

COMMITTEE HEARING
BEFORE THE
CALIFORNIA ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION

In the Matter of:)
)
Integrated Energy Policy Report) Docket No.
) 02-IEP-01
_____)

CALIFORNIA PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
AUDITORIUM
SAN FRANCISCO, CALIFORNIA

WEDNESDAY, OCTOBER 1, 2003
10:00 A.M.

Reported by:
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PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345

COMMISSIONERS PRESENT

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John Geesman, Commissioner

Robert Pernell, Commissioner

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Melissa Jones

STAFF PRESENT

Thom Kelly, Assistant Executive Director

Karen Griffin, Program Manager

ALSO PRESENT

Barbara Hale, Director of Strategic Planning
California Public Utilities Commission

Alvin Pak
Sempra Energy Global Enterprises

Devra Bachrach
Natural Resources Defense Council

Alex Leupp
Silicon Valley Manufacturing Group

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California Contractors Alliance
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Gary L. Schoonyan
Southern California Edison Company

Sharon Lanini
Agricultural Consultant

ALSO PRESENT

Mona Petrochko
Constellation New Energy
Alliance for Retail Energy Markets

Russell Anderson Blythe
Sustainable Energy Development

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P R O C E E D I N G S

10:00 a.m.

PRESIDING MEMBER BOYD: Pardon the delay. We have several people not used to the traffic and commuting to the Bay Area. And we have some people who didn't, shame on them, get into carpools and take advantage of that option.

So in any event welcome to this first in our last series -- I like that, first of the last series of hearings on the Energy Commission's Integrated Energy Policy Report.

We're now dealing with the draft Committee report, which the Committee, we want to finalize after input from this series of hearings we're holding in order to be able to present a final recommended report to the full Commission at the Commission's October 29th hearing, in time to make a timely submittal of the report by the first of November to the Governor's Office. I'll let it go at that.

We're here after many many many months, it seems like, of work by the staff of the Energy Commission, the staffs of many other agencies, and many of you, after holding many public workshops and public hearings.

1 As I say, we've reached this point where
2 we have a draft Committee report that we are
3 soliciting input throughout the state on in order
4 to finalize the report.

5 We have worked with a host of state
6 agencies, as well as others, on this report.
7 There are many state agencies specified in the
8 statute to be involved in this process, but we've
9 done our best to reach out beyond that select
10 group to other state agencies with whom we've had
11 a working relationship with down through the
12 years. And we only hope that we've touched any
13 and all that are affected by and have a role in
14 the energy arena.

15 We've also done the best we could to
16 reach out to all the local agencies, as well as
17 federal agencies, with whom we've had a working
18 relationship, or who have had interest in the
19 subjects of this report.

20 The statute is fairly specific with
21 regard to the necessity of various state agencies
22 to utilize the data and outcomes of the effort
23 that we have here in future energy activities.
24 And so we've been very careful to coordinate more
25 closely with those agencies and take into account

1 the work that has gone on concurrent with the
2 activities associated with the Integrated Energy
3 Policy Report.

4 One specific action that I need to note
5 that is referenced quite liberally in the work
6 we've done to date is the energy action plan,
7 which document was the product of the work of the
8 Energy Commission, the Public Utilities Commission
9 and the California Power Authority, which document
10 was approved earlier this year. And has proved a
11 guide to us as we work on this particular report.

12 The loading order of priority
13 recommendations in that report has proved
14 beneficial and helpful and of guidance to us. The
15 joint efforts of the Energy Commission and the PUC
16 on the renewable portfolio standard are well
17 recognized, acknowledged and an integral part of
18 what it is we're doing here.

19 And the PUC's work on the procurement
20 program, as well as Commissioner Kennedy's July
21 order regarding the roles of efficiency, demand
22 response and renewables, all of which are integral
23 parts of the work that we've been carrying out;
24 are now integral parts of this Integrated Energy
25 Policy Report.

1 So, it's a very comprehensive approach
2 to the subject, as it should be, as the statute
3 expects. I like to analogize the energy situation
4 and energy that we deal with somewhat to the
5 proverbial three-legged stool. The legs of this
6 stool happen to be electricity, natural gas and
7 transportation fuel. And upon that stool sits the
8 economy of the State of California, if not the
9 society of the State of California. All three
10 legs of that stool have been damaged, sometimes
11 repeatedly, over the last three-plus years; and
12 repaired on occasion. And we sit fragilely upon
13 that stool to this day.

14 And we are incredibly dependent upon the
15 interaction of the legs of that stool. Energy is
16 what fuels the economy of this state, or the
17 engine, fuels the engine of the economy of the
18 state. And that is something we are quite
19 concerned about, because a healthy economy leads
20 us in so many positive directions, and allows us
21 to do so many of the things that are necessary to
22 the great Golden State, that we're entirely
23 dependent upon rebuilding that issue and refueling
24 that engine.

25 We're therefore quite concerned about

1 the content of our Integrated Energy Policy
2 Report, and we want to put the best possible
3 report forward in this terribly short period of
4 time.

5 The last thing I will mention is that
6 this is the first of a long series of reports;
7 probably reports that will follow on after some of
8 us have left the Commission. The legislation
9 required this as a biennial report, every two
10 years, with the provision that there can be an
11 annual update. And I can tell you that the
12 Commission is already planning the idea of an
13 annual update. And this becomes a very full-time,
14 dynamic real-time process, as is the whole issue
15 of dealing with energy in this state in this day
16 and age.

17 So, we have a permanent venue in an
18 ongoing agenda available to us to deal with the
19 energy issues of this state as they change quicker
20 than we can almost keep up with.

21 So, with that I look forward to the
22 testimony that we will receive from you today, or
23 those of you who choose to testify in any one of
24 the other hearings. We plan to be in Los Angeles
25 tomorrow; Sacramento on Friday; San Diego and

1 Bakersfield two days of next week, trying to
2 blanket the state as best we can.

3 A comment on process. The process the
4 Energy Commission traditionally follows is those
5 of you who would like to testify, please fill out
6 a blue card; provide it to the Board Staff in the
7 back of the room; and it'll find its way up here.
8 And it will allow me to call on you for your
9 testimony later in the day.

10 And we ask that anybody who testifies,
11 if you can, provide a business card to our court
12 reporter, because we do make a transcript of these
13 hearings to help us in formulating the
14 recommendations that we make.

15 So, with that I'd like to call upon my
16 two fellow Commissioners, who I appreciate joining
17 me here today, Mr. Geesman and Mr. Pernell, if
18 they have any introductory remarks they'd like to
19 make. Commissioner Geesman.

20 COMMISSIONER GEESMAN: I don't believe I
21 do, Commissioner, thank you.

22 PRESIDING MEMBER BOYD: Commissioner
23 Pernell.

24 COMMISSIONER PERNELL: I can't turn down
25 a mike. I would just say, echo what you've said,

1 Commissioner, and thank all of those who have put
2 this report together and worked hard on it. And
3 also Commissioner Peevey and the PUC for allowing
4 us to use their facilities today.

5 So, with that, we can begin.

6 PRESIDING MEMBER BOYD: All right, thank
7 you. And thanks to Barbara Hale and her staff for
8 all that they've done. We'll hear from her
9 shortly.

10 We're going to lead off with a
11 presentation from our staff, followed by a
12 presentation from our host agency here, the PUC.
13 And then if there are any other state agencies in
14 the audience. Then we will go to testimony from
15 those of you who signed up on the cards.

16 So, with that, Thom, would you like to
17 begin.

18 MR. KELLY: Today we're going to present
19 information about the IEPR. And we think it's
20 appropriate to add some context for that, and not
21 just have this report show up. We have roots for
22 this report that go back at least as far as 1974
23 when legislation was signed by a Republican
24 Governor to create the Energy Commission. And
25 we've been preparing reports since that time.

1 Karen is going to tell us about the history of the
2 reports and the process that got us where we are
3 today. And I am going to then put a short summary
4 of what is in the executive summary and in the
5 policy report.

6 MS. GRIFFIN: Good morning,
7 Commissioners and stakeholders. My name is Karen
8 Griffin; I'm the Program Manager for the
9 Integrated Energy Policy Report. And it's very
10 difficult to talk to you and to you at the same
11 time, so I'll talk to the wall.

12 You'll notice that when you look at your
13 slide package and you all have the slide handouts,
14 because we're not using overheads today. They're
15 on the back. Okay.

16 That energy planning in California has a
17 long history starting in 1975 when the Warren
18 Alquist Act actually went into effect. And for
19 those of you who have grown up with this activity
20 you'll know that the prior activity looked at
21 electricity and natural gas, renewables, some
22 transportation fuels, DSM, ending up in what was
23 known as the biennial report.

24 But over the years, as that process
25 evolved, what it tended to evolve towards was a

1 focus primarily in the electricity sector on
2 feeding into Energy Commission areas of expertise,
3 our building standards, our appliance standards
4 and then our siting process. So a lot of it was
5 focused on that.

6 And then providing information for other
7 people to use, including the PUC, in their various
8 procurement proceedings; and the Legislature.

9 But there were also a host of other
10 reports, the conservation report, technologies and
11 R&D, special studies. And these things were
12 always got very out of sequence. So we never had
13 an integrated look across all fuels at one time,
14 trying to put the pieces together and see if there
15 were common problems, and which was the
16 priorities.

17 So each report would say, my issue is
18 critical, you've got to deal with it now. So we
19 had dozens and dozens of critical issues.

20 With the advent of electricity
21 deregulation the ability to do even the
22 electricity systematic overview atrophied; and
23 there was also a state budget crisis back in the
24 '90s -- you may not remember that, but we do --
25 where we lost a lot of staff and a lot of

1 capability. So we really had to pull back on the
2 kinds of works that we did, and the frequency of
3 it, the detail of it.

4 And so we got more into doing special
5 studies, monitoring and crisis management,
6 particularly in 2000 and 2001 when things started
7 to go very badly.

8 One of the people who was quite aware
9 that this was a problem was Senator Bowen; and so
10 in 2002 she shepherded the reestablishment of an
11 integrated policy framework. But she did a lot
12 more than just say, hey, guys, get back on the
13 ball; I want this stuff again.

14 She and the Legislature wanted to
15 emphasize that we needed to look across all fuel
16 types; that we needed to identify which were the
17 priority issues; which were the most pressing
18 ones; which set of volatility; which set of supply
19 constraints; which things the state could do or
20 the state couldn't do; how this was affecting our
21 environment; where should we cherry-pick in terms
22 of the policies that we needed to do.

23 Because we are living in an era of
24 reduced resources. Obviously our utilities are
25 still trying to dig out of bankruptcy; our

1 generators are having difficulties with their
2 companies, the gas companies. There are just many
3 many companies here who don't have the resources
4 that we might have had a decade ago for sort of
5 general investment and sort of a more risky
6 outlook on what we want to do.

7 So the way the report is set up, the
8 process is set up, not only do we look at all
9 these things in an integrated fashion, but we try
10 to integrate with our sister agencies. The idea
11 is if we all work on what's important, what
12 analysis ought to be done, and what can we draw
13 from each proceeding, so we aren't just, all
14 right, if you want to talk about X, come to the
15 Energy Commission.

16 We said no, there's a lot of incredibly
17 valuable things going on at the Air Resources
18 Board, at the PUC. Let's draw from them; let's go
19 to their proceedings; let's get not only their
20 expertise, but their record and use that so that
21 it's a more efficient use of the public's
22 resources.

23 And that was a big emphasis that we
24 tried to make happen this year. And the way that
25 the report is structured, because it's such a

1 diverse field, as Commissioner Boyd said, it
2 touches every part of the California economy,
3 which means -- so we segued out the way the
4 statute recalls, in that there was a lot of work
5 on electricity and natural gas, which is really an
6 integrated system now.

7 Maybe 20 years ago it wasn't, but
8 because natural gas is such a dominant fuel in our
9 electricity sector, as the leading edge, as the
10 marginal fuel, as the pacesetter for a lot of
11 other choices that get made, it means that these
12 two things have to be looked at as if they're one.

