

March 7, 2006

Docket Clerk
California Public Utilities CPUC
505 Van Ness Avenue
San Francisco, California 94102

RE: R.06-02-013

Dear Docket Clerk:

Enclosed for filing with the CPUC are the original and five copies of the **COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) ON ADDITIONAL POLICIES NECESSARY TO SUPPORT NEW GENERATION AND LONG-TERM CONTRACTING** in the above-referenced proceeding.

We request that a copy of this document be file-stamped and returned for our records. A self-addressed, stamped envelope is enclosed for your convenience.

Your courtesy in this matter is appreciated.

Very truly yours,

Laura I. Genao

LIG:ggd:LAW#1271938

Enclosures

cc: All Parties of Record
(U 338-E)

**BEFORE THE PUBLIC UTILITIES CPUC OF THE
STATE OF CALIFORNIA**

Order Instituting Rulemaking to Integrate)
Procurement Policies and Consider Long-Term)
Procurement Plans.)

R.06-02-013

**COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) ON
ADDITIONAL POLICIES NECESSARY TO SUPPORT NEW GENERATION AND
LONG-TERM CONTRACTING**

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Dated: **March 7, 2006**

**Comments of Southern California Edison Company (U 338-E) On Additional Policies Necessary
To Support New Generation And Long-Term Contracting**

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**COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) ON
ADDITIONAL POLICIES NECESSARY TO SUPPORT NEW GENERATION AND
LONG-TERM CONTRACTING**

Pursuant to the Order Instituting Rulemaking to Integrate Procurement Policies and Consider Long-Term Procurement Plans, issued on February 16, 2006, Southern California Edison Company (“SCE”) offers the following comments regarding policies needed to support new generation investments and long-term contracting for generation in California.¹

I.

INTRODUCTION

Various parties to this proceeding recognize that there is a need for new generation resources in the California Independent System Operator (“CAISO”) area known as South of Path 15 (“SP-15”) in upcoming years.² Despite this general recognition, there is no California Public Utilities Commission (“CPUC”)-adopted view of the magnitude of this need. Because the CPUC acknowledges that investor-owned utilities (“IOUs”) are critical to the processes which enable development of new generation and because it is unfair to place the entire cost burden for new generation on IOU bundled-service customers, unless there is also an equitable allocation of

¹ These comments are in addition to SCE’s support of the concurrently filed Proposal of SCE, Pacific Gas and Electric Company, NRG Energy, Inc., AES Corporation, and The Utility Reform Network on Additional Policies Necessary to Support New Generation and Long-Term Contracting (“Joint Proposal”).

² SCE’s comments here focus on the area defined by SP-15 since this is the level at which the CAISO monitors supply sufficiency and manages rotating outages.

the benefit and cost of such resources, the CPUC must determine the magnitude of the need for new generation in SP-15 and whether such need requires the implementation of transitional policies that will support electricity system reliability for all electricity customers in that area.

To assist the CPUC in the determination of the magnitude of this need and the subsequent process of meeting the need, SCE's comments here propose a reasonable analysis which can be used to adopt a determination of the magnitude of the need in SP-15. In the following sections, SCE presents its findings regarding the magnitude of need for new generation resources in SP-15, the technical elements of SCE's analysis, the general approach SCE would follow to address this need if the benefit and cost allocation proposal set out in the concurrently filed Joint Proposal is adopted, and discussion of why there can be no "opt out" provision to the Joint Proposal.

II.

ANTICIPATED NEED FOR NEW GENERATION CAPACITY WITHIN SCE'S DISTRIBUTION SERVICE TERRITORY BEGINNING IN 2006

SCE has prepared the following analysis to determine the range of generating capacity needed in SP-15 under specific load and resource balance scenarios. The data used to prepare the analysis is primarily public or general economic or trending data that is consistent with the forecasts currently available from state agencies and/or utilities. Based on this analysis, SCE finds that, under a reasonable set of assumptions, between 450 and 1,870 MW of new resources will be needed in SP-15 between 2008 and 2011. Since SCE's distribution service territory represents about 80 percent of the annual peak load in the SP-15 area,³ if the Joint Proposal is adopted, SCE would be willing to procure up to 1,500 MW of new capacity on behalf of all

³ This percentage amount is based on actual historical peak load and projected CEC peak load and includes customers other than just SCE's bundled-service customers. The information used for this analysis was derived from the California Energy Commission ("CEC")-adopted demand forecast document "CEC-400-2005-034.SF," form 1.5h.

Benefiting Customers⁴ within SCE's distribution system territory. Year-by-year estimated needs are shown in Table 1, below.

