exemption of
17 the exit fees from clean technologies until they
18 total 1 percent of the total instate generation
19 market. And does this include biogas projects
20 such as Chino Power, and why only 1 percent?
21 That's a small number and it will -- especially
22 when you consider that the RFS state calls for a
23 20 percent renewable project.

24 Those are the questions we have, Mr.
25 Chairman and Members, and thank you for the

1 opportunity of being with you this morning.

2 CHAIRMAN KEESE: Thank you, and I trust
3 that you'll hear an answer.

4 SENATOR CAMPBELL: Thank you.

5 CHAIRMAN KEESE: I hope you don't fade
6 away without lunch.

7 SENATOR CAMPBELL: If anybody's like to
8 come pick up the tab, it would be greatly
9 appreciated, for lunch.

10 (Laughter.)

11 CHAIRMAN KEESE: Joshua English,
12 followed by Jennifer Wada and Lynette Deverre.

13 MR. ENGLISH: Hello, my name is Joshua
14 English. And I am a Davis resident. I'm not a
15 very astute in the energy markets or in the energy
16 field, however I do sit on the Citizens Task Force
17 on Energy Issues in Davis. And I publish an
18 internet magazine called PublicPowerNow.

19 And my comments this morning are
20 entirely my own, and they do revolve around the
21 issue of what I think is a glaring omission from
22 the action plan, and that is a discussion of the
23 role that public power could play in our energy
24 future here in California.

25 We have, in this great city right here,

1 alone, a very great example of what those benefits
2 are. And some of the representatives from some of
3 the utility companies mentioned something that I
4 think should speak volumes to you, and that is the
5 issue of shareholders being rewarded.

6 And I might argue that in a public power
7 district or in a municipal utility that the
8 shareholders, being the ratepayers, that is a more
9 viable option for California's energy future.
10 Whereas, Sempra Energy or Dynegy or any other
11 power provider, their shareholders may be in
12 Timbuctoo, we don't know where they live.

13 And I am very Californiacentric. I was
14 born and raised here, and I love this state. In
15 Davis we are attempting to annex with SMUD. And I
16 think some of the impediments that municipalities
17 face with regards to trying to municipalize the
18 energy system, I think, are something that this
19 panel should consider.

20 And also I think it's very important to
21 also point out that leadership on behalf of
22 profit-driven power providers in energy
23 efficiency, I think is allowing the fox to guard
24 the henhouse. If an energy provider wants to get
25 that bottom dollar for their shareholders, they're

1 not going to strongly invest in energy efficiency.

2 And I don't think there is any proof,
3 and I challenge anybody in the audience that is
4 from a power provider, to offer up any tangible
5 proof that their energy efficiency programs have
6 resulted in anything substantial. And I think that
7 third-party providers are a much more viable
8 option for that.

9 I would just encourage this panel, all
10 of the agencies involved, to strongly consider the
11 role that statewide public power can provide.

12 I'd just like to point out that in
13 bankruptcy PG&E has offered up millions and
14 millions of dollars of bonuses to their
15 executives. And I think that this is what causes
16 the imbalance when it comes to the discussion on
17 energy issues. In that if we had public power I
18 think we could eliminate those greedy grabs.

19 In fact, just last week they okayed over
20 \$57 million of bonuses to their executives for
21 performance, reaching 2002 performance goals. In
22 turn, they put out a press release about that, and
23 I thought it was very poignant where they pointed
24 out that if their performance goals were to engage
25 in the losing legal strategy that is now costing

1 \$1 million per week, and also pretty much gutting
2 their own business by transferring money up to a
3 parent corporation that has no regard for our
4 California energy markets, I think to allow this
5 type of behavior to go on for such an essential
6 public service as electricity that everybody uses,
7 we have no choices.

8 And an essential public service, as FDR
9 stated in his 1932 speech in Oregon when he was
10 running for president, he stated that it was very
11 important for the people to own things that are of
12 such essential service to the public.

13 Thank you very much.

14 CHAIRMAN KEESE: Thank you, Mr. English.
15 Jennifer Wada, please.

16 MS. WADA: Thank you, Mr. Chairman and
17 Members, it's a great opportunity to be able to
18 testify before you today. My name is Jennifer
19 Wada and I'm representing the California
20 Independent Petroleum Association.

21 We are a nonprofit association dedicated
22 to representing the interests of natural gas
23 producers and independent oil producers throughout
24 the state.

25 We would strongly support your joint

1 efforts in creating an energy action plan and
2 thank you for being proactive in that venture.

3 We believe that more focus and effort
4 should be placed on utilizing instate energy
5 resources as a way of meeting our needs, rather
6 than being overly dependent on out-of-state
7 supplies. CIPA strongly supports the joint
8 agencies' focus on customer generation, and
9 believes an intense focus should be placed on
10 encouraging the continued development of customer
11 gen, and putting in place a series of rules and
12 regulations that allow it to be viable.

13 California's independent producers are
14 uniquely situated to help the state by
15 incorporating customer gen into our operations.
16 Many of our units can be run off flared or wasted
17 gas which does accomplish goals of cleaner DG.
18 Our operations are extremely reliant on
19 electricity because of air quality regulations in
20 California. This makes us some of the heaviest
21 users of electricity in the state. And it amounts
22 to the single highest operating costs for most
23 independent producers.

24 By incorporating customer gen into our
25 operations not only can we reduce the strain on

1 the grid, but we can also help diversity the
2 state's electricity portfolio. If the rules are
3 structured in such a way as to allow customer gen
4 to be a viable tool, independents will be able to
5 lower their operating costs and continue to make
6 investments in finding new energy reserves and
7 operating marginal wells that would otherwise be
8 shut in.

9 The state should be encouraged to make a
10 final determination on the exit fee rules
11 surrounding customer generation. Until such time
12 as the rules and projected costs are firmly
13 established, companies are stuck in a perpetual
14 planning phase.

15 The joint agencies should also focus
16 more attention on encouraging the development of
17 more instate natural gas production as a way of
18 meeting our needs. California has some of the
19 most prolific reserves of the lower 48 states.
20 Over 4 trillion cubic feet of onshore reserves are
21 estimated to exist, while the west coast of the
22 United States is expected to hold over 23 trillion
23 cubic feet in reserves.

24 In closing, CIPA would just like to
25 commend you all in being proactive in your efforts

1 and hopes that more developed DG and instate
2 natural gas production will be part of that plan.

3 Thank you.

4 CHAIRMAN KEESE: Thank you very much.

5 CHAIRMAN FREEMAN: I have one question.

6 Do you have any suggestions, other than what
7 you've made, to increase natural gas production in
8 California? You mentioned customer gen, and
9 that's one thing. But we have a huge market for
10 natural gas. Do you have any suggestions for
11 giving additional incentives, or something else to
12 get more local production of natural gas? If
13 there's 4 trillion cubic feet --

14 MS. WADA: Right, --

15 CHAIRMAN FREEMAN: -- the general
16 impression is that the gas resource in California
17 is thin and not capable of much expansion. Do you
18 have a different point of view?

19 MS. WADA: Well, you know, I think one
20 tool that we do have, and as we mentioned,
21 customer generation. A lot of the times some of
22 these marginal wells or gas that is pulled up from
23 the ground but is considered waste or stranded
24 gas.

25 What we have suggested is this gas has

1 been flared into the air which causes air
2 pollution. It --

3 CHAIRMAN FREEMAN: It would be helpful
4 if you could quantify what additional resource. I
5 mean this is a serious problem.

6 MS. WADA: Right.

7 CHAIRMAN FREEMAN: You have a teaspoon
8 of a solution, that's one thing. But if you have
9 a great big bucket of a solution, we'd like to
10 know about it.

11 MS. WADA: Great. I'll be sure to get
12 that to you.

13 CHAIRMAN FREEMAN: Thank you.

14 CHAIRMAN KEESE: Thank you.

15 MS. WADA: Thank you.

16 CHAIRMAN KEESE: We have seven lucky
17 speakers left. Lynette Deverre, followed by
18 Stephen Torres and Tracy Seville.

19 MS. DEVERRE: Good morning. My name is
20 Lynette Deverre and I'm with the Greater Fresno
21 Area Chamber of Commerce. My position there is
22 Executive Director of our Economic and Development
23 program called rapid response.

24 I'm here today not necessarily to tell
25 you what you're doing wrong, but what we have been

1 doing right. And to speak in support of item 15
2 of the action plan, which is optimizing energy
3 resources efficiency and conservation.

4 And I'm speaking specifically to
5 bringing that assistance to small business in the
6 name of job generation and job retention for the
7 local community through energy conservation.

8 A component of the rapid response
9 program at the Fresno Chamber of Commerce has been
10 an energy efficiency program that we've been
11 operating for the past two years. I'm here to
12 speak to you a little bit today about that
13 program, what our outcomes have been so far. And
14 what the future, the bleak future, holds for that
15 program because of local and state budget issues.

16 This program, energy efficiency program
17 has been functioning on funds from the local
18 Fresno Workforce Investment Board for the purpose
19 of job retention, and the California Energy
20 Commission through SB-5X grant funds. The
21 program, to date, has been very successful.

22 From the start of the SB-5X grant in the
23 summer of 2001 to the current phase of the grants,
24 we've reduced the kW demand for small and medium,
25 hard to reach businesses by over 1.5 megawatts.

1 The program was designed to target hard to reach
2 and the traditionally under-served markets.
3 Markets that the IOUs had not been able to reach.

4 The Chamber's energy efficiency program
5 works well because the Chamber speaks the business
6 language, the language of business. We understand
7 that small and medium sized business owners do not
8 have the time, the energy or the capacity to
9 navigate their way through the current
10 retrofitting programs, the rebate programs that
11 are out there.

12 What we do through our program is bring
13 the program to them, not just to educate them, but
14 to also help them with implementation. What we've
15 developed is a turnkey program that delivers state
16 of the art technology and quality product.

17 The savings to the state that are
18 measured in kW demand reduced and the CEC grant
19 coordinator verifies them. Our results are 1.5
20 megawatt demand reduced, over 4 million kilowatt
21 hours removed from the California electric system,
22 and a savings to customers of over \$500,000.

23 We've been inspected several times and
24 each time the program has received excellent
25 reviews. In fact, the reviews have been so good

1 that the California Energy Commission is now
2 utilizing our program as a case study to present
3 to other programs as a model. For that we are
4 very grateful to the CEC for giving us the
5 opportunity to be that successful.

6 What I'd like to do is take a moment to
7 differentiate our program from other energy
8 efficiency programs that are operating and funded
9 throughout the state.

10 Our program points out actual -- our
11 program accomplishes actual, not potential,
12 showing a peak load reduction upon the conclusion
13 of each interaction with participating business
14 customers. We're also able to demonstrate job
15 retention for the immediate reduction of the fixed
16 costs of doing business, which is the most
17 difficult and expensive cost reduction measures
18 for a small or medium size firm to accomplish.

19 Our program overcomes the most difficult
20 challenge faced by small and medium sized business
21 firms when considering energy conservation project
22 implementation. The reluctant to investment of
23 upfront capital into energy efficient
24 technologies.

25 And specific to Fresno County, our local

1 Air Pollution Control District has recently been
2 designated an extreme nonattainment region.
3 Resulting permit regulations make it very
4 difficult for competing alternatives to energy
5 efficiency, such as DG, to be implemented. This
6 emphasizes the need for energy conservation
7 programs.

8 There's still a strong need for this
9 type of program in the San Joaquin Valley. This
10 brings me to the reason why we are here today.
11 The program has funding through the end of May,
12 but beyond that we're terminal. Again, I
13 reiterate, state and local budget issues are
14 putting an end to the program.

15 This program is accomplishing all of the
16 goals that the State of California has determined
17 are important to the long-range health and supply
18 of the demand for energy electric customers. This
19 program is serving those customer market segments
20 that have been underserved and hard to reach in
21 the past. And more importantly, this program has
22 the support and help of our host area utility,
23 PG&E.

