

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 ENERGY COMMISSION  
1516 NINTH STREET  
HEARING ROOM A  
SACRAMENTO, CALIFORNIA

FRIDAY, OCTOBER 3, 2003

9:37 A.M.

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PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345

COMMISSIONERS PRESENT

James Boyd, Presiding Member

John Geesman, Commissioner

Arthur Rosenfeld, Commissioner

ADVISORS

Michael Smith

Melissa Jones

Rick Buckingham

Rosella Shapiro

STAFF PRESENT

Thom Kelly, Assistant Executive Director

Karen Griffin, Program Manager

PUBLIC ADVISER

Margret Kim

ALSO PRESENT

Stephen Greenleaf  
California Independent System Operator

Les Guliassi  
Pacific Gas and Electric Company

William Tobin  
Sempra Energy Global Enterprises

Reza Navai  
California Department of Transportation

Dorothy Rothrock  
California Manufacturers and Technology  
Association

ALSO PRESENT

Manuel Alvarez  
Southern California Edison Company

Bobbi Glassel  
Energy Efficient Mortgage

Angela DeLeon  
Coldwell Banker

Steve Kelly  
Independent Energy Producers Association

Charles Bacchi  
California Chamber of Commerce

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## P R O C E E D I N G S

9:37 a.m.

PRESIDING MEMBER BOYD: Good morning and welcome to our meeting on a draft of the Energy Commission's Integrated Energy Policy Report. I'm Commissioner Jim Boyd, the Presiding Member of the CEC's, I'll call it IEPR, Integrated Energy Policy Report. But I will use the acronym IEPR -- Committee. The Associate Member of the Committee is Commissioner Keese who is out of state today on business.

And I am though fortunately joined today by two other Commissioners, Commissioner Geesman, Commissioner Rosenfeld. Much appreciate their attendance at today's meeting. And also up here with us today are my Advisor, Mike Smith; Commissioner Geesman's Advisor, Melissa Jones; Commissioner Keese's Advisor, Rick Buckingham; and Rosella Shapiro represents Commissioner Pernell. So you've got the whole slate up here, either in spirit or in body. So maybe a slight indication of the interest the Commission, in total, has in this particular report and its importance to the Commission and perhaps the energy future of the state.

1           Today's hearing is the third in the  
2           current series of hearings. This series of  
3           hearings is scheduled throughout the state to take  
4           stakeholder and public comments and suggestions  
5           about the draft IEPR.

6           The final report, as you will see from  
7           the presentation, is to be submitted to the  
8           Governor on November 1st. The draft before all of  
9           us today is a result of many many months, in fact  
10          basically an entire year now, of work done by the  
11          Energy Commission Staff and many many others, many  
12          public workshops, many public hearings have been  
13          held. There's a lot of familiar faces in the  
14          audience now, seen many of you before at workshops  
15          and hearings.

16          It represents work by many state  
17          agencies and consultations with federal and local  
18          agencies. And reflects, therefore, a lot of input  
19          from these people, as well as the public and  
20          stakeholders who have attended our previous  
21          workshops and hearings.

22          The statute that is behind all of this  
23          called for the report, detailed a number of state  
24          agencies, as I've referenced before, that were to  
25          be consulted and included in the preparation of

1 the report. And we have had a committee of state  
2 agencies. And I just want to express my  
3 appreciation for all the work that they've done in  
4 the past. I see representatives of state agencies  
5 in the audience today. We appreciate the input  
6 and the time they've put into this.

7 And we all, many state agencies,  
8 including our own, have vested interest in this  
9 report because the statute also provides that many  
10 of us will be guided by the information, by the  
11 analyses and by the policies that result from the  
12 preparation and submission of this report. So, we  
13 have many state agency stakeholders.

14 This is the first Integrated Energy  
15 Policy Report. And we've not had a lot of time,  
16 just a year in which to prepare this report, not  
17 even quite a year. But as you know, the statute  
18 provides that this report will be prepared and  
19 submitted every two years hereinafter.

20 And there was an opportunity provided  
21 for this report to be updated on an annual basis.  
22 And in light of the fact that this is the first  
23 one and it was tough getting this thing started  
24 and doing a rather large task in a short period of  
25 time, I'd just give notice that we are already

1 planning for next year's update, as well as  
2 thinking about the process to be followed in the  
3 two-year updates to follow.

4 So we have, in effect, created an almost  
5 full-time real-time venue for the discussion and  
6 debate of California's energy issues, policies,  
7 futures, the picture overall. And in a world like  
8 we live in today that is readily changing, I think  
9 that's a good feature. Although it becomes quite  
10 a workload for everybody. It's a necessity to  
11 keep up with the ever-changing State of  
12 California.

13 While most eyes in the energy area have  
14 been focused the last couple of years on the  
15 electricity crisis, as you know this report covers  
16 all three areas of the energy arena, or as I like  
17 to say, and many of you have heard before, all  
18 three legs of the energy stool; i.e., electricity,  
19 natural gas and petroleum fuels.

20 I like to analogize it's upon this stool  
21 that the California economy, if not our society in  
22 California as a whole, sits. The legs of the  
23 stool have been damaged and broken more than once  
24 in the past three or four years; repaired; and  
25 then we sit somewhat shakily upon that stool

1 today, still seeking permanent fixes for what ails  
2 us.

3 And it's safe to say, again, as I  
4 indicate, all eyes have been on the electricity  
5 crisis. And most in the electricity and natural  
6 gas arena have learned that electricity and  
7 natural gas are joined at the hip. So electricity  
8 and natural gas crisis, others of you are quite  
9 aware that we've been fighting off transportation  
10 fuel issues for even more years than the  
11 electricity crisis.

12 It was 1999 when there were significant  
13 price spikes in transportation fuels that led to  
14 the creation of the Attorney General's task force  
15 and the passage of several pieces of legislation  
16 that required various state agencies, including  
17 the Commission and the Air Resources Board, to  
18 study transportation fuels.

19 So, we have a report before the public  
20 now that affects all three areas and it has  
21 recommendations affecting all three areas.

22 And there have been other concurrent and  
23 subsidiary activities that have gone on and have  
24 fed into the preparation of this report. As a  
25 result of the electricity crisis, three major

1 energy agencies, the PUC, the CEC and the Power  
2 Authority have been working together like never  
3 before. And you've seen the product of that  
4 effort.

5 The energy action plan, the PUC and the  
6 CEC have collaborated on the procurement  
7 activities underway in the state. We are  
8 collaborating still on the implementation of the  
9 renewable portfolio standard. And I already  
10 mentioned all the legislation in the  
11 transportation fuel arena, the study of pipelines  
12 and strategic fuels reserve and our report with  
13 the ARB on reducing dependence on petroleum. And  
14 the many many reports on the multiple price spikes  
15 that have occurred.

16 And ever since the electricity crisis  
17 there's been a Governor's natural gas working  
18 group that has silently and quietly seemingly  
19 worked on that subject and actually contributed  
20 quite a bit to keeping that road reasonably  
21 smooth.

22 So, in conclusion I'd just say that  
23 California's economy, as I've indicated, if it's  
24 not society as a whole, sits upon this energy  
25 stool. It's energy that really fuels the engine

1 that fuels the California economy.

2 And those of us sitting up here, I know  
3 my fellow Commissioners feel the same way, because  
4 they've been on the hustings with me before on  
5 this subject, are concerned about the economy,  
6 knowing that a health economy is what provides for  
7 many of the other things that we, in our society,  
8 like to undertake in the Golden State. We want it  
9 to grow, we want it to prosper, and therefore  
10 concerned that our energy programs and our energy  
11 future be solid and assured.

12 So, this particular report is  
13 exceptionally and exceedingly important to that  
14 future.

15 And with that, I would like to now turn  
16 the presentation over to the staff before we then  
17 solicit and receive testimony from the many of you  
18 who have signed up. Just a reminder. If you want  
19 to testify today there are blue cards like this  
20 available in the back of the room for you to fill  
21 out and provide the staff. And they'll be  
22 provided to me so I can call upon you.

23 If this meeting begins to drag on and we  
24 have time constraints, or any of you have time  
25 constraints, we're here all day if need be. If

1       you have time constraints, please let somebody  
2       know. We're quite willing to shuffle the deck and  
3       move cards up to accommodate people's travel  
4       concerns.

5               And when you come up to the microphone  
6       would you please provide the court reporter a  
7       business card so he can keep this record straight  
8       for us. We rely upon the record so we can sit  
9       down afterwards and re-review what everybody's  
10      contributed in order to reflect what's being said  
11      here.

12              And when you first speak would you  
13      please, for the rest of the audience, and for  
14      those listening in on the webcast -- and I've  
15      heard enough to know that there are people  
16      listening, and in some facilities even watching,  
17      but not our own, we can't afford that luxury --  
18      there's quite an audience out there listening to  
19      this. So please state your name and your  
20      affiliation when you make your presentation.

21              And I would like to take this  
22      opportunity to welcome the Energy Commission's new  
23      Public Adviser who is standing in the back of the  
24      room, Margret Kim. Just appointed effective a few  
25      days ago to that position. Margret, welcome, good

1 to have you here.

2 And with that I would like to now call  
3 upon Thom Kelly and Karen Griffin -- Thom first --  
4 to give us a presentation on what it is we have  
5 before us. And then we'll turn to the audience.

6 MR. KELLY: Today's presentation by the  
7 staff is titled past, present and future. That's  
8 to give some context for the policy report that  
9 you've all seen, and I see most of you have copies  
10 of our slides that we'll be using today.

11 We go back to 1975 when the Energy  
12 Commission first started, and bring you through  
13 the integrated policy report; and then talk about  
14 some of the things that will be happening from now  
15 on.

16 So, both to give you that context and to  
17 encourage you to make comments to us, Karen's  
18 going to start. She's managed this project from  
19 the start.

20 My name is Thom Kelly, Assistant  
21 Executive Director. And the only reason I'm here  
22 is our Executive Director, Bob Therkelsen, can't  
23 be. He had a very hands-on approach to making  
24 this report a reality, and he regrets not being  
25 able to be here. But I'm a poor second.

1 MS. GRIFFIN: Good morning, I'm Karen  
2 Griffin. I'm the trail boss of the Integrated  
3 Energy Policy Report.

4 PRESIDING MEMBER BOYD: I've heard you  
5 called many things, Karen, but that's the first  
6 for the trail boss.

7 MS. GRIFFIN: I'm going to keep the  
8 lights up and not use the screen, so if you want  
9 to read along you have a sort of a smaller version  
10 of the slides that were out front.

11 The 2003 IEPR builds on a long history  
12 of planning in the State of California. We  
13 originally started out in 1975 with the Warren  
14 Alquist Act, which gave the Commission a broad set  
15 of responsibilities to look at electricity,  
16 natural gas, conservation, renewables,  
17 transportation, the whole schmeer of activities,  
18 including R&D, in order to develop our future  
19 energy policies.

20 Over time what started to happen with  
21 the Warren Alquist Act activities is that instead  
22 of focusing on the biennial report on this  
23 comprehensive and integrated idea, which was the  
24 original, it started to focus more down on those  
25 things which directly affected the Energy

1 Commission, such as developing information which  
2 we used for siting of new power plants; and for  
3 justification for our efficiency standards.

4 But, of course, there were a lot of  
5 other energy interests and issues in the state.  
6 And so they got their own specialized reports.  
7 And things got out of sync. We were doing them in  
8 off-years, and so it never all fit back together.

9 Then in the period of 1998 to 2002 in  
10 the electricity sector there was both an interest  
11 and a belief we were switching to a more market-  
12 dominated system of running the grid so that there  
13 would be less need for an overall integrated look  
14 at things.

15 And some of our capabilities atrophied  
16 here, to look at system planning; to collect the  
17 kinds of data; to have a public exchange between  
18 stakeholders and the interested public and our  
19 policymakers on where we thought the state ought  
20 to be going.

21 This was also in the early 1990s, a  
22 period of state restraints, and so there was a  
23 sort of a lessening of the dollars and people that  
24 could work on this activity.

25 We then were engaged a lot more in

1 special studies or the Legislature would pass a  
2 bill and we'd go off and look at XY for a moment.  
3 More in monitoring and in crisis management,  
4 particularly in 2000 and 2001.

5 The Legislature, led by Senator Bowen,  
6 looked at this and said this is not working. We  
7 actually do need to have an integrated look at  
8 energy, because it's clear that in the market  
9 today electricity and natural gas are completely  
10 tied together. And that the energy efficiency,  
11 the renewables and the research that we do are  
12 driven by this relationship between electricity  
13 and natural gas.

14 And then we also obviously had  
15 transportation. And all of this -- it's exactly  
16 the same -- people coming here at a rate of  
17 600,000 per year, a growing economy, a sort of a  
18 tightening of the space in which we can work and  
19 desire to be more efficient. So we have less slop  
20 in the system everywhere. That means that things  
21 that happen in one sector quickly cascade into  
22 other sectors.

23 So, with this sort of general perception  
24 of what was needed, they passed SB-1389 in 2002.  
25 And this requires a number of things. It requires

1 us to look at all fuels; it requires us to look at  
2 all sectors; to look at it in an integrated  
3 fashion; to try to understand what are the big  
4 drivers, what are the concerns, and what are the  
5 key concerns.

6 That was another problem we were having,  
7 of each individual area would say, we have  
8 problems, we have problems. And there was no  
9 sense of what do we need to do first, and what do  
10 we need to do second, and what are the problems  
11 that are happening in place A affecting place B.

