

CALIFORNIA ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION
ENERGY EFFICIENCY COMMITTEE

JOINT COMMITTEE HEARING
INFORMAL PROCEEDINGS AND PREPARATION OF THE
2003 INTEGRATED ENERGY POLICY REPORT
Docket No. 02-IEP-01

CALIFORNIA ENERGY COMMISSION
HEARING ROOM A
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SACRAMENTO, CALIFORNIA

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PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345

A P P E A R A N C E S

COMMITTEE MEMBERS PRESENT

James D. Boyd, Commissioner, Presiding Member

William J. Keese, Commissioner, Associate Member

John L. Geesman, Commissioner

STAFF PRESENT

Melissa Jones, Advisor to Commissioner Geesman

Susan Bakker, Advisor to Commissioner Boyd

Scott Thomashefsky, Advisor to Commissioner Keese

Al Alvarado, Project Manager

David Maul

Marwan Masri

David Vidaver

Ruben Tavares

Jairam Gopal, Natural Gas Assessment

Jim Woodward, Electricity Analysis Office

ALSO PRESENT

Alan Wilcox, SMUD

Robert Laurie, Esq., former CEC Commissioner

Raul "Bernie" Orozco, Sempra Energy

Stephen Wald, CHRC

Barbara George, Women's Energy Matters (WEM)

I N D E X

	Page
Proceedings	1
Opening Comments, Commissioner Boyd	1
Protocol and Procedures	1
Recap of previous day's hearing	6
Staff presentation on natural gas forecasts	10
Public comments and questions	42
Closing Comments	85
Adjournment	87
Reporter's Certificate	88

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P R O C E E D I N G S

CHAIRMAN BOYD: Good morning, everybody.

Welcome to our second day of hearings by the Integrated Energy Policy Report Committee of the Commission, on the Electricity and Natural Gas staff draft assessment. Yesterday we had a very interesting and productive day, and I look forward to learning more today.

I'm Jim Boyd, the Presiding Member of the Integrated Energy Policy Report Committee. On my immediate right is Commissioner Keese, the Chairman of the Commission, who is the Associate Member of this Committee.

And also with us here today, as yesterday as well, is Commissioner Geesman, who sits with the both of us on a variety of committees at the Commission that deal with the subject that we're dealing with. So I'm pleased to welcome Commissioner Geesman to this hearing.

As I said, this is day two of a two-day review of the staff's draft of the assessment of electricity and natural gas, which draft is very familiar to many of you whom I recognize from being in the audience yesterday.

Which draft and the materials and input

1 we receive from these two days of hearing will
2 provide the Commission and the Committee of the
3 Commission more input in deciding the content and
4 format of the final Integrated Energy Policy
5 Report that will be submitted to the Governor in
6 November of this year.

7 As I indicated yesterday, this seemingly
8 simple subject of electricity and natural gas, and
9 the assessment report, are backed up by seven or
10 eight pounds of supplementary reports that really
11 constitute the whole package of materials that one
12 must afford themselves the opportunity to read to
13 really get a handle on this whole subject, so you
14 see the magnitude of the issue that faces us as a
15 commission in dealing with electricity, natural
16 gas, and all the subjects related thereto.

17 And you see the magnitude of the effort
18 that the staff put in to prepare you and prepare
19 us to deal with this task.

20 So, as I said yesterday, I appreciate
21 the input of the stakeholders and the public. We
22 do, and we also appreciate the work that the staff
23 did. We will conduct today's hearing much like
24 yesterday's.

25 I believe we'll have a recap of what we

1 heard yesterday. We'll have more public comment
2 on the subjects of electricity, natural gas, and
3 the environmental issues.

4 The method by which the members of the
5 public, stakeholders and etc. get recognized to
6 speak up here is by filling out one of these blue
7 cards, which you find in the table in the lobby.
8 And the staff will bring it forward to us, and
9 we'll see that you get called upon.

10 Again, I want to indicate, this should
11 be as informal a setting as we can possibly have
12 in this very formal setup we have in this room.
13 Because this is a public meeting to address a very
14 weighty subject, we'd like a lot of dialogues.

15 However, procedure necessitates that A,
16 you fill out a blue card so I know to call on you,
17 and B that you come to a microphone to speak or to
18 ask questions or to ask for clarification.

19 Because this is being webcast, and there
20 is a listening public out there -- I know, I got
21 questions from them when I got back to the office
22 yesterday. And secondly, hearing the meeting is
23 being recorded for posterity, as well as to allow
24 us to review materials as we formulate our final
25 position on this subject.

1 So we do ask that you speak clearly,
2 speak to a microphone, introduce yourselves with
3 your name and affiliation, and stay near a
4 microphone if you've got questions to ask. I
5 don't want to say too much more than that, in
6 order that we can get moving.

7 Since this is day two of a hearing, a
8 lot was said yesterday. Because of the nature of
9 the subject, and because of the difficulty of
10 dividing it apart, although we've attempted to
11 stretch this hearing -- well, we have stretched
12 this hearing out over two days to accommodate the
13 length and breadth of the issues, and the staff
14 did suggest that there be kind of an order, kind
15 of dice this up into pieces.

16 We've been very open and accommodating
17 to speakers to speak to any and all of these
18 issues, because one, this is an integrated
19 subject, so it's hard in some cases to not talk
20 about the entire subject for some people. For
21 others they want to address a specific subject.

22 So again, we solicit and welcome people
23 to talk on any parts of the entire subject today,
24 not just the parts that are indicated on the
25 agenda. Yesterday we touched upon all the

1 components, although not heavily on environmental
2 issues, and I expect to hear more about that
3 today.

4 So with that lengthy introduction and
5 discussion of procedures and protocol, I would
6 first like to call on my fellow Commissioners for
7 any comments they might want to make.

8 And let me correct an error I've already
9 committed by not reintroducing the Advisors who
10 are sitting up here, because we have had a program
11 change between yesterday and today. My Advisor on
12 my left, Susan Bakker, is here for day two. Scott
13 Thomashefsky, who is Commissioner Keese's lead
14 Advisor, was not here yesterday, but he has joined
15 us. And Melissa Jones is with us a second day as
16 Advisor to Commissioner Geesman.

17 So with that I will turn it over first
18 to Chairman Keese and then to Commissioner
19 Geesman, any comments they'd like to make.

20 CHAIRPERSON KEESE: I think we had a
21 very productive day yesterday, I look forward to
22 wrapping it up today. So that's it.

23 COMMISSIONER BOYD: Commissioner
24 Geesman, any?

25 COMMISSIONER GEESMAN: I do too.

1 COMMISSIONER BOYD: Thank you. Mr.
2 Alvarado, Al Alvarado, who is the Project Manager
3 of this effort, I turn it over to you again.

4 MR. ALVARADO: Good morning. My name is
5 Al Alvarado, the Project Manager of the
6 Electricity and Natural Gas Assessment Report.
7 What I'll do today is give a quick recap of some
8 of the major themes and discussions that we had
9 yesterday.

10 We had about a dozen participants that
11 provided comments. Participants ranged from
12 Pacific Gas & Electric Company, Sempra, the
13 Western States Petroleum Association, Independent
14 Energy Producers, Southern California Edison, and
15 a number of other folks.

16 We touched on three major themes. We
17 did have a discussion on natural gas supply,
18 transmission issues, and electricity issues.
19 Regarding natural gas supply, some of the general
20 comments were there's agreement such that there is
21 a long-term U.S. supply need that needs to be
22 supplemented by other resources.

23 The resources to consider for gas
24 supplies to California include sources from
25 Canada, Alaska, or from international sources

1 delivered as LNG.

2 Some of the suggestions that we did
3 receive yesterday, natural gas, included a
4 suggestion that we add supplemental base case to
5 our studies that would include one BCF of LNG in
6 2007 to evaluate some of the impacts. It was
7 suggested that this adding LNG to our base case
8 would likely cap natural gas prices after 2007.

9 There was also a suggestion on proposing
10 a mechanism to deal with issues such as multiple
11 standards for gas quality on different pipelines,
12 as well as a mechanism to deal with access of LNG
13 to San Diego Gas and Electric as well as the SoCal
14 pipelines.

15 Regarding transmission issues, some of
16 the comments that were discussed yesterday include
17 suggestion that the state needs to streamline
18 transmission planning and siting. Multiple
19 agencies coordination is basically not enough.

20 There is a concern that coordinating the
21 transmission planning and siting could take an
22 extensive amount of time. We do need a
23 determination of need, they're suggesting only
24 once, as it pertains to transmission lines. And
25 also a suggestion that this process would be

1 engaged over a 12-month time frame.

2 Additional resources need to be made
3 available also to do a proper CEQA review in a
4 timely manner. I guess there is discussion that
5 the California Public Utilities Commission does
6 engage in a good CEQA review, but as discussed
7 also, given the current budget situation we are
8 constrained with the adequate resources to do a
9 good timely job.

10 Transmission planning also needs to be
11 done on a regional context, with full
12 participation of control area operators, regional
13 grids, as well as FERC. This is also a suggestion
14 -- that we look to FERC process for licensing
15 natural gas pipelines as a model.

16 On electricity there was a suggestion
17 that long-term procurement rules and ten-year
18 contracts would create financeable projects. I
19 know there is a suggestion that there could be
20 some developers that would be willing to take a
21 five-year contract to develop a project, but I
22 guess there's -- we have to wait and see what sort
23 of results we'd get.

24 With regard to development by the
25 investor-owned utilities, they need to become

1 credit-worthy, and also there is a concern that
2 there is some uncertainty with defining their
3 customer base.

4 Another suggestion was that the report
5 should say more about regional coordination, since
6 California is part of the regional grid. Regional
7 resource adequacy is also essential. Suggestion
8 that the Commission should participate in regional
9 planning, and also participate in other western
10 states proceedings.

11 The Report should also reduce regulatory
12 uncertainty through greater clarity in the
13 different roles of the different energy agencies.

14 Parties could also collaborate to
15 develop workable core non-core rules. The basic
16 concern here is that non-core must be responsible
17 for their own resource adequacy, and there must be
18 clear entry and exit rules that do not shift risks
19 to bundled service customers.

20 Those were the major themes discussed
21 yesterday. Quite a few suggestions, I thought,
22 were pretty good suggestions that were provided,
23 and I hope we do continue this discussion today.

24 We also are going to have a presentation
25 by Mr. Maul, who will talk about some of our

1 studies in the gas findings too. Other than
2 that --.

3 COMMISSIONER BOYD: Thank you, Al. Any
4 comments or questions from anybody here at the
5 dais or here in the audience, so far? With that,
6 I guess, Mr. Maul, if you are ready?