24 Of the programs that were funded for the
25 State of California by the CPUC in the last grant

1 solicitation there were minimal funds allocated to
2 the San Joaquin Valley. In case you are
3 wondering, we did submit a grant proposal during
4 the last grant cycle.

5 If our program had been accepted we
6 would have had results equaling around one
7 megawatt of demand reduction with an estimated 2.8
8 million kilowatt hours of energy usage reduced.
9 The cost to the State of California would have
10 been estimated at just over \$400 per demand
11 reduced.

12 I come to you today because we are
13 asking for your help. There is an extreme need
14 for the small and medium sized business community
15 to learn about these programs and implement them
16 and they need assistance with that. So I leave
17 you today with the question of who is here to help
18 and who can help specific to small businesses and
19 the San Joaquin Valley.

20 Thank you.

21 CHAIRMAN KEESE: Thank you very much.
22 Stephen Torres.

23 COMMISSIONER PERNELL: Mr. Chairman, if
24 I just might comment briefly. I've always argued
25 that the conservation and energy efficiency

1 program is an economic driver. And the previous
2 witness has substantiated that.

3 And I can assure you that we will
4 continue to look for opportunities to help fund
5 efficiency programs, and especially with small
6 businesses.

7 So I just want to thank you for coming
8 and articulating the success of your program.

9 CHAIRMAN KEESE: Thank you. Mr. Torres.

10 MR. TORRES: Yes, good morning, Mr.
11 Chairman and Commissioners. On behalf of Fuel
12 Cell Energy I would like to submit the following
13 comments on the draft energy action plan being
14 developed by the subcommittee.

15 As background information let me just
16 say that I work for Fuel Cell Energy. Fuel Cell
17 Energy is a manufacturer of nearly 50 percent
18 efficient, near zero emissions power plants, fuel
19 cell power plants for commercial and industrial
20 applications in the 250 kilowatts to 1 megawatt
21 range. They are commercially available today.

22 We're also a member of the California
23 Fuel Cell Manufacturers Coalition, a group that
24 advocated for stationary fuel cells here in the
25 State of California. So my comments today are

1 relevant to the fuel cell industry in general.

2 First of all, let me just say that we're
3 very encouraged by the fact that the action plan
4 calls for promoting customer- and utility-owned
5 distributed generation. We would like to point
6 out that near zero emission generation
7 technologies like fuel cells can also stand now
8 ready to play a role in insuring the reliable,
9 affordable electricity generation for the state.

10 Specifically as the subcommittee
11 deliberates over the specific actions to take on
12 how to ensure this reliable and affordable power,
13 you have an opportunity to incorporate this zero
14 or near-zero emission technology as part of new
15 generation resource projects to be considered for
16 permitting and financing.

17 We feel that this blended approach of
18 cost effective traditional central generation
19 technologies with new higher capital costs, zero
20 or near-zero emission technology like fuel cells
21 might prove out to be one of the most effective
22 mechanisms these agencies can undertake in
23 promoting this new environmentally sound
24 distributed generation technologies.

25 We also want to highlight or point out

1 that not all distributed generation was created
2 equally. And encourage the subcommittee to
3 consider the emissions and the efficiency
4 characteristics of these technologies when setting
5 strategies, policies and incentives.

6 Specifically, the Legislature, through
7 SB-1038, has expressed its desire for state energy
8 agencies to consider, as I say, energy efficiency
9 and emissions performance to encourage early
10 compliance with air quality standards established
11 by the state Air Resources Board for ultraclean
12 and low emissions distributed generation.

13 We feel that this ultraclean definition
14 contained in SB-1038 provides the subcommittee
15 with a framework for defining eligibility of
16 distributed generation technologies for incentives
17 and other programs developed by the subcommittee
18 and of the three agencies aim at promoting the
19 cleanest of these technologies.

20 So, in closing, we want to point out
21 that fuel cells is an emerging technology, face
22 the usual first costs and market acceptance
23 challenges associated with new technologies. The
24 fuel cell industry in California needs a
25 comprehensive approach from all three agencies t

1 promote this technology. This comprehensive
2 approach must align the agencies' regulatory rate
3 policies with the incentive programs and financing
4 authority towards promoting a wide deployment of
5 fuel cells in the State of California.

6 Fuel Cell Energy fully supports the
7 joint efforts being undertaken by these three
8 agencies in the draft energy action plan. We look
9 forward to working with the subcommittee and the
10 three agencies to provide the State of California
11 with highly efficient and clean direct fuel cell
12 technology based energy solutions in the near
13 future.

14 CHAIRMAN KEESE: Thank you very much.
15 Tracy Seville, followed by Mr. Wong and then Peter
16 Weiner.

17 I'm having proliferation of cards here.
18 I'm going to ask that we go down to three minutes,
19 if you don't mind.

20 COMMISSIONER: No, don't do that.

21 CHAIRMAN KEESE: Don't do that? All
22 right. A very efficient four minutes, how's that?

23 MS. SAVILLE: I have provided copies of
24 both the cover letter, which in bullet points,
25 define my comments, which I have actually amended

1 in the actual text of the plan, for you; and I'm
2 also providing copies of that electronically to
3 each agency.

4 Good afternoon. My name is Tracy
5 Seville, Vice President in charge of Regulatory
6 and Governmental Affairs and New Technology
7 Business Development for a company called
8 RealEnergy. We're a three and a half year old
9 owner/builder/designer and operator of clean
10 combined heat and power primarily distributed
11 generation on commercial/industrial/institutional,
12 and we're also aggressively looking at the
13 dairy/ag market in the digester cogeneration.

14 All of our generation assets that are
15 owned and operated today, which exceed 22
16 megawatts, in Oregon and California primarily,
17 that's in California exceed current 2003 CARB and
18 AQMD standards and are getting pretty close to
19 achieving ultraclean, but we're not quite there
20 yet.

21 I want to just highlight a few things.
22 One of my main questions coming into today was I
23 hope to come away with an answer about what really
24 will be the process and the inter-relationship
25 among and between the CEC's integrated energy

1 resource planning report and process; this energy
2 action plan; the roles, both statutorily, as well
3 as functionally of each of the agencies; and how
4 you will move forward.

5 I was comforted to hear that this really
6 in my view today answers my question that this
7 energy action plan, your efforts today are an
8 intellectual cross-fertilization based upon a
9 desire to be explicit in committing to principles
10 and goals.

11 I do believe that I see that you are
12 committed to coordinating the plan with the
13 integrated energy resource plan, and then
14 actualizing what you can come to agreement on, and
15 implement those through your respective
16 proceedings, guided by your statutory obligations
17 and process. And I think that's an excellent
18 answer to that question for me.

19 I won't go into detail because I think
20 I've been very detailed in the comments that I
21 provided for you, both within the draft and the
22 cover letter, as numbers one through seven of my
23 comments.

24 I want to say three primary points,
25 however. I believe that providing for explicit

1 and customer-owned distributed generation is, in
2 fact, not conventional wisdom. That's part of our
3 resource plans as part of our demand reduction
4 investments.

5 I believe that realigning our energy
6 resource goal system, systems mechanism and rules,
7 on the principle of the loading order that you've
8 laid out in the plan is prudent, and it's sound
9 and it's grounded.

10 I especially believe that if you add a
11 methodology of thinking about the least cost, most
12 reliable, most efficient and greatest cost
13 effective environmental benefits, in addition to
14 that loading order you will have done your jobs,
15 in my view.

16 I echo the reminder that maximizing the
17 potential of CHP, or the dual benefits of CHP, is
18 an important action toward our natural gas
19 strategies for the issues that we need to address
20 there.

21 I also believe, and congratulate you,
22 for identifying the need to immediately define and
23 identify the cost and benefits and performance
24 ability and standards of distributed generation.

25 And finally, both a request and then a

1 comment. I would ask that you consider talking
2 with your colleagues at CARB to see if they could,
3 in fact, accelerate immediately their assessment
4 of technologies from 2005 to now, so that you can,
5 in making decisions relative to distributed
6 generation, have founded and principled data with
7 regard to cost. That conversation needs to be
8 had.

9 And that goes to, of course, my inherent
10 philosophical support that if we could all be
11 meeting ultraclean or better, as defined by the
12 2007 CARB emission standards, and as guided by the
13 SB-1038 language last year, revolved around CHP
14 and a higher efficiency of 60 percent higher
15 heating value, we should all be doing that and
16 better.

17 But I think we also need to be realistic
18 about how far between are the current clean CHP
19 technologies that meet current CARB standards; how
20 far do we need to go; what could we do to invest
21 in making more rapid the increasing performance of
22 these technologies.

23 And finally that any adjustments into a
24 performance-based rate structure, which I believe
25 should be done, should be done to increase levels

1 of incentives beyond those set in today's
2 programs. I don't believe that you should
3 consider taking any incentives away from any
4 technologies that are currently eligible, either
5 under the CPUC or the CEC program.

6 But I do believe you should set in
7 annual increments toward 2010, percentage
8 increases of what you should invest in for clean
9 versus ultraclean and low emission. And provide a
10 step glide-path toward our objectives.

11 I think that that's my primary points,
12 and I've expanded on some of those thoughts in my
13 comments as submitted. I appreciate very much the
14 opportunity to talk with you today.

15 And also, want to make sure you know
16 that I am also representing about 15 other members
17 that are end-use customers, manufacturers and
18 developers and owners in the California Clean DG
19 Coalition. And I will provide a list of those
20 members in my electronic comments.

21 Thank you.

22 CHAIRMAN KEESE: Thank you, Ms. Saville.

23 COMMISSIONER PERNELL: Thank you.

24 CHAIRMAN KEESE: Mr. Eric Wong. Just by
25 the bye, my first Advisor at the Energy

1 Commission. Trained me in everything that I know
2 today. Mr. Wong, some more enlightenment, please.

3 MR. WONG: Oh, thank you, Chairman
4 Keese. My name is Eric Wong; I work for Cummins
5 West, a distributor for Cummins, Inc. We have the
6 northern two-thirds of California and the State of
7 Hawaii as our sales territory.

8 I'm going to cut to the chase to
9 hopefully save some time here, and speak
10 specifically, and this has been addressed by
11 previous speakers, to Senate Bill 1038, which is
12 embodied in Commissioner Peevey's and Kennedy's
13 proposed alternate decision. And this addresses
14 the ultraclean and clean definition.

15 I'm here to tell you today that to my
16 knowledge there is no commercially proven
17 combustion engine technology with after treatment
18 in CHP mode that can meet the 2007 car standards
19 for NOx. Either today or by December 31, 2005.

20 I think this is a serious issue because
21 we're talking about customers that are in the 100
22 kilowatt to roughly 5 megawatt range. This covers
23 a lot of the small commercial and industrial
24 customers that I sell to. And incidentally, we
25 expect to have 25 to 30 megawatts, all broken

1 apart, to this different sized categories, that
2 would install CHP. Again that would not meet the
3 2007 standard.

4 To echo what Tracy Saville just spoke
5 to, our recommendation is that the PUC -- the
6 decision by Commissioners Peevey and Kennedy
7 recommend that you have some sort of placemark in
8 there that CARB and air districts conduct, in
9 consultation with the industry, a technology
10 review that narrowly focuses on combined heat and
11 power.

12 The objective would be to determine
13 appropriate criteria for NOx consistent with
14 proven technology that is available today and will
15 be available in the near future.

16 That's the extent of my comments.
17 Thank you very much.

18 CHAIRMAN KEESE: Thank you, Mr. Wong.
19 Peter Weiner. Followed by Pat vanMidde and Kent
20 Kauss.

21 MR. WEINER: Thank you, Mr. Chairman. I
22 also want to offer congratulations to Mr.
23 Chairman, Mr. Chairman, Mr. President and Members,
24 for a job very well done. And special
25 congratulations to President Peevey.