Table 1
Projected Resource Needs in SP-15, 2005-2011 (Megawatts)

Resource Adequacy Planning Conventions	2005	2006	2007	2008	2009	2010	2011
1 Existing Generation ¹	21,103	21,005	21,936	21,956	22,206	22,256	22,456
2 Mohave (SP-15 share)	-	(776)					
3 Forecasted Potential Retirements	-	-	-	(600)	(600)	-	-
4 New Renewables	-	-	20	50	100	200	300
5 High Probability CA Additions	2	1,707		800	550	-	-
Imports carrying own reserves	5,900	5,900	5,900	5,900	5,900	5,900	5,900
Imports not carrying own reserves	4,003	4,182	4,182	4,182	4,056	3,929	3,803
6 Net Interchange ²	9,903	10,082	10,082	10,082	9,956	9,829	9,703
7 Total Net Generation	31,008	32,018	32,038	32,288	32,212	32,285	32,459
8 1-in-2 Summer Temperature Demand (Normal) ³	27,200	28,020	28,520	29,030	29,550	30,080	30,620
9 Demand Response (DR)	395	390	430	460	480	520	560
10 Interruptible/Curtailable Programs	807	900	1,060	1,230	1,310	1,310	1,310
Expected Operating Conditions							
11 Outages (Average forced + planned)	(844)	(1,070)	(1,070)	(1,080)	(1,080)	(1,080)	(1,090)
12 Zonal Transmission Limitation ⁴	(400)	(150)	(150)	(150)	(150)	(150)	(150)
13 Expected Operating Generation with Outages/Limitations ⁵	29,764	30,798	30,818	31,058	30,982	31,055	31,219
14 Expected Operating Reserve Margin (1-in-2) ⁶	12.0%	12.6%	10.2%	8.8%	6.1%	4.0%	2.4%
Resource need under expected conditions @ 7% reserves		(1,712)	(973)	(549)	293	921	1,429
Adverse Conditions							
15 Higher additional Zonal Transmission limitations plus other factors ⁷	(550)	(550)	(550)	(550)	(550)	(550)	(550)
16 High Forced Outages (1 STD above average)	(386)	(560)	(560)	(570)	(570)	(570)	(570)
17 Adverse Temperature Impact (1-in-10)	(1,603)	(1,740)	(1,770)	(1,800)	(1,830)	(1,860)	(1,890)
18 generation under adverse conditions	28,828	29,688	29,708	29,938	29,862	29,935	30,099
19 1-in-10 Summer Temperature Demand (Hot)	28,803	29,760	30,290	30,830	31,380	31,940	32,510
20 Adverse Scenario Operating Reserve Margin ⁸	0.1%	-0.3%	-2.4%	-3.6%	-6.0%	-7.7%	-9.1%
21 operating reserve requirements @ 5%	1,145	1,193	1,220	1,247	1,274	1,302	1,331
22 Adverse Scenario Operating Reserve Margin w/DR ⁹	1.8%	1.3%	-0.6%	-1.7%	-4.1%	-5.7%	-7.0%
23 Adverse Scenario Operating Reserve Margin w/DR and Interruptibles ⁹	5.4%	5.1%	3.7%	3.2%	1.1%	-0.7%	-2.0%
24 Resources needed to meet 5.0% Operating Reserve (W/DR & Interruptibles)	(82)	(20)	310	450	1,000	1,480	1,870
SCE distribution service territory need @ 80%		(20)	250	360	800	1,180	1,500
¹ Dependable capacity by station includes 1,080 MW of stations located South of Miguel. ² Used CEC's 2005 estimate of the Net Imports and made changes for the Mohave shutdown and installation of the new Series Capacitors. Includes some import capability from the new Series Capacitors in the years from 2006 - 2010. ³ Approximate actual historical peak demand in 2005, escalated at a 2.0% average compound growth rate in the future. ⁴ Estimates provided by CA ISO. ⁵ Does not include Demand Response/Interruptible Programs. ⁶ Operating Reserve calculation ((Operating Generation with limitations-Imports with Reserves)/(1-in-2 Demand-Imports with Reserves))-1. ⁷ Limitations include both intra-zonal and increased SCIT limits modified for the non-coincidence of all adverse factors occurring simultaneously. ⁸ Operating Reserve calculation ((Generation Under Adverse Conditions-Imports with Reserves)/(1-in-10 Summer Temperature Demand-Imports with Reserves))-1. ⁹ Demand Response and Interruptibles added to the Generation Under Adverse conditions in Reserve Margin formula from Footnote 7.							

⁴ Here and in the Joint Proposal, the term "Benefiting Customers" shall be defined to mean all bundled-service customers, Direct Access ("DA") customers, Community Choice Aggregation ("CCA") customers, and all others who locate within the distribution service territory of an Investor Owned Utility ("IOU") but take service from a local publicly owned utility (as defined in Public Utilities Code Section 9604(d)) subsequent to the commitment date for new generation. Pursuant to D.04-12-048, the Joint Parties also propose to recover the net costs of these contracts from Generation Departing Load ("CGDL") and Municipal Departing Load ("MDL") customers. D.04-12-048 at 55.