7 MR. MAUL: Good morning, Commissioners
8 and audience. While Al is trying to find the
9 right presentation here, we'll start off.
10 Commissioners had asked staff to go back and not
11 only conduct projections for future -- there we
12 go, very good, thank you.

13 For future forecasts for natural gas,
14 using the models that we have. And the models we
15 do also look at natural gas demand forecasts,
16 supply forecasts, flows of gas throughout the
17 pipeline system to identify congested areas, as
18 well as price forecasts that are used.

19 Keep in mind that the forecasts that we
20 use really are not forecasts in the truest sense
21 of the word, they are more trend analysis or
22 outlooks. The model that we use is called an NARG
23 model, it provides a basic trend over time, with a
24 readout every five years. So it does not provide
25 a year by year projection of prices.

1 And particularly it does not provide a
2 very good year by year projection in the near
3 term, that is, the first couple of years going
4 out. But in the long-term it provides us a good
5 indication of where we think prices are going,
6 whether they are going up significantly, going
7 flat, going down.

8 And we use the model, more importantly,
9 to try and figure out how the pipeline system in
10 California will operate, and whether there's a
11 need for more infrastructure in California based
12 upon congestion that we're seeing or artificially
13 higher prices in certain areas based on that
14 congestion.

15 If we find for example, certain areas --
16 as you can see on the view graph here on the
17 natural gas, has a background map of the western
18 United States.

19 And for example if we find less gas
20 coming out in the future in the Anadarko Basin,
21 down in the southwest, lower right hand side, then
22 the model will adjust for that, and will then
23 increase supply availability for other areas of
24 the United States, western U.S. in particular.

25 So in doing that, and as well as you

1 recall this is the integrated energy assessment
2 report, which means that the natural gas model is
3 fully integrated with our demand forecasting
4 effort and with our electricity forecasting
5 effort, so its a cyclical process we go through,
6 to start with demand for electricity, demand for
7 natural gas, that feeds to the electricity
8 analysis office with their electricity models.

9 It also simultaneously feeds to the
10 natural gas unit so we can run our gas models. We
11 provide a feedback loop, we provide a preliminary
12 outlook for prices which goes back to the demand,
13 which goes back to electricity, and then we get a
14 final readout from both those offices.

15 And that becomes the final input to the
16 model that we have on natural gas, coming up with
17 our forecasts, or our outlooks on natural gas.

18 This kind of gives you an idea of the
19 vintage of the various staff's forecasts or
20 outlooks for natural gas prices. And again, we're
21 talking about lower 48 well head prices, not the
22 prices that one would typically see in California.

23 The current outlook we have right now is
24 the large blue dot line going right in the middle
25 going upward. In the past we've had higher

1 forecasts, we've had lower forecasts.

2 It's probably relevant just to point out
3 that in just the last two years we have become
4 much more conservative in our assumptions
5 regarding supplies available to California and the
6 lower 48, based upon trends that we are seeing
7 right now in natural gas supply and demand.

8 So just last year, for example, the
9 green diamond line right below the large blue dots
10 was last year's forecast, it was a lower forecast.
11 And the 2000 forecast was considerably below that,
12 as the brown circles at the very bottom.

13 So we have become much more conservative
14 in our view of gas availability. We did go back
15 and take a look at other indications of future
16 prices for natural gas. This chart looks very
17 busy, and it is that way on purpose. There are a
18 number of other indications of future prices, from
19 forecasts to marketing decisions.

20 As I said, ours is not necessarily a
21 forecast, and ours is one of the few there that
22 really goes to the long term. A lot of them stop
23 short.

24 But let me just try to walk you through
25 this rather busy chart. The staff's current

1 outlook is the middle of the three blue square,
2 blue lines right in the center of the chart there.
3 That's our current base forecasts. We did do some
4 different assumptions that would lead to higher
5 prices, as well as some assumptions that would
6 lead to lower prices.

7 In addition to the effort we did we
8 looked at other folks in the U.S. and Canada that
9 were looking at the same kind of work that we were
10 doing, and tried to figure out what their view of
11 the future might be, both short-term and long-
12 term.

13 Probably the interesting ones to
14 highlight here would be the U.S. Government, the
15 USEIA has their outlook. That is the lower one
16 with the brown line and the brown circles that dips
17 down and comes right above our bottom blue line,
18 and then starts to climb back up again.

19 This is the USEIA, the U.S. government's
20 forecast of prices going up there, below our base
21 case but above our minimum case. The other one
22 that's probably of more interest is what the
23 market thinks of prices.

24 And they don't have a long-term view of
25 prices, but their projection goes out five years,

1 and that would be under the NYMEX, that's the New
2 York Mercantile Exchange. It is possible to buy
3 futures for natural gas and have delivered to you
4 at a pre-established price. That one is the orange
5 line, starting high, dropping down, and coming
6 down lower.

7 And in there, that's as far out as you
8 can go, that's a five-year futures price. I've
9 got more information on how that line varies over
10 time as well in my next slide, which I'll get to
11 in just a few minutes here.

12 Other ones we have on the chart besides
13 the CEC base case, which is this middle one I just
14 mentioned, the NYMEX one we just went through. We
15 have ESAI, which is a private consultant group.
16 They focus on North American issues. That's the
17 one that comes in below our base case and flattens
18 out.

19 We have Purvin and Gertz, again a
20 private consultants group, that's the brown square
21 one coming in relatively flat. They are out of
22 Houston, Texas focusing primarily on petroleum
23 issues, but they also have forecasts for natural
24 gas.

25 EEA is another consulting group

1 providing consulting services to the natural gas
2 industry. They are the rather wild-looking line
3 that goes up and down, up and down, up and down
4 and up and down, year by year. So again, always
5 higher than our base case forecast, but moving
6 quite a bit across the chart.

7 We already talked about the CEC low
8 forecast. NPPC is re-named the Northwest Power
9 Planning Council, out of the Northwest, Oregon and
10 Washington. This is their forecast of gas
11 availability and prices. And that would be the
12 clear diamonds, which is this one right down here,
13 dropping, and that's as far as they go out, to
14 2005.

15 Sproule is an independent consulting
16 group I believe out of Canada. That's the green
17 line coming down and coming straight up slightly
18 above our line. CERA is the Canadian Energy
19 Research Associates, also out of Canada. They
20 look at the entire American continent. They come
21 in, again, up down and come in slightly above our
22 line and flattening out in the long term below our
23 line.

24 We talked about the CEC high forecast.
25 The EIA I talked about earlier, this is their

1 annual energy outlook for the year 2003. They do
2 an annual that looks at multiple years. They also
3 do a monthly just looking at this particular year.
4 We have not shown the monthly's on here.

5 Another indication of prices would be
6 LNG, there is a public offering from Alaska. The
7 on the table offer to sell LNG delivered to
8 California markets at three and a quarter
9 escalated up, and that's this line right here that
10 comes in below ours and is relatively flat.

11 And finally, GLJ is another private
12 consultant group out of Canada looking at the
13 North American market, and the only one we could
14 find from them was a 2000 vintage forecast, coming
15 in here and coming down. It's a rather dated
16 forecast but that's all we could find right now.

17 So as you can see we have quite a few
18 different views on future prices. We've put all
19 these into constant 2000 dollars, to give you an
20 idea, make some apples to apples comparisons here,
21 but there are some rather different views of the
22 world.

23 Some of these are year-by-year
24 forecasts, whereas our is more of a trend. As
25 noted, we read out every five years, and just

1 connect the dots.

2 Let me move on to the next chart, which
3 is NYMEX. I mentioned the NYMEX --

4 MS. BAKKER: This is kind of minor, but
5 the CERA, is that Cambridge Energy Research
6 Associates, or Canadian Energy --

7 MR. MAUL: No, it's --

8 MS. BAKKER: I thought that was CERI?

9 MR. MAUL: Oh, CERA is Cambridge? Yes,
10 you're right, excuse me it is Cambridge. That's
11 right, CERI is Canadian Research Institute, versus
12 CERA, right.

13 MR. MASRI: Marwin Masri, Energy
14 Commission staff. Just to point out that there's
15 one line there you didn't talk about, I think,
16 which is the one below our high case, that purple
17 colored one. It seems to be closer to our high
18 case than anything else?

19 MR. MAUL: That's the ESAI private
20 consulting group.

21 MR. MASRI: Yes, I think you pointed to
22 the lower line, so --

23 COMMISSIONER BOYD: Yes, you attributed
24 them to a different line in your presentation.

25 MR. MAUL: Oh, I'm sorry, okay.

1 MR. MASRI: So that one seems to be
2 closer than anything else to our high case, so I
3 just wanted to point that out.

4 MR. THOMASHEFSKY: Dave, I have one
5 question. Since we're now teeing it up. Did you
6 look any further into the rationale behind the
7 shifting of the EEA forecast, why it's going down
8 as much as it is?

9 MR. MAUL: No, we have not had a chance
10 to review the report. Sometimes all we get is
11 just the forecast. A lot of these forecasts, if
12 you wish to get the details you pay \$25,000 or
13 \$100,000 to get a membership or prescription to
14 that organization.

15 These are consulting groups in the
16 business to make profit. So sometimes all we can
17 get is just the snap shot.

18 COMMISSIONER BOYD: Now, to the extent
19 that anybody actually believes any of these
20 forecasts, I would expect that there would be a
21 fair amount of opportunity to sell a contract on
22 the NYMEX, since most of the forecasts appear to
23 be significantly below the NYMEX.

24 And I don't want to be too much a
25 product of 19 years of bad habits, but do you know

1 if there's a lot of short interest on the NYMEX?

2 MR. MAUL: We do talk about the NYMEX
3 every two weeks in our natural gas working group
4 meeting. One of our members in this group
5 actually buys on the NYMEX, and what they're
6 finding is that the early years are fairly well
7 traded, the later years are very thinly traded,
8 and so there's not that much confidence in the out
9 years.

10 That's because there's very little
11 activity for those out years. Any more questions
12 on this chart? Okay.

13 Now that you mention the NYMEX, this
14 chart here shows vintages of the NYMEX and how
15 much it changes, even month by month. The latest
16 version of NYMEX is kind of the dark orange line
17 with the squares in it, and that's this one right
18 over here marching on down, getting lower and
19 lower as time goes out.

20 It's important that -- I think it's kind
21 of interesting to note -- that even as much as a
22 couple of months ago, in June, the blue line
23 prices were dramatically higher than they are
24 today on the NYMEX.

25 And I guess it is a year ago, less than

1 a year ago, prices were dramatically lower. So we
2 went from a forecast of around 350 to a forecast
3 of six dollars in the space of about nine months.

4 So there's a lot of uncertainty, even
5 among the market traders, on what the futures look
6 like. They do tend to converge as they get out in
7 time, so really there's value in looking at these
8 in the short term because they tend to converge in
9 the longer term.