13 And then energy efficiency and
14 renewables are solutions to dealing with those
15 problems. That's why those are kind of linked
16 together.

17 Then you have the combination of
18 transportation fuels and infrastructure which, at
19 this point, aren't too closely tied to electricity
20 and natural gas in a physical sense. Obviously
21 they have the same economic drivers, same
22 demographics. There are some links which that was
23 an early process in which we were trying to decide
24 how much of those linked that we needed to worry
25 about.

1 And finally there's that special
2 emphasis on the public interest energy strategies.
3 When we look at the problems in the sectors, what
4 special things can government do or should the
5 government do in the process of addressing the
6 public interest in terms of things that the market
7 is not going to do. And that is where we had
8 energy efficiency, renewables, dynamic pricing
9 activities.

10 As Commissioner Boyd again said, we have
11 these three reports that lead up to the Integrated
12 Energy Policy Report which you're talking about
13 today, giving us your comments on the draft. And
14 that report is required every two years.

15 Well, what happens next after the
16 Commission adopts the report on October 29th. It
17 goes to the Governor. The Governor has 60 days to
18 either adopt or change, and then adopt it and
19 announce that he's required by the statute to
20 announce an official Governor's energy policy,
21 which is to inform his Administration or her
22 Administration about what the priorities are for
23 the next two years, and to work with the
24 Legislature about legislation to implement that.

25 The statute also requires us to do an

1 annual update, a slim-down on selected key issues,
2 which will start to be identified or are being
3 identified right now.

4 And then we'll have actually the first
5 full-scale report coming in 2005. If you
6 remember, the statute was passed in 2002 for a
7 two-year activity, but we actually started our
8 first public hearing was in September. So we've
9 done in one year what the statute says we should
10 accomplish in two. So there was some bumps and
11 rough spots along the way, but we're here today
12 with our first product.

13 Again, most of you I recognize from
14 being in this process over the last year, so
15 you're familiar with a wide range of information
16 that has been debated and worked on over the past
17 year in the various technology areas and the
18 infrastructure areas with a special emphasis on
19 environmental and climate change.

20 I think this is the first time that the
21 Commission has done quite such a comprehensive
22 look at environmental issues in both the
23 electricity and natural gas area, but also in the
24 transportation area through the work with the Air
25 Resources Board on AB-2076. And we intend to

1 increase that so that we do have full
2 environmental coverage of all of the energy
3 sectors as we move forward in this. Because we
4 have to have, as the statute requires, an
5 environmentally sound energy policy.

6 The Commission's role in global climate
7 change is also increasing and developing this
8 cross-sector look.

9 In terms of the public process we kicked
10 this report off a year ago with a public scoping
11 hearing that the Committee held. And then they
12 issued their directions to us all in December. We
13 had nine collaborative state agencies that we met
14 with on a monthly basis; 16 days of hearings on
15 this subject with an additional ten days for the
16 petroleum dependence study, which is an integral
17 part of this for the transportation part.

18 I couldn't believe, we had 140 sets of
19 written commenters that we identified as we
20 started going through the transcripts and checking
21 and making sure for this proceeding. And if
22 you've ever been to our website you can believe me
23 when we have over 3000 pages of material that has
24 been presented, and some people have had to read,
25 in pulling this all together.

1 All of that work has led us to where we
2 are today. And Thom is going to talk about that.

3 MR. KELLY: I was remiss when I first
4 got up by not telling you who I am. I'm Thom
5 Kelly, Assistant Executive Director of the Energy
6 Commission. The only reason I'm here is because
7 Bob Therkelsen cannot be. He would not have
8 wanted somebody else to take his place, because
9 he's been personally involved in the formulation
10 development and management of this process since
11 it started. And even toward the end he helped
12 keep-- he was the glue that kept it all together
13 as a staff. So, Bob, this is your presentation.
14 I'm just not going to do it quite as well as you
15 would.

16 One of the comments that we took on the
17 legs of the stool, the subsidiary reports, was
18 that they had a lot of technical analysis in it,
19 but didn't have a lot of policy implications that
20 were directly listed. And we knew that; we
21 designed it that way. But then we designed this
22 policy report to take account of that and provide
23 some policy guidance and make some recommendations
24 that have some implication.

25 The policy report in this next slide, if

1 you see that, shows the tie that we tried to keep
2 it unified; have all the inputs from as many
3 parties as we can get. Public input included,
4 with our sister agencies. And then have it in
5 such a way that others, the Legislature, the
6 Governor, other agencies can find useful
7 information in here and put it to use in their
8 venues and not just rely on a basic report which
9 is just another energy report, another government
10 report if we don't do something special with it.

11 I have seen many; I'm sure you've seen
12 many; and that's all there is, it's another
13 report. File it in the round file, and move on
14 and do something.

15 So, in this case we want to try to focus
16 energy policy and do it with recommendations that
17 hit home for people.

18 The draft report tries to characterize
19 those in four basic groupings that are listed,
20 following the energy action plan, number one
21 harvest energy efficiency opportunities; when
22 they're cost effective we should go after those.
23 There's some recommendations in here that say we
24 can do more than we're currently doing and make
25 recommendations on what some of those might be.

1 Diversify fuel types so we don't have
2 single fuel, either physical or economic,
3 dependency. That's a theme you're going to find
4 in the Energy Commission reports beyond. We don't
5 just count therms and electrons, but we see what
6 ties they have economically, because these energy
7 fuel types are all interrelated across themselves,
8 and have common economic themes.

9 We want to encourage customer
10 alternatives, customer choice. And we also want
11 to concentrate on infrastructure improvements. We
12 can all use infrastructure improvements. My body
13 begs for infrastructure improvements, but I think
14 the electricity sector is going to be much more
15 amenable to those than my bionic improvements.

16 Some of the principal recommendations,
17 and these are ones I came up with. Other people
18 will find a summary list of recommendations that
19 are their favorites, either to love or hate.
20 These are ones I thought particularly we'd be
21 interested in.

22 One, in terms of enhancing that energy
23 efficiency opportunity, we think there's a chance
24 to go beyond even what the energy action plan has
25 recommended. And that is to increase our devotion

1 to efficiency, electricity and natural gas.
2 Ramping up, spending, and without necessarily
3 saying what kind of spending, but certainly
4 increase our efforts in there by maybe 60 percent.

5 I know that doesn't mean exactly, and
6 the staff doesn't mean that that will increase
7 savings by 60 percent; because we recognize that
8 there's a sort of a declining yield curve for most
9 programs.

10 But let's get started; figure out what
11 kind of improvements we can make. And see if
12 we're making our milestones. And then commit to
13 more money. Let's just not throw a lot of more
14 money at the problem immediately without getting
15 some feedback.

16 Following the energy action plan we
17 recommend enacting legislation to accelerate the
18 RPS by 2010 instead of 2017. We focus on customer
19 choice retail markets, any kind of investigation,
20 any kind of analysis that looks at market
21 structure should consider this as a basic part of
22 it.

23 And then create clear operating reserve
24 requirements. If we're going to maintain a
25 reliable system, then all those who are part of

1 that system need to contribute to that
2 maintenance.

3 On the second page, minimize use of
4 fresh water in and around new power plants. And
5 these two next recommendations draw on our
6 extensive power plant licensing program and
7 process experience that we've developed over the
8 years under various regimes, some regulatory, some
9 market oriented. But it's consolidate the bulk
10 transmission permitting process, and establish the
11 same kind of permitting process for petroleum
12 infrastructure.

13 We have a system that seems to work.
14 There ought to be a way to apply that more broadly
15 to more energy features than just electricity
16 generation.

17 And finally, reduce on-road petroleum
18 demand. We would like to see that reduced below
19 the 2003 levels. There are any number of ways
20 that that can be accomplished. And any or all of
21 those can be pursued.

22 The next steps for this policy report.
23 We're holding hearings through the 10th of this
24 month at various places throughout the state. I'm
25 sure some of the faces I see I'll see again in

1 those hearings.

2 This is leading to a proposed final
3 draft on October 17th. That's 16 days from today.
4 As part of the writing team I fully recognize how
5 tight that may seem. But during that period I'm
6 sure we want to get as many comments as possible,
7 because the pen is still moving over the paper.
8 And your comments will influence how that pen
9 moves.

10 Some of the change we've already
11 anticipated; some informal comments we've talked
12 about are that the energy picture that we see is
13 way up in the front of the report, and the
14 recommendations that flow from that are way in the
15 back of the report.

16 We're going to try to make the look of
17 the report and the reading of it, the connection
18 between the energy picture that we see and the
19 recommendations, a little tighter. So the next
20 report you see, if we made no other changes, but
21 I'm sure we will, but if we made no other changes
22 you would see that merge back with the
23 recommendations to try to give a little bit more
24 substance to the recommendations.

25 So, the look may change a little bit,

1 but the principal recommendations, the flow, the
2 analysis is going to be very similar to what you
3 see, absent any other comments.

4 October 29th is the business meeting at
5 which the proposed final report will be considered
6 and possibly adopted in time for whatever changes
7 would happen at that point, to quickly turn
8 around. Normally they do this for us over the
9 weekend. So, we have ample opportunity to get the
10 final drafts out without phones and family and
11 other interruptions.

12 Then by February 1st the Governor, as
13 Karen said, is free and is actually required to
14 make a statement about what policy should be for
15 energy in California.

16 PRESIDING MEMBER BOYD: Thank you, Mr.
17 Kelly. Questions, comments? All right.

18 I'd like to call upon Barbara Hale of
19 the Public Utilities Commission, our sister agency
20 that has been working so closely with us on the
21 subject and many others, and is our host today.
22 Thank you, Barbara.

23 DIRECTOR HALE: Thank you, Commissioner
24 Boyd, and your colleagues, as well. And welcome.
25 I am Barbara Hale; I'm the Director of Strategic

1 Planning at the California PUC. And I was asked
2 to come today to represent the views of the PUC
3 Staff who have followed the development of the
4 subsidiary reports and the draft Integrated Energy
5 Policy Report.

6 First of all, welcome to San Francisco.
7 I'm sorry you had a challenging drive getting
8 here. I'm sure you're going to have a productive
9 day now that you've made it.

10 The Integrated Energy Policy Report
11 certainly has a broader set of responsibilities
12 than the Public Utilities Commission does in terms
13 of addressing fuels and refineries and different
14 aspects that transportation fuels that the Public
15 Utilities Commission does not have responsibility
16 for. So I won't be addressing any of those
17 aspects of the report.

18 The Integrated Energy Policy Report
19 statute also has charged you with taking a
20 statewide and regional perspective on the issues.
21 And I come to you today to offer some thoughts
22 from that subset that is the PUC jurisdictional
23 area, the responsibility for investor-owned
24 utilities; and how the policy recommendations and
25 findings the report makes bear on our

1 responsibilities here at the Public Utilities
2 Commission.

3 Let me first congratulate you for having
4 accomplished what you've accomplished so far. I
5 understand from Ms. Griffin's presentation that
6 this is a first start. That you're anticipating a
7 broader, more comprehensive approach in future
8 years when you have the full statutory time
9 available to you to developing it. And I think
10 you've really accomplished a lot in the small
11 amount of time you've had. So I want to, as I
12 say, congratulate you for starters.

13 I think overall the PUC Staff's
14 impressions are positive. There's a lot of
15 commonality here between PUC Staff's views on the
16 issues you address and what you're laying out in
17 the draft Integrated Energy Policy Report.

18 There is one area of exception that I
19 imagine we'll be spending most of our short time
20 together here today talking about. So let me talk
21 a little bit first about that.

22 The Energy Commission's Integrated
23 Energy Policy Report recommendation for
24 transmission planning and permitting the PUC Staff
25 regards as inconsistent with the energy action

1 plan goals and action steps, and the PUC's
2 mandate, as laid out in the statute.