12 It also requires a strong collaboration  
13 among state agencies because there are many  
14 agencies that have a role in energy, including the  
15 Air Resources Board and the California Independent  
16 System Operator, as a sort of semi-state agency,  
17 semi-nonprofit organization fulfilling state  
18 functions; CalTrans; obviously the PUC; the  
19 oversight board; the Power Authority.

20 And so we were directed both to  
21 collaborate with these agencies all through this  
22 process to use not only our record, but the  
23 records that were developed in their proceedings  
24 so that we weren't duplicating. And then for the  
25 agencies to use the information which was

1 developed in this proceeding in their future  
2 proceedings.

3 And the way the IEPR is structured, it  
4 builds on three sets of technical analyses: the  
5 electricity and natural gas; the public interest  
6 energy strategies, that was DSM, renewables and  
7 PIER; and the transportation fuels and  
8 infrastructure.

9 If you've been engaged in this  
10 proceeding over the past year you're quite  
11 familiar we've had thousands of pages of documents  
12 and many workshops trying to pull all that  
13 together. But that was all started from an  
14 integrated framework back in September when we had  
15 our original scoping meeting where the Commission  
16 listened to what people's interests were.

17 And then in December they gave us  
18 directions. And if you remember those directions,  
19 it wasn't do this in electricity, do this in  
20 natural gas; it was we're really concerned about  
21 volatility; we're concerned about price spikes;  
22 we're concerned about tight supply. Look at those  
23 common themes and in serving the needs of  
24 Californians we've got to recognize these.

25 We've got a lot of people and a lot more

1 coming. The people value mobility; they value  
2 having electricity when they want it; they want to  
3 be, you know, warm in the winter and cool in the  
4 summer. All those sorts of things. We have to  
5 meet those needs and we have to come up with  
6 policies that meet those needs in an  
7 environmentally sound fashion.

8 The way the overall report is structured  
9 is we produce the big report every two years.  
10 This is the first one. There will be an annual  
11 update of just selected key issues, not a full-  
12 blown thing. But we'll just try to target in on  
13 issues. And then there will be another one that  
14 comes up in 2005.

15 What we did in this analysis, we did try  
16 to pull together starting with, because this was a  
17 one-year process, in what is supposed to be a two-  
18 year cycle, and we didn't have time to get new  
19 regulations in place or anything like that. So we  
20 started out with sort of a staff first approach.

21 Staff tried to volley its opinion, and  
22 then collect comments and alternate reactions from  
23 stakeholders. We did that in supply, demand and  
24 price for the various sectors. We looked at  
25 infrastructure. We looked at R&D, at potentials

1 and alternatives.

2 And there was a big focus on  
3 environmental impacts and global climate change.  
4 This is the first time that we took our look at  
5 environmental performance beyond just thermal  
6 power plants to try to cover the entire  
7 electricity sector; to start on the natural gas  
8 sector; and to make a commitment to expand that in  
9 the future to look at the oil and fuel sector, as  
10 well. We also obviously are developing an  
11 increased emphasis on climate change in this  
12 report.

13 In terms of the public process the  
14 Commission started it off in September of 2002, so  
15 that's a year ago, with the scoping hearing. We  
16 had nine collaborative agencies. I think the  
17 number there is 18 days of public workshops and  
18 hearings. Plus an additional ten that were done  
19 for the petroleum dependency report, which was the  
20 source of most of the work that came into the  
21 transportation report.

22 I was really surprised when I started  
23 going through the list that we counted up over 140  
24 public stakeholders who had taken the time to  
25 either write to us or come in and talk at a

1 workshop about their concerns. So we have had a  
2 broad kind of public input.

3 And for those of you who really like to  
4 read, there are over 3000 pages of backup material  
5 on our website for your evening and weekend  
6 pleasure, that provide the documentation and the  
7 discussion which underlie the policies which you  
8 are now discussing today.

9 With that I'm going to turn it over to  
10 Thom to talk about the policy aspects.

11 MR. KELLY: If there's one message that  
12 you should take away from this slide show and the  
13 IEPR that we've tried to put together, it's that  
14 the infrastructure needs support. It needs your  
15 support, maybe moreso than gubernatorial  
16 candidates.

17 We would like for a lot of things to  
18 happen. We can wish for them to happen; we can  
19 assume they're going to happen; or we can try to  
20 cause them to come into being.

21 And the theme for the IEPR, this  
22 infrastructure improvement, was broken down in  
23 this report for reliable and reasonably priced  
24 energy enhancing the environment, the economy and  
25 support the energy growth in the state.

1           These things are going to take actions  
2 not just by the Energy Commission or the PUC, but  
3 the Legislature, other agencies. And we're going  
4 to have to work in concert to make it happen.

5           This graph shows a little bit of the  
6 three-legged stool that Commissioner Boyd  
7 mentioned, is the foundation. Ben Franklin did a  
8 lot of research on chairs back when he was in his  
9 inventive stages, and he found that the three-  
10 legged stool was more stable than a four-legged  
11 chair. So he tried to patent the three-legged  
12 chair, and it didn't quite work. Maybe we can do  
13 better.

14           And in this case it's on its side, but  
15 don't take that as any kind of premonition for the  
16 way this is going to work. It just shows how the  
17 legs of the stool lead to this integration that we  
18 hope will be used by many different agencies,  
19 including ourselves, to try to implement those  
20 ideas that we think are going to lead to stronger  
21 infrastructure.

22           Where do we go now? Is this just  
23 another report to be stacked on other energy  
24 reports before they get carted away in the  
25 dumpster. Or is this going to give us something

1 that we need to make sense of and follow as a  
2 guideline.

3 It's been divided up into several  
4 different sections of trying to indicate where the  
5 preferences lie. The first and foremost is the  
6 energy efficiency harvesting. That follows the  
7 energy action plan goal of starting with energy  
8 efficiency, and we move from there.

9 We want to diversify fuel types; we want  
10 to encourage customer choice. And once again, we  
11 come back to certain things need to be done just  
12 to help the infrastructure, which will help  
13 everything else, as we proceed with them.

14 This slide is slightly different from  
15 the slide in your package because last night and  
16 today we made some changes based on input we  
17 received at previous hearings on this subject.

18 A number of people have misunderstood  
19 because we didn't make it very clear in the  
20 report, quite frankly. It wasn't our intent to be  
21 confusing, but we just achieved it anyway.

22 A hundred million Btus of natural gas  
23 can be found, in addition to all the gas savings  
24 that we've already projected.

25 And the one that caused the most concern

1 by most of the commenters who pointed this out was  
2 our 1200 megawatt goal for electricity  
3 conservation seemed to small to everybody,  
4 including us. And what we mean to say for that  
5 1200 megawatts or so is that about 1800 megawatts  
6 we've already counted in current funding and  
7 current activities, standards, public goods charge  
8 programs and the like. Those are already in the  
9 baseline at 1800. So we start at 1800.

10 Then we have another 1500 to 2000, which  
11 according to the energy action plan, is a goal for  
12 dynamic pricing in the state. That's still quite  
13 possible. This 1200 that we've talked about does  
14 not include that.

15 Finally, what it does include is  
16 additional funding, and we don't specify whether  
17 it's public good charge out of ratepayers'  
18 pockets, out of individual consumers' pockets. We  
19 just know that there's additional potential that  
20 appears to be cost effective and we can get.

21 So we're really talking in terms of 4000  
22 to 5000 megawatts of additional conservation, not  
23 just the 1200, so I wanted to try to forestall  
24 comments to that regard, if I can, for this  
25 presentation.

1           The rest of these are the same as you  
2 have in your packet. We'd like to call  
3 legislation to increase the RPS from 2017 to 2010.  
4 We can achieve it by then.

5           Any market structure examinations we  
6 think should include customer choice. It's a  
7 fundamental part of any market structure we think  
8 to operate efficiently. And if we're going to  
9 have reserve requirements, which seems very  
10 prudent and reasonable, let's have all the  
11 providers participate in getting those reserves,  
12 not just a few.

13           We also have recommendations to reduce  
14 petroleum demand. That's in your packet, even  
15 though it's not in my slides. Karen, you're  
16 right, this is less-than-perfect technology. It  
17 accentuates user error.

18           We want to reduce petroleum demand by 15  
19 percent from today's levels. And drawing on the  
20 experience that we've had of 28 years of siting  
21 power plants, do the same thing for transmission  
22 facilities, bulk transmission facilities, and  
23 petroleum infrastructure.

24           Now the hearing schedule. This is the  
25 third of the hearings. We've been practicing, I

1 guess, on the road. And now we're coming home. I  
2 guess we're going to go back on the road on the  
3 6th and the 10th.

4 All of this is to get public comments  
5 from you and as many people in the state as we can  
6 so that by the time we release another draft,  
7 proposed final draft of the policy report by the  
8 17th, we'll have accommodated as many comments as  
9 we can. And we are accommodating some already.  
10 We're not waiting for the last of the hearings to  
11 start working. We're already incorporating some  
12 of the comments. So by this afternoon we'll start  
13 including some of your comments.

14 October 29th the Commission holds its  
15 business meeting to consider adoption so that on  
16 the 1st of November it can be transmitted to the  
17 Governor, whoever that is. And we can then wait  
18 for the Governor to decide within 90 days what the  
19 recommendation will be for sending to the  
20 Legislature and messages back to us.

21 PRESIDING MEMBER BOYD: Thank you, Thom.  
22 Any comments or questions of the Commissioners?

23 All right, we'll turn to the public  
24 testimony. First we'd like to call upon one of  
25 our almost sister agencies, the ISO. Steve

1 Greenleaf, who is the Director of Regulatory  
2 Policy.

3 It's been mentioned while they're not  
4 quite a state agency, we work very closely with  
5 them. I view them as a crown corporation created  
6 by the Legislature, but somewhat independent.

7 Anyway, Steve, welcome.

8 MR. GREENLEAF: Good morning,  
9 Commissioner Boyd and Commissioners Geesman and  
10 Rosenfeld, and the rest of the staff.

11 Steve Greenleaf, Director of Regulatory  
12 Policy at the California ISO. We appreciate the  
13 opportunity to be here today to offer comments on  
14 the draft IEPR. We intend to file more detailed  
15 written comments hopefully next week.

16 First of all we applaud the Commission's  
17 attempt to comprehensively assess and address  
18 California's energy needs, and we view the draft  
19 IEPR report as an important guide for all public  
20 policymakers in California.

21 As such, we offer the following initial  
22 observations and recommendations on the report.  
23 And these, of course, are driven by and revolve  
24 around the ISO's core functions, that of  
25 supporting reliable system operation and two, to

1 provide open and nondiscriminatory transmission  
2 service in a cost effective and efficient manner.

3 We fully support the statement in the  
4 draft IEPR that balanced energy policies will  
5 provide the stable environment necessary to  
6 attract investments in energy efficiency and, most  
7 importantly in our view, infrastructure.

8 To that end we fully support the  
9 policies and the IEPR recommendations that further  
10 infrastructure investment, be they focused on the  
11 state's existing, but clearly aging,  
12 infrastructure, or the need for new investment.

13 Specifically we support the IEPR's call  
14 for enhanced energy efficiency and renewable  
15 programs, and clear requirements for all load-  
16 serving entities to insure and maintain  
17 appropriate reserves.

18 Each of these recommended programs will  
19 support the ISO's obligation to maintain  
20 reliability and to facilitate transparent,  
21 efficient and reasonably priced wholesale  
22 electricity markets.

23 Further, to support the ISO obligations,  
24 the ISO agrees that it's important for the state  
25 to streamline and coordinate the transmission

1 siting process by eliminating unnecessary  
2 duplication and offering appropriate  
3 considerations of the ISO's determinations of need  
4 with respect to transmission facilities identified  
5 in its planning process.

6           However, notwithstanding the ISO's  
7 support for the IEPR's draft recommendations in  
8 these areas, the ISO is concerned that the draft  
9 report lacks necessary emphasis on certain of the  
10 recommendations to effectively inform and guide  
11 public policymakers in the State of California.

12           Specifically the ISO recommends that the  
13 draft report be expanded to detail the key  
14 components of an effective, state-sponsored,  
15 resource-adequacy program. Such key components  
16 include the following seven elements:

17           First, a required planning reserve  
18 margin. I'll note in the draft IEPR report it  
19 refers to operating reserves. We think clearly  
20 the focus needs to be on appropriate planning  
21 reserves.

22           Number two, there must be a limited  
23 reliance on the spot market to satisfy capacity  
24 requirements such as the ISO's recommendation for  
25 a monthly obligation. We draw a key distinction

1 between capacity and energy requirements in this  
2 instance. We clearly support a full and complete  
3 optimization and opportunity for trading, for  
4 energy, in the spot market.

5 Number three, rules for identifying and  
6 quantifying the resources procured for the  
7 purposes of meeting load-serving entities'  
8 obligations.

9 Four. An established and standardized  
10 load forecasting methodology that will further  
11 support identification of load-serving entities'  
12 requirements, reserve requirements, as well as  
13 facilitate transmission infrastructure investment.

14 Number five. Availability of the load-  
15 serving entity procured resources for possible  
16 commitment by the ISO.

17 Number six. Ex-ante procurement and  
18 cost recovery rules for load-serving entities.

19 And number seven. A clear understanding  
20 and acknowledgement of ISO real-time actions in  
21 the event of a supply shortage.

22 And to that last point, we want to  
23 reiterate what has become one of our themes, that  
24 it's absolutely essential that state policymakers  
25 understand, in the absence of -- what we believe

1 in the absence of an effective resource adequacy  
2 the ISO may be once again faced with making hard  
3 choices in real time.

4 As noted here, in such instances we  
5 believe the choices are harsh and limited. Either  
6 curtailing demand or, as occurred during the  
7 electricity crisis, the negotiation with suppliers  
8 for the delivery of energy in real time.