10 This is the comparison of the outlook
11 that we have, and there's oftentimes confusion
12 about whether they're in constant dollars or in
13 escalated nominal dollars, so we actually took the
14 forecast and printed it two different ways.

15 Our base high and low, which actually is
16 in the solid lines, that's the constant dollars
17 that we had shown earlier in the solid lines.
18 Here's our low base case, this is our high case.

19 And then we looked at those same things
20 and escalated them into nominal dollars, and you
21 can see how they each ratchet up a bit. Our base
22 case then ratchets up to there. All the broken
23 lines are nominal dollars, all the solid lines
24 are --.

25 So it's important to figure out, when

1 you're trying to look at dollars, thinking about
2 what set of dollars you're looking in, just to
3 provide some additional information, for how these
4 forecasts can be used.

5 Again taking the base forecast, which is
6 a lower 48 well head price, and applying it now to
7 California, we then segment that forecast out to
8 look at how that price flowed to different
9 sectors, based upon transportation costs, utility
10 charges, other charges. This is the application
11 of that outlook to the electric utility forecast.
12 So it would be for the core customers, I believe.

13 And again, this is our base case, it's a
14 blue one going out. Probably the more relevant
15 one in the integrated fashion is on the electric
16 generation side, trying to figure out what
17 electric generators will pay for gas in
18 California, given that lower 48 well head outlook
19 we had presented earlier.

20 Let me note here that we started out
21 with, that's our blue line, that's our base
22 forecast as we had brought it in the forecast, the
23 outlook. Because we only provide a readout every
24 five years we don't have that much specificity in
25 the early years, on a year by year basis.

1 And so, in trying to figure out what our
2 clients in the electricity analysis office needed
3 as input to their electricity models, we realized
4 that it probably was not prudent to use a trend
5 line analysis in the early years. So instead of
6 that, what we came into agreement was, to have
7 electricity analysis office actually use the NYMEX
8 prices at the time they did their analysis on a
9 year by year basis.

10 And that is the fuscia line coming down,
11 which was picked off at the time they did their
12 analysis. They just went to the markets and saw
13 what the future prices were year by year, used
14 that forecast, and when it came down to crossed
15 lines in 2006 they then picked up our forecast for
16 the long-term trend.

17 That provided a little more specificity
18 in the early years, with the trend from our output
19 for the longer years. And that actually is the
20 prices that are being used as input to the
21 electricity models. They are not using these
22 early years that came out of the NARG model.

23 And finally, this is again the
24 comparison of electric generation prices and
25 nominal and constant dollars, again looking at the

1 two constant dollars in a solid lines and the
2 broken lines being the nominal dollars.

3 A lot of folks in electricity analysis
4 use nominal dollars, we tend to use constant
5 dollars, so we just have to provide translations
6 here to make sure we get the right numbers into
7 the forecast, so we don't have a centimeters and
8 an inch problem, as NASA once did.

9 But looking here, the relevant line
10 would be if you take our base forecast in nominal
11 dollars, which would be blue dotted, this is
12 probably the more relevant number looking for the
13 impact of gas outlook that we have on electricity
14 prices in California. And that's escalating out
15 to the future.

16 I think that's all we have right now. I
17 will note that, I just got an announcement this
18 morning that the basic model that we use, which is
19 called NARG -- and we're actually upgrading NARG
20 to market builders, it's licensed by Altos
21 Partners, is the model we're currently using --
22 we're going back to that.

23 We will be doing a review of other
24 models to see if there's other models that suit
25 our needs either short-term or long-term n a

1 better way.

2 The NARG model and market builder model
3 we currently use right now, there's an
4 announcement this morning that the National
5 Petroleum Council is conducting its ten-year
6 assessment, just about ready to complete it and
7 will be publishing it very soon. They're using
8 the very same models that we're using, that is
9 NARG, NARE and market builder as a basis for
10 theirs.

11 I'd like to be able to do the kind of
12 work they did, but they spent 50 person-years and
13 I think several million dollars getting data, and
14 were supported by all the oil and gas companies in
15 America. Giving them proprietary data on 920
16 different individual oil and gas fields in
17 America.

18 So hopefully, when that comes out here
19 soon, that will be the most robust outlook of gas
20 supply and hopefully gas demand as well. We can
21 use that as a base for the next iteration of the
22 model we'll do next year. So we're looking
23 forward to that output, should be out hopefully
24 late this year.

25 With that, can I answer any questions

1 from Commissioners?

2 COMMISSIONER GEESMAN: Dave, do you know
3 what was used in the cost of generation tables by
4 technology?

5 MR. MAUL: No, I don't know. Maybe the
6 electricity analysis office. Dave, or --? Did
7 you guys use our short-term NARG and the NYMEX
8 prices? Our December forecasts? Okay.

9 What our coordinative staff is telling
10 us here is we're using the cost of generation
11 report, which was done earlier than this forecast,
12 relied upon the earlier staff's gas report, which
13 came out last december, not the one we're looking
14 at right now.

15 COMMISSIONER GEESMAN: Okay, so it did
16 not include the NYMEX prices in the early years,
17 and then converting over to our forecast prices in
18 '06?

19 MR. VIDAVER: David Vidaver, CEC staff.
20 If I understand the question correctly, the gas
21 price forecast from today through the end of 2005
22 is based on an NYMEX futures prices as of April
23 7th, 2003.

24 COMMISSIONER GEESMAN: And is that what
25 was used in the cost of generation tables?

1 MR. VIDAVER: Unfortunately, I can't
2 answer that question. The person that put that
3 report together isn't here. Maybe Mr. Alvarado
4 can?

5 MR. ALVARADO: I'm sorry, I don't really
6 have the answer, but we can get back to you as
7 soon as possible.

8 COMMISSIONER GEESMAN: Okay. That's
9 fine.

10 MR. ALVARADO: Oh, we've got one more
11 try here.

12 MR. TAVARES: I'm Ruben Tavares for the
13 staff of the Energy Commission. I used, for the
14 retail price forecast, we used the December
15 forecast, the one that Jairam was describing. But
16 for the cost of generation, I don't know, it might
17 be.

18 COMMISSIONER GEESMAN: And when you
19 speak of the December forecast, did that also
20 adopt the technique of using the NYMEX prices for
21 the early years, until there was a crossover?

22 MR. TAVARES: My understanding is that
23 it did not. Did it?

24 MR. GOPAL: This is Jairam Gopal with
25 the Natural Gas Unit. And the California Energy

1 Commission. In the cost of generation report they
2 did use the conventional base case projections,
3 along with the NYMEX prices for the early years.

4 But the only thing is, unlike the
5 current analysis which used the April 4th NYMEX
6 price, they used a different vintage, so the
7 structure would be different.

8 COMMISSIONER GEESMAN: Okay. Thank you.

9 MS. BAKKER: Dave, could we go back to
10 slide three, please?

11 MR. MAUL: There you go.

12 MS. BAKKER: Okay. Now my understanding
13 from what you said is that we produced a forecast
14 for 2003, 2008, and 2013.

15 MR. MAUL: Actually we did one for 2002,
16 2007, 2012. Another model, those are the readout
17 points for those three dates.

18 MS. BAKKER: Okay, so say those dates
19 again?

20 MR. MAUL: 2002, add five, 2007, add
21 five, 2012.

22 MS. BAKKER: Okay. I guess the point I
23 was going to make is, the one that's grey there,
24 the one that goes up and down --

25 MR. MAUL: Oh, that's just current year.

1 MS. BAKKER: No, no. The consultant
2 forecast there?

3 MR. MAUL: The EEA, or the --?

4 MS. BAKKER: I can't tell from my graph,
5 and I can't tell from the --

6 MR. MAUL: You mean this one right here,
7 or the one that goes up and down like that one.
8 The thin line?

9 MS. BAKKER: Yes, that one, there.

10 MR. MAUL: Okay. That's --

11 MS. BAKKER: I guess I was going to make
12 the point that if you use 2008 and 2013 they would
13 be virtually in agreement with our forecast.
14 Their 2008 and our 2008, and their 2013 and our
15 2013. And they would be in virtual agreement with
16 us. And every other year there would be hideous
17 differences in the assessments of the implications
18 of using gas.

19 MR. MAUL: Yes. That's one way to look
20 at that chart.

21 MS. BAKKER: Okay. And when you go to,
22 let's say slide 7. The figures for EG there.

23 MR. MAUL: Uh-hmm.

24 MS. BAKKER: We actually do forecast
25 year by year rate components?

1 MR. MAUL: We do in the early years
2 because we're using NYMEX, this fuchsia line
3 coming down.

4 MS. BAKKER: No, I'm saying that we
5 actually use year by year what it costs for
6 instate generators to use the instate system.
7 That is to say, the tariffs. So are those year by
8 year?

9 MR. MAUL: In the early years they are
10 year by year because we have NYMEX.

11 MS. BAKKER: Okay. I'm just trying to
12 establish that a portion of our forecast actually
13 is done year by year --

14 MR. MAUL: Yes, that's correct.

15 MS. BAKKER: -- from year 2003 through
16 2013. But the other portion of our forecast is a
17 year and a line between?

18 MR. MAUL: Yes, correct. From 2003 to
19 2006 is a year by year. From 2006 to '08 it
20 basically averages those two years, and from 2008
21 to 2013 it's two dots connected by a line.

22 MS. BAKKER: Okay. Thanks.

23 MS. JONES: Dave, I have a question back
24 on figure number, let's see, on figure number
25 five, where we have the Energy Commission's

1 forecast. In 2003 they all started at a different
2 level. Am I right in understanding that you
3 started the model runs and that that was right
4 after the first year, the 2002 output.

5 So that's not based on actual gas
6 prices, but that's based on an initial run of the
7 NARG model to get you from 97 up to 92?

8 MR. MAUL: Yes. And to be honest, this
9 just came up very recently, we have to go back and
10 look and see whether the parallel lines you see
11 there, let's say the solid dots with the squares
12 here, as being the base, the low and the high.

13 They all start at 2002, one year
14 earlier, and we need to go back and look at how we
15 constructed that actual chart to see whether this
16 is a mistake of the graphic representation of the
17 data or that the real data supports crossing those
18 three levels.

19 MS. JONES: But doesn't it actually go
20 back to '97, not just to 2002. Because you start
21 the forecast in -- you use '97 prices in the mall
22 to start your forecast. Because what I'm trying
23 to get at, the prices today, we're seeing
24 different market forces influencing prices, and
25 whether we think the starting point for the gas

1 price forecast, back in '97, is an accurate
2 reflection of what we've been seeing in the last
3 five years.

4 MR. GOPAL: To rephrase your question, I
5 think what you're trying to suggest is does it
6 make sense to start this forecasting process from
7 current year, or does it make sense to start it
8 from a previous year, or do we get into problems
9 if we are getting inconsistencies or errors into
10 the projections.