3 We believe it complicates the
4 transmission planning process as opposed to
5 improving on the transmission planning process.
6 I'm referring in particular to the draft IEPR's
7 conclusion that transmission planning is
8 fragmented and ineffective and recommends that the
9 permitting process for all new bulk transmission
10 lines we consolidated with the Energy Commission
11 using the Energy Commission's power plant siting
12 process as a model.

13 I understand that to mean that the
14 Energy Commission is proposing to site all bulk
15 transmission facilities, regardless of the
16 ownership of the role of the project proponent,
17 and by that I mean investor-owned municipal third-
18 party proponent.

19 I understand this to mean that the
20 Energy Commission would be performing planning as
21 well as siting, and perhaps apply a CEQA
22 equivalent process to transmission siting as it
23 does for power plant siting.

24 The report, itself, doesn't get into
25 specifics on that, so I'm just sort of surfacing

1 for you what I understand that language to mean.
2 That the Energy Commission would be responsible,
3 under this language, as I understand it, for
4 planning, siting, permitting, complying with CEQA
5 for all transmission projects in California.

6 I think, consistent with the EAP, the
7 PUC Staff shares the Energy Commission's view that
8 transmission planning needs to be streamlined, and
9 should be based on collaboration among responsible
10 agencies. But CPUC Staff disagrees with the
11 proposed approach.

12 In addition to the fact that the draft
13 IEPR ignores the PUC's statutory mandate to assess
14 utility projects, the recommendation, itself,
15 complicates the transmission planning process and
16 works counter to the stated goal of the EAP to
17 streamline the transmission process.

18 I understand the Energy Commission's
19 recommendation would require the CEC, instead of
20 the PUC, to conduct the economic reliability and
21 environmental assessment of investor-owned utility
22 projects. Be they projects proposed to meet
23 reliability or economic needs.

24 I think important to our CPUC Staff's
25 thinking and reactions to the proposal is our view

1 that transmission assessments for the investor-
2 owned utilities must be done in an integrated
3 fashion, as part of the investor-owned utilities'
4 resource planning, to insure the best mix of
5 resources employed and meeting IOU customer needs.

6 Transmission is just one resource in the
7 full complement of resources an investor-owned
8 utility can apply to meeting its customers' needs.
9 Generation, be it renewable, distributed or other;
10 energy efficiency; all of these are tools in the
11 investor-owned utilities' toolbox to apply to the
12 needs its customers have.

13 Considering transmission separate from
14 those other tools, they being complements to each
15 other, and at sometimes substitutes to each other,
16 I think is not improving the transmission
17 permitting and planning process.

18 The PUC's procurement process is the
19 most appropriate place to conduct this sort of
20 evaluation of resource options before the IOU's
21 transmission components of the resource mix can be
22 approved.

23 Upon such an approval the IOUs would
24 incorporate the transmission components of their
25 approved procurement plans and their annual

1 filings in the ISO.

2 Recall that the state of transmission
3 planning and permitting in California today for
4 investor-owned utilities who, and other
5 participating transmission owners in the ISO grid,
6 is that the ISO conducts an annual assessment
7 based on filings from the participating
8 transmission owners. In that annual assessment
9 the ISO then assesses need for transmission
10 projects. And helps sort of winnow down the
11 different options for meeting a transmission need
12 through its stakeholder process.

13 Today those recommendations from the
14 ISO, those findings from the ISO, to the extent
15 they are -- result in an IOU project, come to the
16 Public Utilities Commission. What I'm suggesting
17 is that with a careful look at transmission in the
18 context of procurement the filings the ISOs -- the
19 IOUs -- I apologize, so many acronyms -- the
20 filings the IOUs make as participating
21 transmission owners to the ISO would have the
22 benefit of being reviewed in the context of their
23 20-year procurement plans. So the transmission
24 component would then come to the ISO grid planning
25 process.

1 The ISO would then perform its
2 reliability and economic analysis, determining
3 whether transmission projects are needed to
4 satisfy the reliability and economic needs of the
5 grid.

6 We suggest, CPUC Staff suggests that an
7 important modification to this existing process is
8 for the work that's currently underway to
9 establish an agreed-upon study methodology, agreed
10 upon between the PUC and the ISO, and agreed-upon
11 study methodology to be applied in the ISO process
12 and also in the PUC process.

13 One of the rubs we've had, one of the
14 problems that has been identified with our
15 transmission planning and permitting process when
16 it's an investor-owned utility project, has been
17 that the Public Utilities Commission reviews the
18 need findings that the ISO has made.

19 We propose the recommended streamlining
20 solution to that problem is to have the ISO and
21 the PUC agree on a study methodology. The ISO has
22 been developing a study methodology and is
23 scheduled to bring that study methodology back
24 into the PUC process for that study methodology to
25 be validated. And we look forward to having a

1 validated study methodology used by the ISO and
2 the PUC which will allow the PUC to defer to a
3 greater extent to the ISO's need determination
4 when the ISO has applied that approved study
5 methodology.

6 We are proposing, the PUC Staff is
7 proposing that we would accomplish that validated
8 study methodology approach through modifications
9 to our general order. We would accomplish the
10 modifications to the general order via the method
11 agreed upon by the three state agencies in the
12 energy action plan. That being a rulemaking here
13 at the Public Utilities Commission to reassess and
14 potentially modify the Public Utilities
15 Commission's transmission permitting process.

16 The CEC's Integrated Energy Policy
17 Report recommendation here ignores important steps
18 that integrate utility resource planning,
19 including transmission. It's silent on existing
20 statutory responsibilities whose proposals for
21 change would potentially introduce some
22 uncertainty into transmission siting. And does
23 not demonstrate a streamlined process.

24 The draft IEPR ignores the stated goal
25 of the EAP that the PUC will initiate an

1 investigation to explore and improve the CPUC's
2 transmission permit siting process.

3 We encourage incorporating the CPUC's
4 input into the process that I've described for
5 modifying the PUC's permitting process for
6 transmission as much as possible, as was expected
7 and laid out and we thought agreed to in the
8 energy action plan.

9 So I've spent most of my time talking
10 about what the PUC Staff sees as a problem area in
11 the draft Integrated Energy Policy Report. I'd
12 like to spend the balance of my time on areas
13 where I think we see a lot of agreement, and where
14 we see the statewide focus of the Integrated
15 Energy Policy Report as having some positive
16 action occurring with the area that we're
17 responsible for, the IOUs' service territories.

18 We agree with many of the
19 recommendations, and are, in fact, pursuing many
20 of the recommendations for the IOUs in active
21 proceedings here at the Public Utilities
22 Commission.

23 I think it was on slide 12 of Mr.
24 Kelly's and Ms. Griffin's presentation where --
25 yes, the key points of the Integrated Energy

1 Policy Report are summarized. And I'll just go
2 ahead and go through that same list and link for
3 you how we see some of the recommendations already
4 being pursued in a very, I think, constructive
5 way.

6 Consistent with the energy action plan
7 the draft IEPR recommends to harvest energy
8 efficiency opportunities. The Commission has been
9 strongly supporting this and has required the
10 investor-owned utilities to include energy
11 efficiency measures in their procurement plans.
12 And will fund approximately \$512 million of
13 electric and gas efficiency programs in '04 and
14 '05. We'll also be reassessing the appropriate
15 program administration and factoring energy
16 efficiency into the IOUs long-term procurement
17 plans.

18 On the diversity of fuel types issue you
19 folks have called out in the draft IEPR the
20 efforts on liquified natural gas. The draft IEPR
21 recommends coordinating permit reviews with all
22 entities to develop an LNG terminal on the west
23 coast.

24 The PUC is a member of the LNG inter-
25 agency permit working group, which Commissioner

1 Boyd and his staff have been very engaged in; and
2 has been participating in discussions regarding
3 appropriate permitting of LNG facilities in
4 California with the CEC and other agency staff.
5 We see that as a very constructive effort that the
6 Energy Commission has championed. And which
7 should support the draft Integrated Energy Policy
8 Report's recommendations.

9 With respect to renewables, the draft
10 Integrated Energy Policy Report recommends that
11 the EAP accelerated goal be legislated.

12 For the IOUs the Commission has already
13 begun to accelerate the schedule. The draft IEPR
14 also recommends the IOUs and municipal utilities
15 incorporate renewables into their long-term
16 procurement plans. The PUC is already doing this
17 as evidenced by our actions in the procurement
18 proceeding, and as authorized in various decisions
19 of the Commission where the IOUs now have more
20 than 620 megawatts contracted capacity from
21 renewables and more than 4200 gigawatt hours
22 delivered per year of renewable energy through
23 five- to ten-year contracts.

24 So we see that as an area of very
25 positive contribution of the IEPR where we see the

1 PUC's activities being very consistent with and
2 actually acting on the recommendations as you've
3 called for.

4 With respect to reserve requirements,
5 the draft IEPR recommends that all electricity
6 providers maintain appropriate operating reserves.
7 And the PUC Staff certainly agrees with the
8 recommendation and is considering reserve
9 requirements for entities that are under its
10 jurisdiction, such as the IOUs, direct access
11 energy service providers, community choice
12 aggregators, the full complement of load-serving
13 entities we're responsible for in our procurement
14 proceeding. And expect to have our draft decision
15 that will lay out resolution of reserve
16 requirements for that subset of market actors in
17 November.

18 That'll be out for public comment.
19 We'll look forward to having an opportunity to
20 hear your views on it. And then the Public
21 Utilities Commissioners will have it before them
22 for a vote in our last December meeting, December
23 18th.

24 So I see those as areas where there's a
25 lot of positive agreement between our agencies,

1 although our scope of responsibilities in this
2 area are a little different with the draft IEPR
3 having a statewide and regional focus, and the
4 PUC's responsibilities having a focus just
5 primarily on the investor-owned utilities. But I
6 do think there's a lot of compatibility there.

7 There's just two other areas I'll take a
8 moment to mention. The draft IEPR recommends
9 retiring older, inefficient, natural gas fired
10 power plants and replacing them with new ones.

11 I think the PUC Staff agrees that
12 attention needs to be given to the issue of the
13 inefficient older facilities. But we would
14 recommend, as you move forward with the draft
15 IEPR, that you give priority to modernizing these
16 plants as an option.

17 That way, rather than just looking at
18 retirement, that way we can take -- Californians
19 can take advantage of the benefits of existing
20 transmission, pipeline and water infrastructure
21 that are already in place at these older,
22 inefficient plants. So we'd prefer that the
23 Integrated Energy Policy Report recognize the
24 importance and the benefits of modernizing as
25 opposed to just retiring or replacing these

1 facilities.

2 The draft IEPR also recommends examining
3 the core/noncore model as an alternative market
4 structure for electricity. This recommendation
5 calls for collaboration among all agencies to
6 explore core/noncore market structure in 2004.

7 I just wanted to let you know that the
8 Commission Staff is conducting -- the Public
9 Utilities Commission Staff is conducting a study
10 to explore market structure changes, including the
11 core/noncore model that we applied and adopted for
12 California's natural gas market. And we look
13 forward to working on a staff-to-staff basis with
14 you on that effort.

15 So those are my comments to you on
16 behalf of the PUC Staff. I'd be happy to answer
17 any questions that you may wish to ask of me.

18 PRESIDING MEMBER BOYD: Thank you, Ms.
19 Hale.

20 DIRECTOR HALE: Thank you.

21 PRESIDING MEMBER BOYD: Any questions or
22 comments? Commissioner Geesman.

23 COMMISSIONER GEESMAN: Barbara, let me
24 offer some explanation on the transmission
25 subject, because I think you do raise a good

1 point. I believe that the draft report, which I
2 support, is inconsistent with the energy action
3 plan approach outlined for transmission.

4 I think a primary reason for that is
5 that the approach identified in the energy action
6 plan hasn't worked over the course of the last six
7 months since the plan was adopted by each of the
8 three agencies.

9 And I think there are good reasons why
10 it hasn't worked. I think competing priorities
11 and inadequate resources, frankly, at the PUC have
12 prevented you from initiating the rulemaking that
13 was contemplated in the energy action plan. And
14 has, I think, limited the ability that your staff
15 has had to collaborate with our staff and the ISO
16 in the transmission planning process.