9 As the Commission is aware, such quote-  
10 unquote "negotiations" rarely result in  
11 electricity prices that are viewed as either just  
12 or reasonable. Yet, by creating clear rules for  
13 the forward procurement of capacity, the state can  
14 both mitigate price risk exposure and insure a  
15 reliable supply of power in real time.

16 We believe that absent clarity and  
17 emphasis on these matters in the draft IEPR, the  
18 ISO is concerned that the state's public  
19 policymakers will not be fully apprised of the  
20 gravity of these issues. And, as cautioned in the  
21 report, we could be once again faced again with a  
22 crisis.

23 However, the ISO acknowledges the  
24 state's significant efforts towards those goals in  
25 the California Public Utilities Commission's

1 ongoing procurement proceeding. Moreover, the ISO  
2 agrees with the draft report's statement that the  
3 key here is to establish a direct link between  
4 this report and the CPUC's existing resource  
5 procurement proceedings.

6 To that end the ISO has recommended to  
7 the CPUC in the procurement proceeding that they  
8 adopt the key components of a workable resource  
9 adequacy program, as outlined above.

10 The ISO recommends that the Commission  
11 do likewise.

12 Finally, we ask that the Commission take  
13 notice of a recent Federal Energy Regulatory  
14 Commission rulemaking or order, order 2003, which  
15 was issued on July 24th of this year. That order  
16 establishes standard requirements and procedures  
17 for interconnecting large generating facilities to  
18 the transmission system.

19 While at the end of the day the FERC  
20 rule affords the ISO, and all ISOs, appropriate  
21 deference in developing the rules that work best  
22 for the regions, clearly the influence of this  
23 rule -- this rule influenced the manner by which  
24 new generation is going to be integrated into the  
25 transmission system. And thus will likely impact

1 the future development of the bulk transmission  
2 system in California and the rest of the west.

3 With that, I thank you for the  
4 opportunity to provide the comments, and will  
5 answer any questions. Thank you.

6 PRESIDING MEMBER BOYD: Thank you,  
7 Steve. Any comments, questions? Commissioner  
8 Geesman.

9 COMMISSIONER GEESMAN: Steve, how do you  
10 see FERC order 2003 changing your existing policy?

11 MR. GREENLEAF: Well, clearly it's a  
12 matter that needs a lot more analysis. The key  
13 linkage in my mind is that with respect to the  
14 integration of the resources what FERC appears to  
15 be driving towards, or at least providing the  
16 opportunity to incorporate, is the deliverability  
17 assessment in the context of integrating the new  
18 generation resources into the transmission system  
19 by insuring that they're deliverable to the load.

20 That, in our view, is a clear deficiency  
21 in the existing process. So probably the most  
22 important aspect, in my view, once again, is that  
23 deliverability component, which will link  
24 interconnection of the new generation, but more  
25 appropriately and more urgently link it with

1 expansion of the bulk transmission system  
2 throughout California.

3 COMMISSIONER GEESMAN: So when you focus  
4 on deliverability you're thinking of it as an  
5 infrastructure deficiency in our current setup?

6 MR. GREENLEAF: Clearly. And I don't  
7 want to say that we're completely blind to, and as  
8 some people would say, our sole motivation is to  
9 put sticks in the ground, or sticks in the mud,  
10 that's not the case.

11 Clearly it needs to be combined with an  
12 effective congestion management process. But  
13 right now we don't feel there's an appropriate  
14 balance between the two.

15 PRESIDING MEMBER BOYD: Steve, a  
16 question if I might. Your point about reliance on  
17 the spot market here, your written document says  
18 that the key components you see should include  
19 limited reliance on the spot market to satisfy, et  
20 cetera, et cetera.

21 I need to know where you're putting the  
22 emphasis on limited. Either you're saying we  
23 should limit our reliance on the spot market, or  
24 that the staff draft has too little or a limited  
25 reliance on the spot market.

1           Because we've heard a lot of testimony  
2           in the last couple of days, particularly  
3           yesterday, about over reliance on the spot market.

4           MR. GREENLEAF: That is exactly what our  
5           concern is, over reliance on the spot market. So  
6           we think the draft report needs to emphasize that  
7           to the extent that the state-sponsored resource  
8           adequacy program in any way permits reliance on  
9           the spot market, it can only be for a very limited  
10          portion of the capacity needs.

11          And based on at least the testimony and  
12          evidence that we viewed in the procurement  
13          rulemaking, or procurement proceeding before the  
14          PUC, we're very concerned at this point; and would  
15          say that there should be no reliance on the spot  
16          market.

17          COMMISSIONER GEESMAN: But if I heard  
18          you correctly in your earlier statement you're  
19          distinguishing between capacity and energy there?

20          MR. GREENLEAF: Absolutely.

21          COMMISSIONER GEESMAN: Okay.

22          MR. GREENLEAF: I mean what we're  
23          driving towards is -- and our proposal, quite  
24          honestly, all along has been demonstration of that  
25          load-serving entities have procured adequate

1 capacity in a month-ahead timeframe.

2 That's not to say that when you get into  
3 the spot market or begin to participate in the  
4 ISO's day-ahead or real-time energy markets, that  
5 they can't trade for energy. But, clearly there  
6 needs to be a demonstration that adequate capacity  
7 stands ready to serve load.

8 PRESIDING MEMBER BOYD: Any questions?  
9 Okay, thank you very much, Steve, appreciate  
10 your --

11 MR. GREENLEAF: Thank you.

12 PRESIDING MEMBER BOYD: Our next  
13 speaker, Les Guliasi of PG&E.

14 MR. GULIASI: Good morning,  
15 Commissioners, Advisors.

16 PRESIDING MEMBER BOYD: Good morning,  
17 Les.

18 MR. GULIASI: I'm Les Guliasi, Director  
19 of State Agency Relations for PG&E.

20 First, I want to thank you for the  
21 opportunity to testify on the draft Committee 2003  
22 report. As you know, PG&E has participated in  
23 many of the technical and substantive workshops  
24 that preceded the publication of the report. And  
25 we participated in the hearings that you held on

1 the underlying staff reports and supporting  
2 documents.

3 We've also submitted written testimony  
4 and commented on various aspects of the reports.  
5 And I believe we're going to be submitting some  
6 additional testimony, written testimony, at the  
7 close of these hearings.

8 Let me repeat what I said when I  
9 commented on the draft reports. My comment was  
10 that I thought that the staff did a superb job in  
11 producing such a high quality work product. The  
12 task that the Legislature set for you was  
13 extremely challenging. You set your sights on a  
14 goal and went about the hard work in a  
15 professional inclusive manner. You sought input  
16 from all sectors and you welcomed the  
17 participation of all parties, and we thank you for  
18 that.

19 Your draft report, by necessity, is  
20 pitched at a fairly high level of generality. And  
21 for the most part it addresses the right subjects  
22 relevant to the state's energy policy.

23 For the most part, I think the report  
24 hits the mark, not always in the bullseye, but  
25 close to it. I'm not going to say that I agree

1 with every characterization in the report or every  
2 recommendation. In fact, we'll take issue, as  
3 you'll soon see, with some of the recommendations.

4 But we do support your focus on the  
5 state's energy infrastructure. As you know, we're  
6 largely in the infrastructure business ourselves  
7 at PG&E. And we welcome the state's or your  
8 Commission's comprehensive look at infrastructure  
9 needs for the state.

10 In my comments I aim to highlight those  
11 areas of greatest interest and concern to PG&E.  
12 And I hope that you find the value of my comments  
13 and criticisms to, you know, just to spotlight  
14 some of the deficiencies or weaknesses in your  
15 report. And I hope that you can take what I have  
16 to say constructively and incorporate some of  
17 these comments in your final report, and what you  
18 eventually send to the Governor and to the  
19 Legislature.

20 I'm going to address four basic areas.  
21 First, energy efficiency and demand response.  
22 Second, renewable resources and the renewable  
23 portfolio standard. Third, electricity and  
24 natural gas infrastructure. And, fourth,  
25 hydroelectric resources.

1           In some of my remarks I'm going to be  
2 rather brief; and in other places I'm going to beg  
3 your indulgence and allow me to take a little bit  
4 extra time. I hope not too much time.

5           First, with energy efficiency. Your  
6 first policy recommendation is to continue to  
7 harvest energy efficiency opportunities. We agree  
8 that there remain large opportunities to capture  
9 the resource potential of energy efficiency.

10           Just for your information PG&E invests,  
11 on average, about \$120 million a year in energy  
12 efficiency. Our resource plan, what we've  
13 submitted before the Public Utilities Commission,  
14 calls for an increase of investment of \$300  
15 million over the next five years; modest  
16 investment in the first year, and ramping up very  
17 aggressively in the final year.

18           At the hearing on the electricity and  
19 natural gas and PIES reports, we spent a  
20 significant amount of time talking about the  
21 potential for energy efficiency. And at that  
22 hearing the question was posed, how much  
23 additional spending will produce how much  
24 additional savings in energy.

25           It was generally assumed that while some

1 increase in spending will yield some savings, even  
2 doubling the amount of investment would yield  
3 significant savings, we did agree that there was,  
4 you know, at some point you reach a limit.

5 We recommend that in the next round of  
6 your IEPR process you refine your estimates of  
7 investment levels and savings opportunities. The  
8 current studies that serve as the basis of the  
9 report rely on data and price forecasts, I believe  
10 through 2001. Some of this information is old by  
11 now. And with the recent decreases in electricity  
12 prices and forecast increases in gas prices, it  
13 may be that some of your analytical results may  
14 differ today than what we saw even a year ago.

15 I'm not saying that ultimately that  
16 would lead to a different recommendation on your  
17 part, but I think it would be wise to conduct the  
18 analysis again next year and refine our estimates  
19 of investment and savings.

20 Even more importantly, we recommend that  
21 you focus greater attention on the question of  
22 cost effectiveness. While conventional wisdom may  
23 point to energy efficiency as the first priority  
24 in meeting resource needs, we need to be mindful  
25 of the cost effectiveness of our energy efficiency

1 investments, and the cost to ratepayers of  
2 increased funding.

3 You may know that PG&E is currently in a  
4 situation of over-supply because of the adequacy  
5 of our own resources coupled with the obligations  
6 of our DWR contracts. Energy efficiency  
7 investments must be evaluated on a utility-  
8 specific basis, taking into account our supply  
9 picture.

10 In our zeal to tap clean or soft  
11 resources such as energy efficiency, we also need  
12 to analyze the rate impact of increased ratepayer  
13 funding. This is a point that I'm going to repeat  
14 throughout my remarks when I talk about the  
15 renewable issue, when I talk about infrastructure  
16 investments, as well.

17 One more issue with respect to energy  
18 efficiency. A point I made at the previous  
19 hearing, it's important to restore a stable  
20 regulatory environment for energy efficiency to  
21 insure that funding of programs are available, and  
22 that utilities, customers and suppliers know with  
23 some certainty, the rules and the program going  
24 forward.

25 I note that the PUC has an open order

1 instituting investigation on energy efficiency. I  
2 think that proceeding is on the right track. And  
3 I think we should all keep a watchful eye on that  
4 proceeding.

5 Before leaving the demand side I want to  
6 comment briefly on the section of the report that  
7 deals with demand response programs. That's on  
8 roughly page 15, 16 of the report.

9 The report at page 16 recommends that  
10 the state should rapidly deploy advanced metering  
11 systems if analysis shows that the results are  
12 favorable to the customer and will effectively  
13 decrease peak electricity use.

14 PG&E endorses the cautionary tone of  
15 your recommendation, especially the phrase that  
16 conditions deployment if AMR analysis demonstrates  
17 results. I would add, however, that the speed on  
18 the AMR deployment should depend on the outcome of  
19 such analysis. Rapid deployment may prove to be  
20 beneficial, but it may not. I recommend that you  
21 delete the adverb "rapidly" from the report, and  
22 strike a more cautionary tone.

23 Moreover, let's remind ourselves that we  
24 are currently in a test pilot phase of demand  
25 response programs, especially for the residential

1 and small commercial customers, those with demands  
2 less than 200 kilowatts. We need to complete  
3 these test pilots before full deployment -- I'm  
4 sorry, these pilot tests -- before full deployment  
5 of AMR.

6 For large customers we have a series of  
7 tariffs across the state that aren't particularly  
8 harmonized. We need to evaluate the various  
9 demand response programs currently being offered  
10 through our tariffs, and recommend a final set of  
11 demand response programs. Most likely reduced  
12 from the current set of eight.

13 And finally, the demand response  
14 programs that we end up with must be easy to  
15 administer. They must be what customers want.  
16 And they must prove to be cost beneficial.

17 The second major issue I want to address  
18 is renewable resources. Your recommendation is to  
19 enact legislation to accelerate the renewable  
20 portfolio standard by 20 percent in 2010. This  
21 policy recommendation takes, as its starting  
22 point, a goal enunciated in the energy action  
23 plan.

24 PG&E believes that it is premature to  
25 accelerate the RPS goal, especially through new

1       legislation. The Legislature set a goal to  
2       increase the amount of renewable resources by 1  
3       percent a year, and to reach the 20 percent target  
4       by the year 2017.

5               We believe that the renewable goal is a  
6       worthy goal; and frankly, it's a great thing, and  
7       we fully intend to meet that goal. And if we do  
8       our jobs well, we will actually meet the goal  
9       before the year 2017. We have our sights set on  
10      at least meeting, if not exceeding, the current  
11      legislative goal.