This analysis shows an expected need for resources in SP-15 in the years 2007 and beyond. This physical review of loads and resources is important as no single LSE, in its day-to-day procurement, looks beyond what the market makes available to assure that the next increment of capacity required to serve load is built. Accordingly, no LSE is planning for resources beyond its own need. Such an approach, however, ignores that if any single LSE is short resources, all LSEs' customers will be subjected to rolling blackouts.

A. Analysis Assumptions

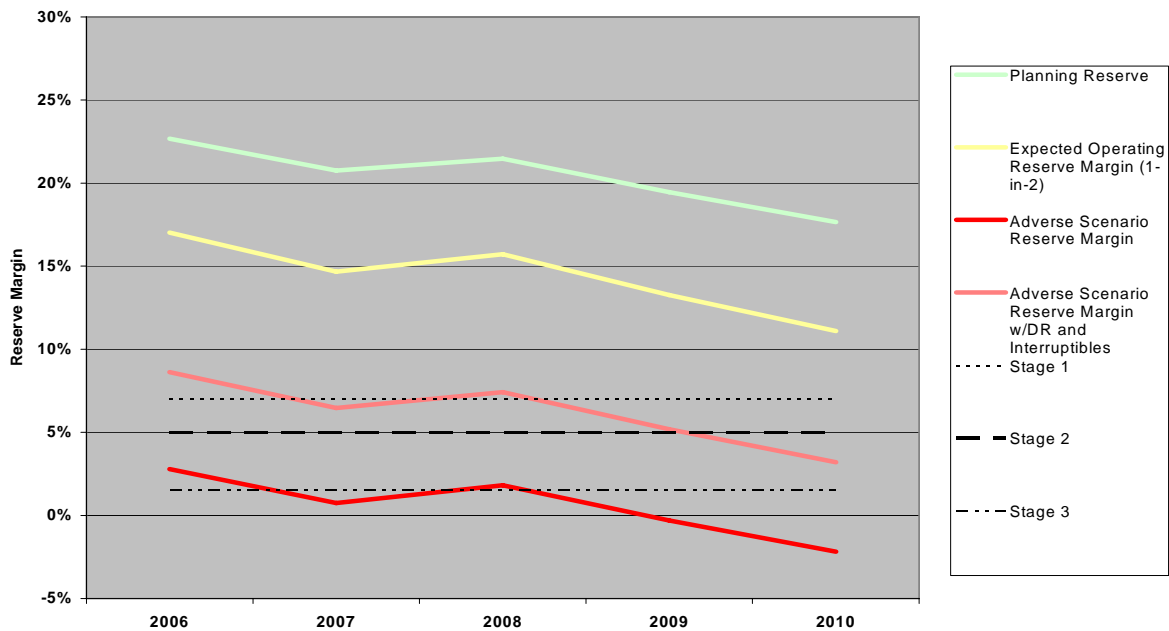
The CEC recently forecasted resource needs for SP-15 beyond 2006. In that forecast, the need for new resources in 2010 was about 1,000 MW in SP-15.⁵ In its forecast, the CEC identified no need for new generation in 2006 based on the assumption that the grid operator will need 7% of operating reserves under adverse conditions (*i.e.*, a 1-in-10 heat storm, greater than average forced outages, and increased transmission congestion all occurring simultaneously). SCE furthered this analysis by using the same resource categories used in the CEC's analysis and extending these projections into the future. SCE's extended analysis relies on many of the forecast assumptions used by the CEC, as well as the CEC's methodology. SCE's extension of the analysis is intended to define the range of possible future capacity needs under a distinct proposed scenario. Table 2, below, shows the CEC data SCE used in its analysis. The CEC did not produce a table for years beyond 2006, but did develop a graphical representation of need, which is shown in Figure 1.

⁵ "Electricity Outlook for Summer 2006 and Beyond," Chairman Joseph F. Desmond, CEC, January 26, 2006. The exact value presented by the CEC is estimated as the presentation was made using graphic illustrations.