17 But more seriously I think is a problem
18 is the fact that your Commission has divided
19 opinion over the ability to effectively pre-commit
20 on the need for particular projects. That was
21 cited as the principal reason why two of your
22 Commissioners chose not to vote for the energy
23 action plan. I respect their opinion; I don't
24 happen to agree with it. But I do think that it's
25 well founded in a reasonable construction of the

1 CPUC's legal responsibilities.

2 I tend to prefer the way I heard
3 Commissioner Kennedy describe it last week, that
4 there are those in this building who feel that you
5 are constitutionally incapable of receiving
6 guidance from some other agency.

7 And I didn't ask if she was speaking of
8 constitutional, a capital C, or a small c. But I
9 think the message was something that --

10 DIRECTOR HALE: Maybe both.

11 (Laughter.)

12 COMMISSIONER GEESMAN: I think the
13 message was something that was well understood.

14 And I guess, finally, and please correct
15 me if I'm wrong, but I know there's a very strong
16 sentiment in your legal office and among a number
17 of your ALJs that the nature of developing an
18 evidentiary record in a CPCN proceeding really
19 eliminates the ability to bind yourselves as
20 decisionmakers to a determination made by another
21 agency.

22 I mean I think collaboration is an
23 important element, and important improvement in
24 the way these agencies work with each other. I
25 credit President Peevey with really initiating

1 between all of us.

2 But it is a very difficult process. And
3 I think that in candor we ought to recognize where
4 the legal limits to that collaborative effort
5 actually exist. I think in the transmission
6 permitting area we've come up against such a legal
7 limit.

8 DIRECTOR HALE: Well, let me -- may I
9 take a moment to respond?

10 PRESIDING MEMBER BOYD: Please.

11 DIRECTOR HALE: Let me just say, I think
12 as we had talked about in the development, in the
13 formation of the energy action plan, this agency
14 needs to go through a public process to modify its
15 approach to applying the CPCN requirements that we
16 have in PU Code section 1001.

17 And I agree with you, it takes, to
18 modify the approach that has been applied over the
19 years is not just an issue of brushstrokes that
20 correct the legal understanding. There's a
21 cultural component to it, as well.

22 And in developing the rulemaking and the
23 study that we've been developing since adoption of
24 the energy action plan, in April, I believe, the
25 Commission has put together a study and has begun

1 to work internally and externally to understand
2 the changes that are necessary, to give effect to
3 the kind of modification to the process, which
4 includes the study methodology and deference to
5 it, to the findings of need that would come from
6 the ISO once that agreed-upon model is applied.

7 That's a process that takes time. I
8 think I'm hearing you, Commissioner, say that
9 enough time has passed and you were looking
10 forward to action consistent with the energy
11 action plan prior to now. And, you know, so I
12 hear you and that's fair.

13 I still think the PUC Staff will pursue
14 bringing this approach forward to Commissioners,
15 and will look to work staff-to-staff with your
16 experts to get their input and ideas into that
17 document as we present it to our Commissioners.

18 So, I see us, as a PUC Staff, continuing
19 to try to reach resolution, as was laid out in the
20 energy action plan, to put a rulemaking before our
21 agency that will modify the permitting process.
22 And I understand that through the Integrated
23 Energy Policy Report you are proposing to move
24 forward in a legislative mode to modify the
25 responsibilities of the agencies like the PUC and

1 municipal utilities who have authority over --
2 existing authority and responsibility over
3 transmission planning and siting.

4 PRESIDING MEMBER BOYD: Commissioner
5 Pernell.

6 COMMISSIONER PERNELL: Commissioner
7 Boyd. Ms. Hale, let me just first of all thank
8 you and the PUC Staff for agreeing with some of
9 our policy report.

10 But on the issue, and I'd just like to
11 approach this from -- and this is transmission
12 siting -- from a different perspective. And what
13 I've heard over the years, the last several years,
14 from stakeholders as well as some members of the
15 Legislature, is that not just our agencies, but
16 other energy agencies need to really get together
17 and not have the redundancy.

18 And I'm approaching this from just a
19 good public policy perspective. And I would think
20 that it is a benefit to have the siting
21 responsibilities all under one agency. I mean we
22 have, as history tells us, we have sited power
23 plants, and I think, and this might be a biased
24 opinion, but I think we did it very effectively;
25 and we streamlined it; and we've had meetings on

1 it.

2 However, the general public, the
3 Legislature, and the stakeholders are saying, at
4 least to me, that we think it's good public policy
5 to have these siting responsibilities, which I
6 would argue would include petroleum facilities as
7 well, under one agency.

8 So just from a public policy
9 perspective, and having the responsibility of
10 siting under the one agency, is that something
11 that you and the PUC Staff have considered as a
12 possibility?

13 DIRECTOR HALE: Yes. Over the years
14 there have been lots of different suggestions, as
15 you know, Commissioner, for modifying
16 responsibilities of the various energy agencies.
17 And I think there is some appeal to having all
18 energy infrastructure sited by a single statewide
19 entity.

20 But I'm not sure we can get there
21 effectively. And I'm not sure that the integrated
22 nature of the decision about appropriate resources
23 is adequately addressed in that model that you
24 just described.

25 Even today the Energy Commission's

1 responsibilities with respect to siting generation
2 is not as comprehensive as being a statewide
3 responsibility. There are resource types and
4 resource size that are not covered. There are
5 clearly transmission implications to siting
6 generation that are not addressed. So there's
7 sort of pros and cons on both sides, I think, for
8 a statewide approach.

9 But I think from our perspective the
10 question of investment, of investor-owned utility
11 and ratepayer dollars is, regardless of what the
12 investment is in, be it generation, transmission
13 or other areas, it a responsibility of the Public
14 Utilities Commission.

15 Similarly, municipal boards are
16 responsible for judgments about investment of the
17 entities they're responsible for.

18 I'm not sure how you meld the economic
19 considerations that have to come into play with
20 the siting considerations that you're describing
21 if they are in separate agencies.

22 So, for me, that's the -- it's sort of
23 the problem area then shifts. I see the problem
24 that's trying to be solved with the transmission
25 siting change to be a problem associated with

1 duplication of effort.

2 I see the fix that the Integrated Energy
3 Policy Report proposes to not be responsive to the
4 problem. And I'm not -- and perhaps we have a
5 different sense of what the problem is, but the
6 Integrated Energy Policy Report describes the
7 current situation, the current transmission siting
8 and planning situation as being fragmented and
9 duplicative. And I see the solution, then, is to
10 eliminate the fragmentation and to eliminate the
11 duplication.

12 And for me and for PUC Staff,
13 representing PUC Staff, that's an issue of
14 addressing that narrow issue. And the solution is
15 to eliminate the duplication and to collaborate
16 and not undermine the broader public policy need
17 to have an integrated assessment of the resource
18 options, where transmission, energy efficiency,
19 generation, renewable, you know, gas-fired
20 generation, renewable generation and other
21 generation all gets considered in the context of a
22 20-year plan by the Public Utilities Commission
23 for an investor-owned utility. And then have it
24 come from that source forward through the process
25 in a more streamlined manner.

1 COMMISSIONER PERNELL: Well, I
2 understand the responsibilities of the various
3 agencies, but that wasn't my question. I guess my
4 question was more from a streamlined public policy
5 process. And including the -- you know, I would
6 also throw in the fact that the PUC only regulates
7 public utilities and not private utilities. And
8 we're trying to get to a place, at least in my
9 mind, where we have a statewide process that
10 includes all of the infrastructure, energy
11 infrastructure.

12 So, I think we're talking about two
13 different things. But I would hope that you get
14 my point about what is a good public policy as it
15 relates to infrastructure of these energy
16 facilities regardless of whether it's transmission
17 siting or petroleum facilities.

18 My second question is --

19 PRESIDING MEMBER BOYD: Commissioner
20 Pernell, if you're going to change subjects, I
21 think Commissioner Geesman would like to weigh in
22 on --

23 COMMISSIONER PERNELL: Okay, so I'll
24 hold my second question.

25 PRESIDING MEMBER BOYD: Thank you.

1 COMMISSIONER GEESMAN: I guess I would
2 say that I define the problem a little more
3 narrowly as inadequate investment in inadequate
4 construction of necessary facilities.

5 But having said that, I'd be curious to
6 know how you describe, with respect to the bulk
7 transmission system, the limits of your economic
8 jurisdiction and the limits of FERC's economic
9 jurisdiction. Where do you see that diving line
10 coming into play?

11 DIRECTOR HALE: The FERC is responsible
12 for setting the rates once a facility is approved.
13 So I see responsibilities divided in that way.
14 Wholesale transmission rates are the purview of
15 the FERC, not the Public Utilities Commission.

16 The Public Utilities Commission, under
17 statute, is required to set a cost cap. That cost
18 cap, though, does not constrain under the post AB-
19 1890 world, does not constrain the investor-owned
20 utility's level of investment, but serves as a
21 guide to Public Utilities Commission participation
22 at FERC and the setting of wholesale transmission
23 rates.

24 COMMISSIONER GEESMAN: Okay.

25 PRESIDING MEMBER BOYD: Thank you.

1 Commissioner Pernell, you had a second question.

2 COMMISSIONER PERNELL: Yeah, my second
3 question, you mentioned rather than retiring old,
4 inefficient polluting plants, that you would
5 recommend modifying them.

6 And I guess my question is given some
7 physical constraints of some of these old plants,
8 you really can't modify them to the effectiveness
9 of an efficient, low polluting technology that we
10 have today.

11 So, I'm just curious as to what was the
12 thinking of the rationale.

13 DIRECTOR HALE: The draft Integrated
14 Energy Policy Report doesn't address the issue of
15 all the infrastructure associated with a power
16 plant. It refers to -- it doesn't describe, as
17 you just have, Commissioner, that there may be
18 plants that can't be modernized.

19 It goes straight from inefficient plant
20 to retirement. And what I'm suggesting is that as
21 you go through the draft Integrated Energy Policy
22 Report you consider that there may be facilities
23 where it would be beneficial to modernize the
24 plant and take advantage of the ancillary
25 infrastructure rather than retiring a plant, and

1 then having to replace it with a new development
2 on a brown- or greenfield that would require new
3 transmission infrastructure, new water sources,
4 new pipelines.

5 Just sort of a caution to make sure you
6 don't -- it's not necessarily a continue to
7 operate an old plant or retire it. I think
8 there's a middle ground there that I don't see
9 reflected as being considered in the draft energy
10 policy report, and I'm asking on behalf of PUC
11 Staff that you consider that option of modernizing
12 facilities, so that we take advantage of the other
13 infrastructure that supports them.

14 COMMISSIONER PERNELL: All right, thank
15 you.

16 PRESIDING MEMBER BOYD: Commissioner
17 Pernell, I had made note of Ms. Hale's comment
18 there, and had thought she raised a very good
19 point. And her elaboration further reinforces the
20 fact that it makes a good point. And I think
21 that's something we can recognize.

22 I would certainly agree utilizing the
23 existing brownfield is an advantage that we should
24 look to, particularly when it involves already-in-
25 place infrastructure. I think perhaps we were

1 swept up by the long-held desire of replacing old
2 inefficient plants as an over-arching goal without
3 giving thought to the ramifications of that
4 statement.

5 I know one of the unfortunate myths of
6 restructuring was that we'd be able to get rid of
7 all these old inefficient plants. Now we have to
8 trudge our way through the economic process. And
9 I think you raise a good point. And I'm sure we
10 can accommodate that.

11 Any other questions or comments? Thank
12 you, Barbara, if I may, instead of being so
13 formal, Ms. Hale. Thank you for your testimony,
14 and again, thank you for the courtesy of the use
15 of your facility. Maybe by the time we're leaving
16 the sun will be shining in San Francisco.