12             There are some who want to make every  
13      new megawatt a green megawatt, or one avoided by  
14      energy efficiency or demand response. But the  
15      fact is we just need to be realistic. We need to  
16      create a market; we need to take into account  
17      operating constraints; and we need to remember  
18      that we still have the obligations of the DWR  
19      requirements.

20             I'm going to spend a little bit more  
21      time trying to be more specific about this one  
22      particular area. So bear with me, please.

23             The current RPS legislation of 20  
24      percent by 2017 is one of the most aggressive  
25      pieces of renewable legislation in the country.

1       When Senate Bill 1078 was enacted, the  
2       stakeholders in the legislative process recognized  
3       that the 20 percent goal by the year 2017 was an  
4       ambitious goal. And the 20 percent target,  
5       itself, was forged, I believe, as a legislative  
6       compromise.

7               Implementing the renewable standard  
8       under existing program goals and guidelines will  
9       provide an opportunity for the Legislature, for  
10      you, for the CPUC, for all market participants to  
11      observe the effectiveness of the program and the  
12      state's progress toward meeting the goal without  
13      the added burden of meeting additional targets or  
14      accelerating the target.

15              PG&E believes that what I'm going to  
16      call an incubation period where all stakeholders  
17      can look objectively at how RPS implementation is  
18      working is what we need to do. We would benefit  
19      from a measured rollout where we can observe how  
20      the markets respond to the program. A measured  
21      approach will allow the investor-owned utilities,  
22      the market participants, and the regulatory  
23      agencies to observe what the prices are, what  
24      they're coming in at; what level of participation  
25      we see; and how participants are meeting the

1 milestones.

2 The idea here is to allow the market to  
3 find efficiencies and to allow the market to  
4 develop itself in a competitive manner.

5 Accelerating the 20 percent goal may  
6 further require a dependence on subsidies. So we  
7 need to evaluate the impact of the goal absent  
8 subsidies, if we can get there. And we're afraid  
9 that by continuing to provide subsidies we might  
10 rely too heavily on shortly timed projects at the  
11 expense of other potential opportunities and other  
12 resources.

13 Just as a reminder, SB-1078  
14 implementation hasn't really even gotten put into  
15 place. There are a lot of implementation details  
16 that need to be worked out that weren't even  
17 contemplated with the legislation was passed.  
18 For example, one example is tradeable credits.  
19 They're now being considered as vehicles for RPS  
20 compliance.

21 There's a long list of unresolved  
22 issues. They include the adequacy of public goods  
23 funds for the accelerated goal; the role of  
24 renewable energy credits; the whole issue of how  
25 credits and PCG funds interact; cost recovery of

1 credits that we purchase; the role of DG,  
2 distributed generation; the definition of  
3 environmental attributes purchased with RPS  
4 contracts. And the obligation of other retail  
5 sellers, such as energy service providers and  
6 community aggregators.

7 These are some of the details that need  
8 to be hashed out before further legislation is  
9 enacted.

10 Let me go on a little bit longer on this  
11 one subject. No comprehensive cost/benefit  
12 analysis has yet been performed to support the  
13 acceleration of the RPS goal. We recommend that  
14 you drill down past the qualitative analysis that  
15 was performed for the PIES report, and perform an  
16 analysis of the public policy goals that the  
17 report endorses.

18 The goals should be enumerated; they  
19 need to be prioritized; and all aspects of the RPS  
20 goal and implementation need to be quantified into  
21 costs and benefits.

22 The PIES report -- I'm going to talk  
23 about that just for another second on a couple of  
24 points -- takes note at page 22 that there are  
25 complex tradeoffs, yet we haven't yet performed

1 the analysis to justify what tradeoffs do make  
2 sense.

3 The conclusion in the PIES report at  
4 page 111, we believe, doesn't justify the report's  
5 recommendation to enact legislation accelerating  
6 the RPS goal. Rather the conclusion alludes to  
7 continuing to make a reasoned assessment of the  
8 complex tradeoffs; and at a minimum, to perform  
9 post-implementation evaluation of the various  
10 aspects of the RPS program, and to assess how  
11 those pieces are working together.

12 We need to know whether retail sellers  
13 have the load to absorb, not only the existing  
14 available generation that we have, but also  
15 additional renewable generation before we hit  
16 2010.

17 Certainly the recommendation is a  
18 laudable policy goal, but frankly, it's made with  
19 little regard to the practical implementation  
20 hurdles that we need to clear.

21 So, what we're recommending here is that  
22 we just take a more measured step-by-step approach  
23 and evaluate our progress before advancing further  
24 legislation to accelerate the goal.

25 The third major policy issue that I want

1 to address is electricity and natural gas  
2 infrastructure. Let me begin with the vexing  
3 question of electricity transmission and the  
4 report's recommendation to consolidate the  
5 permitting process in the Energy Commission.

6 Before doing so I want to take just a  
7 bit of your time to talk about infrastructure and  
8 infrastructure investment. The report, on page  
9 23, states that the transmission system must be  
10 upgraded and modernized. And I believe the report  
11 concentrates on the bulk transmission grid.

12 It may be worth pointing out that as a  
13 centerpiece of its ongoing business and  
14 responsibility as an investor-owned utilities,  
15 PG&E is continually evaluating and upgrading its  
16 transmission system to accommodate increasing  
17 demands on the system.

18 Sometimes our investments are made for  
19 economic reasons. For example, to relieve  
20 congestion on a particular path. But we are  
21 always making investments to increase the  
22 reliability of our system.

23 The report, I believe, is not sensitive  
24 to this very important distinction. And unless  
25 you more carefully distinguish the kinds of

1 investments you want the state to make you're not  
2 going to find a clear path to accomplish your  
3 policy objective as it relates to consolidating  
4 permitting authority here at the Energy  
5 Commission.

6 Just parenthetically, I believe the  
7 underlying staff reports are very careful in  
8 distinguishing between economic and reliability  
9 projects. And as a rule, tilts in the direction  
10 of favoring reliability projects. That's a good  
11 thing.

12 As I said, we are constantly looking at  
13 our system and making investments not only for  
14 economic reasons, but particularly for reliability  
15 reasons. We've invested over a billion dollars on  
16 transmission enhancements and upgrades over the  
17 past four years. And we plan to invest another  
18 nearly \$2 billion in our transmission system over  
19 the next five years.

20 Some of these projects such as Path 15,  
21 the northeast San Jose project, TriValley,  
22 Jefferson-Martin are the most visible, the most  
23 contentious, the ones that have gotten bolluxed up  
24 in the regulatory process, the ones that are the  
25 most politicized, and the ones that have become

1 the poster children for your appeal to consolidate  
2 permitting authority.

3 However, there are many many other  
4 transmission system upgrades and investments that  
5 don't appear on the radar screen, and I assume,  
6 are not the subject of your recommendation to  
7 consolidate permitting authority.

8 So as to help you understand this  
9 better, let me give you some examples. Every year  
10 we replace transformer banks which are critical to  
11 insure that the power transfer capability between  
12 the Northwest and California, and within  
13 California, itself, as well as our connection to  
14 the entire western grid.

15 In addition, we routinely replace and  
16 upgrade circuit breakers, protective equipment,  
17 software and other things as part of the ongoing  
18 prudent practice of owning and operating a  
19 transmission business.

20 The current regulatory system is  
21 adequate by and large to enable us to fulfill our  
22 obligations as an investor-owned utility. When it  
23 comes to these ongoing reliability and  
24 infrastructure investments in our transmission  
25 system, the regulatory scheme that we currently

1 have in place is adequate.

2 There's no doubt that the transmission  
3 planning, siting, permitting, environmental review  
4 and cost recovery processes suffer from fractured  
5 jurisdiction, and the concomitant inefficiencies  
6 inherent in a fractured and fragmented scheme.

7 If the CEC wishes to pursue the goal of  
8 consolidating the permitting process for the bulk  
9 transmission system, either through legislative or  
10 executive means, they would be wise to think  
11 through and untangle the complexities of the  
12 current regulatory system.

13 I attended the first hearing on  
14 Wednesday in San Francisco and listened to the  
15 thoughtful presentation by the CPUC's Director of  
16 Strategic Planning, Barbara Hale, in which she  
17 took exception to your recommendation on  
18 transmission permitting. And I listened to the  
19 constructive dialogue that ensued.

20 I also heard the insightful comments  
21 from Mr. Al Pak of Sempra Global Solutions in  
22 support of your recommendation to consolidated  
23 transmission permitting at the CEC.

24 I only want to add one comment to this  
25 debate. In her remarks Ms. Hale stated that

1 transmission planning and permitting need to be  
2 done in an integrated fashion, taking into account  
3 distributed generation, energy efficiency, et  
4 cetera, all of which are complementary tools in an  
5 integrated whole.

6 I would agree with that assessment, and  
7 I think you would, too. But when Ms. Hale went on  
8 to make the case that the CPUC's procurement  
9 proceeding is the place to consider transmission,  
10 and that transmission ought to be considered in  
11 the context of procurement, that was essentially  
12 her argument.

13 This view, I believe, does not portray  
14 the whole picture. And I'm afraid that Ms. Hale's  
15 objections to your recommendations stem as much  
16 from the CPUC's desire, or at least the CPUC  
17 Staff's desire, to protect turf than to take an  
18 objective look at their track record in dealing  
19 with transmission proposals and that the bigger  
20 picture of integrated resource planning.

21 The CPUC's procurement proceeding was  
22 put in place as a stopgap measure at a particular  
23 moment in time, as a reactionary measure to a  
24 crisis. It was a blunt regulatory tool to get the  
25 utilities back in the procurement business and get

1 the state out.

2 The CPUC's procurement proceeding  
3 attempts to do many things, many of the right  
4 things, with the principal aim of putting the IOUs  
5 back in the saddle when it comes to procuring  
6 power to meet customer needs.

7 The proceeding does a good job as a  
8 first step in identifying the balance between  
9 supply and demand. But the procurement proceeding  
10 is not a full integrated resource planning  
11 process. And it does not look at the bulk  
12 transmission system in the context of statewide,  
13 or even of full utility specific, integrated  
14 resource plan.

15 The procurement proceeding reflects  
16 where we are today, but not necessarily where we  
17 ought to go when it comes to integrated resource  
18 planning from the state's overall perspective.

19 Next I wanted to turn to natural gas and  
20 make one particular comment with respect to  
21 pipeline capacity. We share the CEC's concern  
22 that California's energy infrastructure must be  
23 reliable and built out. But we disagree with the  
24 draft IEPR statement that, quote, "under average  
25 conditions pipeline capacity is adequate to meet

1 needs through 2006 in northern California."

2 Our own analysis, and frankly that of  
3 your own staff, as reflected in the subsidiary  
4 natural gas market assessment report, indicate  
5 that capacity, under average conditions, is  
6 adequate through the year 2013.

7 The source of this confusion may be that  
8 the CEC Staff argues that pipeline expansion may  
9 be needed as early as 2007, not under average  
10 annual conditions, weather and load conditions,  
11 but rather to provide a 20 percent margin of slack  
12 capacity against the risk of abnormally dry and  
13 cold conditions.

14 We believe that the staff made some  
15 extremely pessimistic assumptions about southern  
16 California deliveries to that number. And if you  
17 use a more realistic set of adverse assumptions,  
18 we believe that we have sufficient slack capacity  
19 till the year 2013.

20 Just another remark about natural gas  
21 here. When we talk about capacity we need to be  
22 careful in our use of terms. There's a difference  
23 between physical capacity and contract capacity.  
24 And this distinction is not always evident in your  
25 report.

1           If you're not clear about that  
2           distinction I think what you'll find is kind of a  
3           systematic bias toward the recommendation to  
4           build. And I think if you take a look at a  
5           contract model, as opposed to merely a physical  
6           model, you might come up with other rules and  
7           other recommendations that might lead you not to  
8           be so aggressive about the recommendation to  
9           build.

10           For our system, as I've noted at a  
11           hearing before this Commission, we believe we have  
12           enough interstate capacity to meet our needs for a  
13           number of years, as I referred to above. But  
14           where we need to make investments is in our local  
15           transmission system. It's not in the interstate  
16           highway system; it's more at the level of  
17           thoroughfares, you know, in major cities.

18           So, as a matter of public policy I think  
19           you need to be very careful about your  
20           recommendation here. And ask the question, if  
21           we're going to build, you know, at what cost  
22           should the state or should the Commission  
23           recommend a policy that might produce surplus  
24           capacity. And if we do have surplus capacity,  
25           who's going to pay for that, and at what cost.

1           And it's my understanding that the  
2 California Public Utilities Commission is soon  
3 going to open another investigation to look at the  
4 whole question of interstate pipeline capacity, so  
5 I think we need to kind of wait and see what they  
6 do there.

7           Next I want to talk very briefly about  
8 the section of the report that deals with  
9 hydroelectric power. First let me mention that at  
10 the previous hearing where you discussed the  
11 underlying staff reports, the hydro and  
12 environmental report had been published literally  
13 on the eve of that hearing. And we didn't have an  
14 opportunity, at that time, to comment on the  
15 report.

16           Since that time we had a very productive  
17 discussion with the staff at Kevin Kennedy's  
18 invitation. And I want to thank him and the other  
19 staff members for inviting us to discuss this very  
20 important issue.

21           We then subsequently to that meeting  
22 submitted some written comments. As I understand  
23 it, there was insufficient time for the staff to  
24 incorporate those comments in your draft Committee  
25 report. But I'm confident that with additional

1 time we'll see the final version of the report  
2 reflecting some of our comments and addressing  
3 some of our concerns.

4 The concerns that we raised at that  
5 meeting and in our comments center on our belief  
6 that the report could be improved by more clearly  
7 recognizing the value of the hydroelectric system,  
8 both as a generator of electricity, of energy, but  
9 also of its very important environmental  
10 attributes.