1 I would like to talk today to some
2 extent about biomass, but my remarks are a bit
3 more general. First, with regard to the EAP,
4 itself, and its structure, I'd like to encourage
5 you, as you look at it again, within Roman numeral
6 II you have item number 2, to add a net average of
7 at least 385 megawatts of new renewable generation
8 sources annually.

9 I think that's fine, but I do think that
10 this could be expanded to a whole other Roman
11 numeral. And with specific action items under it.
12 At least as I, and I don't purport to know the
13 entire field, but as I look at this field of
14 renewables and the challenges of the RPS, it
15 appears to me that considerable attention will
16 have to be given by your three agencies to this
17 area in order to achieve this objective. So that
18 rather than have one bullet, I think that some
19 action items need to be considered by the three
20 agencies, perhaps jointly, in order to achieve
21 this.

22 Otherwise, I don't think we're going to
23 get there. Certainly not in a least-cost, best-
24 fit mode that we're trying to get. We're not
25 going to have enough diversified, new, renewable

1 energy to meet the RPS unless we have more action.
2 So I would encourage you to expand it.

3 Richard Katz was the first speaker and
4 talked about environmentally sensitive generation.
5 Your document does, as well. For certain kinds of
6 generation we do have environmental benefits that
7 go beyond the replacement of fossil fuel when it
8 comes to renewables. And there's one section of
9 California codes that recognizes this, which is
10 section 701.1(c) of the Public Utilities Code,
11 which asks the Public Utilities Commission to
12 value, as just and reasonable, costs associated
13 with generating environmental benefits. And it
14 says expressly, including air quality benefits,
15 involved in the cost and rates for renewables.

16 Understanding that this was a Herculean
17 task the Legislature then in 701.3 said that
18 pending that quantification that the Commission
19 should have a set-aside for the purchase of
20 renewable energy.

21 The RPS and the public goods charges
22 associated with it adopted, in some ways, a
23 similar mantra, which is to recognize that
24 renewable energy is a good thing. And to hope
25 that by having the PGC will achieve it.

1 With respect to at least two
2 technologies of which I am thinking biomass and
3 landfill gas generation of electricity, you have
4 other kinds of environmental benefits. These are
5 difficult to quantify, but they need to be
6 quantified.

7 The Waste Board, at one time, tried to
8 do that. I believe the Resources Agency and Mr.
9 Boyd tried to do that. But it has to be done if
10 we're ever going to reach a conclusion as to how
11 to provide a funding mechanism for what Julee
12 Malinowski-Ball earlier described as waste
13 management, or I would describe as environmental
14 management technologies.

15 I don't know that we can do it through
16 the ratepayer because of FERC's role in the
17 wholesale energy rate. I don't know if we can do
18 that through 701.1(c), but we need to figure out
19 some way to do it, whether it be through specific
20 incentives in addition to the PGC, or some other
21 mechanism that your three agencies have a
22 wonderful staff to think about.

23 But we need some long-term strategies
24 that won't result in general fund subventions such
25 as we have had, for example, for achieving air

1 quality in the San Joaquin Valley, or other kinds
2 of notions.

3 The one thing I will leave you with, and
4 I realize my time is up, that the PGC, as
5 structured now within the Energy Commission, when
6 it comes to the biomass community, is designed to
7 allow them to function with the cheapest fuel they
8 can buy, which is often urban woodwaste.

9 Certainly it does nothing to allow them
10 to burn the expensive agricultural waste, which is
11 prunings. Similar issues arise with regard to
12 landfill gas which is not even in a tier which
13 gets PGC funding; and with regard to biomass which
14 burns other things such as fuel that is taken out
15 of the forest to prevent forest fires.

16 So if we're going to look at that and
17 consider issues such as BACT, as well, on all of
18 these kinds of technologies, to assure that we get
19 the environmental benefits that we want, then we
20 need to have some mechanism to do it.

21 I would hope perhaps that these three
22 agencies together, perhaps acting together to help
23 quantify the benefits that were talked about in
24 the Public Utilities Code, could arrive at some
25 long-range and long-term mechanisms to fund these

1 environmental benefits the people of California
2 surely want.

3 Thank you.

4 CHAIRMAN KEESE: Thank you. Pat
5 vanMidde, Kent Kauss and Mr. Lyons.

6 MS. VANMIDDE: Good afternoon, Chairman
7 Keese, Commissioners and Board Members. My name
8 is Pat vanMidde; I'm a consultant. I'm here to
9 represent a company out of Irvine, California,
10 called Composite Technologies Corporation. And to
11 also offer you, through this company, a potential
12 solution to two comments that are made in your
13 draft energy plan.

14 According to your draft plan one of your
15 objectives is to upgrade and expand the
16 electricity transmission and distribution
17 infrastructure and to reduce the time needed
18 before facilities are brought online.

19 In your loading order you address
20 another issue. And in it you state: We intend to
21 improve the bulk electricity transmission grid and
22 distribution facility infrastructure to support
23 growing demand centers and the interconnection of
24 new generation.

25 Composite Technology Corporation has

1 developed an advanced conductor cable for
2 transmission and distribution lines. These cables
3 provide utilities with significant performance and
4 economic benefits compared to the traditional
5 cables.

6 As many of the speakers have stated
7 today, congestion on the overloaded power grid is
8 the electricity infrastructure's main problem.
9 According to industry analysts and according to
10 the EEI, the Edison Electric Institute, the
11 investment must be made of close to \$56 billion
12 over the next decade in order to improve the
13 distribution and transmission grid in the domestic
14 United States.

15 CTC's aluminum conductor composite core
16 and its cable incorporate a light-weight, advanced
17 composite core made of fibers and resin over which
18 aluminum wires are wrapped. Traditional aluminum
19 conductor steel-reinforced cables utilize a steel
20 wire core around which the aluminum conductors are
21 wrapped. A design introduced in 1898.

22 ACC cable is superior and of a
23 comparable diameter and can do several important
24 things. One of those is ACC cable can transmit up
25 to two times the electrical power over the same

1 cable. Fifty percent lower thermal expansion, and
2 25 percent tensile strength enable ACC cable to
3 carry more electrical power without sagging below
4 the required clearance minimums as temperatures
5 rise.

6 The cable has the same weight and has
7 similar stiffness allowing existing towers to
8 support and hold the tension of replacement lines.

9 ACC cable has up to 28 percent reduced
10 line loss and lower EMF due to the absence of
11 ferromagnetic core.

12 Currently ACC's cable is going through
13 EPRI testing, a stress test; and is also going to
14 be installed in TVA Oakridge, over three cable
15 lines, for an additional stress test.

16 The cable should be ready for commercial
17 use this summer.

18 CHAIRMAN KEESE: Thank you for bringing
19 that to our attention.

20 MS. VANMIDDE: You're welcome.

21 CHAIRMAN KEESE: Appreciate it. Kent
22 Kauss, Joe Lyons and V. John White will close our
23 panel. Thank you.

24 MR. KAUSS: Good afternoon,
25 Commissioners, Kent Kauss with Pacific Gas and

1 Electric Company. We wanted to thank you for
2 pulling this panel together and state our support
3 for the overall goal of the effort by the three
4 entities today, and its real-life efforts to
5 actually get this done.

6 Historically there's been a lot of talk
7 about the issue, but not a whole lot of action.
8 And we're very encouraged by this.

9 We have two overriding themes in our
10 comments today, the restoration of an investment
11 grade status and regulatory stability or
12 reinstatement of the regulatory compact.

13 A very significant issue for PG&E is our
14 current status as a noninvestment grade entity.
15 The credit markets that ultimately decide
16 investment grade status see regulatory uncertainty
17 and overlap. With that in mind we welcome this
18 collaborative effort by the core agencies.

19 Restoration of PG&E as an investment
20 grade entity is vital for the state, PG&E and our
21 ratepayers. Therefore we collectively need to
22 focus on that restoration.

23 As to the specifics of the energy action
24 plan we would note that the plan advocates for an
25 immediate expansion of the Path 15 system, yet

1 proposed decisions recently issued do not go
2 there. They reject the ISO's conclusions and note
3 that the project is not economically justified.

4 One proposed decision orders PG&E not to
5 construct the project, while the other provides
6 that it could be an expensive insurance policy
7 against market gaming. The ISO, as well as
8 federal entities, have realized that the project
9 is necessary for the long-term stability of the
10 market and we should pursue that.

11 The overriding concern that we have as a
12 regulated utility is that we are told to plan for
13 the long term, yet regulators do not always agree
14 on the planning horizon. If we are going to meet
15 the demands of our customers we need to reinstate
16 the regulatory compact that governed our
17 relationship of the past.

18 The objectives expressed in the energy
19 action plan notes that you'll work together with
20 the ISO on their annual transmission plan. We
21 support that effort and support the efforts
22 expressed by CEC Commissioner Geesman relative to
23 transmission infrastructure development and the
24 determination of need.

25 Regulatory uncertainty also rises in the

1 area of energy efficiency. The plan calls for
2 various activities to improve energy efficiency,
3 as well as providing investment rewards for
4 effective programs in the area. We support this
5 coordinated effort and remind you that PG&E has
6 won numerous national awards for its energy
7 efficiency programs.

8 We encourage timely decisions on these
9 issues by policymakers so that we know the rules
10 of the game, and can implement them to get the
11 results sought.

12 On the area of electric generation we
13 would once again point out that we are not
14 investment grade company, but we do understand the
15 vital role that we play, as well as the role
16 played by regulators.

17 While we are in procurement now, it's a
18 relatively small level of procurement that we're
19 in; we need to get back to investment grade status
20 going forward.

21 And generation ownership should not be
22 an issue, as long as those resources dedicated to
23 the State of California and its customers.

24 Thank you for the opportunity to speak
25 with you. We look forward to working with you as

1 we move forward.

2 CHAIRMAN KEESE: Thank you very much.
3 Mr. Lyons.

4 MR. LYONS: Mr. Chairman and
5 Commissioners, Joe Lyons with the California
6 Manufacturers and Technology Association.

7 We appreciate the opportunity to work
8 with you to ensure a stable and reliable energy
9 future for our state. We also want to emphasize
10 the role that combined heat and power can play in
11 meeting our state's energy needs and the goals of
12 the draft plan, as well as the roles of direct
13 access and retail competition can play.

14 Now that the CRS issue is in the process
15 of being resolved, direct access and retail
16 competition can and should be an important piece
17 of our state's future energy action plan.

18 We look forward to working with you on
19 these important issues. Thank you.

20 CHAIRMAN KEESE: Thank you very much.
21 V. John White.

22 MR. WHITE: Thank you, Mr. Chairman and
23 Mr. President and Mr. Chairman, Commissioners,
24 Appointees, Honorable friends and acquaintances.
25 I'm here today to also say a couple words on

1 behalf of my friends at the Natural Resources
2 Defense Council who were unable to participate,
3 but who share with me an eagerness to work with
4 you and to applaud you for the work that you've
5 done so far.

6 A couple of things that they wanted me
7 to mention was the support for the goal of
8 insuring affordable and environmentally sound
9 electricity, the share principles, particularly
10 the ones that seek to protect the public's health
11 and ensure low income customers have access to
12 affordable energy services.

13 This is something that we and NRDC has
14 especially been working on for a long long time
15 and are pleased that so many of the people up here
16 today are part of a consensus on that issue.

17 We also support the agencies efficiency
18 conservation priority. We particularly appreciate
19 President Peevey's stated commitment on this
20 issue. And we think the load growth issue needs
21 to be first met with efficiency.

22 The one area of concern that NRDC has,
23 that I share, is that I think some of our goals
24 here with respect to the generation side need to
25 be adjusted as the process goes along. I think in

1 particular we would separate in here on page five,
2 we would make the modernization of the old,
3 inefficient and dirty plants the lead priority,
4 particularly given the fuel price issues and the
5 volatility in the environmental performance
6 issues.