Table 2⁶
2006 CAISO Southern Region (“SP26”)

Resource Adequacy Planning Conventions	June	July	August	September
1 Existing Generation ¹	21,321	21,708	21,708	21,708
2 Retirements (Known)	-1,320	0	0	0
3 High Probability CA Additions	1,707	0	0	0
4 Net Interchange ²	10,100	10,100	10,100	10,100
5 Total Net Generation (MW)	31,808	31,808	31,808	31,808
6 1-in-2 Summer Temperature Demand (Average) ³	24,806	26,300	26,717	27,027
7 Demand Response (DR)	395	395	395	395
8 Interruptible/Curtailable Programs	950	950	950	950
9 Planning Reserve⁴	33.6%	26.1%	24.1%	22.7%
Expected Operating Conditions				
10 Outages (Average forced + planned)	-1,070	-1,070	-1,070	-1,070
11 Zonal Transmission Limitation ⁵	-150	-150	-150	-150
12 Expected Operating Generation with Outages/Limitations ⁶	30,588	30,588	30,588	30,588
13 Expected Operating Reserve Margin (1-in-2)⁷	30.9%	21.2%	18.8%	17.0%
Adverse Conditions				
14 High Zonal Transmission Limitation	-250	-250	-250	-250
15 High Forced Outages	-560	-560	-560	-560
16 Adverse Temperature Impact (1-in-10)	-1,937	-2,054	-2,086	-2,110
17 Adverse Scenario Reserve Margin⁷	14.7%	6.4%	4.3%	2.8%
18 Adverse Scenario Reserve Margin w/DR and Interruptibles⁸	21.2%	12.4%	10.2%	8.6%
19 Resources needed to meet 7.0% Reserve (W/DR & Interruptibles)	0	0	0	0
20 Surplus Resources Above 7.0% Reserve (W/DR & Interruptibles)	2,935	1,211	731	373
21 Existing Generation Without Capacity Contracts ⁹	-3,040	-3,040	-3,040	-3,040

Figure 1⁷
Preliminary 5 Year Outlook Southern Region (SP 26)



Generation resources included here are based on existing resources, known retirements, and “high probability” California additions (*i.e.*, 75% probability of being online by a given date; no additions included after 2008).

⁶ *Id.*
⁷ *Id.*

B. SCE Data Assumptions

The starting point for SCE's expanded analysis uses historical data which reflect many actual occurrences from 2005. SCE then modified the data for 2006 and subsequent years by using a set of reasonable planning assumptions. Table 1, above, includes data used by the CEC in its December 8, 2005 Energy Action Plan workshop presentation for the year 2006,⁸ except for the following modifications.⁹

2006 Forecast Peak Load. The 2006 forecast peak load was developed by starting with the 2005 actual SP-15 peak load. SCE then made corrections for actual weather conditions and other abnormal operating parameters to normalize the 2005 peak load to a 1-in-2 weather case (*i.e.*, "expected" or "average" conditions). The SCE assessment then assumes an average peak load growth rate of 3% for the growth from 2005 to 2006 and a growth rate of 1.8% compounded annually for future years. The average annual growth rate is 2% for this planning period. This results in a 2006 peak load that is approximately 1,000 MW higher than the CEC's base case estimate, as shown in Figure 2. As noted below, however, SCE is using a lower weather correction for hot conditions. Under such adverse conditions, the forecast used in SCE's analysis is approximately 600 MW higher than the CEC's estimates. SCE's estimate is thus more similar to the most recent CAISO estimate for 2006. Additionally, 2005 historical data has been included on Table 1 for comparative purposes. [Table 1, Line 8].

The load growth rate was chosen since it corresponds reasonably well with the CEC high growth case that was shown in the most recent CEC forecast for SP-15.¹⁰ It should be noted that the growth rate will be affected by California's future economic conditions and, therefore, the actual growth rate could differ from those chosen for this analysis. As seen in the past few years, a growth rate outside the range of 1.6% to 2.4% is possible, but unlikely to occur for prolonged

⁸ This same information was presented by the CEC's chairman on January 26, 2006.

⁹ Each description references a line number that corresponds to a specific line on Table 1.

¹⁰ "California Energy Demand 2006-2016, Staff Energy Demand Forecast, Revised September 2005," CEC-400-2005-034-SF, dated September 2005, Form 1.5h.

periods of time. SCE therefore used a 2% average growth rate in this analysis. This growth rate is within the range of the compound growth rate of 2.4%, as shown in the CEC forecast for the years 2004-2009, in the high growth case.¹¹ Based on current economic conditions, SCE observes that growth is tending toward the high case.

Transmission Assumptions. SCE assumes that there will be some increases and decreases to the "Net Interchange" import capacity values due to a) the addition of the series capacitors being installed on the Southwest Power Link ("SWPL") and Devers-Palo Verde 1 lines, and b) the current non-operational status of the Mohave Generating Station ("Mohave"). While the present status of Mohave will definitely reduce Southern California Import Transfer Nomogram ("SCIT") limits, SCE is unaware of any final determination of the magnitude of such limitation. Moreover, the possibility of Mohave's return to full operation may eliminate such a reduction of import capability in the future. In the interim, SCE has estimated that a maximum potential reduction in simultaneous import capability during peak periods could be as high as 800 MW. In this analysis, SCE assumed a 200 MW limit under normal conditions and an 800 MW limit under adverse conditions. While some transmission equipment or grid modifications could resolve some of this reduced import capability, no definitive technical analysis of such transmission equipment or modifications has been completed by SCE or any other party.