11 I think that's just really more a matter  
12 of toning up the system. I think all the right  
13 information is there. So, in the interests of  
14 time I won't go into the specifics, but we just  
15 want to make sure that you do think about  
16 considering and including all hydrogeneration in  
17 the future, in your future reports and analyses as  
18 renewable resource.

19 I'm aware that not all hydrogeneration  
20 fits into the Legislature's definition of  
21 renewable resource. I believe that at the federal  
22 level they're a little bit more liberal in their  
23 consideration of hydro as a renewable resource.

24 We believe that hydrogeneration is a  
25 renewable resource from a societal perspective,

1 and it ought to be given greater weight as the  
2 state moves forward to embrace more renewable  
3 generation, and as you push for an acceleration of  
4 the renewable goal.

5 The whole enterprise of hydro  
6 relicensing provides a good opportunity for us to  
7 evaluate both the energy and the environmental  
8 attributes of specific projects. And we need to  
9 take advantage of the opportunities we have to  
10 collaborate. And I think the hydro relicensing  
11 proceedings at the FERC provide your staff, to the  
12 extent that you have time and resources available  
13 to participate in that process.

14 I didn't today talk about distributed  
15 generation; I didn't talk about customer choice.  
16 I know we're going to be discussing those topics  
17 in the context of the energy action plan. I do  
18 want to note that PG&E does support the report's  
19 recommendation on distributed generation, and the  
20 recommendation on customer choice. I know we're  
21 going to talk about a core/noncore model at a  
22 future time. And we've been in support of such a  
23 model for quite some time. So we look forward to  
24 those chances to talk to you about those subjects.

25 In closing I just want to raise one

1       cautionary remark. And that has to do with  
2       basically costs and rates. Advancing progressive  
3       goals is certainly a good thing, but even good  
4       things come at a cost. And I'm always reminded  
5       when I'm shopping with my family that not only do  
6       good things come at a cost, but really good things  
7       come at an even higher cost.

8                 In the early 1990s we were criticized,  
9       the utilities were criticized for our high rates.  
10      We were criticized from customer groups, both  
11      large and small. And the contention was that our  
12      rates were 50 percent above the national average.

13                That criticism was the principal driving  
14      force that led us, as a state, to restructure our  
15      energy industry, our electricity industry and its  
16      regulatory structure in particular. And there's  
17      no need here to recount that familiar story.

18                But, the effort before you embodied in  
19      your report and as mandated by the Legislature for  
20      you to produce a statewide comprehensive energy  
21      policy was mandated with the desire to avoid us  
22      making the same mistakes again.

23                So, I think what we need to do is be  
24      very vigilant, and at every turn whatever we're  
25      pushing for, whatever progressive goal we're

1 pushing for, whether it's renewable generation or  
2 making needed infrastructure investments, or  
3 retiring of old power plants in favor of building  
4 new ones, or in spurring new technological  
5 advances such as automated meters, we need to stop  
6 and think about costs, not only the benefits, but  
7 the costs. And we need to think about the impact  
8 on rates.

9 So I think what I'm asking for here is  
10 just some more explicit acknowledgement that this  
11 is a real issue. And, again, it's not something  
12 that you need to dwell on in the report, but it's  
13 merely an acknowledgement that there is a cost and  
14 there are important ratepayer issues before us.  
15 And we don't want to, you know, stimulate others  
16 to, you know, make the same charge they made last  
17 time and find ourselves reacting and down the  
18 terrible path that we saw ourselves on in the last  
19 few years.

20 Thank you for the opportunity to provide  
21 my comments. And I thank you also for your  
22 indulgence for the length of time that you allowed  
23 me to make my comments.

24 PRESIDING MEMBER BOYD: Thank you, Les.  
25 Any questions, comments? Commissioner Geesman.

1                   COMMISSIONER GEESMAN:  Les, just to make  
2                   certain we're talking about the same thing, your  
3                   distinction on transmission between economic  
4                   projects and reliability projects, the way you use  
5                   those terms, Path 15, the upgrades thereto, I  
6                   think, would not be regarded as a reliability  
7                   project, but rather as an economic project?

8                   MR. GULIASI:  That's right.

9                   COMMISSIONER GEESMAN:  So when you said  
10                  that you felt the existing system was adequate for  
11                  reliability projects, you weren't including the  
12                  Path 15?

13                  MR. GULIASI:  I was not including in  
14                  that specific case, Path 15.

15                  COMMISSIONER GEESMAN:  Okay.

16                  MR. GULIASI:  What I was really trying  
17                  to get across was that there are many things that  
18                  we do on an ongoing basis as part of our ordinary  
19                  business, the kinds of day-to-day evaluations and  
20                  upgrades that are really done for strict  
21                  reliability purposes.  And mostly on a local  
22                  level, not at the bulk level.

23                  COMMISSIONER GEESMAN:  And those are  
24                  generally processed through the GEO131 process?

25                  MR. GULIASI:  Yes, that's exactly

1 correct.

2 COMMISSIONER GEESMAN: Another thing,  
3 I'd have to say I'm disappointed by your remarks  
4 on renewables. And in particular the notion of  
5 accelerating the 20 percent goal to 2010.

6 I'm mindful of what you say in terms of  
7 making certain that cost is considered as an  
8 important criterion; also mindful of the  
9 extraordinarily complex process that the statute  
10 has required us to go through in setting up the  
11 RPS solicitations, the first of which won't be  
12 held until sometime next year.

13 But despite all of that complexity,  
14 despite, I think, a pretty eagle eyed approach to  
15 cost, Southern California Edison Company in May of  
16 this year, achieved a 22 percent level, in June a  
17 23 percent level of their purchases. They've  
18 indicated that they expect to be at nearly 20  
19 percent this year, and 20 percent every year after  
20 this year.

21 I recognize they start from a somewhat  
22 higher base than your company does, but it still  
23 has represented a stretch for them to achieve  
24 those numbers. They've done that without the  
25 receipt of one dollar of the supplemental energy

1 payments that will be a part of the RPS  
2 solicitations.

3 I really think you need to communicate  
4 to your renewable staff and your procurement staff  
5 that it might be desirable to take a trip to  
6 Rosemead and try and figure out just what's  
7 different down there.

8 But I will confess to a certain amount  
9 of surprise on my own part that I'm telling you  
10 that. And surprised to have heard what you'd  
11 indicated earlier.

12 MR. GULIASI: Well, I think what you  
13 said is that there are -- start from a different  
14 place. And I think we have a very different  
15 picture with respect to our DWR obligations than  
16 they do, that largely account for their record.  
17 And I want to applaud them for their  
18 accomplishment.

19 This is just a tough area for us. And  
20 really all I wanted to express, you know, was that  
21 at this moment, and maybe this is your only  
22 opportunity because the report, you know, has to  
23 be submitted now. At this moment we don't think  
24 it's the right time to further advance the goal by  
25 enacting additional or new legislation.

1           We are committed, I do want to say,  
2       excuse me for just one more minute here, we are  
3       committed, as I said, not only to meeting the  
4       goal, but we're working very hard to see what we  
5       can do to exceed that goal, or to achieve the goal  
6       before the year 2017.

7           But I'm just trying to introduce here a  
8       little bit of reality from where we sit today.  
9       And I'm hoping personally that we will surprise  
10      you, we'll all be pleasantly surprised, and we'll  
11      be able to, you know, achieve that goal well  
12      beyond the minimum.

13                 PRESIDING MEMBER BOYD: Commissioner  
14      Rosenfeld.

15                 COMMISSIONER ROSENFELD: I want to make  
16      a comment in a second, but first, just as a  
17      confused Commissioner about renewables, is part of  
18      the problem that one of you -- John Geesman is  
19      talking about statewide and one of you obviously,  
20      Les Guliassi, is talking about the PG&E system?

21                 That is sort of what I've read is that  
22      we're at 12 percent now. I think Les even said he  
23      liked the concept of 1 percent per year, which  
24      would take eight years to go us to 20 percent.  
25      Which, of course, is not 2010, but it's also not

1 2017.

2 Did I actually hear you say that you  
3 thought the 1 percent per year slogan was okay?

4 MR. GULIASI: Yeah. I believe that we  
5 can, you know, we're fine with the 1 percent per  
6 year. And to the extent that we can do better  
7 than that, we will make every effort.

8 COMMISSIONER ROSENFELD: Okay, but it's  
9 1 percent per year added for PG&E and that's --

10 MR. GULIASI: And I think you're right,  
11 I was talking about the PG&E specific issue.  
12 Perhaps you are talking about a statewide issue.  
13 To the extent that each utility can do better than  
14 what's required, you know, the minimum, by the  
15 legislation, that's a good thing.

16 COMMISSIONER ROSENFELD: Mr. Chairman, I  
17 did want to make one other comment on energy  
18 efficiency, my obsession. And this has actually  
19 come up twice now, that is Thom Kelly stated that  
20 it wasn't really very clear what our goals are.  
21 And he put in an extra slide with a rainbow and a  
22 pot. And then Les Guliasi made the same point.

23 I'd like to elaborate a little bit.  
24 Right now the energy efficiency goal on page 14 of  
25 your summary is exactly three and a half lines.

1 And it says: The Energy Commission and the PUC  
2 are collaborating on a plan to improve the  
3 operation of energy efficiency programs, carefully  
4 increasing program funding from 285 million to 572  
5 million by 2008." And then it goes on to say:  
6 and the payback is -- and the cost/benefit is  
7 three-to-one." And that's all fine.

8 And then Guliassi pointed out that some  
9 of those numbers are a little old. And Thom Kelly  
10 pointed out that it's also not quite clear how  
11 much of this -- the differentiation between what  
12 we're getting now from public goods money and what  
13 we could get from increased public good money is  
14 not quite clear.

15 All I wanted to do is to point out that  
16 this issue is quite lively now, because as Guliassi  
17 pointed out, there is a joint proceeding with the  
18 PUC on energy efficiency with Susan Kennedy and  
19 I'm the CEC representative. And it's going to  
20 discuss how much should we increase resource  
21 acquisition on the demand side.

22 All I wanted to point out is that  
23 getting ready for that, but unfortunately too late  
24 for the main IEPR background. Mike Messenger,  
25 who's sitting in the back of the room there, has

1 written a very nice 23-page update, which is  
2 alleged to be on the Energy Commission website.  
3 It actually is, although neither Messenger nor I  
4 could find it without a clue from Rosella.

5 MS. SHAPIRO: I'll find it for you --

6 COMMISSIONER ROSENFELD: No, no. I'm  
7 going to get up in a minute and write the  
8 actual --

9 MS. SHAPIRO: I'll find it for you when  
10 we get up.

11 COMMISSIONER ROSENFELD: No, no, I have  
12 it. But I would like to see that go into the  
13 record, because at least a footnote saying how you  
14 get these numbers straight. And I'm going to walk  
15 over and see if I can turn on the overhead  
16 projector. And unless anybody else has comments  
17 about the Messenger point, I think I'm just going  
18 to praise it. Thank you.

19 PRESIDING MEMBER BOYD: Art's going to  
20 walk. I was just going to say, while you're  
21 walking, indeed, as Les probably recalls, this  
22 issue came up in the hearing in San Francisco day  
23 before yesterday. I believe a representative from  
24 NRDC, in particular, broached the issue of the new  
25 analysis. And so it's been noted.

1                   COMMISSIONER ROSENFELD: The new super  
2 system doesn't have an overhead display anymore,  
3 so --

4                   (Laughter.)

5                   COMMISSIONER ROSENFELD: -- I will read  
6 it into the record. It's our website, and after  
7 that you write slash/papers and then  
8 slash/index.html. And the second entry is the  
9 Messenger paper. I'm sorry, my technology failed.

10                  PRESIDING MEMBER BOYD: I can't believe  
11 we've left out overheads, but so be it. All  
12 right, is that it?

13                  COMMISSIONER ROSENFELD: That's it.

14                  PRESIDING MEMBER BOYD: Thank you, Les.  
15 Very much appreciate your testimony.

16                  Next I have Bill Tobin from Sempra

17                  MR. TOBIN: Good morning, Commissioners  
18 and Advisors. My name is Bill Tobin; I'm Manager  
19 of Regulatory Policy for Sempra Energy Global  
20 Enterprises for our friends at PG&E.

21                  We just want to make a brief comment of  
22 clarification from our testimony given by Mr. Al  
23 Pak on the 1st with respect to an item mentioned  
24 in his discussion on transmission.

25                  He referenced a group called Western

1 Interconnection, and we just want to clarify that  
2 the reference should have been to the Western  
3 Energy Coordinating Council, or WECC. And that we  
4 didn't want to misconstrue that we had support or  
5 lack of support of this other group, an LLC. But  
6 to make clear that we still maintain that the WECC  
7 had the proper jurisdiction at this point in time.

8 So, that's all the comments we wanted to  
9 make. Also that we also appreciate the time to  
10 make that comment and thank you for your efforts.

11 PRESIDING MEMBER BOYD: Thank you, Mr.  
12 Tobin. So noted in the record, then.

13 Going to extend the courtesy to the  
14 representative from the Department of  
15 Transportation, Caltrans, who is one of our sister  
16 agency, Reza Navai, who has worked with our staff  
17 extensively on the IEPR. Good morning.

18 DR. NAVAII: Good morning, Commissioner  
19 Boyd and Geesman and Rosenfeld. My name is Reza  
20 Navai with California Department of  
21 Transportation. I would like to make a couple of  
22 very brief comments.

23 First I would like to compliment the  
24 Commission Staff for excellent work in developing  
25 transportation fuels report and the IEPR. We

1 fully support these efforts. And it was a  
2 pleasure to work with the staff, particularly on  
3 the transportation fuels and infrastructure  
4 report.