7 Less confident of using that number of
8 1500, 2000 megawatts to achieve load growth. We
9 think the load growth ought to be first to try to
10 achieve it through demand response, as well as
11 efficiency.

12 I think similarly on the peaking side
13 specific numbers for that category, given the
14 availability of demand response of efficiency
15 ought not to put as much weight behind those
16 particular numbers.

17 And I think the fact that you're here is
18 the way to be sure that happens. One thing I
19 would just applaud. I remember when I talked to
20 Laura Doll about the Power Authority's mission,
21 and you know, one of the things we talked about
22 was an action plan among the agencies as almost a
23 prerequisite for anything the Power Authority,
24 itself, might do.

25 And the fact that you're here, the fact

1 that you've overcome some of the inertia and the
2 personalities and stuff, I know Ms. McPeak played
3 a role in some of that process, and Mr. Geesman,
4 and others among you have helped bring the folks
5 together. And we're going to do a lot more of
6 that as we go forward.

7 The one thing I would hope, and I don't
8 want to lobby Commissioners on their proposed
9 decision, other than to commend them for
10 recognizing the link between the environment and
11 the money. One of the things that the PUC hasn't
12 really ever done is to value the cleanest and most
13 efficient ahead of the dirty and less efficient in
14 the way pricing was done and the way priorities
15 got set. And unfortunately, exit fees present us
16 with the necessary opportunity to be sure that the
17 cleanest and most efficient don't get hurt
18 disproportionately.

19 But I think there's a message in that
20 policy which ought to be followed through with
21 respect to the incentive programs. One of the
22 things that you've heard a lot about is the need
23 to realign the incentive programs between the CEC
24 and the PUC. And we'd like to see embedded in
25 those incentive programs some performance

1 objectives so that the more money goes to the
2 cleaner and most efficient plants.

3 That's not to take anything away from
4 other people necessarily, other than if money is
5 short the folks that do the most for the
6 environment and for the consumer ought to be the
7 ones that get the preference.

8 Lastly I will just say that the one
9 addition that I would urge in your future
10 deliberations is to have our friends from the Air
11 Resources Board and the CalEPA join you on the
12 dais. I think that on the decision on distributed
13 generation the role of the agencies from the Air
14 Board and CalEPA was part of the reason for this
15 infusion of policy. And we urge that they be part
16 of whatever you do in the future.

17 They need to know more about power
18 plants being things other than permit units,
19 because they have a lot more to do with our
20 economy than just being permits of air pollution
21 that we're regulating. There's a lot of interplay
22 between the state and a region with respect to
23 western coal, western renewables and ultimately,
24 western transmission.

25 And I'm not an expert on transmission,

1 but I will hope that this interagency process
2 evolves to the point where we can at some point
3 have a dialogue with our neighbors in the western
4 states, and with our friends at FERC. Because,
5 speaking for renewables, renewables are sort of
6 like the Jim Hightower; we're like the white mice
7 and the dead armadillos in the middle of the road
8 between the state and the feds.

9 And we need to be able to move forward
10 on those, knowing that maybe part of the
11 transmission we need to make the process more open
12 and transparent. I'm not sure the ISO is the best
13 venue for the planning to be done. I think the
14 planning may need to involve more of the community
15 folks, the folks that are affected. As everybody
16 knows, land use is a big part of it, particularly
17 on some of these. And we need to find a right mix
18 of transmission, demand response, renewables and
19 move us all forward.

20 So, we thank you for doing this work.
21 We thank you for letting us come and talk about
22 it. And we want to work with you as we go
23 forward.

24 CHAIRMAN KEESE: Thank you, Mr. White.
25 We're going to, with the indulgence of our

1 members, we're going to take five minutes, and
2 we'll come back. Take a five-minute break here.
3 As close to five minutes as we can, please, and we
4 will start again.

5 (Brief recess.)

6 CHAIRMAN KEESE: We're going to do this
7 by choice. You've heard from Chairman, Chairman
8 and President. And we'll reserve ourselves for a
9 little later. In the meantime I will call on
10 Commissioners who are interested to start the
11 dialogue, ask questions, make comments.

12 COMMISSIONER BOYD: Mr. Chairman.

13 CHAIRMAN KEESE: Commissioner Boyd.

14 COMMISSIONER BOYD: Maybe we shouldn't
15 have been so fast, the audience is trickling in,
16 but I'd like to make a few observations on --

17 CHAIRMAN KEESE: Could we take the
18 conversations outside, please? Thank you.

19 COMMISSIONER BOYD: If I could, a few
20 observations on what we've heard today. I would
21 just like to echo the previous comments about this
22 is a very public public process, as far as I'm
23 concerned, recognizing the administrative and
24 regulatory agencies have to float an idea for the
25 public to comment on.

1 So I think this process, albeit it has
2 taken a long time, it's been a year since we last
3 met, but nonetheless, we're moving now. And I
4 think it's very positive. And I'd like to thank
5 everybody who testified today.

6 I want to reflect quickly on about three
7 or four subject areas. Jan Smutny-Jones, who
8 actually led off, said something that really
9 strikes a chord with me. Jan does that on
10 occasion.

11 He talked about incorporating projects
12 with other policy objectives such as biomass in
13 the San Joaquin Valley, or desalination of water,
14 or cogen and economic development together. And I
15 think that's a very positive and admirable goal
16 that I think we should pursue. And I appreciate
17 his comment because it kind of flows into where
18 I'm going next with regard to just an overall
19 comment on renewables in general, but biomass in
20 particular.

21 There are some people maybe at this dais
22 and certainly in the audience who've known for
23 years I've pursued solutions to not only
24 renewables, but specifically the biomass dilemma.
25 And the fact that we have three such powerful

1 agencies together here hearing people talk about
2 biomass, Julee Malinowski-Ball, or Chairman
3 Peevey, himself, hearing from legislators and
4 Peter Weiner's comments, just points to the fact
5 that there are a lot of environmental and social
6 attributes to utilizing our biomass in the state
7 in whatever ways we can.

8 And there are a lot of economic benefits
9 that don't generate cash, and thus don't provide
10 any type of transfer payment, that really provide
11 value to society; that for more than ten years
12 we've struggled with trying to make the economics
13 penciled out, and we haven't been able to do it.

14 I'd say I've got probably four more
15 working years and that's it. And I'd like us
16 really to pursue this issue of solving, once and
17 for all, the economics of renewables in general
18 and biomass in particular.

19 So I hope amassing these bodies together
20 and working with the community and working with
21 all the other affected communities who are
22 involved in this we can get some economic transfer
23 payments accomplished if we'll show the positive
24 value that this kind of an activity does for our
25 society. The avoided costs of air quality, the

1 incredible costs of fighting fires in the forest,
2 et cetera, et cetera. So I just want to say,
3 hear, hear to those who are still pursuing that
4 issue.

5 The next subject I want to broach is
6 generation in general and self-gen and cogen. The
7 Cogen Council, others who spoke to the economic
8 development possibilities, I just want to say that
9 I concur one hundred percent in that.

10 I've had a kind of a crusade since
11 getting involved with generation under the
12 tutelage of now Commissioner Kennedy down there,
13 back in the days of the electricity crisis. Some
14 of us pursued self-gen and cogen as much as we
15 could to address the energy crisis. And had a
16 tiny bit of success, but not a lot.

17 I do think in an era when we're worried
18 about our future generation needs, worried about
19 megawatts staying in California, worrying about
20 supporting California businesses and California
21 economy, and also worrying a little bit about
22 security, and I don't mean energy security this
23 time as much as I mean just post-9/11 security, I
24 think facilitating self generation in many
25 industry areas has a lot of positives for us to

1 pursue.

2 So, on self-gen, cogen and DG in general
3 I am encouraged by what I see written in the
4 document. I guess Chairman Keese mentioned the
5 six of you who worked on this and the nine of us
6 who haven't. I'm one of the nine, so I'm giving
7 you my reflection at the moment on issues that I'm
8 glad to see here and maybe need some additional
9 emphasis.

10 I want to jump quickly to the issue of
11 natural gas. Chairman Freeman and I discuss
12 natural gas very regularly. What some people may
13 or may not know is that there has been in
14 existence for two years now a Governor's working
15 group on natural gas, formed at the height of the
16 crisis, because of the concerns about natural gas
17 contributing to the runaway costs of electricity.

18 While certainly there were some
19 problems, we didn't step in and start buying gas
20 at that point in time, as was suggested by some.
21 But we did closely follow infrastructure issues,
22 price demand/supply issues, and still do that to
23 this day. And are once again quite concerned as
24 indicated with the runaway prices of natural gas.

25 And so Mike Florio's comments about a

1 California strategic natural gas reserve is also
2 something that I'm interested in. And anything to
3 enhance storage and facilitate electrical
4 generation is something worth of pursuit. And I
5 guess as, in effect, vice chair of that working
6 group, we are, at this very moment, looking at
7 things the State of California might do. And this
8 certainly will get added to the laundry list of
9 issues.

10 Every agency here is represented on that
11 group. And every agency who has anything in the
12 State of California to do with natural gas is
13 represented on that group. And we've all long
14 been interested because the Governor was
15 interested in facilitating the development of our
16 own native or domestic natural gas resources.

17 And I welcome input from CIPA and others
18 on what we might do to release some more of this
19 gas. We're quite aware of the off-spec gas,
20 stranded gas issues, and continue to try to work
21 on those.

22 Last, I want to mention the integrated
23 energy policy report. It's been referenced
24 obliquely, but specifically by Ms. Saville that
25 while what we're engaged in here today, and have

1 been for a year, has been a self-initiated effort,
2 which I think is extremely positive.

3 The Legislature, also, has given a
4 challenge to all of us in calling for an
5 integrated energy policy report, asking the Energy
6 Commission to lead that effort. But asking every
7 agency represented here and many others to
8 cooperate and collaborate in that effort. And I
9 want to thank those, all agencies for doing just
10 that.

11 This effort we're engaged in here today
12 will contribute greatly to that plan. And it's in
13 our mutual interest to see that the Legislature
14 receives next November a very meaningful analysis
15 of the policy issues, and the beginning of perhaps
16 a long-range plan that all of us will contribute
17 to. And many other agencies have to contribute
18 to, as well.

19 I want to just mention the offer of the
20 municipal utilities to work on issues like this
21 energy plan, that we need them to also work with
22 us, as they are, on the integrated energy policy
23 report.

24 Most specifically, we, the Energy
25 Commission, need to work with them on resource

1 adequacy issues, because there's no one else to
2 represent their point of view in these forums.
3 And so I look forward to working with them on
4 that, as the Commissioner charged with the
5 responsibility for seeing that this report gets
6 done.

7 The energy plan we're dealing with here
8 today, all that we've heard here today, as well as
9 continuing hearings on the integrated energy
10 policy report are very important to us and the
11 policymakers in the future. And I just wanted to
12 make mention of that.

13 And I note that it's well recognized in
14 the energy plan draft today. And thank you.

15 CHAIRMAN KEESE: Thank you, Commissioner
16 Boyd. Anybody -- Commissioner Vial.

17 BOARD MEMBER VIAL: As I read this
18 document it appeared to me to be just an excellent
19 working document. And what still needs to be
20 visualized, I think, is a readily understood
21 framework on how the pieces of the action plan
22 come together in an implementing context.

23 And breathing life into these elements
24 of the plan really is the guts of integrated
25 resource planning. And we're just now on the

1 threshold of determining how we're going to
2 develop integrated resource planning in a way that
3 is compatible with our hybrid system.

4 And many of the things that have been
5 said today indicate how far away we are from just
6 visualizing how this is going to work.