Another assumption used in the analysis' rating of import capability was the inclusion of the installation of series capacitors on the Devers-Palo Verde and SWPL lines. The analysis assumes that 75% of the rated capacity on those lines would allow additional capacity from the Southwest to serve peak load for the years 2006-2010. The 75% figure represents the approximate ratio of the SCIT limits to the maximum line ratings of all the lines that comprise the SCIT paths.¹² This additional import capacity support was not added beyond 2010, since

¹¹ "CEC-400-2005-034-SF," form 1.5h. SP-15 compound growth rate for 2004-2009.

¹² This assumption is identical to the one used by SCE in its recent CPUC filing regarding the Devers-Palo Verde line.

SCE projects that on-peak generation surpluses may no longer be available beyond 2010.

[Table 1, Line 6].

Demand Response and Interruptible Programs. SCE modified the currently available amounts of Demand Response and Interruptible Load programs to be consistent with SCE's estimate of the impact of approved programs. The amount of new or incremental energy efficiency, demand management, and interruptible programs assumed in these calculations is consistent with General Rate Case funding levels or the funding requests anticipated for the next few years. Only SCE's and San Diego Gas and Electric Company's ("SDG&E's") programs have been included. [Table 1, Lines 9, 10].

As the CPUC is aware, SCE has been working with the CPUC and the CEC since the 2000-2001 energy crisis to develop new demand response programs and to increase customer participation. SCE demand response portfolio has now grown to over 1,200 MW of reliable load reduction potential, with 173,000 customers enrolled in various demand response programs. Currently, SCE is awaiting the final decision concerning its demand response programs and activities for the 3-year program cycle beginning in 2006. If its proposals are approved, SCE will launch aggressive customer outreach and educational activities to increase participation, with the expectation of adding almost 300 MW of additional demand response by 2008.

SCE's use of energy efficiency in procurement planning also demonstrates the company's support of the Energy Action Plan. In its 2004 long-term procurement plan, approved by the CPUC in D.04-12-048, SCE included the Maximum Reliably Achievable Potential ("MRAP") level of energy efficiency. MRAP will yield over 9 billion kWh of energy efficiency savings by 2014. This energy efficiency level represents the portion of maximum achievable potential that that can be realistically and reliably attained for procurement planning purposes.

For the period 2006–2008 the CPUC has approved SCE's request for approximately \$675 million of funding for energy efficiency programs. These programs will produce incremental energy savings of approximately 1 billion kWh per year during the three year period. These

energy savings translate into over \$1 billion in lifecycle net resource benefits (after costs) to ratepayers. This funding level represents a 150% increase over the mandated Public Goods Charge funding level and a 50% increase over the 2004 - 2005 funding period. The approved funding level will enable SCE to achieve the CPUC-ordered energy efficiency goals for 2006 to 2008 which are consistent with SCE's MRAP forecast.

Weather. The adverse temperature impacts used in SCE's analysis were lower than those used by the CEC consistent with SCE's comments before the CEC in the recently completed Integrated Energy Policy Report ("IEPR") proceeding. Generally, the weather station data used by the CEC does not accurately reflect the actual weather effects in relation to the historical or future forecast annual peak load. The SCE estimate is about 450 MW lower than the CEC estimate [Table 1, Line 18].

Operating Margin. SCE used a 5% operating margin as the appropriate level of operating reserves during expected future periods of adverse temperature and/or adverse operating conditions. Many SCE demand response or interruptible programs cannot be triggered until the actual reserves reach a Stage 2 condition (*i.e.*, 5 percent operating reserves) on the CAISO grid. [Table 1, Line 21].

Renewables. SCE expects that renewable resources will increase in the future due to ongoing Renewable Portfolio Standard ("RPS") requirements. However, this forecast assumes SCE and SDG&E will not necessarily meet the 20% target by 2010. [Table 1, Line 4].

Only the currently anticipated levels of new and existing renewable resources for SCE have been included. This means that SCE will continue to support the Energy Action Plan's loading order by actively pursuing new renewable generators and incremental energy from repowered renewable generators. Additionally, SCE will continue to encourage renewable generators with existing power purchase contracts to remain with SCE.

The capacity values shown use the current CPUC resource adequacy accounting principles in calculating the peak load impact. For SDG&E, SCE assumed that a generic mix of new renewables would be available and that the 20% target was not reached by 2010. No

assumptions were made regarding if and when the electric service providers (“ESPs”) and municipal utilities would add renewables to meet the 20% target. Should these entities add renewables it is not expected to be more than a 1% per year addition in each year of the analysis. Such additions would probably not add more than 100 MW of effective capacity (capacity ratings of renewable resources as deemed appropriate by the current CPUC resource adequacy methods) by 2010.