5 California's transportation future and  
6 its energy future are linked. Given the magnitude  
7 of transportation system and operations, and that  
8 the system is petroleum dependent, make  
9 transportation a significant factor in addressing  
10 transportation and energy policies and strategies.

11 California's transportation system is  
12 massive and very complex. California spends 15.5  
13 billion on transportation annually. While it  
14 takes about 30 billion to fuel the system. So  
15 that energy costs associated with the  
16 transportation system is twice as much of  
17 expenditure on maintaining, operating and  
18 improving the system.

19 That really shows the importance of  
20 energy relative to transportation, not considering  
21 the amount of mental, social and health problems  
22 associated with transportation operation.

23 It is clear that majority of energy  
24 efficiency or saving would probably come from  
25 improvements in alternative fuels and vehicle

1 markets and engine technology, including CAFE.  
2 The transportation fuels and infrastructure report  
3 addresses this issue fairly well; and provides  
4 good analysis and policy recommendations.

5           However, what could better be captured  
6 in the transportation is the transportation system  
7 perspective. Particularly in the IEPR, which that  
8 aspect appears to be missing. For example, issues  
9 dealing with system operation on efficiency, VMT  
10 management, transportation demand and supply  
11 management, modal and intermodal issues, land use,  
12 ports and including financing.

13           IEPR could also better reflect the  
14 transportation energy policies and strategies  
15 discussed in the transportation fuels and  
16 infrastructure which have provided more  
17 substantive discussion of these issues.

18           There is no need for extensive  
19 discussion in this report. I think a couple of  
20 substantive paragraphs focusing on system  
21 perspective and strategies will do to insure that  
22 these issues are not overlooked. And perhaps at  
23 later cycles more in-depth discussion of  
24 transportation system issues could be provided.

25           While the outcome for savings associated

1 with transportation system efficiency measure may  
2 not be as significant or as large as potential,  
3 impact of clean and efficient fuel and vehicle  
4 technology. These strategies could have a notable  
5 impact on lowering demand or rate of growth for  
6 petroleum consumption.

7 This strategy could also provide  
8 awareness to the users and producers of the  
9 transportation system about energy implications of  
10 their actions and transportation investment  
11 decisions.

12 We need to also realize the dual role of  
13 energy in transportation. Energy is kind of a  
14 good guy/bad guy of transportation. On one hand,  
15 it fuels the system and makes transportation  
16 possible. At the same time it generates most of  
17 the revenue for transportation improvements and  
18 enhancements, including environmental, air quality  
19 and energy efficiency measures. Ironically, the  
20 more we drive the more we have funding for  
21 improving transportation system.

22 The point to be made is that as we  
23 transition from petroleum-dominated transportation  
24 energy to an environmentally and economically  
25 sustainable source, we have also to evaluate and

1 mitigate the revenue implications for  
2 transportation, including consideration of  
3 entirely new transportation financing system.

4 We feel the IEPR could broaden  
5 transportation system discussion in the report and  
6 provide more detailed and more specific strategies  
7 on transportation energy and the role of  
8 transportation and energy agencies.

9 These are areas that Energy Commission  
10 and Caltrans, including Air Resources Board, could  
11 work together through pooled resources to  
12 demonstrate the benefit of energy efficiency  
13 measures in transportation.

14 I think that's about it, and I would  
15 like to thank you for the opportunity to make  
16 these remarks.

17 PRESIDING MEMBER BOYD: Thank you, Reza.  
18 And pardon me for butchering your last name. Been  
19 together with you enough time to have gotten it  
20 right finally.

21 Any questions or comments? I'd like to  
22 just ask you one thing about the permitting of  
23 hybrids in HOV lanes. I know there's a Governor's  
24 interest initiative in that. What's the status of  
25 that? I know you people are to be complimented

1 for being the forcing function behind that.

2 DR. NAVAII: I have to pledge later to  
3 get back with you on the final analysis of the  
4 Department's analysis on HOV. So, I beg your  
5 forgiveness for that.

6 PRESIDING MEMBER BOYD: I know it's an  
7 initiative. I just didn't know if it's been  
8 implemented yet. But it's a positive step in this  
9 energy transportation transition you were  
10 referencing. Thank you.

11 DR. NAVAII: Yes, quite right. Thank  
12 you.

13 PRESIDING MEMBER BOYD: Thank you for  
14 your comments. Next I'd like to call on Dorothy  
15 Rothrock of the California Manufacturers and  
16 Technology Association.

17 MS. ROTHROCK: Thank you, Commissioners,  
18 good morning. My name's Dorothy Rothrock. I'm  
19 with the California Manufacturers and Technology  
20 Association. Our members include both large users  
21 of energy products, as well as manufacturers of  
22 those products.

23 I'm representing both of them today, as  
24 well as, I hope, the broader economy. Just in  
25 case you haven't heard, manufacturing has had a

1 hard time for the last few years. We've lost  
2 about 300,000 jobs in manufacturing since January  
3 '01.

4 And our biggest concern now is will  
5 those jobs come back. And believe, frankly, that  
6 this integrated energy policy and the message that  
7 it sends to companies and outside the state will  
8 be a large determining factor to that. Because  
9 unless the infrastructure is here to support a  
10 growing economy, it won't occur.

11 What I'm going to speak to this  
12 morning -- excuse me, my nose is running a little  
13 bit -- is the petroleum issues. However, we're  
14 also very interested in the electricity and  
15 natural gas. And that will be addressed at  
16 another time.

17 Just so you know we're in the process of  
18 putting together a white paper that will probably  
19 be done in about 30 days on the core/noncore  
20 issues with regard to electricity and the market  
21 structure there. So, we'll look forward to that,  
22 but I won't speak to that now.

23 On the petroleum issues what we're  
24 concerned about is that the report is very focused  
25 on the reducing dependence on petroleum supplies,

1 but does not really focus or expand on the issues  
2 around basic supply.

3 There's general agreement that the high  
4 prices or price volatility and supply restraints  
5 are the result of imports, the fact that we're  
6 very dependent on imports. The short storage  
7 capacity of what we have instate. And I notice  
8 that there is one recommendation with regard to  
9 improving the permitting process for some of those  
10 infrastructure facilities.

11 But that's as far as the report goes on  
12 those issues. And it may be because you're, for  
13 the most part, relying on that reducing petroleum  
14 dependence report for this report. We urge you to  
15 expand the report to include more of the basic  
16 supply issues.

17 Gas prices in California are higher in  
18 California for reasons that people generally agree  
19 on, and that is that gasoline taxes are higher;  
20 California's cleaner burning gasoline costs more  
21 to produce; as well as the small refiners have  
22 left the market; others have less incentive to  
23 expand due to permit restrictions, and frankly, a  
24 lower cost of expanding elsewhere.

25 We are in support of the petroleum

1 efficiency recommendations to the extent that we  
2 agree that the energy that we use ought to be used  
3 as efficiently as possible. However, the  
4 recommendations, we think, will perhaps not work.  
5 And it's not sufficient in this report to rely  
6 totally on something that may not work. And, in  
7 fact, may give the signal to the manufacturers in  
8 California and other businesses that is this all  
9 they're going to do with regard to this important  
10 fuel source.

11 For one thing, California has no power  
12 to force the federal government to adopt broader  
13 CAFE standards. And even if they did, it may not  
14 be sufficient to reduce demand enough to avoid  
15 what we need in terms of new supply.

16 For example, fuel efficiency doubled  
17 between 1980 and 2000, yet fuel demand has  
18 increased during that period because the fuel  
19 efficiency made it cheaper to drive.

20 We have huge population growth; we heard  
21 about that earlier. Hopefully we'll have  
22 employment growth. Other demographic trends all  
23 point to us needing more instate supply.

24 With regard to the alternative fuel  
25 vehicles, our concern there is that it may require

1 subsidization and higher cost to consumers in  
2 order to get those technologies in. When you have  
3 a goal to achieve something you become wedded to  
4 that goal, and perhaps the costs associated with  
5 achieving that goal are not measured against the  
6 costs associated with some other alternatives.

7 Secondly, the government also has a  
8 somewhat mixed track record of choosing  
9 technologies and we are hesitant again to rely on  
10 that as a way to deal with dependence on a very  
11 important fuel source.

12 Finally, we're greatly concerned that if  
13 we go down this path and it doesn't, in fact,  
14 work, we'll be looking at perhaps more Draconian  
15 measures in order to manage the supply in the  
16 state, and that is perhaps imposing more taxes,  
17 more costs in order to dampen the demand. That's  
18 something we definitely don't want to do in order  
19 to protect the economy. It's not a solution as  
20 far as we're concerned.

21 That concludes my comments on that.

22 PRESIDING MEMBER BOYD: Thank you,  
23 Dorothy. Any questions or comments? Commissioner  
24 Geesman.

25 COMMISSIONER GEESMAN: I think we can

1 make significant progress on improving our  
2 existing permitting system for refinery expansion  
3 and other infrastructure aspects of transportation  
4 fuels. And that's going to require, I think, a  
5 re-evaluation of the way in which state and local  
6 government address those permit requirements.

7           Apart from that, do you have some other  
8 supply suggestions in mind?

9           MS. ROTHROCK: I'm going to try to get  
10 some to you. Because I don't know enough detail  
11 about why it is that we don't have a new refinery  
12 in California since 1969. There's got to be a  
13 reason for that. There's plenty of people here  
14 that want to buy gasoline.

15           PRESIDING MEMBER BOYD: Well, Dorothy,  
16 we've had a lot of discussion of this the last two  
17 days, if not the last two months or three months  
18 or four months or six months. Just to elaborate  
19 on that, but not to put you -- to help you,  
20 perhaps, with your answer, we had quite a  
21 discussion of this yesterday with several  
22 witnesses.

23           And I just commented on my fairly long  
24 career in government there have been very overt  
25 offers on our part to help facilitate construction

1 of more refineries. And the desire just doesn't  
2 seem to be there. I've been reminded many times  
3 by the petroleum industry that petroleum is now a  
4 worldwide market, and the economics of the world  
5 are that it's cheaper to make fuel somewhere else  
6 than to make it even in the United States, what's  
7 more in California.

8 And so the import facilities and the  
9 infrastructure import facilities seems to be their  
10 number one priority.

11 Now, you get differences within the  
12 industry because it's divided between production  
13 and refining and marketing and what-have-you. And  
14 the refiners would like to see more. And there's  
15 been refinery creep, as we call it, that has  
16 expanded our refining capacity.

17 But we are very open to what can be done  
18 to increase supply. But our overall concern is  
19 for that very economy that you're worried about.  
20 And we're fearful that the fuel isn't going to  
21 show up when we need it, and we'd better start  
22 thinking about some diversification and some  
23 alternatives.

24 If you can prove us wrong, why we look  
25 forward to it. But, in any event, look forward to

1 your additional testimony. But, believe me, we're  
2 both interested in the same thing. We just have  
3 different views, perhaps, of how to protect the  
4 California economy.

5 Thank you for your -- and we look  
6 forward to your written submissions.

7 MS. ROTHROCK: Thank you.

8 PRESIDING MEMBER BOYD: Manuel Alvarez,  
9 Southern California Edison.

10 MR. ALVAREZ: Good morning,  
11 Commissioners. Manuel Alvarez, Southern  
12 California Edison Company.

13 You heard the majority of our comments  
14 Monday in San Francisco. And we indicated at that  
15 point we may have some additional comments. I'm  
16 here to bring those forward to you.

17 They focus primarily on the subject of  
18 distributed generation in the report. In the  
19 introduction the Committee makes note of the  
20 energy action plan and its promotion of customer-  
21 and utility-owned generation. But in the text of  
22 the report that distinction is void. So, I just  
23 want to bring that to your attention and focus on  
24 that.

25 Let me turn to the part of the report

1 that discusses the encouragement of distributed  
2 generation and the things I'd like you to consider  
3 for your redrafting or your final draft version.

4 First of all, Southern California  
5 Edison, at numerous times, has encouraged this  
6 Commission to undertake a study of the benefits of  
7 distributed generation. And, again, I'd like to  
8 reinforce that request that you undertake that  
9 study, and in fact, recommend that that study be  
10 undertaken, recognizing that there's going to be a  
11 second phase proceeding at the PUC dealing with  
12 distributed generation. That study will be  
13 helpful in that proceeding.

14 And we've, numerous times, have offered  
15 to work with your staff and work with the  
16 Commission to document those benefits as best we  
17 can.

18 The other thing I'd like to bring to  
19 your attention is you make reference to  
20 approximately \$100 million being spent on  
21 distributed generation. You need to make note,  
22 that's \$125 million a year. And at the end of  
23 2004 we would have already spent \$500 million on  
24 distributed generation.

25 And if the legislation that's before the

1 California Legislature passes, we may be up to  
2 almost \$800 million on distributed generation by  
3 2008. So just be cognizant of those numbers and  
4 the commitment the State of California is making  
5 to distributed generation.

6 The final portion or the final paragraph  
7 in the distributed generation section did not  
8 discuss the current activities on the cost  
9 responsibility proceeding that's being undertaken  
10 here at the Energy Commission, as well as the PUC.

11 The PUC has already made an indication  
12 about the need for those exit fees reductions.  
13 And this Commission is, in fact, pursuing that  
14 proceeding currently. I believe you need to  
15 identify that in this report and acknowledge the  
16 progress that's being made there. And, in fact,  
17 the notion that they're a barrier to development  
18 is, in fact, behind us.