7 For example, when Mike Florio was
8 talking about transmission, you know, the problem
9 we have among the agencies is that we keep trying
10 each other's evaluations, or re-evaluating others'
11 evaluations. We've got to come together with a
12 system that utilizes our resources and evaluations
13 of agencies pull together in a way that we don't
14 duplicate, but we build on what the findings are
15 of another agency.

16 And it's really wrong to, I think, have
17 an agency spend a lot of time evaluating the need
18 for something; then another agency putting it into
19 a hearing process, evidentiary hearings. And
20 saying, well, that value judgment, you know,
21 really needs to be reduced to a fact.

22 Many of the decisions we make are value
23 judgments. And evidentiary hearings are a very
24 good discipline, but they don't work for
25 everything. And we've got to understand that

1 we've got to somehow or other bring processes
2 together so that we are not duplicating each
3 others' work, and we are building a system of
4 integrated planning that really works.

5 And I think this means that we have to
6 get rid of a lot of issues that are frequently
7 wrapped up in mandates and in processes that have
8 worked well in the past.

9 But I guess I'm being somewhat
10 repetitious, but I really do believe that we're at
11 the point where we need to develop a concept of
12 what I would call the indicative plan. Where
13 maybe there's a lead agency in developing and
14 analyzing the options, the coming up with some
15 plans, what needs to be given priority. But it
16 needs to be done in a forum that is participatory
17 and comes into other people's proceedings with a
18 great deal of consensus.

19 And in that way I think we can build on
20 the work of each other in an indicative planning
21 approach so that a baseline document comes forward
22 in various proceedings that needs to be dealt
23 with, and doesn't need to be re-litigated.

24 I hope I'm making myself clear. I think
25 it's a very complicated process, but I think we

1 really do have to overcome this tendency among our
2 agencies to feel that our processes are the cat's
3 meow and that we have to -- everything has to be
4 run through our particular process.

5 We need to -- and I think this needs to
6 be the focus in the period ahead, how do we really
7 develop the elements of an integrated resource
8 planning system that is compatible with our hybrid
9 system that we have devised over the last several
10 years.

11 CHAIRMAN KEESE: Commissioner Pernell.

12 COMMISSIONER PERNELL: Thank you, Mr.
13 Chairman. Mr. Chairman, I would echo Commissioner
14 Vial's concerns. And the reason I wanted to go
15 next is because it is close to what I was going to
16 say in terms of the cooperation.

17 But I would point to an example of what
18 is working, and that is the CPUC and the CEC
19 working together on the renewable portfolio plan.
20 And that is working excellent. And I would just
21 offer that as a model of how we can not only work
22 as agencies, but also work with the public and
23 environmental organizations to get to whatever our
24 goal is.

25 We now on the renewable portfolio plan,

1 we are having joint workshops, joint position
2 papers and discussions. And whereas a stakeholder
3 can come in and they wouldn't necessarily know
4 whose proceeding it is.

5 And then that information gets carried
6 back to the policymakers. And then you have a
7 joint document in which the policymakers can make
8 decisions.

9 And I think that's very effective, so
10 you were right on point with your comments.

11 I would like to talk about two issues.
12 One of them is energy efficiency and conservation.
13 And the other I will let my colleague talk about,
14 which is another collaboration we have with the
15 CPUC.

16 First of all there was a number of
17 comments that talked about energy efficiency and
18 what roles it plays; where it's at in the plan. I
19 am very happy to say that the plan recognizes that
20 energy efficiency and conservation is a key part
21 of California's diverse energy portfolio.

22 We have done excellent. And I say we, I
23 also mean the stakeholders and the citizens of
24 California, when it comes to efficiency and
25 stepping up to the plate when California had a

1 challenge ahead of it. And we've done that. We
2 know this works.

3 We're now embarking upon -- in this
4 case, we, as the Energy Commission, are embarking
5 upon additional building standards and appliance
6 standards. And we're looking at, and I just want
7 to mention this, we're looking at a time-dependent
8 evaluation. Which basically means we want to look
9 at, put emphasis on saving energy on peak, and not
10 just energy across the board. And put a value on
11 that.

12 We're also looking at air conditioning
13 standards, water heaters and et cetera. So that
14 is moving forward.

15 When I began to talk about, and I've
16 made this case over and over, that when you begin
17 to talk about efficiency you are talking about
18 economic development, conservation, economic
19 development. When you change out a window,
20 somebody has to do that. When we began to put
21 photovoltaics on roofs, somebody, some workers are
22 doing that work.

23 When we begin to talk about cool roofs,
24 putting on the white roof, somebody has to do
25 that. So there's a number of economic development

1 opportunities as we talk about conservation and
2 energy efficiency.

3 And we have a number of clients -- well,
4 I shouldn't call them clients, I guess,
5 contractors that have worked with us on these
6 efficiency programs. And I would just ask the
7 panel and urge the panel to look at additional
8 opportunities for energy efficiency programs with
9 some of the contractors that have proven
10 themselves in the past.

11 The other issue I will talk about very
12 briefly is -- let me use an analogy here, if I
13 may. And that is that I am very happy to be a
14 part of the team. And I view these agencies,
15 people at the dais, as well as other state
16 agencies, a team. This is a team effort.

17 No one agency or person can win the
18 game. No one player can win the game. But
19 working together as a team we can achieve the goal
20 and win the prize. And I will submit to you today
21 that you will see collaborative efforts, you will
22 see not just these agencies, but other agencies,
23 working as a team to get the job done.

24 And whether that job is transmission,
25 reliability, energy use, environmental issues,

1 whatever they are, education, building schools for
2 the 21st century, collectively, not just in the
3 state agencies, but also in the private sector and
4 the environmental community, we can work as a team
5 and win the game.

6 And so I will leave you with that
7 analogy, to say that it's not about them or us,
8 but collectively, as a team, we can move forward
9 and achieve the goals that are in this energy
10 plan.

11 Thank you, Mr. Chairman.

12 CHAIRMAN KEESE: Thank you, Commissioner
13 Pernell. Barbara.

14 BOARD MEMBER LLOYD: Again, Barbara
15 Lloyd on behalf of State Treasurer Phil Angelides.
16 The first thing that we wanted to do is
17 acknowledge the work of our colleagues both at the
18 California Consumer Power and Conservation
19 Financing Authority and the other state agencies
20 here today that worked to draft this document,
21 this framework.

22 And we want to acknowledge that it is a
23 beginning. It is not an end product, and we all
24 know that. We do face not just months, but
25 ultimately years in actually bringing to fruition

1 some of what this document articulates.

2 And it's both continued cooperation, and
3 quite frankly, quite a bit of due diligence on the
4 part of each of our agencies in our appropriate
5 roles, in addition to due diligence on the part of
6 other state and federal agencies, to overcome the
7 challenges that we've faced in the past, and quite
8 frankly, prevent them from happening again in the
9 future.

10 Primarily we agree with the priorities
11 articulated in the draft, including conservation
12 and resource efficiency, the affordability and
13 reliability of power here in California as being
14 primary motivators for anything that we do.

15 The focus on clean renewable capacity
16 and the need to ensure that we are able to meet
17 our goals in that area is something we
18 fundamentally agree with. And the fact that we
19 have a responsibility to provide the reserves that
20 will allow for reliability, cost effectiveness,
21 and quite frankly, public safety, health and the
22 state of our economy going forward. Those are
23 just high priorities.

24 We think that we face some risks right
25 now in achieving these goals. Those risks are

1 underscored by the turmoil that the private energy
2 financial markets are in right now. And we
3 appreciate the fact that both the document and
4 some of the public speakers recognize that the
5 state may need to take a very proactive direct
6 role in light of some of that turmoil. And that
7 it may extend beyond directing the actions of
8 other players to the regulatory process, that may
9 actually need to extend to the state taking a
10 fundamental direct role in financing and possibly
11 even owning some projects.

12 Key pieces of the puzzle. Those key
13 pieces may include not just generation, but
14 possibly even transmission. We're concerned at
15 this point that the current process, our plan A
16 approach to meeting our transmission constraints,
17 may not, in and of itself, result in timely and
18 adequate investments by the private sector. And
19 therefore, that we need to be thinking about what
20 a plan B would look like, so that we are not
21 caught in a situation where all of our best
22 efforts together to encourage the private sector
23 investment falls short.

24 And we need to be determining whether
25 the state, possibly through the Power Authority,

1 needs to be taking a more direct role. And a way
2 to spread the costs of that transmission maybe in
3 a more efficient way than the individual utilities
4 might be able to do.

5 The same holds true for some of the new
6 capacity that we're talking about. If it is truly
7 for reserves, which is what the Power Authority's
8 focus is, it may be that it needs to be thought of
9 outside of the normal boundaries of an investor-
10 owned utility service area, or even a municipal
11 utility service area.

12 And that especially when you're trying
13 to marry both reserves and the diversification of
14 renewables, that we do need to take into account
15 many of these other cost/benefit analyses that my
16 colleagues here have already talked about, which
17 the Treasurer has been talking about since he came
18 into office consistent with smart-growth policies
19 and the like.

20 So, with that said, we've tried to talk
21 to some of our colleagues about the need for the
22 Power Authority to be able to play a productive
23 role. That's going to require, at some point,
24 resources that are not presently in our hands.
25 And we'd like to be in a position to work with our

1 colleagues, especially at the California Public
2 Utilities Commission, to ensure that there can be
3 revenue sources to do necessary projects, whether
4 those be contracts or other resources defined
5 differently.

6 We want to work with you to make sure
7 that happens.

8 CHAIRMAN KEESE: Thank you, Barbara.
9 Commissioner Kennedy.

10 COMMISSIONER KENNEDY: Thank you.
11 First, I'd like to applaud my colleagues for
12 taking on such an ambitious effort, although I'm
13 new to the Commission, the last four years I've
14 spent in the Administration of Governor Davis,
15 probably the most often heard criticism that came
16 to me was that state government agencies cannot
17 and do not work together; the left hand often
18 doesn't know what the right hand is doing; lack of
19 foresight and agility in meeting challenges. I
20 believe the energy crisis was the most recent and
21 most prime example of that.

22 This process takes major steps towards
23 rectifying that, and proving that, in fact, you
24 can teach old dogs new tricks. It is a framework.
25 There is much work ahead. And as one of the

1 speakers said earlier, probably the more difficult
2 work lies ahead.

3 I'm certainly committed to taking on
4 that task in my role on the CPUC. And actually I
5 have some questions that I'd like to ask some of
6 the people who spoke earlier. Is now an
7 appropriate time to begin that process?

8 CHAIRMAN KEESE: Perfect time.

9 COMMISSIONER KENNEDY: Is Mr. Ackerman
10 still here?

11 UNIDENTIFIED SPEAKER: He just left.

12 COMMISSIONER KENNEDY: Oh, well, perhaps
13 if there's -- I don't know if someone else can
14 address this, but he raised the direct access
15 issue. And that is notably absent from the
16 framework, because I don't believe there is a --
17 I'm not sure if there simply wasn't a consensus or
18 it was not seen as part of the --

19 CHAIRMAN KEESE: Let me just -- that's a
20 good point. Let me answer your question.

21 COMMISSIONER KENNEDY: I didn't ask it
22 yet.

23 CHAIRMAN KEESE: As to what isn't in --

24 COMMISSIONER KENNEDY: Okay, that wasn't
25 my question. I always defer to the Chair.

1 CHAIRMAN KEESE: Okay, we tried for
2 alignment; alignment, alignment, alignment of our
3 common Commission and unit activities. And so we
4 picked a couple topics that cut across. But we
5 didn't get around to all of them.

6 So, that's --

7 COMMISSIONER KENNEDY: But my question
8 for Mr. Ackerman in particular -- he brought it up
9 in a focused way, is how would you address the
10 issue of equitable distribution of the cost
11 responsibility for past costs and bond surcharges
12 between the direct access customers and the
13 bundled customers.