New Generation. Anticipated new resource additions have been included. The additions for 2006 are well documented additions that are consistent with CEC estimates.¹³ The only other additions included in the planning forecast occur in 2008 and 2009. The Inland Generation Project is included in 2008 and the Otay Mesa Project (“Otay Mesa”) is included in 2009. Both projects have approved site licenses and the Otay Mesa contract has been approved by the CPUC. Should these resources not materialize or be delayed beyond the peak load months in 2008 and 2009, the forecast capacity need shown here will increase. SCE did not include the 200 MW Salton Sea geothermal expansion project, since the most recent CEC reporting data did not show any construction progress. [Table 1, Line 5]

Imports. The “Net Interchange” figure was modified in 2006 to incorporate a 200 MW reduction accounting for the present non-operational status of Mohave and a 379 MW increase to reflect the addition of series capacitors. [Table 1, Line 6]. In the CEC Staff’s September 2005 analysis of expected 2006 conditions (Table 2, above), it was assumed that there were 150 MW of zonal transmission limitations under expected operating conditions and an additional 250 MW of zonal limitations under adverse conditions in 2006. The CEC had lowered these limits by 400 MW from its 2005 analysis. SCE understands that these values came from an analysis conducted at the CAISO. SCE has therefore used the CEC estimates in this analysis and has not made any changes in the future as it has no information on which to base such changes.

¹³ These resources include the Mountainview, Palomar and Riverside projects, as well as a few smaller facilities.

SCE did, however, use an additional 600 MW of limitation in the “Adverse Condition” case to reflect adverse SCIT limitations. Also, in the “Adverse Condition” case, 300 MW of positive benefits were added back and attributed to the lower likelihood of coincident simultaneous occurrences of all the adverse conditions. While each of the adverse assumptions is within the range of what might be expected for each parameter, the probability of a simultaneous occurrence of all these adverse effects is quite low and possibly as remote as once in 100 years.¹⁴ The end result is that transmission import levels were lowered 550 MW as a result of these adverse assumptions.

Non-Operational Units. The CEC used the approximate full (derated) output of Mohave in a category entitled “Retirements (known).” SCE has assumed Mohave is not restored to full operations in this analysis, however, it has chosen to remove only that portion of the Mohave generation that was being delivered to the CAISO control area for use by customers in SP-15.¹⁵ [Table 1, Line 2]

Forecast of Retirements. SCE has included a forecast of retirements for some existing generation. This forecast is somewhat speculative as continued operation of such generation resources is dependent on market conditions. Therefore, this forecast is only a rough estimate of which generators may be unable to remain in service due to market conditions during 2008 and 2009. Any changes in the forecast will proportionately affect the identified resource need requirements.

The CEC noted in Table 2 that there are currently over 3,000 MW of existing generators that may not have capacity contracts. SCE has examined the resources referenced by the CEC and made its own assessments regarding future reliability must-run, local area resource

¹⁴ The 300 MW figure is only an estimate at this time since the CEC and CAISO have not done any statistical analysis to assess the exact probability of these conditions occurring simultaneously. Additionally, the data which would be used to do such an analysis cannot be distributed by the CEC and CAISO for confidentiality reasons.

¹⁵ If Mohave were to return to operation, it would reduce the identified need.

adequacy, and resource adequacy contracts. Based on SCE's assessment, SCE concurs that the CEC's assessment of retirements is probable.

While SCE does not have any specific information relating to expected or announced retirements, there are logical and plausible reasons for why such generation may elect to retire. Among these are that operating permits and other factors may necessitate retirement of certain units. However, should the capacity represented by the 3,000 MW figure elect not to retire, this would push the earliest need for capacity to 2010, and by 2011 there would be a need for approximately 670 MW in SP-15 (if all other variables are held constant).

III.

KEY ELEMENTS OF A COMPETITIVE SOLICITATION SCE WOULD SUPPORT TO MEET THE NEED IF THE CPUC APPROVES THE JOINT PARTIES' BENEFIT AND COST ALLOCATION PROPOSAL

While SCE recognizes that the Joint Proposal allocates a portion of the costs for new generation without regard to an LSE's portfolio position, attempting to define what it means to be deficient and then measuring such "deficiency" over a multi-year period is a task so difficult that it threatens to bog down the action needed to address the development of necessary resources. Accordingly, SCE supports the mechanisms set forth in the Joint Proposal and the use of long-term power purchase agreements ("PPAs") as the appropriate means by which to most expeditiously support the development of the new generation resources necessary to address the critical new generation shortage affecting the State. At this time, upon approval of the Joint Proposal, SCE proposes to issue a competitive solicitation with the following characteristics.