11 First of all, this is a long-term
12 projection. So the idea that we are trying to get
13 out of this analysis is how do the prices go out
14 in the long term? The reason for using '97 or
15 2002 is not really specific, it depends on what
16 sort of information you have, and how much of time
17 behind you want to go, really.

18 There are some advantages to using '97,
19 for example. You can see what the model tells you
20 in terms of prices in the 2002 year. But the
21 focus in this analysis was really on the long-term
22 trends, rather than the very near-term prices.

23 That's one of the weaknesses when you
24 approach a long-term analysis procedure. The
25 regular approach to look at prices in 2003 and '04

1 would be very different. I think there are a
2 different set of parameters that would really
3 entail the assessment of earlier prices.

4 In our case we have still continued to
5 keep the '97 base year. One of the reasons is we
6 put in a complete supply balance, flows from
7 throughout the U.S. and Canada.

8 For 2002 we were deciding whether to do
9 an update or not, but due to the large radiation
10 in the marketplace we decided not to use the 2001
11 and 2002 numbers because we didn't know whether
12 2002 would represent a very low price year, or
13 2001 would represent a high price year, or
14 anomalies in the marketplace.

15 We know that '97, in terms of supply and
16 demand balances, in terms of price fluctuations it
17 was not so dramatically out of the normal, so to
18 speak. So when we do start with 1997, 2002 is the
19 first forecast point in the model, and therefore
20 the 2002 prices would be different for each of
21 those three cases.

22 And the price would be different because
23 the assumptions, the drivers in those three cases
24 are very different. Hindsight we know that 2002
25 had only one price, but in the model, because of

1 the very wide different assumptions you have for
2 the low and the high case, as opposed to the base,
3 you will find that the model gives you a different
4 price.

5 MS. JONES: So, can you tell me where on
6 the graph the actual 2000 price is?

7 MR. GOPAL: Why don't you go back to the
8 previous graph -- yes. This one. You can see the
9 red dots are the actual lower 48 average well head
10 prices, projected by our, published by EIA. And
11 you see the blue dot for the base case generated
12 by the model.

13 MR. MAUL: Here's the actual for 2000,
14 2001, 2002.

15 MS. JONES: Thank you.

16 MR. THOMASHEFSKY: I think Melissa's
17 point is that intuitively you would expect a
18 convergent price to then start and generate
19 through your forecast, and what happens in this
20 model is that it's solving equilibrium for the
21 flows, not necessarily the prices.

22 So even in the base year you're going to
23 have three different prices that don't necessarily
24 reflect the actual prices. That's just a product
25 of the model.

1 MR. GOPAL: Yes. It does the
2 equilibrium for flows as prices, actually.

3 MR. MAUL: Any more questions? Part of
4 the reason why we show a low base and a high is to
5 try to capture other changes that could
6 potentially happen in the marketplace. And so
7 we're trying to find out if whether we have
8 captured the high and the low, should we even
9 consider next time a higher high or a lower low.

10 We will be doing more work, as
11 identified in the staff's report, to look at this
12 kind of what we call risk analysis. Looking at
13 different possible scenarios. What we did this
14 last time were sensitivities, looking at a single
15 variable, changing the variable, seeing the impact
16 on the future supply, demand and price.

17 We'll be doing more detail work on that
18 in the coming year to report for the next time.

19 COMMISSIONER GEESMAN: I believe in the
20 natural gas market assessment report you indicated
21 that you had to force down your price assumptions
22 for LNG to get it to flow through the pipeline.
23 Does that cause any concern?

24 MR. MAUL: Well, in the base case we did
25 not assume any LNG at all. When we did this it

1 was still speculative whether LNG would come to
2 the west coast or not. We then did a scenario
3 that included LNG, and we actually looked at I
4 think three scenarios, a 1, 2, and a 3 BCF
5 scenario.

6 The 1 BCF scenario, the west coast model
7 accepts it very well. And the model digests that
8 amount of LNG coming in, and it can find
9 equilibrium fairly easily. By the time we get to
10 three BCF, in the early years it's more gas, and
11 you can immediately accept.

12 And so the system being modeled doesn't
13 want to digest that much gas all at once starting
14 in 2007. So it did cause some problems. We were
15 concerned about the output from a 3 BCF scenario
16 for LNG. It looks fairly reasonable for a 1 BCF
17 scenario, and possibly even 2.

18 COMMISSIONER GEESMAN: So you didn't
19 have to force down the price in those 1 or 2 BCF
20 scenarios?

21 MR. MAUL: I don't think so. Let me
22 check with Jairam again.

23 MR. GOPAL: There were several scenarios
24 we ran with respect to LNG coming into the west
25 coast. The normal way to do one of those

1 scenarios of sensitivities would be to say okay
2 we'll turn this LNG quote on, and then see how the
3 LNG facility will compete, given the market
4 conditions in the North American continent and the
5 prices and flows coming in to California.

6 We basically wanted to try one single
7 sensitivity where we said that there would be a
8 very large quantity of LNG coming in. So we made
9 the presumption that we're going to have maybe
10 three terminals operating at full load.

11 If you just let the model decide on how
12 these three different facilities will operate,
13 it's going to look at prices from other regions
14 that are coming into the marketplace, and then
15 stabilize the flows and prices.

16 And that would effectively not fill up
17 those three facilities, given the other conditions
18 that we have assumed in the model for North
19 American continent resource base.

20 So in order to make sure that we did
21 flood California with three full LNG facilities,
22 the only way to do that in the model is to lower
23 the price so that it gets more and more
24 competitive. And it gives us an estimate of how
25 low prices on the LNG market should be in order to

1 be operating at a very high load factor.

2 It's a sensitivity to give you an
3 estimate of how competitive LNG should be.

4 COMMISSIONER GEESMAN: But the only case
5 in which you had to do that was the 3 BCF case?

6 MR. GOPAL: 2 BCF case.

7 COMMISSIONER GEESMAN: Okay. In the 1
8 BCF case you did not have to do that?

9 MR. GOPAL: We did not change it. We
10 left it at the price estimates that we collected
11 from the electricity service.

12 COMMISSIONER GEESMAN: Okay.

13 COMMISSIONER BOYD: So that fact
14 comports somewhat with yesterday's discussion,
15 albeit somewhat subjective, of the opinions of
16 some people on how much LNG the west coast could
17 absorb at this point in time.

18 I believe, particularly under
19 questioning from Commissioner Keese, there was
20 dialogue about one fits, two would be a strain,
21 and I don't think anybody talked about three
22 yesterday since two was already a strain.

23 So, taking that into the context of all
24 this it kind of works out together, but one must
25 recognize what had to be done to make it fit the

1 model, so you could go through your exercise.

2 MR. MAUL: Well, I'll note that at
3 yesterday's hearing we had a lot of good
4 information that's been recently available on LNG
5 costs. When staff did its model runs, and we
6 looked at LNG costs as an input to the model, we
7 looked at publicly available data that we could
8 get as of late last year and early this year.

9 Information presented yesterday by some
10 of the LNG proponents is new information that
11 shows that our cost estimates for LNG delivered to
12 the west coast are too high. And therefore, we'd
13 better go back and rerun the model, and most
14 likely we'd find that the west coast could accept
15 a higher level than what we had projected or
16 analyzed, at least in our model right here.

17 Because we come in at a lower price, a
18 lower competitive price than what we had assumed.

19 COMMISSIONER BOYD: Yes, I recognize
20 that. In the opinion of one person, I think, our
21 costs were perhaps too high. So add that forecast
22 to the many, many, many forecasts. But modeling
23 is a tool, and I've been both pleased and burned
24 by models down through time, and you do with them
25 what you can.

1 And the trouble I'm having in the 21st
2 century is anomalies of the past, by definition,
3 are therefore the exception not the rule, and the
4 craziness of the 21st century, as young as it is,
5 is that the exceptions have become the rule for
6 awhile.

7 And so it's much harder for you, for all
8 of us, to sort all of this out. So, not a
9 criticism, just a reflection on the dilemmas we
10 have now. And maybe we haven't factored enough
11 human behavior into models, which is not quite
12 done yet.

13 MR. MAUL: Yes, and it's indicated by
14 that NYMEX chart I showed you, where even the
15 markets can't figure out future prices and how
16 much they change over time. Any more questions?

17 COMMISSIONER BOYD: Any questions from
18 folks in the audience? Comments?

19 MR. MAUL: Yes, we would, staff would
20 invite comments from other folks that have
21 expertise in natural gas, to see whether we have
22 picked the right information, whether we're using
23 the right information.

24 The information provided yesterday was
25 very helpful for us on LNG cost, so additional

1 information like that would be of great benefit to
2 the staff.

3 MS. BAKKER: I actually have a question.
4 When you added LNG, when you went back and did an
5 LNG case, it was against the base case
6 assumptions, is that right?

7 MR. MAUL: That's correct.

8 MS. BAKKER: And so if you were to use
9 the high case assumptions you might find that 2
10 BCF would be more attractive, using the prices
11 that you used at the time?

12 MR. MAUL: Well, obviously LNG came in
13 as a fixed point, just like any other natural gas
14 base is. it's in the model, just like a gas base
15 in Canada or Texas or anyplace else.

16 The price is set of how much is
17 available at that price with a supply curve, and
18 the model picks that versus other competing
19 prices. So it's essentially a least cost model.

20 If we were to go back and either
21 increase prices from other basins, it would make
22 LNG more competitive, or if we decrease the price
23 of LNG, it would make LNG more competitive. And
24 therefore the model would choose more LNG for the
25 west coast.

1 And the information we got yesterday
2 indicates that we probably have too high of a cost
3 for LNG coming in to California.

4 COMMISSIONER BOYD: Okay. Thank you,
5 David, thank you staff. I take it there are no
6 questions from the audience at this point. I
7 would solicit, on behalf of the staff, if folks
8 reflect on what they've just heard and want to
9 give us some additional comment in writing we'd
10 appreciate it.

11 This is a realtime dynamic world we live
12 in, and things change on a regular basis. So
13 we're trying to keep up with this. Straight line
14 projections of the future are getting riskier by
15 the moment.

16 Okay. Al, does that include all the
17 staff's comments?

18 MR. ALVARADO: Yes, it does.

19 COMMISSIONER BOYD: Thank you. Now it's
20 time to turn to questions or comments from the
21 audience, and I have one blue card, so -- ah, here
22 comes another. So I'll call on the first one in
23 the door here, Alan Wilcox of SMUD.

24 MR. WILCOX: Thank you. My name is Alan
25 Wilcox, I'm with the Sacramento Municipal Utility

1 District. And I would like to make a comment on
2 the California Municipal Utilities electric price
3 outlook. And that's in reference to the
4 Integrated Energy Policy Report.