19 And I will be providing you specific  
20 comments in that area for your consideration and  
21 incorporation.

22 Thank you.

23 PRESIDING MEMBER BOYD: Thank you,  
24 Manuel. Any questions? Thanks.

25 Bobbi Glassel, Energy Efficient Mortgage.

1 MS. GLASSEL: Good morning,  
2 Commissioners, Staff.

3 PRESIDING MEMBER BOYD: Good morning.

4 MS. GLASSEL: My name is Bobbi Glassel,  
5 and I represent the Energy Efficient Mortgage.  
6 I'm going to make this real short because I know  
7 you guys have been on the road all week.

8 As you well know, the Energy Efficient  
9 Mortgage is a nationwide program available to all  
10 home buyers. This program can promote energy  
11 efficiency in existing housing without any cost to  
12 the state. Again, it would cost the state nothing  
13 to promote this.

14 All it would take to promote energy  
15 efficiency in existing housing is to have it put  
16 on the purchase order or the addendum at time of  
17 sale. Just a few short words right along with the  
18 home inspection, termite report or home warranty.  
19 Very short.

20 I don't know of any other program that's  
21 available to us that would retrofit the existing  
22 housing and could be utilized in every county,  
23 city or rural homes no matter the price of the  
24 home or the income qualification of the buyer.  
25 They automatically qualify for energy improvements

1 once they qualify for the base loan amount.

2 This program, as I say, is nationwide.  
3 It's time proven. It came into existence with  
4 Jimmy Carter. Self-supporting. New concept,  
5 self-supporting. And it's working. It's working  
6 with private enterprise, individuals, realtors,  
7 lenders, people like myself that do it on a daily  
8 basis.

9 And I hear the words cost effective.  
10 Like I say the cost of the energy improvements are  
11 put under the base loan amount. Once that buyer  
12 qualifies for the loan, he automatically qualifies  
13 for these improvements.

14 We order a HERS rating, and it comes  
15 back to us looking like this. And it gives us our  
16 energy savings interest rate, kilowatts, all kinds  
17 of things that I have to calculate for this buyer.  
18 When it goes into their payment, their payment  
19 goes up. If that payment increases monthly by \$21  
20 I have to prove by the HERS rating that I'm going  
21 to save -- if it increased by \$20 my job is to  
22 prove that they're going to save \$21 or more  
23 dollars from their utility bill. That's why that  
24 buyer automatically qualifies for this.

25 Almost every loan product in the United

1 States, except the Energy Efficiency Mortgage, not  
2 only the loan product, loan programs, FHA, VA,  
3 FannieMae, FreddieMac, and a lot of many many --  
4 all of the FHA-based programs such as home buyers  
5 programs. In fact, FreddieMac stated this year in  
6 the top eight reasons for a home to be foreclosed  
7 on, top eight reasons people lose their homes is  
8 high utility cost.

9 And I've never heard a consumer say that  
10 they want to pay high utility costs, that they're  
11 not interested in creature comforts, and they  
12 really don't want to add value to the home they're  
13 purchasing.

14 From an example from the HUD letter  
15 9313, and again this comes from HUD; I didn't  
16 create these figures. If a home had a utility  
17 cost of \$186 a month, out-of-pocket gone from that  
18 homeowner would be over \$2200 a year gone.

19 If they had done the Energy Efficient  
20 Mortgage, and I'm going to assume that we're going  
21 to do something very simple to this home, we're  
22 going to give it attic and wall insulation and a  
23 whole house fan, that's pretty basic. Their  
24 savings a month would be \$61 savings per month.  
25 Plus, because that payment's part of the mortgage,

1 the interest is tax deductible.

2 So between their energy savings and the  
3 deduction they get from the interest in that  
4 payment, their total amount year saved is \$1100.  
5 Without energy improvements it costs them \$2200  
6 out of pocket. With the Energy Efficient  
7 Mortgage, capturing the energy savings plus the  
8 interest, they have, in their pocket, spendable  
9 cash \$1100 a year.

10 And, again, there's no cost to the  
11 state. I did a little chart for Sacramento  
12 County, which we're all pretty familiar with here.  
13 As of June in the Sacramento Association of  
14 Realtors, approximately 8600 homes were sold, 8600  
15 homes.

16 If we could do four, just four out of  
17 ten homes, with the Energy Efficient Mortgage,  
18 improve that home, between the gas and electricity  
19 pollution we would save approximately 98.5 million  
20 pounds of carbon. That's in our beautiful Valley  
21 here.

22 Total dollars added back to the economy  
23 from the Energy Efficient Mortgage, 8.6. That  
24 would be taking the energy savings that we've  
25 captured for that buyer or homeowner.

1           The jobs that are created by the Energy  
2 Efficient Mortgage. The HERS rater; the  
3 contractors; the wholesalers; the distributors  
4 like Lowe's and distributors. That puts that  
5 money right back into our economy. And not  
6 counting the rebates.

7           When I do an Energy Efficient Mortgage,  
8 after everything is done, I make out a -- I have a  
9 fou-fou certificate I give the buyer, and I put a  
10 gold stamp on it and they got a gold star, and  
11 they got a nice house.

12           And I make out what I can of their  
13 rebate programs. And many of my buyers, between  
14 rebates on the heat and air, new heat and air;  
15 \$100 rebate on the whole house fan; 50 cents a  
16 square for windows; and 15 for insulation. Many  
17 of my buyers receive checks from SMUD, PG&E for  
18 anywhere from \$300 to \$650.

19           I've talked to many many professionals.  
20 I've been in this business in the real estate  
21 industry somewhere since 1979. I've talked to  
22 many lenders, realtors, title companies and asked  
23 them, what do you feel about this being put on the  
24 purchase order. And each and every one of them  
25 have said, we have no problem with it. We live in

1       this town; we raise our children in this  
2       community; we will do anything to enhance it.

3               The Energy Efficient Mortgage, it's not  
4       brain surgery. It's a very very simple process  
5       done every day, in the course of everyday business  
6       for the real estate professionals. It's the  
7       epitome of saving tremendous amount of energy and  
8       pollution with no cost to the state.

9               I don't have a crystal ball. I wish I  
10       could tell you how many homeowners would  
11       participate in this program. But it's not going  
12       to happen. We're not going to get this kind of  
13       savings until each and every homeowner is made  
14       aware that they have an option for energy  
15       improvements.

16              And in my career, I have to tell you,  
17       I've only had a couple buyers say, no, we're not  
18       interested.

19              I think that's just about all I have to  
20       say. It's a simple program, so it only took me a  
21       couple minutes to explain it. But I do have  
22       somebody here from Coldwell Banker that has done  
23       an Energy Efficient Mortgage. She has a couple  
24       words to say. Angela DeLeon.

25              MS. DeLEON: Hi; I'm Angela DeLeon from

1 Coldwell Banker, --

2 PRESIDING MEMBER BOYD: Good morning.

3 MS. GLASSEL: -- Homes, good morning. I  
4 just wanted to give an example of an EEM that I  
5 did. When we were looking for a home -- there's a  
6 great need in Sacramento -- we've seen interior  
7 doors on exterior walls, wall units that are  
8 really outdated, rusty water heaters. It's a  
9 really great need.

10 We found a home for our buyers, Jim and  
11 Julia. It was a '50s ranch and it just had a new  
12 HVAC system put in probably about three years  
13 before. So we didn't really know if an EEM would  
14 work for us.

15 Luckily we got it done because she did  
16 want a whole house fan installed. We found that  
17 the walls contained no insulation. And when we  
18 had the buyers give us a SMUD statement, their  
19 SMUD bill for the month of August 29th through  
20 September 27th was \$483.27. So we did get the  
21 EEM.

22 We had insulation put in the walls and  
23 we had an extra layer put in the attic and the  
24 whole house fan. Now that we've done that she  
25 hardly ever has to turn on the air conditioning,

1 probably for like 15 minutes on the 100 degree  
2 days. Her savings now, this is for the month of  
3 July 31st through August 28th is \$43.02. She is  
4 paying about the same amount that she paid for her  
5 one bedroom flat before she moved into this home.  
6 And this home has a pool. It's 1400 square feet  
7 and has three bedrooms.

8 She received a rebate; she saves  
9 probably about \$100 to \$150 a month. And it  
10 basically cost her nothing. All of the payments  
11 are tax deductible.

12 I just want to state that it's a great  
13 program. It costs nothing to the state, and it's  
14 great for home buyers who are cash-strapped, that  
15 can't afford these energy savings otherwise.

16 That's all I have to say. Thank you.

17 PRESIDING MEMBER BOYD: Thank you. I  
18 think you people are appealing for education and  
19 publicity. I think you've got an excellent  
20 program. Ms. Glassel was here once before and  
21 educated us on this subject.

22 And I'm straining a little bit to know  
23 what we can do in this document to help your  
24 crusade. But we'll look into it further, because  
25 it is somewhat of a no-brainer. I think it needs

1       some publicity and perhaps we can work with the  
2       utilities to facilitate that.

3               COMMISSIONER GEESMAN: I think, if I  
4       understood Ms. Glassel's comments correctly, she  
5       would like to see the state require that in the  
6       standard real estate form, which I believe is  
7       established by statute. And there are a number of  
8       things like home warranties and smoke alarms and  
9       what-have-you that have found their way into that  
10      form before.

11              I know the form, itself, is very closely  
12      guarded in terms of its contents by the California  
13      Real Estate Association. They have an interest in  
14      making certain that what I know, 30 years ago when  
15      I bought my first house, had two pages, and is now  
16      proliferated to eight or nine, doesn't become too  
17      expansive.

18              But I think it's something worth  
19      considering.

20              PRESIDING MEMBER BOYD: I agree, and  
21      we've got the Department of Real Estate and the  
22      Department of Housing and Community Development to  
23      work with on those issues.

24              Thank you very much.

25              Steven Kelly, Independent Energy

1 Producers.

2 MR. KELLY: Thank you, Commissioners and  
3 staff, Steven Kelly, Policy Director for the  
4 Independent Energy Producers Association.

5 And just as a starting point I want to  
6 say that I do share the comments that were made  
7 earlier about the sensitive importance and  
8 potential value for this report to educate not  
9 only stakeholders, but the Legislature and other  
10 policymakers in California.

11 And I certainly share the concerns about  
12 the shakiness of the legs of the stool. So I am  
13 very keenly focused on this report and want to --  
14 the comments that I offer today are designed to  
15 help improve this report as a vehicle for  
16 maintaining attention of the Legislature and other  
17 policymakers on the key issues that we face in  
18 California. So I offer my comments as kind of the  
19 loyal critic here and do that in the context of  
20 recognizing that the staff and Committee have done  
21 a very yeoman's job in putting this report  
22 together. So I applaud you on that.

23 From a policy perspective, IEP generally  
24 looks at the IEPR report as providing strong  
25 recommendations in some areas, and not strong

1 enough in others. And what I'd like to do is just  
2 briefly speak about a couple areas that we  
3 strongly endorse; talk about some areas that we  
4 think could be enhanced; and then briefly talk  
5 about some areas that I think seem to be totally  
6 omitted that would enhance the report as you  
7 present it to the Governor and the Legislature.

8           Examples of policy statements that we  
9 support: The recommendation on consolidated  
10 siting of bulk transmission. We believe that the  
11 permitting process for bulk transmission needs to  
12 be consolidated in order to eliminate the  
13 overlapping jurisdiction among state agencies; to  
14 provide a statewide and regional perspective; and  
15 to initiate a process that will result in timely  
16 determinations.

17           History has shown that this outcome has  
18 not occurred at the PUC, and so far we see very  
19 little evidence, though lots of improvement, but  
20 no assurance that can occur down there.

21           Accordingly we do support consolidating  
22 the permitting process for bulk transmission at  
23 the Energy Commission. Importantly, however, if  
24 this is to occur the Commission needs to do at  
25 least two things.

1           We think first it needs to provide some  
2           due deference and not replicate the determinations  
3           from a regional system operator as to the  
4           reliability and/or economic benefits of a project.

5           And secondly, we think it's important  
6           that the Commission replicate, to the extent  
7           practical, the existing regulatory experience of  
8           making permit determinations within a defined  
9           timeframe.

10          And I refer back to the permitting  
11          process for generators where you have a 12-month  
12          process that for the most part is an exemplary  
13          process for siting. People enter into that  
14          process presuming that they have a good project,  
15          and it's not modified in any significant way. We  
16          usually expect a determination within the 12-month  
17          period.

18          Having that defined determination, a  
19          process that results in a defined determination  
20          within it, set timeframe, I think is very helpful  
21          in this regard, and could apply to transmission.

22          The second area that we strongly support  
23          where the Commission is going is the language  
24          regarding resource adequacy. We believe that  
25          creating clear requirements for all electric

1 service providers to insure and maintain and  
2 appropriate operating reserves is a key imperative  
3 to an effectively functioning energy market.  
4 Thus, we support your goal as articulated.

5 However, as a caveat, we don't think the  
6 policy recommendation in the report is sufficient.  
7 It does not go quite far enough. For example, the  
8 policy recommendation needs to include a statement  
9 addressing compliance, and specifically or  
10 noncompliance.

11 What happens to parties, or what is the  
12 expectation of parties if they are not -- do not  
13 meet the obligation of a resource requirement, a  
14 reserve requirement?

15 A load-serving entity who fails to  
16 insure and maintain an appropriate level of  
17 operating reserves faces two things. Price risk  
18 and they ought to face this, in our view, in an  
19 unmitigated price market. Or he faces curtailment  
20 risk.

21 And in California, I understand the  
22 complexities of trying to curtail individual load-  
23 serving entities from an operational perspective.  
24 So really they're facing price risk, or should  
25 face price risk for, which is the risk for having

1 not planned sufficiently in the future to provide  
2 resources and reserves for your consumers or your  
3 load-serving entities.