14 I mean I have said publicly I support
15 the concept of direct access. I think it can be
16 part of our future design. But I believe the
17 issue is unresolved as to whether it can be done
18 economically and still protect the unfair cost
19 shifting.

20 So I was just wondering if there was
21 someone who could stand in for Mr. Ackerman --

22 CHAIRMAN KEESE: Someone to answer?

23 COMMISSIONER KENNEDY: Did he know I was
24 going to ask that question? Is that why he bolted
25 from the room?

1 (Laughter.)

2 COMMISSIONER KENNEDY: Anyway.

3 COMMISSIONER LLOYD: We might even add
4 it if somebody wanted to respond to that, a
5 similar question about the issue of load serving
6 entities being able to sort of share the cost of
7 reserves. I think it's a very similar vein, and
8 that is how do you ensure that a company in it to
9 make a buck, who in the past may have dropped
10 direct access customers when the going got tough.
11 How do you ensure that they continue to share
12 responsibility for reserves when they may not be
13 there tomorrow?

14 COMMISSIONER KENNEDY: Hearing no
15 answer, --

16 (Laughter.)

17 COMMISSIONER KENNEDY: Thank you, Mr.
18 Chairman.

19 COMMISSIONER BOYD: Mr. Chairman, in
20 response to Commissioner Kennedy, let me just say
21 that I appreciate that the newest member of this
22 little gathering brought that subject up. It's
23 probably a subject that a lot of people, I don't
24 think anybody's forgotten it. A lot of us forgot
25 to mention it or were reluctant to mention it.

1 But I think you have brought up
2 something that to many of us has been one of the
3 most chilling things with regard to moving out
4 into many of the fields people encourage us to
5 move into, i.e., the direct access to -- how we
6 pay off the mortgage that we took out to save the
7 State of California.

8 That's hanging over so many of the
9 issues that people put on the table here. It very
10 deservedly is something, I think, these agencies
11 need to talk about.

12 CHAIRMAN KEESE: Commissioner Wood.

13 COMMISSIONER WOOD: Sometimes my role is
14 to introduce a note of maybe a jarring note or a
15 little bit of dissent around some of the otherwise
16 apparent consensus that may exist.

17 One of the problems, I think, in this
18 statement, which was drawn up by six of the
19 Commissioners and Committee Members, and
20 represents, I think, some level apparently of
21 consensus at that level, is that you can't include
22 the full texture of all of these issues. And
23 therefore, there has to be some summarization at a
24 high level of issues.

25 And that's appropriate. And it's

1 necessary and it's useful, in many cases.
2 However, it can also mask some problems and some
3 real issues. And some of the discussion here
4 today from some of the parties that have spoken
5 have brought out a couple of these.

6 There are some other things that I've
7 noticed that perhaps haven't been brought up to
8 date. I think that Mike Florio was very helpful
9 in identifying the distributed generation issue as
10 one where this document seems to just have a
11 blanket endorsement of distributed generation
12 without really raising the questions that Mr.
13 Florio raised of is it clean distributed
14 generation, is it efficient distributed
15 generation, is it cost effective distributed
16 generation.

17 And because, to my mind at least,
18 distributed generation, itself, is neither good
19 nor bad. It just means generation that's closer
20 to a load.

21 Distributed generation can be dirty. It
22 can be non cost effective. It can be inefficient.
23 And even if it is some of those things it still
24 may be useful. It has to be analyzed in its
25 specific application.

1 For example, it would be hard to argue
2 at this point that solar voltaic distributed
3 generation is very cost effective. On the other
4 hand, there may be -- there are important public
5 policy reasons to strongly incent the development
6 of that technology because somewhere down the line
7 we are hopefully going to see a return on that.
8 We're going to see it become competitive in a
9 commercial sense. And there are tremendous
10 environmental benefits to having virtually
11 completely clean generation resources.

12 But, these things need to be analyzed in
13 a concrete way. And I think that it doesn't do
14 any of us a service to have these endorsements
15 without at least some caveats, at least at a high
16 level.

17 I think that Mr. Joseph raised some of
18 the same questions about not only that issue, but
19 also the issue of price signals to reduce peak
20 demand. Something which, I think, it may be the
21 accepted and the common wisdom, but like a lot of
22 no-brainers, sometimes when you pursue it, there
23 may be more to it than meets the eye.

24 He endorsed the statement as one of the
25 subheadings of upgrade and expand the electricity

1 transmission infrastructure. Well, since the
2 establishment of the electricity industry, the
3 transmission structure has always needed
4 upgrading. And I expect that it always will need
5 upgrading. So that, in itself, doesn't really say
6 anything.

7 But concretely what upgrades are we
8 talking about? And again, those need to be
9 analyzed. And reasonable people with much the
10 same objectives can differ about the need for
11 those. And different agencies may come to
12 different conclusions. And maybe somewhere down
13 the line there needs to be some reallocation of
14 decision making authority.

15 Perhaps what Don Vial has pointed out
16 may represent some inefficiencies, but just a
17 recent case that came up, the Valley Rainbow line.
18 That was something that certain agencies thought
19 was necessary and appropriate to build, but
20 ultimately the PUC did not agree with that.

21 And I don't know that anybody can be
22 faulted for arriving at the conclusions that they
23 did, but just somewhere a decision had to be made.
24 And I don't think that the public or the
25 ratepayers suffered from the fact that there was

1 extensive analysis and litigation of that before a
2 final conclusion, if that was the final
3 conclusion, was, in fact, arrived at.

4 I think that John White's comment that
5 we need to recognize the links between costs and
6 the environment and do it in an explicit way is
7 really a call to a return to an approach that
8 unfortunately got abandoned with the AB-1890
9 process and the Commission's preferred policy
10 decision in 1995.

11 And that is that to recognize
12 externalities and explicitly incorporate them in
13 our ratemaking structures. And I think that it's
14 high time that we started doing that. As long as
15 we apatheisize the market and say that we will
16 always defer to market outcomes, and have a market
17 which is structured in such a way that it can
18 ignore these externalities and not internalize
19 them, then we're going to produce results that are
20 bad socially, that are going to be bad for the
21 environment, that are going to have negative
22 impacts ultimately on consumers.

23 I think that the question of direct
24 access represents something that ought to be
25 explicitly recognized in everything that we do.

1 And what that is, since the mid '80s there has
2 been an elephant in the room in every discussion
3 of energy policy in California.

4 And that elephant was the embedded costs
5 of public policy mistakes or miscalculations. The
6 heavy investment reliance on our nuclear power
7 plants; the incredible blunder of our PURPA
8 implementation in California, which over the years
9 has added billions and billions of dollars in
10 embedded costs which we thought we finally got rid
11 of with AB-1890. We, of course, didn't. We
12 renewed many of those costs in the height of the
13 crisis.

14 And then now the latest group of
15 stranded costs, which are represented by the costs
16 that the state was forced to incur with a gun to
17 its head held by the generating and marketing
18 industry.

19 That elephant is still in the room. And
20 sometimes we talk about it, sometimes we don't.
21 But every one of -- virtually every comment that
22 was made today, to one degree or another,
23 represented a desire by some group of consumers to
24 try to escape from any responsibility for paying
25 off these stranded costs.

1 And I think that we need to get that up
2 front and explicitly recognized. A lot of the
3 push behind distributed generation is an attempt
4 to do that. A lot of the push behind
5 municipizations in this present period of time
6 represents that, as well. And we could just go on
7 and on.

8 And, again, there's nothing wrong with
9 people trying to optimize their economic
10 situation, but we'd better get that fully into the
11 discussion. And make sure that we're talking
12 about it and considering all of these very well
13 meaning directions, well intended directions, and
14 very valuable and necessary directions that we've
15 pointed out in this document.

16 CHAIRMAN KEESE: Mr. Freeman.

17 CHAIRMAN FREEMAN: I want to try to
18 prove that I've been listening today, and
19 therefore comment on what I consider a lot of very
20 perceptive comments that were made.

21 I think Jan got us started by pointing
22 out the basic connection between the air quality
23 concerns of the state, the water concerns in the
24 state, and the energy concerns, and telling us in
25 very polite language that we hadn't made a strong

1 enough connection in this document between the air
2 resources agency, the ISO, the folks concerned
3 about water, and the need for electricity for de-
4 sal plants, etc.

5 And I want him to know that we have
6 heard him and we think that's going to be a big
7 part of our work in the future.

8 I would just say to my colleague,
9 Commissioner Boyd, though, I've had the privilege
10 of having been at this as long as anyone. And the
11 desire to quantify environmental benefits, we've
12 been through all that for a couple of decades.
13 And they always come out depending on your values.

14 If you value clean air very highly, you
15 can find number crunchers that will give you a
16 real big number. And if you're running a utility
17 and you're spewing out a lot of pollution, you can
18 get some numbers that value it very small.

19 So, we've gone to portfolio standards in
20 saying that we're just going to, by golly, do this
21 much. And that seems to be working in this state.
22 I mean there are a lot of people that have spent
23 their academic lives trying to quantify things
24 that just reflect people's values.

25 I mean people leave town and go to the

1 mountains over the weekend as a matter of their
2 personal values. And I don't know how you're ever
3 going to quantify that in a way that will be
4 determinative. It's a noble undertaking, we've
5 all written about it. But I think the portfolio
6 standard approach, which is what the Legislature
7 has adopted, is doing it.

8 Now, the most interesting comment I
9 heard today was to confront conventional wisdom
10 and question it. And I think that was very
11 helpful. The only thing that we've got to decide
12 now is what the hell is conventional wisdom.

13 (Laughter.)

14 CHAIRMAN FREEMAN: Because, you know, I
15 always thought that the conventional wisdom is
16 that we had to build big power plants, and build
17 big transmission lines and live happily ever
18 after.

19 So I think you're right that we need to
20 question everything. We even need to question the
21 fact that we can't go back to where we were.
22 That's conventional wisdom. It says that we can't
23 go back to '96 and start over again. And I think
24 that needs to be questioned. My mind is open.

25 But certainly what's very interesting to

1 me is Gary Ackerman, who left, in the middle of
2 all his comments about the marketplace and urging
3 us to pay more attention to the market, uttered
4 the words long-term contracts.

5 And he kind of suggested that the key to
6 the future is having competitive -- I mean he said
7 it, competition for long-term contracts and
8 avoiding long-term contracts so that we don't
9 suffer the agony of being in the market at the
10 last minute and get taken to the cleaners again.

11 It seems to me that that comment, to be
12 connected with the very apt comments of Sempra,
13 and they may be surprised that I'm hearing and
14 agreeing with them, but they're right. That we've
15 got to define, very quickly, the rules at the PUC
16 for long-term contracts, what kind of rate of
17 return they're going to get, and having a
18 mechanism in real time so that people that want to
19 get a power plant built and need a contract to do
20 it, can get definitive answers to those questions.

21 Because, folks, the world has changed in
22 the last year. The people out there that wanted
23 the marketplace so badly are now just really happy
24 to see a deal where they're going to make 11 or 12
25 percent return on their equity. And I think that

1 should be recognized more explicitly, not in terms
2 of flowery language, we got enough of that in this
3 thing, but in terms of the implementation details
4 to be implemented sooner rather than later.

5 And I think the sooner that we get
6 ourselves into position that we move from planning
7 to doing, and get some long-term contracts that
8 can be approved in real time, so that we have the
9 avoidance of a double-dip energy crisis, which
10 could very well occur in '06, '07 unless we
11 recognize that we need to get those power plants
12 that are planned and certified built.

13 I do think that the comment about low
14 income consumers, which I think Mr. White was the
15 only one that raised, needs -- it's in our plan,
16 but we need to reconcile the social equity issue
17 of consumers and the problem of price signals for
18 efficiency.

19 There's a conflict there. We are making
20 the price of electricity deliberately low to a
21 very large percentage of the residential customers
22 because for equity reasons. And we can't then
23 expect price signals to take care of them.