17 DIRECTOR HALE: You never know. Thank
18 you very much for the time you've given me.

19 COMMISSIONER PERNELL: Thank you.

20 DIRECTOR HALE: I appreciate the
21 dialogue.

22 PRESIDING MEMBER BOYD: And I think it's
23 healthy to have this dialogue, and I look forward
24 to the continuing dialogue and the new working
25 relationship we've established in the past year-

1 plus with the PUC. It's very positive for us and
2 for the people of California, frankly. So, thank
3 you.

4 DIRECTOR HALE: Yes, thank you.

5 PRESIDING MEMBER BOYD: All right,
6 turning to folks who have signed up to testify.
7 First witness, or first person will be Alvin Pak
8 of Sempra.

9 MR. PAK: Thank you, Commissioner. For
10 the record my name is Al Pak. I am the Regulatory
11 Policy Director for Sempra Energy Global
12 Enterprises.

13 Because I had to suffer the slings and
14 arrows of the sub-investment grade energy
15 companies at the last hearing, I decided not to
16 bring slides with me this time.

17 (Laughter.)

18 MR. PAK: But I'll try and keep my
19 remarks organized and short, so I think you can
20 follow along anyway.

21 Just to refresh your recollection the
22 Global Enterprise business units of Sempra Energy
23 constitute essentially the non-utility portions of
24 our business, principally involving the
25 development of independent power facilities, the

1 development of LNG facilities, both domestic and
2 foreign, and the operation of energy services
3 provider in ten states.

4 First of all, let me join with Ms. Hale
5 in congratulating the Commission on the tremendous
6 effort that has resulted in not just the energy
7 policy report, which we're going to discuss today,
8 but all the collateral reports and data that
9 support it.

10 As is very evident from the report and
11 its constituent parts, the energy industries here
12 in California are extraordinarily complex. There
13 are a lot of moving parts. And I think the
14 emphasis that your staff and these reports
15 demonstrate in showing the interdependence of all
16 these parts and the integration of all these parts
17 and the importance of integrating policies that
18 affect them all demonstrates that Senator Bowen's
19 trust in this agency was well placed.

20 We think you've got most of it right.
21 We were, frankly, surprised, and I'll say
22 pleasantly surprised that some of the
23 recommendation were very bold. And we
24 congratulate you on your courage in making those
25 recommendations. And I'm going to address the

1 transmission siting issue, as well, being that
2 that appears to be one of the bolder and more
3 controversial recommendations that you've made.

4 But taken in whole we think that the
5 policy recommendations that you are making will
6 smooth out the historical boom/bust cycles that we
7 have experienced in our industry. And also lessen
8 volatility over the short term, as we've moved
9 through those cycles.

10 We believe that, taken together, the
11 policies that you are recommending will move
12 California down a path to solve some critical
13 infrastructure issues that are related and arise
14 from both economic growth and the vintage of some
15 of the components of the infrastructure, as has
16 already been addressed.

17 What I'd really like to address in my
18 remarks, given that the Global Enterprises units
19 large agree with most of your findings and your
20 recommendations, what I'd like to do is address
21 what I would consider to be a subtextual issue.
22 And that is which part of California government is
23 going to be accountable for implementing the
24 recommendations.

25 In a number of places there are

1 references to the state needing to adopt these
2 policies and implement the policies. And we would
3 suggest, at least in four areas that I want to
4 address today, that that recommendation be more
5 specific and that accountability be more directly
6 placed.

7 Turning to those four areas, let me
8 first address transmission siting. The Sempra
9 Energy Global Enterprise business units strongly
10 support the recommendation that is in the report
11 to place siting authority for bulk transmission
12 facilities with the Energy Commission.

13 I want to emphasize that I am not
14 speaking on behalf of the Sempra Energy utilities.
15 You will probably hear from them within the next
16 few days when you travel to San Diego.

17 But on behalf of the Global Enterprises
18 business units we believe that the recommendation
19 is an appropriate one. First, we would agree with
20 Commissioner Pernell that the performance of the
21 energy facility siting staff in the recent past,
22 over the last 36 months, with respect to the
23 generating facility applications that you
24 received, was clearly superior; and demonstrates
25 that this agency is fully capable of handling

1 siting issues.

2 Over the last month, after I had made
3 these remarks at an earlier hearing, we have heard
4 that the criticism that Semptra was taking this
5 position because somehow we perceived that the
6 Energy Commission was easy, and that the CPUC was
7 difficult.

8 As I hope Commissioner Pernell recalls,
9 I had the opportunity over the last couple of
10 years to represent a number of project opponents
11 who appeared before the Energy Commission in
12 opposition to some generating facilities during
13 the height of the energy crisis.

14 In every instance where I did represent
15 such clients, we always believed that we got hurt.
16 We saw that in the conditions that the Commission
17 adopted, mitigating conditions against the
18 environmental impacts. And in a couple of
19 instances we even wanted the Commission to decline
20 to grant the certificate. So I would hardly call
21 the CEC an easy venue for a project proponent.

22 What leads us to support the
23 recommendation is that there is a certain
24 discipline that we find -- that the experts at the
25 Energy Commission bring to siting cases. And they

1 invoke this discipline to the benefit of both
2 project proponents and opponents. And we would
3 support this agency's processes and commitment to
4 giving both developers and opponents answers,
5 clear answers in a reasonable amount of time. As
6 well as the open process by which those
7 conclusions are reached.

8 Secondly, with respect to the dialogue
9 that you had with Ms. Hale of the PUC, I'm not
10 sure that we believe that the CPUC's DNA prevents
11 them from thinking about broader issues than the
12 legal issues that they're charged with with
13 respect to considering project applications in the
14 context of ratepayer benefits, which is an
15 understandable focus for them.

16 But there are a number of statewide and
17 regional issues that the Energy Commission has
18 raised, not only in this report, but in other of
19 its proceedings, that we think ought to be brought
20 to bear. In the transmission siting staff report
21 from this past summer, there were a number of what
22 were called innovative analytical tools that the
23 Energy Commission suggested ought to be taken into
24 account in evaluating transmission siting
25 applications.

1 As an example, the use of scenarios
2 involving high impact but low probability event
3 ought to be taken into account in determining
4 project benefits. That the implications of
5 specific transmission links in promoting regional
6 diversity as well as facilitating interstate trade
7 between the Pacific Northwest and the desert
8 Southwest. A trade in which California is an
9 essential and very large buyer and seller,
10 depending on the season. These things ought to be
11 taken into account.

12 There doesn't seem to be much room in
13 the calculus performed by the CPUC, as directed by
14 its statutes, its police powers, to take these
15 sorts of tools into account. If the Energy
16 Commission is more willing to consider those
17 issues, and we think that you are, then we believe
18 that just by institutional structure the Energy
19 Commission is the more appropriate place to have
20 transmission siting issues heard.

21 In addition, let me add two additional
22 reasons that we support siting jurisdiction be
23 placed in the Energy Commission. First of all,
24 there are a number of nonjurisdictional entities,
25 including the Sempra Global Enterprises units,

1 that are interested in developing transmission
2 facilities. Those would be completely
3 nonjurisdictional to the CPUC, which means that
4 some other agency would have to have transmission
5 siting expertise with respect to those projects,
6 anyway.

7 Duplication of the expertise to do these
8 siting cases at both the CPUC and some other
9 agency from an efficiency standpoint doesn't make
10 sense. Something that Commissioner Pernell has
11 already alluded to.

12 And secondly, as a second additional
13 reason, when you talk about economic impacts, need
14 for a project, impact of a project on reliability,
15 we think placement of siting jurisdiction outside
16 of the CPUC, even if it involves an investor-owned
17 facility, makes a lot of sense. Because it leaves
18 some room for deference to the Federal Energy
19 Regulatory Commission on those specific issues.

20 And this is particularly going to be
21 important as more than one jurisdiction, one RTO
22 or control area gets engaged in a specific
23 project. There are a number of regional issues
24 that need to be considered in coordination with
25 other state agencies, as well as regional

1 agencies, needs to be taken into account. And
2 that's something that's very difficult at present
3 when the CPUC is the siting agency.

4 Now this isn't to say that we believe
5 that the CPUC ought to be relieved of
6 responsibility for overseeing IOU investments. Or
7 that the ISO shouldn't have a say in all of this.
8 I think, just from my experience with the Energy
9 Commission siting proceedings, they ought to
10 participate as responsible agencies, as critical
11 agencies, and the inputs to the findings of this
12 agency on any project brought before it.

13 And I think that you would pay them
14 great deference. And that's something that, as
15 was discussed earlier today with Ms. Hale,
16 something that's very difficult for the PUC to do,
17 is defer to other agencies, to adopt the findings
18 of other agencies without subjecting it to the
19 test of litigation process that is used here in
20 San Francisco.

21 With all of that said, and again
22 addressing the subtextual issue that I have
23 referenced at the top of my remarks, we believe
24 the debate over where siting jurisdiction ought to
25 rest is a mature one. Either you believe that

1 this agency ought to have siting jurisdiction over
2 both transmission facilities, or you believe that
3 some portion of that jurisdiction, as presently
4 resides in the CPUC, ought to be reserved in the
5 PUC.

6 In any event, we think the time is ripe
7 to call the question. And so the recommendation,
8 rather than simply indicating that this agency is
9 the appropriate siting agency, we believe the
10 recommendation ought to specifically request that
11 the Legislature enact legislation transferring
12 jurisdiction over siting from the CPUC to the
13 extent it exists there, and consolidate it, so
14 that the Legislature is clearly made aware that
15 statutory changes are going to be required, and
16 that those are a large priority for implementing
17 the recommendations of the remainder of the energy
18 policy report.

19 Turning to a second topic, direct access
20 and consideration of the core/noncore market. We
21 read the recommendation on a collaboration. We
22 would intend to participate in all of that. But
23 we would hope that this would also be clarified to
24 indicate to the Legislature that their involvement
25 in this collaborative and certainly action and

1 their sanction at the end of the collaborative
2 process would be an important aspect of that
3 process.

4 The evolution -- and based on what we
5 saw at the last legislative session, we believe
6 that the core/noncore market structure is
7 something that the Legislature would consider to
8 be providing fertile ground for further
9 discussions and maybe legislation.

10 If you look at the evolution of the
11 current California energy market, as it's being
12 practiced within the context of the CPUC's
13 procurement and rulemaking, the way that looks
14 from the developer perspective is that we are all
15 starting to chase utility RFPs. We get a yes or
16 no answer, and the winners pop champagne corks and
17 the losers are kind of left to litigate the
18 fairness of the process.

19 As you do that, and I will guarantee
20 that this is going to happen, I think your
21 Commission, in particular, will take a look at a
22 number of alternative projects that are
23 meritorious, that did not find market. And those
24 projects are likely to be lost to California.

25 So issues like retiring aging plants and

1 replacing them with more efficient plants, as has
2 been mentioned today as an important state policy,
3 are going to get lost in the process.

4 Semptra Global Enterprises believes that
5 the implementation of choice that retail access,
6 retail competition can actually improve that
7 situation. It can improve the wholesale market by
8 creating alternative buyers other than the IOUs,
9 for meritorious projects that would otherwise not
10 find a contract in these RFPs that are being run
11 by the investor-owned utilities. That there will
12 be a place for resources other than this win/loss
13 decision that would come before the PUC as a
14 function of this emerging monopsing market.

15 And we believe that retail choice can
16 also facilitate the creation of liquid short-term
17 markets which will also support these projects
18 that can't find utility contracts.

19 So, for all those reasons we'll
20 participate in the collaborative. We will bring
21 those opinions to it. But, again, we strongly
22 recommend that you provide notice to the
23 Legislature that their engagement in that process,
24 either following it, monitoring it, holding
25 collateral hearings, and certainly at the end

1 game, passing legislation that enables the
2 implementation of direct access is important.

3 Third, turning to the portions of the
4 report related to liquified natural gas. We are
5 here to confirm your findings that LNG is highly
6 likely to enter the California market certainly
7 before the turn of the decade. And most probably
8 in 2007. We think you've captured the beneficial
9 impacts of that introduction of those new supplies
10 into the market.