5 The comment I have is largely, as an
6 example, on page six of this report it shows the
7 residential rates for SMUD going from current
8 levels of 10.2 cents per kilowatt hour up to 11.6
9 cents per kilowatt hour by the year 2007.

10 While the Energy Commission staff has
11 shown that level of increase over the next five
12 years, the district performs a detailed forecast
13 for their rates. And for that same period of time
14 we are reflecting in the year 2004 a three percent
15 rate decrease. And going through the year 2007 we
16 anticipate no changes to our rates after that
17 decrease in 2004.

18 We just wanted to note, for the record,
19 our forecast is with integration of power supply
20 mix, gas contracts, and changes in our projected
21 costs, that we don't share the enthusiasm with the
22 rate increases.

23 So we'd like to assure you that we are
24 capable and have reported to our board of
25 retaining our rates at constant levels, after the

1 decrease, through the 2007 period.

2 And I just wanted to make that comment.

3 Thank you.

4 COMMISSIONER BOYD: Thank you,
5 appreciate that input. I'm sure you don't want to
6 read in the local press a disagreement between the
7 Energy Commission and SMUD. And as a SMUD
8 ratepayer I don't want to see it either.

9 MR. WILCOX: We may be able to do a
10 specific home rate modification if you like,
11 but --.

12 COMMISSIONER BOYD: Yes, as I indicated
13 earlier, or I didn't indicate earlier, I did
14 indicate yesterday, I'm sorry. If you could
15 provide the Reporter here with a business card it
16 will help him in indexing his record properly.
17 Thank you.

18 Next I'm going to call on an individual
19 who I was going to introduce yesterday, but he
20 left. Robert Laurie, former Commissioner, who was
21 just trying to escape out the door. I'm calling
22 on Robert Laurie to make a presentation.

23 I was going to acknowledge you
24 yesterday, Bob, as a former Commissioner, and
25 welcome you here. And I looked up and you had

1 left. And I didn't even look up again this time
2 and you were out the door again.

3 MR. LAURIE: The less acknowledgement I
4 get these days the more I appreciate it. Mr.
5 Chairman, members of the Commission, ladies.
6 First of all, I think it nearly approaches
7 criminality to have the beauty and intelligence of
8 Ms. Jones and Ms. Bakker in the room at the same
9 time. So, good to see you.

10 COMMISSIONER BOYD: Ooh, were you a
11 favorite Commissioner around here, I'll bet.

12 MR. LAURIE: General comment. The work
13 done on this report is, I think, extraordinary and
14 outstanding. Yet I believe it's incomplete. I
15 have been out for a year, speaking to all segments
16 of industry, in a very unrestricted manner.

17 And one problem that exists, and is
18 commented on by all segments, is lack of a
19 cohesive state energy policy. And that affect
20 financing. And it affects everything that
21 everybody in this room does.

22 We know that, under the law, you used to
23 do this. And we know that the reason for the
24 legislation that has prompted this report was a
25 recognition by the Legislature that this work is

1 needed still.

2 The data, and the analysis, is very
3 good. But I believe there remains a terrible lack
4 of direction that affects the energy sector.
5 There have been attempts by the Legislature, 888
6 takes you one direction, Assemblyman Richman's
7 thoughts takes you in another direction.

8 I would suggest, however, that such a
9 comprehensive policy as required in this state can
10 only come through the executive. And the
11 executive needs you in order to accomplish that.
12 There's no other body that has the authority or
13 the jurisdiction to act. ISO can't, and should
14 not do it. PUC cannot and should not do it.
15 Oversight board, wherever they are these days,
16 cannot and should not do that. It's yours.

17 And what I would ask you to consider is
18 take what you have done thus far, and take it from
19 the 5,000 foot level it is today and bring it way
20 down, so that the executive can clearly discern
21 action steps, so that New York or wherever funding
22 entities are these days can then clearly
23 understand what the state energy policy for
24 California is.

25 What a wonderful opportunity that is for

1 you, albeit a terrible responsibility as well. I
2 understand there are time constraints. I
3 understand that you will not be late with this
4 report. But I suggest to you again that the
5 opportunity for you to carry forth with your
6 knowledge and your expertise is unique.

7 And I think the state waits for you.

8 And I believe to a very large extent the nation
9 waits. It's in good hands. I think that perhaps
10 you should consider taking whatever steps are
11 necessary to add an implementation section to the
12 great work that's already been done. Thank you
13 very much.

14 COMMISSIONER BOYD: Thank you
15 Commissioner Laurie. Very telling comments.

16 COMMISSIONER GEESMAN: I think that's
17 extremely well taken. You know, I couldn't agree
18 with you more, and am hopeful that as this
19 document migrates from the reams and reams and
20 reams of staff expertise and analysis that's been
21 presented to us into something that is brought
22 before the full Commission at the end of October,
23 that we are able to compress and focus and
24 formulate some very concise policy recommendations
25 that the Governor, whoever he or she may be, will

1 be asked to directly content with.

2 And thereafter, because it is a public
3 document, the Legislature will have the
4 opportunity to evaluate. And I very much
5 appreciate your input into that process, and hope
6 to see more of it in the future.

7 MR. LAURIE: Thank you, Commissioner
8 Geesman, I appreciate that. There is, of course,
9 some risk. Because whatever is enunciated may not
10 represent a consensus, and that might be good.
11 Consensus is not always correct.

12 But again, there is nobody else.
13 There's no one in the Legislature who's job it is
14 to do this. Nobody else in the administration
15 who's job it is to do this, but yours. And this
16 agency is fully capable, and I think it's going to
17 be an exciting thing to do. Thank you.

18 COMMISSIONER BOYD: Just to add to
19 Commissioner Geesman, a personal reflection. And
20 I appreciate your appreciation of the task that
21 the Commission has and the work that the staff has
22 done.

23 The reason, in a very short time frame
24 that has been provided, the reason for so many
25 public workshops, public meetings, and public

1 hearings, is to try to get the benefit of the
2 collective thoughts of California stakeholders.

3 And while that has been good, I would
4 observe personally that, while many people have
5 suggested that we need to go more deeply into
6 certain areas, it's been very difficult to get
7 specifics from folks.

8 And I will personally just comment that
9 the California business community, one of the most
10 directly affected stakeholders in all that's
11 transpired the past few years, has not been heard
12 from enough, from my personal view of things.

13 We're going to take this show on the
14 road one more time later on, as people have seen
15 from the timetable, and we're constantly told that
16 people are waiting for the real meat, you know,
17 the final final draft so to speak, to make
18 comments.

19 And I look forward to that, and just
20 reflecting on your earlier comments about the
21 amount of time you've spent with that community
22 now that you're unfettered and can do so, is
23 probably quite valuable.

24 And we need to hear more from that
25 community, or we will have to rely 100 percent on

1 the good judgment of all of the people who work in
2 this agency, but we'd feel better if we had more
3 points of view. We hear a lot from utilities,
4 they have a big stake in this.

5 But we have really reached out to and
6 not seen a lot of some of the stakeholder
7 communities. So anything you can do to help us
8 when we do take this show on the road next month,
9 or actually in early October, to various cities,
10 and really want to hear one last time some heavy-
11 duty suggestions.

12 Any help you can give us would be
13 greatly appreciated. Any access you have to this
14 community if you can exercise it.

15 MR. LAURIE: Commissioner Boyd, thank
16 you, just a note on that. I have often been
17 frustrated, during the course of workshops held at
18 the CEC, with lack of input from certain
19 industrial sectors. And I've learned there's a
20 reason for that.

21 And that is, if you are ABC Corp, your
22 interest is to serve ABC Corp. That's proper,
23 that's not improper. It is sometimes better to
24 choose your forum, and if your best forum is not
25 the CEC because you can go directly to the

1 Legislature, then that's what your going to do.

2 I know the industry that sits behind me,
3 and that was here yesterday, does not feel
4 comfortable in publicly vetting its own
5 philosophies in forums such as this. And
6 therefore, when you report it doesn't always
7 accurately reflect the views of sensitive and
8 important sectors of the energy industry.

9 I believe, however, if you grab onto
10 that responsibility and make it clear what you
11 intend to do, and that your thoughts and your
12 remarks will provide the foundation for public
13 debate, then I think industry, regardless of its
14 discomfort, will come forward, and will talk to
15 you.

16 Industry, recognizing the lack of
17 policy, does not want to commit itself to that
18 debate. Because it's a can of worms, and it's
19 unknown how it's going to affect any individual
20 entity.

21 Nevertheless, I think that it is only
22 this agency that can represent the large picture.
23 And once you engage that debate, I think industry
24 will, by necessity, come forward. My friends in
25 industry will have to come forward.

1 COMMISSIONER BOYD: Thank you.
2 Commissioner Keese?

3 CHAIRPERSON KEESE: You know, we made a
4 conscious decision at the front end of this
5 process, when we were asked by staff, and by the
6 public interest, where are you going? And once
7 you tell us where you're going, then we'll supply
8 you the informational backup to get you there in
9 the proper manner.

10 And we said that's not what we're going
11 to do. We're going to try to establish the base.
12 Let's get the facts, let's do the underlying
13 reports, and then we'll decide where we're going.
14 And there's a gap in there.

15 I think that what we've heard, what
16 we've received from the process, is a building of
17 confidence that the base we've set, the base staff
18 has worked on, and the base that the experts in
19 the different industries has helped us with, has
20 established a base we all have confidence in.

21 And if anybody in other industries are
22 going to step forward now and say you're facts are
23 wrong, your foundation is wrong, they are too
24 late. Because we have a consensus from all the
25 important people that the foundation we've set is

1 just about as good as you can do.

2 Now when we come out with the document
3 that we're going to come out with in a few weeks
4 and say what we think the state should have as a
5 policy based on those facts I do expect we'll
6 probably see industry coming and say wait a
7 minute, we want to get involved.

8 And maybe that is the right place.
9 Maybe the manufacturing industry is incapable of
10 commenting on what the gas supply and demand
11 situation is, what the electricity supply demand
12 is, whether there should be LNG.

13 But maybe when they see policy
14 recommendations, who in the state government
15 should be doing what, what legislation is
16 critically needed in the future, what the state's
17 role should be visavis Washington.

18 Whether we should challenge FERC,
19 whether we should accept FERC, whether we should
20 participate in the western regional planning
21 system, western regional resource adequacy system.

22 Hopefully at that point we will see more
23 willingness, and I hope that this "on the road
24 show" will get very vigorous, rigorous analysis
25 and vigorous comment. We're not, I don't intend

1 that the document that comes out is set in
2 concrete. Because of this two-step approach.

3 Yes, we're going to set the facts in
4 concrete, hopefully, and we're not going to argue
5 about those in the future. Once we're done with
6 this set -- tomorrow is our last one -- once we're
7 done with this set of meetings, that's set.