Volume Limit. SCE anticipates that its competitive solicitation will have a volume limit defined as the SCE-area portion of SP-15 need determined by the CPUC in this proceeding, up to 1,500 MW. CPUC determination of the magnitude of the need in SCE's distribution service territory is essential. Only by identifying the magnitude of such a need will the CPUC appropriately limit the amount of resources to be procured under the benefit and cost allocation

principles set out in the Joint Proposal. As set forth above, SCE estimates that the need for new generation capacity in SP-15 is about 1,870 MW in 2011, with an SCE-area portion of approximately 80% or 1,500 MW. Based on this assessment of the magnitude of need in SP-15, SCE seeks a CPUC finding that 1,500 MW is a reasonable amount of new generation resources for SCE to procure, subject to the benefit and cost allocation methodology set out in the Joint Proposal.

Types of Resources. A “new” project eligible for this future solicitation will provide incremental generation capacity to SP-15, have a 30-year design life, and require significant capital investment. A “new” project is not one that currently exists and operates, or is under construction.¹⁶ A solicitation that allows generation to participate that is already accounted for in the load and resource assessment will not ensure that sufficient new generation is contracted for as part of this proposed transition mechanism. Existing generation should compete for resource adequacy contracts as part of all LSEs’ forward contracting processes, including SCE’s all-source solicitations on behalf of its bundled customers.

Schedule. The schedules provided below are based on an assumption that SCE will receive CPUC approval of this benefit and cost allocation proposal by June 15, 2006. The timelines can be divided into four processes: (1) the competitive solicitation process with required transmission interconnection studies and cost estimates; (2) CPUC approval of the contracts; (3) the environmental review process; and (4) construction. As each of these processes is largely controlled by entities other than SCE, the timeline assumes no expedited treatment of the processes by regulatory, legislative, or executive bodies and conforms to SCE’s understanding of existing rules and guidelines concerning these processes.

¹⁶ Consistent with SCE’s prepared testimony in R.04-04-025 and its practice in recent competitive solicitations, SCE will take steps, including relaxation of the size limitation and dispatchability requirements, if any, for Qualifying Facilities (“QFs”) participating in the solicitation to ensure that new QFs have a meaningful opportunity to participate in the solicitation. However, because SCE would be buying for customers in addition to SCE bundled-service customers, if LSEs or groups representing load objected to paying costs for QFs, and the CPUC agreed with such concerns, SCE would reserve the flexibility of eliminating such a QF exception.

Schedule A or the “Fast Track” is a proposed timeline for generation resources that can complete all required transmission interconnection studies by December 2006 and be online by July 2009. Schedule A may require that the environmental permitting process be done concurrently with the competitive solicitation process and CPUC approval process in order to achieve the required on-line date.

Schedule B or the “Standard Track” assumes that the four processes are performed sequentially and without expedited treatment by the authorizing agency. Schedule B provides a reasonable timeline from the launch of the solicitation to the commercial operating date for a successful project which has not submitted a transmission interconnection request to the CAISO and which has not initiated an environmental review with the CEC.

SCHEDULE A “Fast Track”

Timeline	Event
August 1, 2006	Competitive Solicitation Launched
September 8, 2006	Indicative Offers Due with System Impact Studies Cost Estimate and Schedule
December 13, 2006	Submit Transmission Interconnection Facilities Study with a 20% Cost Estimate
January 10, 2007	Complete Negotiations on Definitive Agreements
January 17, 2007	Final Offer Due
January 24, 2007	Final Award
February 21, 2007	Contracts Submitted to CPUC for Approval
September 2007	Final CPUC Decision on Contracts
July 2009	Latest On-line Date

SCHEDULE B “Standard Track”

Timeline	Event
August 1, 2006	Competitive Solicitation Launched
May 30, 2007	Deadline to Submit Indicative Offers including Transmission Interconnection System Impact Study
June 19, 2007	Shortlist Notification
December 31, 2007	Complete Negotiations on Definitive Agreements
January 9, 2008	Final Offer Due Including a Transmission Interconnection Facilities Study with a 20% Cost Estimate
January 22, 2008	Last Date for Notification of Successful Bidders and to Sign Definitive Agreements
January 29, 2008	Definitive Agreements Submitted to CPUC for Approval
October 2008	Final CPUC Decision on Agreements
October 2008	Successful Developers Initiate Licensing Process with the CEC
April 2010	Obtain CEC Approval of Application and Permits with the CEC
April 2011-April 2012	Estimated On-Line Date for a Potential Simple Cycle Project
April 2012-April 2013	Estimated On-Line Date for a Potential Combined Cycle Project

Depending on the direction desired by the CPUC, and contingent on an appropriate benefit and cost allocation, SCE could proceed in a manner consistent with either Schedule A or Schedule B, or both in parallel. If the CPUC approves the Joint Proposal, SCE would request guidance from the CPUC on the subject of which path the CPUC would like SCE to undertake.