11 But beyond the siting recommendation, it
12 may be worthwhile for the energy agencies and the
13 developers and other interested parties to also
14 enter into a collaborative process where issues
15 surrounding the smooth implementation and
16 introduction of LNG into the California market
17 would be considered.

18 There are a number of issues related to
19 gas quality rules, interconnection rules,
20 ratemaking, the introduction of receipt points,
21 price indices specifically related to LNG, I think
22 you heard at the last hearing that you held with
23 respect to this report, that should be considered
24 in a non-litigation context.

25 And we think the collaborative process

1 as you suggested for direct access would be a good
2 way to do that. We think that there is time for a
3 collaborative process to take place. But let me
4 also caveat that with say, 2007 isn't quite as far
5 off as it seems, so time exists, but the time
6 grows shorter with every day.

7 As you are probably aware, Sempra
8 intends to break ground in the Costa Azul project
9 soon. There are a number of other projects that
10 will either soon be entering final permitting
11 phases, and certainly in Baja, Mexico, we expect
12 other projects to receive their final permits from
13 the Mexican authorities.

14 Perhaps we would suggest that this
15 collaboration involving your agency, certainly the
16 CPUC, the Coastal Commission and other affected
17 agencies could be held in time for next year's
18 reports refreshed as under the schedule that Ms.
19 Griffin described.

20 Finally, I want to address the issue of
21 resource adequacy policy in the electricity
22 industry. There seems to be a deference to this
23 energy action plan. To tell you the truth, the
24 Global Enterprises business units are going to
25 resign themselves to that.

1 But as I've indicated previously the
2 emerging California market, as it's being defined
3 by the CPUC procurement rulemaking and the
4 selection process that that involves, isn't an
5 ideal market. So we'll participate in all of the
6 proceedings that affect us, because obviously as a
7 developer of projects we are enormously affected
8 by the implementation of a resource adequacy
9 policy.

10 But we would encourage you to also
11 involve and make sure that you get the input of
12 the ISO and other regional agencies, including
13 non-California agencies. Last week, WestConnect
14 filed for approval of its status as the regional
15 transmission organization for the Southwest, the
16 development of RTO West, which would serve the
17 Pacific Northwest appears to have the support of
18 the Bonneville Power Agency, and is likely to move
19 forward sometime in the near future.

20 Those sorts of agencies ought to be
21 involved in how California implements a resource
22 adequacy policy. We're not sure they're included
23 in the dialogue today. And I believe we'd
24 certainly encourage you to extend the invitations
25 to them to participate.

1 With that, that concludes my remarks.
2 Again, congratulations on just a tremendous job in
3 a very short period of time. The hard work, the
4 analytical expertise that you bring to the project
5 is self evident. And we look forward to
6 supporting your efforts to implement this plan as
7 we move forward in the future.

8 PRESIDING MEMBER BOYD: Thank you, Mr.
9 Pak, as always --

10 COMMISSIONER PERNELL: Thank you.

11 PRESIDING MEMBER BOYD: -- I look with
12 great expectation for your testimony. Any
13 comments or questions?

14 COMMISSIONER GEESMAN: Thank you very
15 much.

16 MR. PAK: Thank you.

17 PRESIDING MEMBER BOYD: Thank you. Next
18 I have Devra Bachrach of NRDC.

19 MS. BACHRACH: Thank you. That was a
20 rare perfect pronunciation. My name is Devra
21 Bachrach; I'm with the Natural Resources Defense
22 Council.

23 PRESIDING MEMBER BOYD: Pure luck.

24 MS. BACHRACH: I would also like to take
25 this opportunity to commend you and the CEC Staff

1 for your excellent work in putting together both
2 this policy portion of the IEPR and all of the
3 many subsidiary reports. We have read many of
4 those 3000 pages. And I think all of those
5 reports provide excellent information for the
6 public in understanding California's energy
7 industry.

8 And this draft Committee report now
9 takes it the next step, to look at the policy
10 recommendations. So, you've really done excellent
11 work on that.

12 In particular, in this draft Committee
13 report I'd like to commend you for the focus on
14 energy efficiency as California's first priority
15 in meeting its customers' energy needs.

16 And I commend you for two reasons.
17 First, this is clearly good public policy. These
18 resources are the cheapest and cleanest resources
19 available to customers. And also because it is
20 consistent with the energy action plan. And I
21 think that having this IEPR going in lock-step
22 with the EAP now really confirms to everyone that
23 the agencies are committed to working together and
24 implementing these policies.

25 I also have a few suggestions that we'd

1 like to make on how we think you could strengthen
2 the IEPR. And the first is that unfortunately I
3 think it's somewhat premature to set energy saving
4 targets in this document. And the kind of targets
5 contained in this draft IEPR for electricity is to
6 save about 1200 megawatts. I see this as too weak
7 of a target at this time.

8 The utilities in the PUC's procurement
9 proceeding are already proposing to reach 1800
10 megawatts, so already surpassing that goal, over
11 the next five years.

12 And in addition, the recent CEC Staff
13 draft report by Mike Messenger finds that the
14 target should probably be somewhere more in the
15 range of 4000 to 4500 megawatts.

16 So I think that it may be too weak, and
17 it's probably premature at this time because I
18 believe the CEC has committed to collaborating
19 with the PUC in a public process to set energy
20 saving targets.

21 Commissioner Kennedy here at the PUC
22 issued a recent ruling in the energy efficiency
23 proceeding laying out a series of workshops, one
24 of which is to look at setting these energy saving
25 targets through a full public process.

1 So I suggest that for the time being in
2 the report that you make these targets minimum.
3 And also note that you will be working with the
4 PUC to set more aggressive energy saving targets
5 for the state as a whole.

6 I'd also like to suggest that the report
7 include more concrete actions to address global
8 warming. I'm sure you're all very aware of
9 Governor Davis' recent joint statement with the
10 Governors of Oregon and Washington, sort of call
11 to action to address global warming. I believe
12 that was issued after this draft IEPR, but it
13 would be certainly worth incorporating now.

14 And in particular, I think including
15 more actionable items in this draft IEPR. For
16 example, encouraging all of California's utilities
17 to internalize the financial risk of carbon
18 dioxide regulation in their resource planning
19 process, to help guide these long-term investments
20 in a way that does present a solution to these
21 global warming emissions.

22 I'd also like to briefly address the
23 core/noncore recommendations that you included in
24 the IEPR. Just want to insure that as you're
25 making that recommendation that it's done in a way

1 that would not diminish any of the important
2 investments in renewable resources to meet the
3 RPS. Or the investments in energy efficiency. So
4 they shouldn't diminish those; and in fact, we
5 should always be working to enhance those
6 investments.

7 Finally, I would also like to suggest
8 that the IEPR could focus more on California's
9 publicly owned utilities. These, often called
10 municipal utilities, supply about a quarter of the
11 electricity in the state. And I think it's really
12 important that we shine a light on what
13 contributions they're making to all of the
14 important public policy objectives that are
15 included in the IEPR.

16 So, I'll leave it at that, and thank you
17 very much for the opportunity to address you.
18 And, again, congratulations on the excellent work.
19 Thank you.

20 PRESIDING MEMBER BOYD: Thank you for
21 your comments. Any comments or questions?

22 COMMISSIONER GEESMAN: I guess I would
23 echo her comment with respect to energy
24 efficiency. I think one of the things that I know
25 the draft report attempted to do, I'd like to see

1 it strengthened, is build upon Commissioner
2 Kennedy's July ruling. And also make clear our
3 intent to work hand-in-glove with them, as our
4 staff has been doing, to develop as businesslike
5 an energy efficiency program within the utility
6 sector as we can.

7 I know they have a lot of difficult
8 implementation issues to address in her
9 proceeding. And our staff has made a good
10 contribution there. I think it's detailed at some
11 length in the public interest energy strategies
12 report.

13 It's a bit of a moving target.
14 Commissioner Kennedy has issued a couple of other
15 rulings since the July one. And I think we need
16 to take the snapshot about the time we release the
17 report to re-emphasize the fact that we are
18 collaborating with them; we do have big
19 expectations in the energy efficiency area.

20 I think the utilities have been quite
21 responsive to those expectations. And we can
22 truly build a better future by staying in that
23 direction.

24 PRESIDING MEMBER BOYD: Commissioner
25 Pernell.

1 COMMISSIONER PERNELL: I would agree
2 with my colleague. And just to say that we are
3 working, along with Commissioner Rosenfeld and
4 myself, we're having, with the PUC, having a
5 workshop on Commissioner Kennedy's ruling next
6 week, next Wednesday. I'm sure you're aware of
7 this.

8 But your pushing on not having any
9 target, and this is kind of a moving target
10 because the report has 1200 megawatts, and I
11 understand it might be more than that now, up to
12 18.

13 So your suggestion is rather than having
14 a fixed number, don't have anything? Or have a
15 goal in which we're shooting for?

16 MS. BACHRACH: I'm suggesting that you
17 make it a minimum, but note that there is this
18 ongoing public process that will be setting
19 possibly more aggressive energy saving targets.

20 And I think the way it's worded now it
21 looks like a fixed target.

22 COMMISSIONER PERNELL: Okay, so a
23 minimum of, and then we're reaching for great
24 expectations.

25 Thank you.

1 PRESIDING MEMBER BOYD: Thank you.

2 MS. BACHRACH: Thank you.

3 PRESIDING MEMBER BOYD: Thank you very
4 much for your testimony.

5 Next, and I may mispronounce this, too,
6 Alex Leupp, Silicon Valley Manufacturing Group.

7 MR. LEUPP: Good morning. My name is
8 Alex Leupp. I'm with the -- no problem -- I'm
9 with the Silicon Valley Manufacturing Group. And
10 I'd just like to make a couple of brief general
11 statements on some of the recommendations.

12 First, I also want to commend you for
13 your leadership. We've been following your
14 efforts for a number of months now. We're very
15 pleased with the progress so far.

16 And on the subject of efficiency, the
17 Silicon Valley Manufacturing Group strongly
18 supports the continuing harvesting of energy
19 efficiency. And we believe that efficiency at the
20 residential, commercial and industrial customer
21 levels is the most attractive way to accommodate
22 the demand growth that will result from the
23 hopefully returning healthy economy.

24 Ratepayer-funded energy efficiency
25 programs should emphasize those initiatives having

1 documentable benefits and costs to assure that
2 energy efficiency remains a good value.

3 On the subject of core/noncore and
4 customer choice, we have been a strong supporter
5 of the core/noncore model, AB-428, Assemblyman
6 Richins' bill, we support core/noncore because it
7 enables customer choice while insuring a viable
8 resource portfolio for customers who choose to
9 remain with their retail utility.

10 We also believe that competition in the
11 wholesale power generation -- I'm sorry -- of
12 competition in the wholesale power generation in a
13 well managed market are clear, as are the
14 drawbacks of monopoly wholesale power generation
15 with guaranteed recovery of costs from retail
16 customers.

17 Competitive procurement by utilities is
18 a fundamental requirement for cost effective
19 electricity supply for California.

20 And one final note on distributed
21 generation. We believe that customer generation
22 and customer procurement from non-utility
23 suppliers diversifies the electric supply resource
24 base, and enhances the value of energy service to
25 end users.

1 Like energy efficiency renewables, these
2 alternatives must be preserved as utilities make
3 procurement commitments.

4 And other than that, I have no specific
5 comments.

6 PRESIDING MEMBER BOYD: Thank you.

7 COMMISSIONER PERNELL: Thank you.

8 PRESIDING MEMBER BOYD: Thank you very
9 much. Dennis Truitt. Dennis, I'll let you say
10 who you represent. You've got a list here.

11 MR. TRUITT: Good morning, Commissioners
12 and staff. My name's Dennis Truitt, and I'm
13 representing TIMEC, who is an industrial
14 maintenance contractor in the State of
15 California, CCA, which is California
16 Contractors Alliance, and WSPA Associates.