24 There is such a thing as load management
25 that works pretty well with simply cycling air

1 conditioners and things of that kind that probably
2 needs to be given a bit more attention in
3 conjunction with pricing.

4 But it is also wrong, Mr. Florio, to say
5 that these investment in meters are not doing any
6 good. Every person that has one of those meters
7 has a time-of-day rate that is in action. That
8 influences their behavior. They don't have a real
9 time rate, but they have a time-of-day rate which
10 is a good percentage is good. And I think the
11 statistics in the data show you that just having
12 the information about your electric bill as the
13 month progresses has a salutary impact.

14 So, you know, don't be quite so hard on
15 us on that point. We worked hard to get the use
16 of those meters.

17 My last point is on renewables. I think
18 it was Peter or someone who said, we don't have
19 enough horses in that race to make the long-term
20 goals that we have in mind. There just really
21 isn't, if you look at the resource base, there's
22 some good geothermal left, there's some good wind
23 left. And the solar, 2, 3 kilowatts at a time is
24 providing some.

25 But we really need to get serious about

1 large-scale solar plants in the desert. And
2 building the transmission lines that Mr. Geesman
3 rightly suggested. Not just to parts of
4 California, but up into Wyoming and Montana where
5 the huge wind resources is.

6 And we need to take a broader look at
7 what we need to do to have the renewable resources
8 to make good on our promises, which perhaps means
9 that some renewed effort for research is even
10 needed. Because the big solar, there's some ideas
11 for greatly reduced costs, but they have to be
12 implemented with something more than just words.

13 But the folks that have said to us that
14 we got to get real serious about the details of
15 implementation and the connections with other
16 goals of California, I think, have been right on
17 target. And I appreciate -- I guess I want to say
18 this. I've been to a lot of public meetings, and
19 I don't know about the quality of our document,
20 but I would say that the quality of the comments
21 that we've gotten today is very very excellent.
22 And I'm deeply appreciative of every one who came
23 here and thought through what they were going to
24 say before they said it.

25 Thank you.

1 CHAIRMAN KEESE: Thank you.

2 Commissioner Geesman.

3 COMMISSIONER GEESMAN: I would also
4 thank the people that have submitted comments to
5 us today; would promise, and I think my colleagues
6 will do the same, to go over the written comments
7 that are submitted to us, as well.

8 I wanted to highlight a couple of points
9 in the plan. I was privileged to be one of the
10 six that participated in the drafting process.
11 There are a couple of features that I think
12 deserve my colleagues' attention and thought
13 before we embrace them. I'm not certain that
14 their significance is completely appreciated, at
15 least based on the relative lack of comment on
16 them today.

17 The first one is the bullet at the
18 bottom of page 1, about reducing per capita
19 electricity demand. That is a big, big, big
20 objective. The Energy Commission Staff forecast
21 that was released a couple of weeks ago, I
22 believe, estimated a growth in per capita
23 electricity demand going forward of about half a
24 percent per year, if I'm not mistaken.

25 If we do, in fact, endorse this, I think

1 we need to recognize that it will carry with it
2 the obligation to come up with the programs to
3 accomplish the goal. It's not something that
4 ought to be lightly entered into.

5 And I do think if we are sincere in our
6 commitment and use this as a metric to evaluate
7 every decision that comes before any of our
8 agencies, this will be an historic turning point
9 in California's electricity policy.

10 I would also highlight the second bullet
11 over on page 2 about accelerating the state's goal
12 for renewable resource generation. David
13 mentioned earlier the notion of moving our 20
14 percent objective that's currently in statute for
15 2017 up to 2010.

16 I would point out that the European
17 Union, several months ago, adopted a goal of 22
18 percent by 2010. Governor Pataki has signed
19 legislation in New York adopting a goal of 25
20 percent by 2010.

21 Given the resourcefulness of
22 California's people and businesses, I think we
23 ought to have pretty high aspirations for
24 ourselves. But if we embrace this, again this is
25 not to be done lightly, if we embrace this it will

1 change everything that we do. And ought to be
2 used as a metric for every decision that we make
3 if we're going to be serious about it.

4 Now, at the risk of being the skunk at
5 the picnic, I do have to point out that there's a
6 portion of our plan that I think suffers from some
7 severe deficiencies. I think the document falls
8 considerably short of the mark in addressing our
9 transmission challenges.

10 We seem to be collectively incapable of
11 acknowledging that the way state government
12 conducts the planning and permitting process for
13 upgrades to the bulk transmission system has not
14 approved a single major regional project for more
15 than 20 years, not since Jerry Brown's PUC
16 approved the Southwest Power Link.

17 We should be proud to serve in an
18 administration that since 1999 has brought nearly
19 10,000 megawatts of new generation online. That's
20 the largest modernization of electricity supply in
21 California history.

22 But we're not using those new supplies
23 well. And we do a disservice to our prospects for
24 economic growth when we force electrons to travel
25 through a transmission grid designed for the

1 1970s.

2 Our document is an inaction plan when it
3 comes to reforming the dysfunctional licensing
4 process. It talks boldly of the need for certain
5 transmission projects, but is ominously silent on
6 the difficult-to-site lines like Jefferson-Martin
7 on the San Francisco Peninsula, or the Valley
8 Rainbow Project in San Diego.

9 It speaks grandly of the collaborative
10 process that we intend to engage in for planning.
11 You know the recently enacted SB-1389 requires
12 nothing less. But it refuses to make the planning
13 results binding on the CPCN process.

14 We ignore the 1996 recommendations of
15 the Little Hoover Commission, as well as those of
16 the State Auditor from 2001. We pretend the
17 status quo is not broken, while the House of
18 Representatives drafts a bill to preempt our land
19 use authority.

20 I'd echo what my friend, Don Vial, said,
21 our inability as political appointees to transcend
22 the turf instincts of the permanent bureaucracy in
23 fixing this critical infrastructure problem taints
24 this part of the plan, taints it with failure.

25 And I think the ball is still in our

1 court. We need to fix this and fix it in the next
2 weeks ahead. Otherwise the Legislature and the
3 Governor will fix it for us.

4 Thank you, Mr. Chairman.

5 CHAIRMAN KEESE: Thank you.

6 Commissioner McPeak.

7 COMMISSIONER McPEAK: Thank you, Mr.

8 Chairman. May I thank you and Chairman Freeman
9 and Chairman Peevey for your leadership in
10 bringing us all together.

11 Clearly having had the opportunity to
12 serve on the working committee, I note this would
13 not be possible to even be sitting here were it
14 not for the visionary leadership that the Chairmen
15 have brought to this whole effort, and the
16 commitment to cooperation, and the dedication to
17 following up on the draft and all of this public
18 input with action.

19 So, I have had the rare opportunity to
20 witness extraordinary leadership on the part of
21 the three of you. And with the cooperation of the
22 Cal-ISO, with the expertise and the working
23 knowledge of the grid that has been
24 extraordinarily helpful in us understanding what
25 is needed in California.

1 I want to join my colleagues in thanking
2 all of you for being here today. We actually have
3 had, I think, a continuing public process launched
4 last June when we historically met and heard the
5 public testimony that identified a number of
6 issues. And, in fact, that's the genesis of the
7 items that are addressed here in this draft,
8 draft, draft action plan.

9 We have the dual challenge of an even
10 expanded public engagement process that is as
11 inclusive and transparent as possible, but with a
12 sense of urgency. Make no mistake, I think that
13 we are in danger of impairing California's
14 economic recovery if we do not pursue the
15 inclusion of all your comments and the completion
16 of a more robust action plan with absolutely
17 intense diligent implementation.

18 And I do want to comment on how I think
19 we envision going forward. But I also want to say
20 that I sit here as an appointee of Governor Davis
21 with the charge on the day that he installed us,
22 Chairman Freeman and Director Vial and myself,
23 and, of course, Treasurer Angelides is there as an
24 ex officio member, and had conceived of the Power
25 Authority, and Director Lloyd as our colleague.

1 But it was Governor Davis who implored us to work
2 cooperatively with all of the agencies and to see
3 if we couldn't make much more seamless the process
4 of implementing our individual directives and
5 authorities, but figure out how to do so in the
6 interests of the public.

7 That interest of the public can't be
8 carried out without the public being very much
9 involved. And so all of your expertise that
10 you've shared with us I want to invite to be
11 deeply and continuously a part of refining what
12 we're doing. And then a partner in
13 implementation.

14 I also think that -- I know I have
15 learned a lot, and with Commissioner Geesman's
16 tutelage about transmission, that that's at least
17 coming through in a much more prominent fashion in
18 this energy action plan.

19 That's not to say that the items that
20 have not been addressed, and some of them have
21 been itemized here today, are ones that we can
22 retreat from. Everything from how do we handle
23 the hangover of obligation and debt, and do so in
24 a fair way. How do we actually deal with sort of
25 the tension between direct access and money to

1 stimulate renewables? How do we be a lot more
2 aggressive on renewables? How do we actually
3 break through the gridlock and get an upgrade of
4 the transmission grid? That all has to be
5 directly addressed and not in the long term but in
6 the short term.

7 What I think has been extraordinary,
8 having watched energy for a couple of decades, and
9 been in and out of it in providing input to
10 policy, is the fact that we have articulated a
11 vision that has been talked about but not
12 memorialized, albeit it's just a framework, but
13 hasn't been memorialized in the way that we're
14 attempting to.

15 The fact that we have a loading order
16 that is set forth is intended to be what Director
17 Vial, as the Chair of the CPUC, was a party to in
18 integrated resource planning, and that the Energy
19 Commission talks about as integrated resource
20 deployment.

21 It is also intended to be, as you,
22 Chairman Freeman, I think wisely say should be a
23 portfolio standard, because it's hard to do
24 analysis forever and ever, and as Commissioner
25 Peevey says, we can certainly be paralyzed by

1 that.

2 But it reflects a value system that I
3 think together we are saying will be the hallmark
4 of California's energy resource adequacy, and that
5 is we will, to the extent we can, optimize all of
6 the cost effective, environmentally friendly
7 options possible. And that's why there is that
8 loading order.

9 It also recognizes the need to pursue in
10 tandem and in parallel the options in that
11 portfolio because we cannot afford to delay
12 upgrades to transmission or the replacement of
13 dirty central generation or bringing online
14 additional new clean central generation that is
15 fossil fuel.

16 At the same time recognizing we will
17 pursue, and I hope as aggressively, certainly as
18 New York or the European Union, optimizing
19 renewables, which are going to require the best
20 technology, the best research to get the best
21 technology. And also making a commitment to
22 scale, so that it can be cost effective and
23 affordable to consumers. And, yes, Mike, we do
24 all of this, Director Florio of -- what are you
25 called at the ISO? I never know all these names.

1 (Parties speaking simultaneously.)

2 (Laughter.)

3 COMMISSIONER McPEAK: All kinds of
4 things. Governor, thank you, John, you're called
5 all kinds of things, but your title is Governor.
6 So that we do so in the interests of the consumer.

7 So, I think that this framework actually
8 is, at least for someone who's older -- old,
9 probably in this whole process, and have viewed it
10 as a real breakthrough.

11 What that means is to be quite
12 persistent and diligent in implementation is that
13 we hope and expect that not only your comments
14 today, but all of those who are listening, all of
15 those who have not had the opportunity to be here,
16 that you will provide those in writing, to the
17 extent you can.

18 I note that some people came in after we
19 closed the hearing. I see my colleague, Dr. Sean
20 Randolph, who's the President of the Bay Area
21 Economic Forum, and he was at another hearing at
22 the Capitol on economic development, but who's
23 done a lot of thoughtful work in energy. And we
24 want to invite as much of the detail to come
25 forward from your comments as possible. That we

1 take all of that with our professional staff
2 sitting there.