4 But this price risk is something that  
5 can only be faced truly in an unmitigated price  
6 market; that's something that California does not  
7 have today. It's something that we think is  
8 imperative, as in market structure issue, to make  
9 the resource reserve requirement operate  
10 efficiently.

11 I'd like to address some areas in the  
12 report that I think need to -- could be enhanced.  
13 And I do this in the context of recognizing that  
14 ultimately the Governor and the Legislature are  
15 really the audience for this report.

16 And there's a tremendous lack of  
17 understanding from my perspective amongst  
18 legislators about energy policy, the integration  
19 of the energy policy, how it all interacts and so  
20 forth. And this lack of understanding can become  
21 an impediment to effecting positive outcomes that  
22 you want to achieve your goals.

23 So my big concern here is the fact that  
24 I think this report needs to be enhanced to  
25 provide more information to legislators and

1       policymakers about what it is that are the  
2       conditions today, or the impediments today, to  
3       improving the energy infrastructure in California.

4                It's important that the report identify  
5       and discuss these impediments to achieving an  
6       efficient and robust energy infrastructure,  
7       including a competitive energy market.

8                While the report is a good first step,  
9       all too often the report fails to describe the  
10      conditions that exist today which undermine  
11      attainment of the policy objectives that you seek.  
12      And correspondingly, then, I think it fails to  
13      articulate specific policy recommendations to  
14      overcome those conditions that impede success.

15               You do a good job about setting out your  
16      big goals, but there's, I think, a lack of  
17      definition about how you get from where we are  
18      today to those goals. And I think it's critical,  
19      because those are the issues that we'll be dealing  
20      with as regulatory agencies and policymakers to  
21      the Legislature.

22               Accordingly the report should more  
23      clearly delineate what the current impediments are  
24      to building energy infrastructure. And then  
25      specify specific steps to overcome these

1 impediments as specific recommendations.

2 For example, what impediments exist to a  
3 functioning efficient market design, and how do we  
4 overcome them. What are the impediments to  
5 building new transmission, new generation or new  
6 repowers. What policy recommendations can be made  
7 to fix these impediments. What impediments exist  
8 to the financial community for investing in  
9 California in this area, and how do we overcome  
10 them.

11 What role does price volatility play in  
12 markets in achieving conservation goals, and in  
13 affecting behavior. And what is the suitable  
14 level of price volatility, and what level of  
15 accountability needs to be instituted to make the  
16 market structure work effectively.

17 These are the kinds of issues that I  
18 think you need to grapple with in this report to  
19 make it effective. Because until we identify what  
20 those impediments are I don't think we're going to  
21 be proposing solid integrated policy  
22 recommendations to fix them.

23 Similarly, I think the Commission needs  
24 to add meat to the bones of some of the specific  
25 policy recommendations that you have in the

1 report. For example, what specific steps should  
2 be taken to increase nonpetroleum fuels,  
3 transportation fuels, by 20 percent by 2020.

4 What specific steps should be taken to  
5 enhance energy efficiency by the 12,000 megawatts  
6 per year. And what specific mandates, incentives  
7 and funding resources should be considered to  
8 achieve that goal. I find this level of  
9 specificity missing from the report today. And  
10 would think it would greatly enhance this report.

11 Regarding generation-specific issues I  
12 ask the question, why should the state, via  
13 legislation, accelerate the RPS 20 percent by  
14 2010, when it looks like we can achieve that  
15 without legislation. The energy action plan  
16 articulates a proposal to get to that end. And as  
17 was mentioned earlier, it looks like at least two  
18 of the three utilities in California are going to  
19 achieve it easily.

20 If you really want to consider improving  
21 or grabbing more of the environmental or fuel  
22 diversity benefits from renewables, I would argue  
23 that rather than passing legislation to accelerate  
24 the time period for achieving the goal of 20  
25 percent, it may be more effective to raise the

1 goal within the existing time period, to set a  
2 standard out for people to plan for for the next  
3 couple years. Because that is how you're going to  
4 achieve an incremental benefit to the consumers of  
5 California, presuming that you determine it's  
6 warranted.

7 Similarly, regarding generation, there's  
8 a proposal of about essentially moving to dry  
9 cooling for generation facilities. What is  
10 missing are the cost implications to do that. And  
11 how do we send stronger signals to the development  
12 community that that is the policy goal for the  
13 State of California, presuming that is the policy  
14 goal.

15 I would argue that, and I've said this  
16 before in front of you, that I think if that's  
17 going to be the goal we need to send that signal  
18 out to the developers earlier than when they come  
19 in front of you for a permit for the generation  
20 facilities. It has to be embedded, perhaps, in  
21 the utilities' or municipal utilities' request for  
22 offers for new generation.

23 But at some place we need to articulate  
24 that goal if that's the policy goal we have, so  
25 that people can plan and not be surprised when

1 they get into your auspices for a permit, that  
2 they have to modify a plant facility by \$50-, \$60-  
3 million.

4 And finally, while the report is clearly  
5 in the correct direction, and I want to convey  
6 that sentiment, I think you're doing a very good  
7 job in that direction, I think the report omits  
8 discussion of some critical components of the  
9 California energy infrastructure that need to be  
10 addressed.

11 For example, market design and  
12 structure. Except for the resource adequacy  
13 requirement and the reserve requirement and the  
14 core/noncore discussion, which is simply to  
15 explore, what about the role of capacity markets  
16 in California. What about the role of customer  
17 choice. What about the role of price volatility  
18 and price transparency in incenting new investment  
19 and conservation behaviors.

20 What about the role of many buyers and  
21 many sellers as a critical ingredient to a  
22 competitive market, an efficient competitive  
23 market. Or the role of timely infrastructure  
24 development and investment. And what does that  
25 require in terms of long-term contracts. And what

1 is the role of mitigated markets in undermining an  
2 efficient market. How long does that have to be  
3 in place.

4 These are the kind of issues related to  
5 market design that are crucial to developing an  
6 efficient energy infrastructure in California.  
7 But unfortunately I think the report omits a great  
8 deal of discussion about this.

9 Similarly, the report does not address  
10 the issue of what about the common treatment among  
11 load-serving entities, including municipal  
12 utilities. If the state is to impose an  
13 obligation on investor-owned utilities, such as a  
14 reserve requirement, or an RPS standard, ought it  
15 not be included or imposed on the other load-  
16 serving entities in the State of California. And  
17 how do we accomplish that.

18 Third, from our perspective the report  
19 ought to address the need for regulatory and  
20 political certainty for infrastructure investment  
21 purposes. What role, if any, does regulatory and  
22 political certainty play in attracting market  
23 participants and/or investment dollars to  
24 California that we badly need.

25 If, as IEP believes, this is a

1 fundamental matter for growing California's energy  
2 infrastructure, then what policy recommendations  
3 could be offered to improve the investment  
4 climate.

5 And finally, what about the issue of  
6 agency consolidation. I'm not here to take a  
7 position about agency consolidation, but there are  
8 five, including DWR, energy entities in the State  
9 of California trying to work together.

10 It seems to me a legitimate question at  
11 least, in a comprehensive integrated energy  
12 report, that we might want to address that issue,  
13 and how to make the regulatory oversight of this  
14 structure more efficient. But I find that missing  
15 from this report, and I think it's something that  
16 is a question that needs to be asked.

17 I am going to be submitting more  
18 detailed comments next week that will lay this out  
19 in greater detail.

20 But I do want to say that I really think  
21 you're doing a great job; I think in a 100-yard  
22 race, from my perspective, you're about on the 70-  
23 yard-line, rushing forward. It's not clear to me  
24 whether you're going to get to 100, the 100-yard  
25 marker in 30 days. But it's a long process and I

1 understand that.

2 And I pose these questions to you now so  
3 that you can take them into consideration for the  
4 final document, but also for your consideration as  
5 we move forward in the following years as we work  
6 on this report to perfect it.

7 Open myself up to any questions you may  
8 have.

9 PRESIDING MEMBER BOYD: Thank you,  
10 Steven. Any questions? No.

11 MR. KELLY: Thank you.

12 PRESIDING MEMBER BOYD: Thank you very  
13 much, Steven.

14 Now I'm going to butcher this name  
15 because I can't read it too well. It's the  
16 Chamber of Commerce representative, Charles  
17 Backland?

18 MR. BACCHI: Handwriting was never my  
19 strong suit in school, so I apologize.

20 PRESIDING MEMBER BOYD: Well, I identify  
21 with you, but I still couldn't --

22 MR. BACCHI: It's actually Charles  
23 Bacchi. I just kind of butchered it there.

24 PRESIDING MEMBER BOYD: Bacchi.

25 MR. BACCHI: Charles Bacchi, California

1 Chamber of Commerce.

2 Dorothy Rothrock from CMTA, I think,  
3 pretty much explained the business community's  
4 perspective on the petroleum portion of this  
5 report.

6 I just wanted to add a little bit about  
7 the math. As I was reading the report over the  
8 last week or two I was kind of trying to add up  
9 and see where you were all going with this  
10 reducing our dependency on petroleum.

11 And as you mentioned, the goal is this  
12 15 percent reduction on this year's levels by  
13 2020. And in reading the report it was easy to  
14 pick out Californians use about 40 billion gallons  
15 of fuel a year. You expect that to grow to 54  
16 billion gallons of fuel a year by 2020.

17 But your proposed goal for 2020 or 2023  
18 would be only 34 billion gallons of usage in fuel.  
19 And that's 20 billion less than what you have us  
20 projected to be at at the end of that term.

21 So as I started doing the math I was  
22 looking at your solutions, at how you want to  
23 reach this \$20 billion savings in fuel. And it's  
24 pretty plain, as Dorothy mentioned, you're really  
25 dependent on two things.

1           One is federal action by changing the  
2 average fleet efficiency rules, which is not a  
3 sure thing in the next few years. It depends a  
4 lot on the next presidential election and all  
5 kinds of other things like that at the national  
6 level, but even if we're willing to just say okay,  
7 let's assume that the CAFE standards come in to  
8 affect nationally, and deliver California 10  
9 billion gallons of savings in petroleum use. That  
10 still leaves another 10 billion gallons that has  
11 to be made up somewhere.

12           And the only real alternative that  
13 you've given is the alternative fuels option,  
14 which you mentioned is something that the Energy  
15 Commission thinks is important to do. And we  
16 certainly don't disagree with you at the Chamber  
17 of Commerce that a growing alternative fuels  
18 market is a great thing.

19           But it just sort of struck me in reading  
20 the report when I stumbled across the section that  
21 talks about how much petroleum is being displaced  
22 today by alternative fuels. And it's according to  
23 your report, 15 million gallons is being displaced  
24 by these alternative fuels. And in the next 17  
25 years you want that to be 10 billion gallons,

1       which I can't even do -- my calculator can't even  
2       do the math as to how huge of a percentage  
3       increase that is.

4                You know, I mean, goals are important to  
5       have, and goals are important to set. And I think  
6       we all try and set high standards for ourselves.  
7       And we all try and set goals that are difficult to  
8       reach, otherwise it's not really a goal worth  
9       striving for.

10               Our concern from the business  
11       community's perspective is in trying to stimulate  
12       that much growth in the alternative fuels market,  
13       how do you do it without either huge subsidies,  
14       maybe not a bad thing. Obviously our government  
15       doesn't have a ton of money right now.

16               Or through punishing users and  
17       consumers. And right now, from the employer's  
18       perspective, even the attempts to move our fleets  
19       into alternative fuel fleets that the ARB's  
20       currently -- ARB, the Air Resources Board, is  
21       currently engaged in, is a pitched battle every  
22       time they go after a new fleet. I mean, no one  
23       goes quietly. There's a lot of sticky problems  
24       with it.

25               We're ultimately going to pay the price.

1 Our consumers are going to pay the price for those  
2 fleet conversions. And it's going at a much  
3 slower rate than a lot of people anticipated.

4 So this sort of brings us back to our  
5 concerns with where do we go five, six years down  
6 the road here when, you know, the alternative  
7 fuels are displacing maybe even 150 million  
8 gallons, but several billion gallons of petroleum  
9 usage. And how you drive consumers and businesses  
10 to this end goal that you want to get to.

11 And we don't really see how to get there  
12 from now. Hopefully technology will advance quick  
13 enough to get us there without any huge hardships.  
14 But that's an awful big gamble from our  
15 perspective.

16 And so we urge the Commission caution on  
17 adopting this 15 percent reduction off of this  
18 year's rates. Because we're not really sure that  
19 you can get there without implementing significant  
20 pain on the employer community and on the  
21 consumers.

22 Thank you very much.

23 PRESIDING MEMBER BOYD: Thank you.

24 Appreciate your comments. I guess, reflecting  
25 back on my opening comments, it's a good thing

1 this process is a real-time, every-year, take-a-  
2 look-at-progress-against-plan process. That may  
3 be the answer to your concerns.

4 MR. BACCHI: Certainly. Thank you.

5 PRESIDING MEMBER BOYD: Thank you. I  
6 have no other people signed up to testify today.  
7 If there's anyone who would like the opportunity  
8 now is the time to make that known.

9 If not, I'd like to thank everybody for  
10 being here. Appreciate your input, and look  
11 forward to your written comments, which you've  
12 seen from the notices, we need sooner rather than  
13 later.

14 And this hearing stands adjourned.

15 (Whereupon, at 11:56 a.m., the hearing  
16 was adjourned.)

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## CERTIFICATE OF REPORTER

I, ALAN MEADE, 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  
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I further certify that I am not of  
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IN WITNESS WHEREOF, I have hereunto set  
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