17 As I said, I'm a small business operator
18 working for TIMEC. We're based in Vallejo. We
19 employ approximately 1500 people throughout the
20 State of California.

21 I'm basically here just to make a brief
22 testimonial because I'm concerned about keeping
23 jobs in California.

24 From my own experience I understand the
25 benefit of the efficiency you seek. It is a daily

1 goal of every small business manager to literally
2 survive in the competitive marketplace of this
3 year and the following years to come.

4 The small businesses must continually
5 make improvements. Sometimes those improvements
6 are discovering a way to make common tasks more
7 efficient in implementing the new methods.

8 When it comes to making the most of
9 petroleum products we use, you have recommended
10 reducing the demand for gasoline and diesel as a
11 way to create efficiency. Your goal to reduce
12 fuel use by 20 percent below today's standards
13 within less than 20 years is reliant on auto
14 manufacturers building cars with higher fuel
15 economy, and drivers improving the maintenance of
16 their vehicles.

17 My concern rises when these factors fail
18 to match your demand because I think it is highly
19 unlikely these laudable sounding steps to
20 efficiency ever happen. If higher economy
21 standards and better maintenance fail to reach the
22 arbitrary goal of cutting fuel use by 15 percent,
23 we face the Draconian steps you have suggested
24 before. A 50 cent a gallon gas tax; 2 cent a mile
25 tax for every mile driven by Californians; and the

1 \$3500 tax on minivans, SUVs and pickup trucks
2 purchased in California.

3 These measures would cost jobs in
4 California worksites and economic analysis
5 estimates that a new 50 cent per gallon gasoline
6 tax could cost consumers \$7 billion in higher
7 taxes and result in the loss of approximately
8 80,000 jobs.

9 A new 2 cent per mile tax for every mile
10 driven by Californians could cost 6 billion a
11 year, and result in loss of an additional 65,000
12 jobs.

13 The total resulting 145,000 jobs would
14 be Californians who potentially could lose their
15 jobs because of the increased taxes on gas and
16 driving. To me these numbers aren't just numbers;
17 they're the people I work with.

18 And please help keep jobs in California;
19 and don't recommend arbitrary and dangerous steps
20 as part of your report.

21 Thank you.

22 PRESIDING MEMBER BOYD: Thank you, Mr.
23 Truitt. Even though there's persistent dredging
24 up from the grave some of the things that have
25 been talked about in the past, and I thought had

1 been laid to rest, but having once been suggested
2 they will always be brought up as hurdles to this.
3 But, so be it. This is a public process.

4 But I think we pretty well laid aside
5 some of those economic measures as not practical
6 and not politically feasible in this state. And
7 therefore highly unlikely. So I shudder to hear
8 them still brought up as barriers to this
9 recommendation.

10 But I'm not surprised. Thank you,
11 anyway.

12 MR. TRUITT: Well, thank you for your
13 consideration.

14 PRESIDING MEMBER BOYD: Any questions?

15 COMMISSIONER PERNELL: Yeah, just one
16 question. This is a little bit off subject. How
17 many employees to you have?

18 MR. TRUITT: About 1500 throughout the
19 state of California.

20 COMMISSIONER PERNELL: And you're
21 considered a small business?

22 MR. TRUITT: Well, we are in regional
23 local areas, because we do work that increases and
24 decreases depending on the size of the project
25 within the facilities. So those 1500 employees

1 throughout the year may not be a constant
2 throughout the year.

3 COMMISSIONER PERNELL: Oh, I see.

4 MR. TRUITT: It could be an ebb-and-flow
5 type of workforce.

6 COMMISSIONER PERNELL: Okay, thank you.

7 PRESIDING MEMBER BOYD: Thank you, Mr.
8 Truitt.

9 MR. TRUITT: Thank you.

10 PRESIDING MEMBER BOYD: Gary Shoonyan.
11 Southern California Edison.

12 MR. SHOONYAN: Good morning; Gary
13 Schoonyan, Southern California Edison Company. As
14 before, we thank and compliment the Committee, and
15 in particular the staff, on the work product that
16 is being discussed and has come about over the
17 last some time. But it's been quite an effort,
18 quite a productive effort.

19 PRESIDING MEMBER BOYD: Yes, you're all
20 getting very familiar to us.

21 MR. SHOONYAN: Yes. We will be
22 providing written comments as part of the process.
23 And probably participate in other public forums,
24 as you move through the state. So I'll be fairly
25 brief here.

1 I did want to comment a little bit on
2 the theme of what was discussed in the handout,
3 namely the establishment of a strong and flexible
4 energy infrastructure, which we wholeheartedly
5 endorse.

6 And to insure that there is a reliable
7 and affordable electricity and natural gas
8 infrastructure in this state, the state, from our
9 perspective, needs to focus on providing the
10 structure that encourages and facilitates the
11 development of the new infrastructure.

12 And we've made these comments before
13 this Committee, as well as probably a little more
14 firmly before the Public Utilities Commission.
15 And it could very well be more appropriately
16 addressed to them.

17 But at this point in time we believe
18 that sooner, rather than later, the state needs to
19 address and resolve key issues with regards to
20 customer base, market structure, as well as a
21 durable regulatory framework in going forward.

22 At this point in time, in just looking
23 at some of the reports that your Commission has
24 put forth, it appears that the only entities that
25 are really pursuing new infrastructure in the

1 state are municipalities in many instances,
2 particularly on the generation end.

3 And a lot of this is the result of the
4 fact that they do have certainty in customer base,
5 market structure, as well as the regulatory
6 environment that they deal in.

7 And until those issues are resolved,
8 from our perspective, there will not be the public
9 investment in such going forward, or not to the
10 extent significant enough to insure that the state
11 does have reliable and reasonable priced energy.

12 We believe that the energy policy report
13 needs to address these issues. And it attempts to
14 in saying that address the core/noncore issue;
15 address the resource adequacy issues and what-
16 have-you. But from our perspective these are
17 foundational things that need to be addressed and
18 resolved before many of the other things can
19 actually come into play.

20 Just a couple of other comments. There
21 was some discussion with regards to transmission,
22 there's been a lot of discussion with regards to
23 the transmission issue. As we've testified before
24 the Committee before, there are problems in that.
25 But unlike, I think, our friends from Sempra

1 Global, we're not suggesting that there be
2 structural changes associated with the siting of
3 new transmission.

4 One of the concerns that we have is you
5 talk about bulk power transmission. There is a
6 lot of transmission investments, and in a round-
7 about way, certifications that we receive from the
8 Utilities Commission that aren't the major types
9 of transmission projects. AA banks at substations
10 and what-have-you.

11 And that has been, at least from our
12 perspective, the smaller scale types of projects
13 on the transmission system, has been something
14 that's been workable, and has actually functioned
15 fairly efficiently from our perspective in moving
16 forward.

17 The concerns that we have had and that
18 we've seen in the past, in the recent past, have
19 been with the major projects, be it the Path 15
20 and what-have-you. And we will, as we've
21 indicated before this Committee, be submitting
22 some major transmission projects in the near
23 future. And we are concerned that they need to be
24 addressed efficiently and streamlined, as opposed
25 to the very extended processes that have involved

1 to date.

2 But, here again, we're not suggesting at
3 this point in time that structural changes be made
4 in how that's accomplished, but basically that the
5 various agencies work together and coordinate and
6 collaborate together to make that a reality.

7 I thank you.

8 PRESIDING MEMBER BOYD: Thank you. Any
9 comments?

10 COMMISSIONER PERNELL: I have one
11 question. Has your company built a transmission
12 line recently?

13 MR. SHOONYAN: Smaller lines, yes. Any
14 major line, not recently. The last one that we
15 certified, actually it was a conditional
16 certification, the last really major one was the
17 DPB-2 back in the mid to late '80s. But that was
18 on a conditional basis, and the conditions weren't
19 met. And it was an extended process,
20 unfortunately. It took anywhere from two to two
21 and a half years to get through that particular
22 process.

23 We were also involved in trying to
24 participate in the COD project. That project went
25 forward without our participation. It was

1 basically denied by the Commission.

2 But those were the two major ones that
3 we've been involved with, and we're talking over
4 ten years ago.

5 COMMISSIONER PERNELL: All right, thank
6 you.

7 PRESIDING MEMBER BOYD: Thank you.
8 Gary, on your first point, I appreciate your
9 comments. I identify with those comments. And
10 you, I, and a lot of other people in this room
11 know how difficult an area and arena that is, and
12 how all the agencies working together are trying
13 to slog our way through this.

14 Having designed a new boat, ship,
15 launched it, sailed away, and then having it
16 caught fire, burnt to the waterline, but not quite
17 sink, we're all scrambling to try to figure out
18 how to redesign the bloody thing. And where it
19 should go next time.

20 And that's a long drawn-out process.
21 It's a little hard for us to address thoroughly
22 adequately in the short period of time we've had
23 to do this particular report.

24 But I would agree with you, as a
25 foundational issue that we all need to struggle

1 with some more. And with that I'll thank you for
2 your testimony.

3 MR. SHOONYAN: Thank you.

4 PRESIDING MEMBER BOYD: Sharon Lanini.

5 MS. LANINI: Good morning, Commissioners
6 and staff, my name is Sharon Lanini. I'm the
7 owner of a small business in the Salinas Valley, a
8 third generation family farmer.

9 I'm testifying today because if
10 recommendations on transportation fuels in the
11 Integrated Energy Policy Report are adopted, it
12 could lead to higher gasoline and diesel costs for
13 my business and thousands of other small
14 businesses throughout California.

15 In my business fuel costs are very
16 important. Farming is not a high margin business,
17 and every dollar counts. We use diesel and
18 gasoline to plant our crops, to harvest our crops,
19 and to get food to the market. It hurts when fuel
20 costs escalate.

21 One of the goals of this report is to
22 reduce the kind of market volatility that has
23 caused diesel and gasoline prices to remain higher
24 than the rest of the country. Unfortunately, the
25 recommendations it includes could actually lead to

1 increased gasoline and diesel costs.

2 I'm particularly concerned about the
3 report's recommendation on page 13 that California
4 should adopt a goal of reducing demand for onroad
5 gasoline and diesel to 15 percent below 2003
6 levels by 2020.

7 With little or no analysis the report
8 claims that adopting higher federal fuel
9 efficiency standards will achieve this goal. This
10 raises a couple of questions. Can you guarantee
11 that the federal government will adopt these
12 standards? Of course you can't.

13 And secondly, will increased fuel
14 efficiency lead to less fuel usage? I suggest
15 that you turn to the Commission's very own March
16 2002 study that reviewed the history of this
17 question. Your own report found that between 1980
18 and 2000 fuel efficiency nearly doubled.

19 And did, as you're assuming now, fuel
20 demand go down? Actually, the opposite occurred.
21 Fuel usage increased dramatically over those
22 years. And why did fuel usage increase while fuel
23 efficiency doubled? Because, again, according to
24 your report the greater fuel efficiency and stable
25 gasoline prices made it cheaper to drive.

1 To sum up, your strategy of increasing
2 fuel efficiency to reduce fuel usage is fatally
3 flawed. You can't guarantee that Congress would
4 pass new fuel efficiency standards. And if they
5 did, your very own research proves it would
6 probably lead to greater, not lesser, fuel usage.

7 So where are you headed? If there's a
8 state goal of reducing fuel usage by 15 percent on
9 the books, and your fuel efficiency strategy won't
10 work to achieve it, it's a question that motivated
11 me to drive all the way from Salinas this morning.

12 What I'm worried about is the Commission
13 will dust off the task 3 report on how to achieve
14 fuel usage reductions. You remember those
15 strategies, don't you? In a published report by
16 the Commission several options were considered
17 that would arbitrarily increase gasoline prices by
18 raising taxes.

19 First your report suggested raising
20 gasoline taxes by 50 cents per gallon. That's an
21 increase of \$7 billion a year, costing about
22 80,000 jobs.