3 Now, for me it is really a great vision
4 to see the three Executive Officers sitting there
5 of the agency, I'd like to move Steve over closer
6 to you, from the ISO, but see you there ready to
7 work as a team, and all of the staff that you've
8 deployed in helping us get a refined draft that
9 will go through each of our public processes, I
10 hope, in a timely fashion. And still will be a
11 work in process, within a mechanism that our
12 Chairs work out for us to continuously improve
13 this and assign us responsibility for
14 implementation.

15 As Commissioner Pernel pointed out one
16 extraordinary example and working example of the
17 collaboration between the Energy Commission and
18 the PUC on renewables, you, Chairman Keese, have
19 asked that you and Commissioner Boyd invite the
20 rest of us on your integrated resource plan, that
21 we're responding to. Commissioner Peevey and
22 Chairman Peevey have now had us, Art and --
23 Commissioner Rosenfeld and me, as a representative
24 of the CPA, on dynamic pricing and advanced
25 metering, on rulemaking.

1 This kind of joint proceedings is very
2 important. Please know that behind the seven-page
3 framework, which I'm sure is going to be expanded
4 because of all your excellent input, there are
5 very detailed plans, or detailed summary of the
6 proceedings that each organization is engaged in
7 as a way to try to show the roadmap for how we
8 will go about implementation.

9 That's still not sufficient for the kind
10 of coordinated implementation and accountability
11 that Jan Smutny-Jones kicked off this proceeding
12 with, in asking how are we going to do that. And
13 while we don't have an exact answer, what I think
14 is it must require the continuous meeting in these
15 kinds of forums, delegation of responsibility,
16 checking back in in our own meetings with our own
17 boards, and then still coming back together. And
18 making regular reports to the Governor and to the
19 Legislature about how we're carrying out the
20 people's work.

21 But the people's work, let me just
22 conclude by saying, cannot be done as well as it
23 needs to be without the people and all of you,
24 with your constituencies being a part of this, and
25 us meeting continuously to try to carry out what

1 we've pledged to do.

2 CHAIRMAN KEESE: Thank you. That was a
3 lead-in, I think, to Commissioner Rosenfeld, who's
4 on the end here, and out of communication with us.

5 COMMISSIONER ROSENFELD: Thank you,
6 Chairman Keese. And thank you for the
7 introduction, Sunne.

8 I'm going to actually make only a
9 specialized set of remarks. I did listen and I
10 was very impressed; in fact, I want to tell the
11 audience I thought this was going to be a sort of
12 boring meeting, and it turned out to be extremely
13 interesting.

14 And I want to catch Mike Florio; please
15 don't go away because I have three questions for
16 you.

17 But leaving that out, I want to conclude
18 by just giving you a brief three-minute progress
19 report on how one collaboration with the PUC and
20 the Power Authority is, to my surprise, actually
21 working wonderfully.

22 And so I want to talk about demand
23 response. I want to lead in by saying that if you
24 look on page 4, action item 1, optimize energy
25 conservation resource efficiency, topic 1,

1 implement voluntary dynamic pricing system.

2 It says, and there's a terrible typo, it
3 says we're going to do this, we're going to get
4 1500 to 2000 megawatts by 2004. Now, we do intend
5 to do it by 2007, please fix that in your copies.

6 (Laughter.)

7 COMMISSIONER ROSENFELD: I think getting
8 1 percent a year will suit me just fine. We're
9 not going to give you 5 percent in one year.

10 CHAIRMAN FREEMAN: It doesn't suit us.

11 (Laughter.)

12 COMMISSIONER ROSENFELD: Okay. So,
13 taking a lead from Dave Freeman, who talked about
14 the meters, I want to start in that piece of two-
15 year-old history and quickly come to the present.

16 Yes, the Energy Commission took a lead
17 in getting real time meters in place, because
18 during the crisis it was pretty damned obvious
19 that there were huge fluctuations in wholesale
20 prices, no fluctuations in real time prices, and
21 that wasn't going to work.

22 And with the Governor's Office we got
23 \$35 million from the Legislature and we got 23,000
24 real time meters being installed. And they were
25 supposed to be accompanied quickly by real time

1 pricing, which didn't happen for various technical
2 reasons. But we did, thank goodness the PUC said
3 that a condition of installation was going to be
4 time-of-use prices.

5 And that's sort of half-way there, as
6 Dave Freeman said. So the meters have been doing
7 some good for some time.

8 Okay, but then we had to start working
9 together because the PUC has the power to set
10 tariffs and the CEC has load management powers.
11 And we started introducing the idea of a real time
12 tariff under Carl Wood's proceedings, and that
13 went pretty smoothly. And I have to say, for
14 about a year, I was, in fact, disgruntled.

15 But then just a year ago this week, and
16 that's because he just got confirmed in the nick
17 of time, President Peevey entered, and the fog
18 lifted by some sort of miracle, and my
19 disgruntlement changed to a new word, which is
20 gruntlement.

21 (Laughter.)

22 COMMISSIONER ROSENFELD: And Peevey
23 asked Sunne McPeak and me to join him in working
24 out a joint proceeding. The PUC produced an OIR
25 for the long words of advanced meters, real time,

1 dynamic pricing and demand response. And within a
2 week the California Energy Commission issued an
3 almost identical OIR.

4 We started working together, we three
5 principals. The staffing has been very
6 impressive. We formed two working groups because
7 we had the so-called easy win of 18,000 new meters
8 with baffled customers on time-of-use prices.

9 That's called working group two. And
10 its job is a quick win. We hope to have for you
11 approval his summer of at least what's called
12 critical B pricing, which is two-thirds of the way
13 there. And an active study group working on real
14 time pricing for the following summer.

15 That group, with hundreds of
16 participants, is being led by Mike Jaske at the
17 Energy Commission. Working group one, the
18 principles, has been facilitated by Julie Fitch of
19 the CPUC.

20 We have a working group three working on
21 a huge pilot for this summer in which we're going
22 to have 22,000 -- which we're going to have 2400
23 customers sign up for a pilot to see how well
24 various sorts of time-of-use pricing for
25 residential customers, critical B pricing for

1 residential customers, how all that's going to
2 work.

3 We're hoping then to have something that
4 will -- a battle plan that will be complete by
5 maybe 2007. That group has been led by Mike
6 Messenger at the Energy Commission.

7 And so it's all worked out extremely
8 well. We really do hope that we're going to get a
9 state in which when there are either shortages or
10 high prices, customers will respond voluntarily.
11 In fact, we hope that in homes customers will
12 respond automatically with preset communicating
13 meters.

14 And that we will give up this 20th
15 century idea that when there's a shortage you have
16 rolling blackouts, which seems uncivilized to me.
17 It's much better for everybody to participate in
18 his thermostat going up four degrees than it is to
19 have rolling blackouts.

20 We think we know how to get there. And
21 the whole thing has just worked extremely well and
22 I particularly want to thank now President Mike
23 Peevey. So, thank you, sir.

24 CHAIRMAN KEESE: Thank you. With that,
25 Commissioner Peevey, would you --

1 PRESIDENT PEEVEY: Well, yeah, let me
2 just make a few comments here on this whole
3 process. I mean it began in December; it's been
4 going on for several months.

5 All one has to do is gaze at David
6 Freeman, Bill Keese and myself to realize we're
7 not young people. And we may be young at heart,
8 we have a penchant for action. Or as Peter said,
9 a bias in favor of action. And that's what this
10 plan tries to represent. And I think does in a
11 good way.

12 The conventional wisdom, the true
13 conventional wisdom, if one wants to talk about
14 conventional wisdom, is that we can't work
15 together. I mean that's the real conventional
16 wisdom. And in this area. I might all that not
17 all conventional wisdom is invariably wrong, I
18 mean, you know, democracy in America, is the
19 conventional wisdom, it's a desirable thing. And
20 I hope we all agree that that, though
21 conventional, is worth preserving, given it's
22 being tested in many respects, I suppose.

23 But in any case, conventional wisdom is
24 that we can't work together. We're trying to defy
25 the conventional wisdom and show that we can work

1 together. And there are a lot of obstacles.
2 They're all institutional obstacles.

3 And so this document represents, to some
4 degree, a compromise in and of itself. That is
5 not satisfying to all the constituent groups
6 nonetheless. I mean it's true that the
7 transmission section, I listened very carefully to
8 Mr. Geesman, does not meet his expectation of what
9 it ought to say.

10 And so it was not unanimous, but a
11 majority put it on paper the way it was. That's
12 still not satisfying to many many others.

13 But I would hate to see anybody feel
14 that this document is not radical in certain
15 aspects of it. As John said very very clearly,
16 it's committed to reducing per capita consumption.
17 That is a very very significant step. It's the
18 one thing that unites all of us who put it
19 together; we're all green in that sense. We're
20 all committed environmentally in that sense.

21 And also the commitment to renewables.
22 We think the difference between us, perhaps, and
23 New York or the EU is that we think we can do it.
24 We're confident we can do it in the timeframe of
25 2010. And it's not just a pious hope or dream.

1 The other thing that I wanted to say is
2 some of us remember more fondly perhaps than
3 others, LBJ, the President of the United Airlines.
4 He was asked more than once his perspective. He
5 said he was first an American, then second a
6 Texan, and third a democrat.

7 Well, I can tell you that I'm first a
8 Californian, second a public servant, and third a
9 PUC Commissioner. Now what do I mean by that?
10 I'm committed to good public policy. I'm
11 committed to working these things out amongst the
12 agencies. But I am not committed to fighting
13 forever for turf.

14 Our job is much broader than the agency
15 we work at. Our job is to look after the public
16 interest of the people of California -- who are
17 young and old, in the area of energy, telecom and
18 all the other things we have at the PUC.

19 And process is not an end in itself.
20 Far too much of government, and that's another
21 conventional wisdom, in government process is an
22 end in itself. It's not an end in itself to me
23 and those who drafted this action plan.

24 And now when I stop in a moment, Mr.
25 Keese will tell you the next steps, as we go

1 forward with this. But I would implore all of us
2 as colleagues and all those in this room, that we
3 will continue to work together; we will massage
4 this; we will improve it; we will amend it, and
5 all those things.

6 But at the end of the day I think it is
7 incumbent upon us to come together and come up
8 with something that can be called action, not just
9 words and not just process. And that has some, to
10 some extent, is binding on all of us. To do
11 otherwise is to fail the public that we all swore
12 we would serve.

13 Thank you.

14 CHAIRMAN KEESE: Thank you, Michael.

15 Thank you, Commissioner McPeak, both for
16 summarizing, I think, today's process.

17 I also want to again thank staff in the
18 front row, Laura and Barbara, who have been taking
19 copious notes of everything that's been said here,
20 which will undoubtedly appear in the next draft
21 that comes before us.

22 Our goal is to have something the first
23 of April. We ask you please to respond by March
24 21st, and to the CPUC site. Get your comments in.

25 We recognize, as President Peevey said,

1 that we have to tweak this. We recognize we
2 probably have to add some other issues.
3 Commissioner Kennedy has pointed out one of the
4 issues that we have to add.

5 Our goal is to get this action plan, and
6 to start working on it. And to deliver it to the
7 Governor and say, this is what we're working on.
8 Deliver it to the Legislature and say, this is
9 what we're working on.

10 So, I thank you, I thank all the members
11 who joined us here, I thank PERS for this
12 wonderful facility which turned out to be the only
13 place in town we could find where we could have a
14 meeting.

15 Thank you all for coming. I think it's
16 been a very good process.

17 (Whereupon, at 2:10 p.m., the meeting
18 was adjourned.)

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CERTIFICATE OF REPORTER

I, PETER PETTY, an Electronic Reporter, do hereby certify that I am a disinterested person herein; that I recorded the foregoing California Energy Commission, California Public Utilities Commission and California Power Authority joint meeting; that it was thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to said meeting, nor in any way interested in outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 19th day of March, 2003.

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