8 Now let's get on and discuss the policy
9 issues. So I agree with your comments to us that
10 that's our responsibility. And I think you're
11 seeing three people up here who are willing to
12 take that responsibility and move forward.

13 MR. LAURIE: Just a closing moment, Mr.
14 Chairman. Your Energy Action Plan has been well
15 received by the Legislature. And I would only
16 comment that we all can sense the stress and
17 tension in state government today. Certainly in
18 the executive, but it's also in the legislative
19 branch.

20 Chaos creates challenges, but it also
21 creates opportunities for those who are willing to
22 step up. This Commission was created for very
23 specific purposes, and those purposes include the
24 process that you're currently undertaking. I'm
25 excited about not only your capabilities, but your

1 intentions, and I look forward to watching. Thank
2 you.

3 COMMISSIONER BOYD: Thank you. Bernie
4 Orozco of Semptra?

5 MR. OROZCO: Commissioners, good
6 morning. Bernie Orozco with Semptra Energy.
7 Again, like every one else, all the platitudes
8 from yesterday, it's a fantastic report. We also
9 look forward to seeing the product as it comes
10 out, the big policy discussions.

11 Real briefly, a comment on the
12 assessment report. SoCal Gas, one of our
13 companies of Semptra Energy, has a comment and they
14 will provide a response in writing, and this
15 relates to storage, natural gas storage.

16 There is a discussion in the report
17 about storage for non-core customers. The
18 thoughts of SoCal Gas Company is that right now
19 that relationship is dealt with on a contractual
20 basis. I know the report only questions whether
21 or not there should be a requirement that non-core
22 customers be, have to have a certain amount of
23 storage capacity available to them.

24 We do that now, and again that's on a
25 contractual basis, so as far as setting a

1 requirement either by the state or the serving
2 entity, we're not quite sure that's a direction
3 you would want to go, but we'll provide detailed
4 response to those.

5 You have four specific questions in the
6 report about what kind of storage should non-core
7 customers be required to have, how much should it
8 cost, who pays for it. We'll prepare a response
9 and will give that to you shortly. Thank you.

10 COMMISSIONER BOYD: Thank you, we look
11 forward to that. Next I have Stephen Wald of the
12 Hydropower Reform Coalition.

13 MR. WALD: Good morning, Commissioners,
14 and Commission staff and stakeholders and members
15 of the public here today. My name is Stephen
16 Wald. I'm director of the California Hydropower
17 Reform Coalition, which is a broad association of
18 river conservation and recreation organizations
19 here in California.

20 And I'm here today to provide comment
21 under agenda item four today, comment on
22 environmental issues, and specifically addressing
23 question 14 on the Commission's list of questions
24 for the Electricity and Natural Gas Report. And
25 those are questions relating to hydropower and the

1 FERC licensing process specifically.

2 Hydropower, as you know, is 15 percent
3 of California's energy supply, and California's
4 384 hydro projects affect nearly every major river
5 in California. The projects generate electricity,
6 they also alter stream flows, they block fish
7 passage, degrade water supply, and preclude other
8 beneficial uses of our public waterways, including
9 fish and wildlife habitat and recreation.

10 And you can read in detail about those
11 impacts, and about hydropower issues, in the
12 Electricity and Natural Gas Report, and this
13 year's Environmental Performance Report, and in
14 particular in Appendix D, which is hot off the
15 press. It's an Appendix to the report dealing
16 specifically with hydropower.

17 Last week President Bush stood on Ice
18 Harbor Dam on the Columbia River and called for a
19 common sense approach to resource management and
20 in particular hydropower management as it's
21 balanced with our rivers.

22 And to paraphrase his quote, he said we
23 don't need to be breaching any dams that produce
24 power. We need to be increasing supply and
25 maintaining supply. And certainly that comment

1 makes common sense, makes political common sense.
2 And particularly after blackouts in the northeast
3 and the energy crisis in California a couple years
4 previous.

5 But I'd maintain that that really is
6 common sense in a very narrow context, and
7 essentially in a vacuum. But put in context,
8 there may be instances where that statement
9 doesn't make sense at all.

10 Many hydropower projects may be
11 producing small amounts of power at a financial
12 loss. Other projects may have disproportionate
13 impacts compared to the power they produce. And
14 into a context where roughly 9,000 megawatts of
15 capacity has been added to the grid in the past
16 five years -- and Californians proved, by
17 conservation measures, that they could shave more
18 than 5,000 megawatts off of peak demand -- does it
19 really make sense to defend a 36 megawatt
20 hydropower project that blocks the last, best
21 spawning habitat for endangered salmon on the
22 Sacramento River?

23 Does it make sense to defend an 8
24 megawatt project that diverts 90 percent of the
25 water out of a California coastal river, causing

1 direct impacts to salmon, as well as impacting
2 tribes?

3 Or more generally, does it make sense to
4 condemn hundreds of miles of river up for
5 relicensing in California to perpetual drought
6 conditions, depriving another generation of
7 Californians the opportunity to fish, boat and
8 swim in healthy rivers, and hope that the fish and
9 wildlife survive the 30 to 50 year license term?

10 If we take the President's advice
11 literally, and apply common sense to these
12 questions, we need context and we need facts. And
13 the Energy Commission and its sister agencies in
14 the Resources Agency and at Cal-EPA are in a
15 position to provide those facts and directly
16 affect the future of dozens of California's
17 rivers.

18 80 percent of California's hydropower
19 capacity is regulated and licensed by the Federal
20 Energy Regulatory Commission, and about half of
21 that capacity is up for relicensing in the current
22 15 year period. That's more relicensing than any
23 other state.

24 There are several things changing in the
25 relicensing arena that require the state's

1 attention, and a vigorous state response. First,
2 this summer FERC issued a final Rulemaking that
3 created a new process for relicensing hydropower,
4 what they're calling the integrated licensing
5 process.

6 It's intended to increase the efficiency
7 and timeliness of licensing, and it can do so, if
8 state agencies and their partner federal agencies
9 get involved early and intensely in the process.
10 The integrated licensing process essentially
11 requires state agencies to have their study
12 recommendations in within the first year of a
13 project's beginning its relicensing.

14 And that's going to require intense and
15 focused involvement. We would specifically
16 recommend that the Energy Commission recommend to
17 its agencies that it continue the coordination,
18 inter-agency coordination, at a state level, and
19 at a state-federal level. We understand there's a
20 hydro working group. That group ought to continue
21 to be convened, and to receive increased support.

22 Secondly and importantly, we've heard
23 that the Department of Fish and Game and the state
24 Water Board are actually, that they're hydropower
25 licensing staff are actually being cut at this

1 time, which is exactly the opposite direction that
2 should be happening.

3 And in terms of your request for
4 administrative, regulatory or legislative
5 recommendations, we emphatically request support
6 for increased funding in those agencies to deal
7 with the hydropower question.

8 When you talk about windows of
9 opportunity, there couldn't be a more clear window
10 of opportunity than the relicensing now happening
11 in the state, and the fact that it will directly
12 affect our rivers for 30-50 years. It's kind of a
13 one-shot deal, for this generation in any case.

14 A second changing context in the
15 hydropower arena is the current energy bill, which
16 is in conference committee -- the federal energy
17 bill. There's a provision affecting hydropower
18 licensing, which weakens the federal resource
19 agency's ability to protect public land affected
20 by hydro, and also to establish fish passage
21 during hydro relicensing.

22 Should that become good law, the state's
23 authority, under Section 401 of the Clean Water
24 Act, would be the sole, unequivocal authority to
25 protect basic resources and beneficial uses in

1 relicensing.

2 That's going to increase the technical,
3 the practical and the political pressure on the
4 state to use that authority effectively, and again
5 it just underscores the need to focus intense
6 state resources on the relicensing process.

7 Third, in every relicensing, restoring
8 water quality, aquatic habitat, and recreation is
9 balanced against the need for energy. Currently,
10 these benefits are basically balanced against a
11 black box. The black box is this need for energy,
12 and to that black box FERC usually grants infinite
13 weight.

14 This Commission has the expertise to
15 unpack that black box, and allow the public and
16 decision-makers to consider the tradeoffs in the
17 light of day. And we commend the work done to
18 date on these reports to actually flesh out some
19 of the issues around energy tradeoff.

20 Specifically, the Energy Commission
21 ought to participate with the Fish and Game and
22 the state Water Board in individual relicensing
23 proceedings, to model the energy implications of
24 different flow proposals.

25 One of the things that's considered, as

1 we've discussed generally and is discussed in the
2 report, hydro projects de-water by kind of
3 diverting water around hundreds of miles of rivers
4 in California.

5 One of the questions asked in
6 relicensing is should we spill more water and
7 allow more water to remain in the river? The
8 Energy Commission can provide objective
9 information to the process on what the energy
10 impacts of leaving more water in the river are,
11 and having clear information there will help all
12 the decision-makers understand the tradeoffs.

13 Secondly, the Energy Commission has got
14 a running start, but needs to continue and
15 complete, a statewide modeling of the cumulative
16 effects of relicensing, as we go forward. Again,
17 half of the state's hydro capacity licensed by
18 FERC will be relicensed.

19 There will be changes at those projects.
20 What is the cumulative effect of the expected
21 changes in those projects on the state's energy
22 supply? We think that, if we get those numbers
23 out there and in context, it will shed a little
24 light on the otherwise kind of black box, almost
25 hysteria, about reduced capacity in the hydro

1 sector.

2 Is that actually such a big deal, that
3 the status quo needs to stay exactly the way it is
4 today for 30-50 years, or can some adjustments be
5 made to improve the other beneficial uses?

6 The last point involves coordination
7 with the California Public Utilities Commission.
8 And there's a couple of levels here. First, the
9 CPUC is undertaking an OIR, looking at ways that
10 utilities could be provided incentives, rate
11 incentives, to improve their environmental
12 performance.

13 The Energy Commission should be
14 participating, along with its agencies and the
15 other members of the hydro working group, to
16 provide the information and their expertise, to
17 help make that program work. It's a real
18 potential win/win for utilities and for the
19 public.

20 And secondly, there may be opportunities
21 to increase the amount of monitoring happening at
22 hydropower projects. The current licenses
23 generally don't require monitoring of basic flow
24 and water quality measures at hydropower projects.
25 And that lack of information severely impedes the

1 ability to make smart decisions during
2 relicensing.

3 If there was system-wide monitoring of
4 hydropower projects it would really improve our
5 ability to make wise decisions.

6 I'd like to conclude by, with just a few
7 remarks about the current budget crunch, and how
8 tough it is to invest in staff resources and staff
9 time in the context of that budget crunch.