23 Then there's the option of adopting a 2
24 cent per mile tax on driving at a cost of about 6
25 billion per year, and a loss of 65,000 jobs.

1 There were other such options published,
2 too, which would raise the gasoline tax by \$1 per
3 gallon. I'm sure that you will repudiate these
4 gasoline tax options today, six days before the
5 recall election.

6 Though why were they even put into print
7 by the Commission unless the Commission took them
8 seriously. Again, I'm worried about what will
9 happen when it's clear your fuel efficiency
10 standard is dead on arrival, and yet a 15 percent
11 fuel demand goal is still on the books.

12 Will you go back and pull these multi-
13 billion dollar gas tax proposals off the shelf? I
14 would be very surprised.

15 Thank you. This concludes my comments.

16 PRESIDING MEMBER BOYD: Thank you, Ms.
17 Lanini.

18 COMMISSIONER PERNELL: Thank you.

19 PRESIDING MEMBER BOYD: I think I would
20 just say that I think the goal of the staff
21 recommendations is to avoid price volatility and
22 to avoid your industry and citizens of the state
23 from facing the price volatility that they face
24 today. And the ever escalating costs of fuel.

25 Might there be a backlash, who knows?

1 We need to see that. But, I would not concur,
2 having had years of experience in this arena, with
3 the idea that with the so-called rebound effect,
4 which is the professional definition of cheaper
5 fuel equals more driving, is really the cause of
6 the growth in vehicle fuel consumption in the
7 state.

8 I would suggest you look at the
9 population growth in this state. Look at the
10 driving distances, the commute distances that have
11 been placed upon that population as they move
12 farther and farther away from the centers of
13 activity.

14 And I would also suggest we just look at
15 economic activity as leading to greater and
16 greater vehicle miles traveled. And that's a
17 dilemma we're wrestling with.

18 People will persist in saying that this,
19 you know, we're wolves in sheep's clothing, and
20 that we really intend to bring up these tax
21 issues, and there's nothing I can say here to
22 convince you to the contrary. Other than many of
23 us up here have said that those aren't politically
24 feasible in the next seven days, or in the 70 or
25 the 700 days thereafter.

1 So, I really think you shouldn't go home
2 and worry too too much. I appreciate you
3 following the subject and I appreciate you
4 watching these issues.

5 And I appreciate your input in the
6 future, should we fail to convince the people of
7 the nation and the federal government that the
8 auto industry is quite capable of making vehicles
9 more efficient and more safe at the same time.

10 Then we'd look to a lot of people to
11 help us solve the problem of how do we deal with
12 the incredible price volatility that we are
13 facing, or going to face more and more in this
14 state, as the whole world demands more
15 transportation fuel, and there's an inability to
16 meet that demand.

17 Anyway, thank you for your testimony.

18 MS. LANINI: Thank you.

19 PRESIDING MEMBER BOYD: Mona Petrochko.

20 How'd I do?

21 MS. PETROCHKO: Excellent.

22 PRESIDING MEMBER BOYD: Oh, it's my day.

23 MS. PETROCHKO: Good morning,
24 Commissioners and members of the Commission Staff.
25 My name is Mona Petrochko. I'm Director of

1 Government Affairs for Constellation New Energy.
2 We're an energy service provider in the state.

3 My comments are on behalf of the
4 Alliance for Retail Energy Markets. This is a
5 regulatory alliance of energy service providers.
6 And we would like -- the Alliance for Retail
7 Energy Markets would also like to echo the
8 comments of the previous speakers in commending
9 the Commission for your comprehensive Integrated
10 Energy Policy Report.

11 And we're pleased to see that that state
12 is moving from a crisis management position into
13 comprehensive energy planning.

14 Our primary focus on the report is on
15 the customer choice aspect. And we are currently
16 serving about 3500 megawatts of non-coincident
17 peak demand in the state. As you are aware, the
18 direct access market has been suspended. And we
19 are interested in moving the state towards
20 reopening and lifting that suspension.

21 In our opinion and the opinion of the
22 customers that we serve, we are through the period
23 where a suspension makes sense. The bonds have
24 been issued. The DWR contracts and the exit fees
25 have been allocated to direct access customers.

1 And the utilities have resumed their procurement
2 roles. So, all of the basis for having the
3 suspension have been -- are no longer in place.

4 We appreciate the reports dealing with a
5 study of a core/noncore market structure. We were
6 very active in the Legislature last year
7 supporting a similar structure. Most of the
8 members of the Alliance for Retail Energy Markets
9 are national -- participate in the national
10 markets. And similar structures have been adopted
11 in other states that have successful direct access
12 programs. So we think this is a program that can
13 work. We also think that the experience in the
14 gas market also supports having a workable core/
15 noncore market structure.

16 The comment that we would also make
17 would support something that Mr. Pak from Sempra
18 Global made earlier, is to see some cooperative
19 effort with the Legislature. As we would
20 anticipate some kind of similar legislation this
21 session coming up.

22 We would like to see an action item to
23 move this beyond just a study, and to actually
24 implementing a reopening of the direct access
25 market.

1 Some of the benefits that we see and are
2 identified in your reports are providing a stable
3 base from which utilities can make their future
4 plans for procurement. And one reason that we
5 think there's some urgency associated with
6 reopening the market is that we do have a
7 proceeding pending before the Public Utilities
8 Commission on the utilities long-term procurement
9 plans.

10 What we would not like to see is to have
11 long-term procurement plans --

12 PRESIDING MEMBER BOYD: Excuse the
13 interruption.

14 COMMISSIONER GEESMAN: My apologies.

15 MS. PETROCHKO: -- to see long-term
16 procurement plans adopted where we don't have a
17 definition about what the utilities' obligation to
18 provide service and for whom they're providing
19 service.

20 And without that kind of definition we
21 think we're back in the same boat of having to
22 argue about costs that remain on the system when
23 customers do -- when you do reopen the market and
24 customers do migrate to direct access.

25 And in that kind of scenario, if you

1 continue to pancake costs on top of DWR contracts,
2 it doesn't take long to make the direct access
3 market uneconomic. And we think those kinds of
4 results can be avoided if we have a market
5 structure in place ahead of time that defines the
6 utilities' roles and the customers' roles.

7 Another issue that is raised in the
8 report and was reflected in the comments by Ms.
9 Hale has to do with the resource adequacy issue.
10 And again, that's another issue that is being
11 contemplated by the Public Utilities Commission at
12 this time.

13 Energy service providers have a vested
14 interest in providing reliable service to our
15 customers, and bottomline is we pride ourselves in
16 providing superior customer service, being
17 innovative. And if we aren't able to deliver
18 power to our customers, we're defeating the
19 purpose for which we are in business.

20 So we support having a very reliable
21 system. How resource adequacy standards are
22 applied is a very difficult question. Obviously
23 if we move into some kind of market structure
24 where there's a core/noncore market, the core
25 being served by the utilities, they basically have

1 a long-term base load for which they can make
2 long-term investments and plan.

3 The nature of the direct access market
4 is it's a contractual relationship with ESPs. And
5 it's a competitive market, so that customers have
6 the ability to move from ESP to ESP. Making long-
7 term commitments for capacity in that kind of
8 market, as an ESP, is very difficult, as you're
9 unsure at any particular point in time what your
10 future load commitments are going to be for those
11 customers.

12 So I just would like to make a
13 distinction that there's a little -- there's a
14 contractual relationships with ESPs that's
15 different from the way that the utilities serve
16 their customers on a long-term basis.

17 The other issue that is prominent in the
18 report is energy efficiency and renewables. And
19 currently energy service providers are required by
20 statute to comply with the renewable portfolio
21 standard.

22 I'd also say that one of the benefits of
23 the direct access market is providing energy
24 efficiency means to direct access customers to
25 improve their efficient consumption of

1 electricity.

2 So we see those as the direct access,
3 reopening of the direct access market supporting
4 those goals of the integrated energy plan.

5 And we will be filing comments on the
6 report. And we'll be participating in your other
7 hearings. And thank you for the opportunity to
8 comment.

9 PRESIDING MEMBER BOYD: Thank you.

10 COMMISSIONER PERNELL: Thank you.

11 PRESIDING MEMBER BOYD: Any questions or
12 comments? Thank you very much.

13 Russell Blythe. Sustainable Energy
14 Development.

15 MR. BLYTHE: Thank you, Commissioners,
16 for publishing this. As you can probably
17 understand from my accent I'm not Australian.
18 But, anyway, thank you, staff, as well,
19 particularly those Pat Perez, Tom MacDonald, sadly
20 Nancy Della left us last year for early
21 retirement.

22 I'm responsible for marketing and
23 international development for Sustainable Energy
24 Development. We are a biomass renewable energy
25 company that will be producing energy from forest

1 waste and producing ethanol at the same time.

2 We'll be breaking ground after winter in
3 eastern Oregon. And to produce basically six to
4 eight plants every six years from 15 to 20
5 megawatts, 15 to 20 million gallons of ethanol per
6 plant.

7 My question is will the CEC and CPUC
8 follow the mandate of the State of Oregon which
9 allows permitting to be granted to a county level.
10 And this is for renewable energy producers, the
11 small producers.

12 We basically take forest waste and
13 provide an economic impact per community of about
14 \$8- to \$12 million per plant, 250 direct jobs, and
15 1500 indirect jobs per plant. And we have
16 identified sites in California. But the
17 permitting process that we have identified, we
18 feel that that will hinder the speed in which we
19 want to build these plants.

20 So, my question again is are the CEC and CPUC
21 going to allow county-level permitting rather than
22 state-level.

23 PRESIDING MEMBER BOYD: Well, it's an
24 interesting question. My first reaction is power
25 plants under 50 megawatts are not licensed by the

1 Energy Commission. So if you're building power
2 plants of the small nature you referenced, you
3 would be dealing at a local permitting venue, not
4 with the state.

5 MR. BLYTHE: We were not aware of that,
6 actually. Only on the basis that we had not got
7 the contract or the responses back from the people
8 that we were working with. But I'm glad to know
9 that. So, that does help us.

10 PRESIDING MEMBER BOYD: Well, certainly
11 if you have more questions, if you deal with our
12 siting division personnel, and somebody here can
13 give you -- somebody in the staff in the audience
14 can give you a citation of who to talk to, and
15 give you far more information about siting
16 facilities in California.

17 The people you referenced earlier were
18 on the fuels side of your equation --

19 MR. BLYTHE: Yes, they were.

20 PRESIDING MEMBER BOYD: -- and not the
21 electricity generation side. So, in any event, --

22 MR. BLYTHE: But we are a cogeneration
23 facility that produces fuel, as well.

24 PRESIDING MEMBER BOYD: And you'll have
25 to deal with the other aspects of cogeneration in

1 the state. Any other comments or questions?

2 MR. BLYTHE: Good, thank you very much.

3 PRESIDING MEMBER BOYD: You can seek out
4 Ms. Hale sitting in the audience here if you have
5 any questions about the PUC's role.

6 MR. BLYTHE: I will definitely give her
7 my card. Thank you.

8 PRESIDING MEMBER BOYD: Thank you. Jim
9 Conran, Consumers First.

10 UNIDENTIFIED SPEAKER: He's gone.

11 PRESIDING MEMBER BOYD: He left. He
12 didn't give a time constraint, so I'm sorry.

13 Well, that's the last of the blue cards
14 I have. Is there anyone else in the audience who
15 has not been afforded the opportunity to testify?
16 Now would be a good time.

17 Seeing no one else, I want to thank
18 everybody for coming here today. And remind you
19 that we have several other hearings throughout the
20 state in case you feel the desire, and thank you,
21 all.

22 We are adjourned.

23 (Whereupon, at 12:15 p.m., the hearing
24 was adjourned.)

25 --o0o--

CERTIFICATE OF REPORTER

I, JAMES RAMOS, an Electronic Reporter, do hereby certify that I am a disinterested person herein; that I recorded the foregoing California Energy Commission Hearing; 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 hearing, nor in any way interested in outcome of said hearing.

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

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