10 And I'd like to just remark that, again,
11 the current relicensing window is essentially the
12 window for this generation of Californians, and
13 possibly the last window for the dwindling and
14 very sensitive aquatic resources that are affected
15 by hydropower in California.

16 I would argue that dollars invested now
17 in fixing the obvious problems with hydropower
18 operation and relicensing will result in savings
19 for future avoided regulatory costs, they provide
20 measurable economic benefits, in terms of
21 increased recreation, and for local economies,
22 which are transitioning in the primarily rural
23 California, are transitioning to a recreation-
24 based economy.

25 They improve the quality of life for

1 Californians. And lastly, I encourage you to look
2 -- I'll just leave you with this. Consider the,
3 on conservation terms, the bang for the buck you
4 get for the improvements you get in the
5 relicensing process, under the Federal Power Act.

6 I'm aware of a private foundation which
7 was reviewing its programs and considering the
8 amount of land protected, or the amount of water
9 put back in the stream per dollar they've
10 invested. And I know that relicensing came our
11 right near the top in terms of how much water and
12 how much land is protected from relicensing.

13 And if in fact what I suspect is true,
14 that it's one of the best bang for the
15 conservation buck out there, that alone ought to
16 justify the increased investment. Thank you very
17 much.

18 COMMISSIONER BOYD: Thank you, Mr. Wald.
19 Any comments or questions from folks up here?
20 Stephen, I'd like to make two or three comments.
21 We've known each other for several years now, so I
22 appreciate your taking the time to come up here
23 and comment.

24 I would observe that, from where I had
25 sat the last several years and the roughly past

1 four and a half years, the CEC has gone from, I
2 don't want to say zero, but from near zero to a
3 fairly significant effort in this arena, and
4 hopefully that's been a positive.

5 There's little that we can do about the
6 budget crunch the state faces, and all everyone
7 can do is keep trying to push the ball down the
8 field. The Resources Agency is still trying to
9 keep the hydropower group alive in these tough
10 times.

11 And one personal comment I guess I would
12 say. Although the PUC gives no credit to the
13 hydropower working group -- I don't think the
14 PUC's OIR that you referenced would even exist
15 were it not for the work that the hydropower group
16 has done in the past four, four and a half years.
17 They seem reluctant to give credit to others.

18 Much was the same in the environmental
19 review of the PG&E divestiture of its hydrosystem,
20 I think the hydropower group did all the
21 foundational work on that. But one's normally not
22 looking for credit, one's just looking for
23 progress in the arena.

24 So, these are tough times and I think
25 folks will do what they can do. I don't expect

1 either the Water Board or Fish and Game to abandon
2 the arena, even though they're being hit pretty
3 hard on resources, dollar resources these days.
4 And we'll just have to see.

5 Hopefully you're pleased with what
6 you've seen with the written material to date, and
7 if you have any suggestions we solicit your input.

8 Staff, I note, has worked real hard to
9 cover this particular arena, which many of us
10 recognize in year's past is an issue, a lesson
11 learned from our historical past, and
12 opportunities presented by the traffic generated
13 in FERC relicensing, and I guess folks will do all
14 that they can do. But thank you very much for
15 your comments, appreciate it.

16 MR. WALD: Yes, thank you. I would like
17 to underscore the information in these reports is
18 really outstanding. I hope the effect, the title
19 of the overall report is the Integrated Energy
20 Policy Report means that Appendix D will not be a
21 forgotten, dusty attachment to the report, but
22 will in fact make some of the insights there, and
23 will make it into the final policy
24 recommendations.

25 I really would encourage the

1 Commissioners to have a look. A lot of the
2 findings are surprising, they're counter-
3 intuitive. There's remarkable low-hanging fruit
4 in the hydropower arena, in terms of just real
5 obvious cost-effective improvements that can be
6 made.

7 COMMISSIONER BOYD: Yes, there are good
8 things that can be done, both with regard to
9 taking advantage of hydropower, and with new
10 technology, squeezing more out of water, while at
11 the same time correcting the mistakes of the past
12 with regard to what we've done.

13 I don't think anybody -- I'll give
14 credit to everybody for not having done it
15 maliciously. It's, we've learned a lot about the
16 consequences, unintended consequences of a lot of
17 what we do. I think there are continuing lessons
18 for humanity in that arena. So --. And we are
19 hanging on to that term -- integrated energy.
20 Thank you, Stephen.

21 I have no more blue cards. Is there
22 anyone in the audience who would like to say
23 something, who didn't afford themselves of that,
24 now would be the time. Otherwise we're going to
25 start winding down. I looked down to quickly.

1 MR. WOODWARD: I'm Jim Woodward,
2 Electricity Analysis Office. I just have some
3 appreciative comments, following up on Mr. Wald.
4 I'm not sure that 80 percent of our hydropower
5 capacity in California nameplate is federally
6 regulated.

7 Largely the federal reservoir is
8 federally owned themselves, and don't come under
9 FERC licensing. And there's a great many numbers
10 of projects, but not capacity, that came under
11 CEQA or were exempt or even pre-date the federal
12 Power Act.

13 I was wondering if you had any comments
14 on how to assess those type of projects, and the
15 impacts that they have that don't come up for
16 periodic federal review 30-50 years. Because many
17 of these went through a permitting process even
18 after CEQA, but with an assumption that the
19 effects would be there, but without recognizing
20 cumulative effects.

21 I'm wondering, looking at the statewide
22 picture beyond the FERC licensing projects, if you
23 had perhaps other suggestions on how the revenues
24 that come from FERC licensing as mitigation
25 offsets, compensation, might be used in other

1 areas perhaps to address statewide concerns, even
2 including support for Fish and Game and Water
3 Board staff participating in an ongoing way to get
4 the most public benefit for the bucks that are
5 available.

6 And I'm thinking to is, we have some
7 current research that we're still following up on.
8 The number of blocks to anadromous (sp) streams
9 from FERC-licensed projects are significant, but
10 there's about 34 barriers, and they obstruct
11 hundreds and more of miles of thousands in a
12 dendritic pattern of watersheds.

13 But the number of blocks to anadromous
14 fish statewide are in the thousands. And I'm
15 wondering how we address that in an integrated
16 way. Most of those blocks and barriers don't
17 produce energy and don't come up for review.

18 Just wondered, that's some of the
19 concerns we have, of using the revenue streams
20 that come from energy production to get better
21 environmental performance and consequences.

22 COMMISSIONER BOYD: Stephen, you don't
23 have to answer all those right now, but you're
24 welcome to. It sounds like a written dialogue
25 stream may be starting here, but go right ahead.

1 MR. WALD: They're great questions, and
2 I'll just briefly comment on one of them. The
3 big federal projects in California, I believe the
4 power from those projects is marketed by WAPA, the
5 Western Area Power Administration.

6 I started my work in the hydropower
7 arena in the northwest, where the Bonneville Power
8 Administration has a rate component dedicated
9 specifically to fish and wildlife mitigation of
10 that system. There's no comparable measure for
11 WAPA projects, which include the Colorado River as
12 well as Shasta and some of the other federal
13 projects in California.

14 Again, I would assume that would require
15 federal legislation, but certainly they're doing
16 it up there. What is the mitigation measure for
17 the federal projects here. It's not clear. As
18 for the hundreds of smaller projects that were
19 either exempted by FERC or otherwise aren't
20 regulated or aren't relicensed from time to time,
21 it's a great question and currently the regulatory
22 that I'm familiar with mainly trace from the
23 Endangered Species Act, which can be tricky and
24 challenging.

25 But we'll keep thinking about that. And

1 then lastly, support for agency participation in
2 relicensing is something that in fact the
3 environmental community and licensees have from
4 time to time jointly supported, because we have a
5 common interest in active agency involvement and
6 engagement in the process.

7 The process can only move along if
8 agencies are able to be there at the table
9 exercising their authority efficiently, and
10 contributing to the process. Again, the FERC's
11 new integrated licensing process is a benefit and
12 a risk.

13 The benefit is that should agencies be
14 there and participating, particularly in the first
15 year to 18 months, they're going to get a dividend
16 from that involvement. The risk is that if, for
17 whatever reason, funding constraints or other,
18 they're not there, it's much more like a train
19 that's left the station than it used to be.

20 Whereas previously agencies authority
21 could always be exercised, there's been enough
22 political pressure about licensing taking too
23 long, the integrated process becomes punitive if
24 you haven't been involved early. Thanks.

25 COMMISSIONER BOYD: Thank you. During

1 this discourse one more blue card arrived on the
2 scene. So, Barbara George of Women's Energy
3 Matters?

4 MS. GEORGE: Good morning,
5 Commissioners. I thought this was going to be
6 going all day, and wasn't able to make it earlier.
7 So I, I'm the Executive Director of Women's Energy
8 Matters, and WEM has focused particularly on
9 energy efficiency in the past few years.

10 I don't know if you heard but we have
11 won a very important although partial victory at
12 the PUC last week. The Commission has recognized
13 that they cannot set aside energy efficiency funds
14 for utilities any more. They have to weigh the
15 proposals of any party to do energy efficiency
16 programs.

17 And we feel that this is a particularly
18 important step in recognizing that integrated
19 energy resources planning can best be done by
20 communities under the community choice statute
21 that passed last year, and that utilities are
22 really the wrong entities to do energy efficiency
23 programs.

24 Now I know that today is focused
25 primarily on electricity and gas, and I want to

1 address those issues particularly, but I also
2 wanted to say that today I'm representing the
3 Community First Coalition also.

4 The CFC is a, actually it has
5 international members, it is focused on the health
6 and prosperity of the Bayview/Hunter's Point
7 District of San Francisco, which is heavily
8 impacted by the Navy base toxics as well as the
9 power plant emissions from both the Hunter's Point
10 power plant, and the Potrero Hill power plant, and
11 potentially by new power plants that are planned
12 by Mirant as well as by San Francisco, in the form
13 of the four peaker plants which are an extremely
14 contentious issue right now.

15 CFC is basically saying that this
16 community, which has the highest rates of asthma
17 in the state, and terrible cancer problems as
18 well, cannot bear any more pollution from any
19 facilities like natural gas. And they're
20 wondering what has happened to the state's
21 dedication to renewable energy.

22 And they have a lot of interest in
23 seeing renewable energy and energy efficiency
24 developed further. CFC, Women's Energy Matters
25 and others have filed complaints at the U.S.

1 Department of Energy, under Title Six and
2 Executive Order 12898.

3 They're against the California ISO, the
4 PG&E, and other California agencies, including
5 yours. This is opposing several things, the
6 discriminatory reliability standards imposed by
7 the ISO on San Francisco, which keep the Hunter's
8 Point power plant running. We don't believe that
9 that is a legitimate, that they have legitimate
10 reasons for that standard. And now PG&E actually
11 agrees with us.

12 Our complaint also protests the attempts
13 to site more power plants in that neighborhood.
14 Women's Energy Matters has opposed the power plant
15 construction boom since it began, and I just want
16 to say that I'm really appalled at the approval
17 the other day of the East Altamont.

18 I can't believe that anybody would want
19 to pollute the Central Valley air any further than
20 it already is, and to have an 1,100 megawatt power
21 plant sitting there right, you know, just spewing
22 into the Central Valley is really a hideous
23 prospect. I would doubt that that power plant
24 will ever actually be built, however, because the
25 natural gas supply is such a problem.

1 And I dipped into the natural gas
2 report. I must say that, from the very first line,
3 it looked like an ideological document rather than
4 a factual document. And I thought well, here we
5 have the UC Berkeley Energy Commission equivalent
6 of the Flat Earth Society.

7 But I bring you some news from the
8 Mayflower. Actually this is from the Mayflower
9 hotel in Washington. I don't know whether you're
10 aware -- I'm sure you are aware, I hope somebody
11 here is talking about this -- there was an energy
12 summit in June in the Mayflower hotel.

13 And they were discussing the issues
14 which were also, you know, discussed by Alan
15 Greenspan -- this is slightly earlier. Greenspan,
16 as you know, said that the natural gas prices have
17 gone so high already that many industries are
18 feeling the pinch.

19 I believe that 50 percent of all
20 chemical facilities in this country have closed
21 down, at least temporarily, and 20 percent have
22 closed permanently. I think this is an incredible
23 prospect, I hope you're hearing from those people.

24 COMMISSIONER BOYD: Unfortunately, you
25 missed an entire morning's discussion of the many

1 projections of the price of gas, the supply of
2 gas. So we're very cognizant of the issues the
3 state and the nation face. But just, FYI.

4 MS. GEORGE: Good. Well, that's good.
5 I didn't get the impression that the report was
6 really aware that the problem is going to get
7 worse, and it is very unlikely that there is going
8 to be a magical find of new gas supplies that's
9 going to solve the problem.

10 And I have the two reports, one from
11 Alan Greenspan here and another report called When
12 Markets Fail: America Leaps Off The Gas Cliff
13 Without A Parachute. And this is discussing,
14 among other things, the push towards LNG. Which
15 is what I believe was the purpose for Alan
16 Greenspan's speech, was to try to get everybody
17 ready for LNG.

18 Now, once again, the CFC is well aware
19 that LNG facilities could be proposed for the
20 shipyard. That's just the kind of thing that they
21 would do there. And there has been a proposal to
22 put a hydrogen fueling station there, and we feel
23 that the LNG is just right behind that.

24 In any case, whether or not it is at
25 Hunter's Point, LNG represents a terrible risk in

1 a time of international tensions. You've got an
2 extremely dangerous type of facility and a whole
3 bunch of floating bombs out there on the ocean
4 that are also just unbelievably expensive.

5 And a wonderful woman named Donella
6 Meadows wrote a book a number of years ago called
7 The Limits To Growth, and I think we really have
8 to understand that the pollution problems are
9 here, they're not going to end, the depletion is
10 here, it's not going to end, it's going to get
11 worse.

12 And what we really need to be doing is
13 using the last of the carbon resources in other
14 ways. To be burning this as fuel is really the
15 worst use of these resources, especially since we
16 have the renewable capability, especially in this
17 state. We have so much sun that isn't being
18 utilized.

19 And I believe it was a tragedy that this
20 state was building so many power plants fueled by
21 natural gas and not finding a way to site
22 renewables. I know the issue was firm power, but
23 renewables obviously are automatically
24 disqualified by that, and there has to be a way to
25 understand that these fuels are free, they are not

1 limited, and they are the way to go, and we have
2 to find a way to use them.

3 COMMISSIONER BOYD: Ms. George, do I
4 take from your testimony that you do not agree
5 with the state's pledge to 20 percent renewables,
6 or the pledge in the Energy Action Plan, agreed to
7 by this agency and two others, that we accelerate
8 the 2017 goal to 2010?

9 I mean, you're criticizing our
10 commitment, or any references in our lengthy
11 reports to renewable energy, but from where I sit
12 there's an extremely heavy commitment, and even a
13 reaffirmation and acceleration of that commitment.
14 Are you not satisfied with that?

15 MS. GEORGE: I believe it needs to go a
16 lot further. And I also believe that the
17 commitment -- I'm not seeing the rubber hit the
18 road yet. What I'm seeing is more power plants
19 being proposed by the California Power Authority
20 for public financing.

21 I don't hear anything even approaching
22 the vow of one city, San Francisco, which has a
23 plan to put a 50 megawatt solar facility, and 50
24 megawatts of other renewable energy into the
25 system in the next three years. So I don't

1 believe that the renewable portfolio standard goes
2 far enough.

3 I'm happy that it's there, because if
4 all else fails we'll get a little bit more. I
5 just don't think that it's going to be enough to
6 jump-start an industry which needs a, I mean the
7 prices will come down when there is more demand
8 for it. I believe that California should be
9 building solar panel factories rather than just
10 sitting it out.

11 You know, the use of public money here
12 is really a problem. And what I've been seeing
13 from the Energy Action Plan is, it talks a great
14 line about energy efficiency and renewables, and
15 then it proposes to give energy efficiency money
16 back to the utilities.

17 We know the utilities have a terrible
18 conflict of interest with energy efficiency. They
19 have also, in the early part of the 90's, I don't
20 know if you're aware, but there's an important
21 report by JB Marcus about the --

22 CHAIRPERSON KEESE: Mr. Chairman, may I?
23 Ms. Matthews, we have extremely comprehensive,
24 deep reports on electricity and natural gas that
25 the staff prepared. And we've gone through a day

1 and a half now of comments from the audience as to
2 whether they were accurate or not.

3 I recognize you're talking about general
4 issues here, but we're wrapping up our input on
5 these extremely technical comprehensive reports.
6 Do you -- and we've covered a lot of the issues
7 that you've talked about already. Are you
8 commenting on that, or is this a general comment
9 to us, or--?

10 MS. GEORGE: Well, I'm discussing the
11 issue of integrated energy policy resources. I
12 don't see much discussion of the community choice
13 options in your report, for one thing. I, we will
14 be -- I don't know how long we had, I assumed we
15 had three minutes, maybe five minutes at the best.
16 And I wanted to give some general remarks today
17 because these hearings are covering very large
18 issues.

19 And so we will be submitting comments on
20 specific issues that we have found in the report.
21 So I'm giving you the summary of what we have
22 found, and what our conclusions are.

23 And we don't see enough public resources
24 going into the renewable energy field. And we are
25 also concerned that the Energy Action Plan, as I

1 have testified in other hearings before the joint
2 agencies, that there's a huge problem giving the
3 energy efficiency money back into the hands of the
4 utilities, and I'm happy to say that the PUC has
5 denied that as an option right now.

6 There cannot be a set-aside of 100
7 percent of the money for utilities any more. Or
8 even an 80 percent set-aside. And the reason for
9 that has been documented over many, many years.
10 What I think there, you know, there is good news
11 that there is another option, a new law, the
12 community choice law, which offers a new way to do
13 energy integrated resources planning.

14 And it is done from the point of view of
15 the customer rather than the supplier. And so the
16 customer has an interest in having the lowest
17 cost, having the cleanest resources, and having
18 the most reliable resources. So that is what
19 community choice is about. The community --

20 COMMISSIONER BOYD: Ms. George, you
21 don't need to educate us on community choice.
22 You've made your point very well on that. And I
23 would point out that this Commission recently gave
24 a very handsome grant to a local government
25 commission to help it work with communities to

1 facilitate community choice, so we understand --

2 MS. GEORGE: Yes, but you cut out the
3 energy efficiency portion of that grant, which I
4 thought was an absolute outrage. That group is
5 unable to enter into the proceedings at the Public
6 Utilities Commission on the issue of energy
7 efficiency, with the funding from the Commission
8 here.

9 And frankly, the energy efficiency
10 portion of the community choice law is the very
11 beginning of the implementation of that law.
12 That's what the PUC did first, because they had a
13 deadline of July 15th to do that with. And so we
14 are looking at one of the, you know, major players
15 in that is -- your grant tied their hands.

16 And I think that's really unfortunate.
17 And I think that also recognizes the importance of
18 energy efficiency, because -- to the utilities,
19 that's why that money got cut out, we know. And
20 this really has to end. I mean, we have to be
21 understanding that these things all happen
22 together.

23 So when you have a community choice
24 grant that you're giving out that is not allowed
25 to address energy efficiency, I mean what are you

1 talking about? I mean, you're just cutting off
2 one of the major opportunities for communities to
3 reduce their use of energy and lower their bills,
4 and serve their customers the way they want to do.

5 The solicitation for these programs is
6 actually coming up in September 23rd. So I hope
7 that the people who are listening to this will be
8 getting their proposals ready, because it's on.
9 You can submit a proposal. Any party can submit a
10 proposal for any portion of those funds, and we
11 think that's very important.

12 COMMISSIONER BOYD: Thank you.

13 MS. GEORGE: And we will be submitting
14 written comments on all of your many issues, in
15 the future.

16 COMMISSIONER BOYD: Thank you very much.
17 Well, no other blue cards having arrived, I think
18 we've finished with today's hearing.

19 First, let me remind you that there is
20 another hearing tomorrow on the Public Interest
21 Energy Strategies Report, same time, 9:30, same
22 place, for those of you who follow that subject.

23 Secondly, let me remind you that -- it
24 was mentioned yesterday, let me mention it again
25 today -- that the date of September 2nd was set as

1 the deadline for comments on today's items,
2 tomorrow's items, last week's items. So just a
3 reminder of that deadline and that information on
4 all that is on the website for those of you that
5 want to pursue that.

6 Thank you. I want to say to all the
7 other agencies that participated in our work
8 today, I look forward to the other agencies
9 continuing their work. We are striving mightily
10 to have coordination.

11 I want to particularly thank Mike
12 Scheibele of the Air Resources Board, who I've
13 noted, as a Deputy Executive Director, has taken
14 all of his time for two solid days here to sit
15 with us through this, so thank you Michael. And I
16 appreciate the work that your agency has done.
17 The obvious interaction between energy and air
18 quality is well-identified, and we look forward to
19 continuing work on that.

20 And with that, I'd ask my fellow
21 Commissioners, any closing comments? Thank you to
22 the staff. Thank you to everyone for your
23 participation to date, and we look forward to your
24 participation in the future, and any written
25 comments you may have. Thank you, and this

1 meeting is adjourned.

2 (Thereupon, at 11:35 a.m., the meeting was
3 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 Workshop; 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 workshop, nor in any way interested in outcome of said workshop.

IN WITNESS WHEREOF, I have hereunto set my hand this 3rd day of September, 2003.

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