The advantage of Schedule A is that CPUC approval of new generation contracts would be obtained a year before those which will be obtained by pursuing Schedule B, permitting an earlier on-line date for the new projects. The disadvantage of Schedule A is that far fewer developers will be able to meet that schedule (specifically, the requirements to submit accurate transmission interconnection study results and binding contract offers by January 2007 and the requirement to be on-line by July 2009). In practice, the only developers that are expected to be able to meet Schedule A are those who have already started transmission studies or the permitting process and who are willing to take significant financial risks, including, for example,

the risk of not having their contract approved by the CPUC, permitting delays, construction delays, etc. As a result, CPUC endorsement of a competitive schedule for resources on a Schedule A basis will result in a solicitation with fewer participants and less robust participation than a solicitation on Schedule B.

With regard to Schedule B, earlier on-line dates are possible for projects that have already started the transmission interconnection or permitting processes, or whose developers are willing to accept additional financial risks. Also, it may be possible to shorten the Schedule B timeline through appropriate regulatory, legislative, and executive action. For example, an executive order by the Governor could require that the CEC expedite, to the extent feasible, the processing of amendments and applications for certification for new generating facilities. The CPUC could agree to expedite the time to submit testimony and comments and issue decisions. SCE recommends further discussion with the CPUC regarding actions that can be taken by the CPUC, SCE, CAISO, CEC, and others to expedite the schedule in an effort to bring new generation online before 2011. Finally, it should be noted that the availability of sufficient emission reduction credits in certain areas, such as the Los Angeles basin, may be a significant impediment to the timely construction of new generation needed in those areas.

IV.

AN “OPT OUT” MECHANISM CANNOT BE INTEGRATED INTO THE ALLOCATION MECHANISM PROPOSED IN THE JOINT PROPOSAL

An anticipated challenge that SCE anticipates to the Joint Proposal is that it does not provide LSEs with an opportunity to avoid an allocation of the benefits and costs of the new generation that CPUC-designated entities will procure pursuant to CPUC order (*i.e.*, it does not explicitly provide for an “opt out” for LSEs that believe they are self-sufficient). Although SCE generally supports the concept of allowing LSEs to self-procure their requirements, the CPUC should not adopt an “opt out” mechanism as a component of the Joint Proposal.

A. Demonstrating Sufficient Existing And Currently Planned Resources Will Not Address The Need For New Generation In SP-15

Although SCE believes an “opt out” mechanism is a challenging and unnecessary complication for the transitional Joint Proposal, it is imperative that any “opt out” mechanism the CPUC may consider be limited to the contracting for new generation that is incremental to the new generation need assessment that the CPUC adopts. The entire premise behind the Joint Proposal is that there are insufficient existing and planned resources to reliably serve forecast demand under adverse conditions beginning in 2007. As a result, the Joint Proposal requires all Benefiting Customers within an affected area to receive a *pro rata* share of the benefits and costs of new generation that is contracted for under the Joint Proposal. If the CPUC allows LSEs to demonstrate that they are already sufficiently resourced with existing and currently planned resources (something that SCE does not believe any LSE can do for the proposed 10-year term of the new generation contracts), it would have to allow all LSEs to make such an existing and planned resource commitment showing and allocate the benefits and costs of the new generation on a residual basis. This process will be difficult to implement.

First, the CPUC does not have a process in place to ascertain each LSE’s load share obligation for the 10-year term of the proposed contracts for new generation under the Joint Proposal, nor can it because the CPUC currently allows LSEs to change their load share obligations on a month-ahead basis. Second, as a practical matter, any such “opt out” would have to include IOUs’ bundled customers, which would constitute the vast majority (if not all) of the long-term commitments for existing and currently planned generation. As a result, any “opt out” from the Joint Proposal that allows for the consideration of long-term commitments for existing and currently planned generation will be mechanically impossible to implement on an equitable basis in a timeframe that will support the urgent need for new generation capacity.

For these reasons, SCE does not support an “opt out” that considers long-term commitments for existing and currently planned generation resources, and urges the CPUC to reject any such proposal. However, if the CPUC disregards these critical concerns and attempts

to implement an “opt out” approach, SCE expects that achieving an equitable implementation will require a lengthy and litigious process whose main beneficiaries will likely be IOU bundled customers, since IOUs hold the vast majority (if not all) of the long-term commitments for existing and currently planned generation.

B. Allowing An “Opt Out” That Allows LSEs To Separately Procure New Generation Resources Can Lead To Inequity And Reliability Issues

Another form of “opt out” that parties may identify is one allowing LSEs to procure their share of new generation identified as being required by the CPUC (*i.e.*, new generation that is incremental to the existing and planned generation that the CPUC included in its new generation need assessment), rather than rely upon the CPUC-designated entity for the applicable service area pursuant to the Joint Proposal. In theory, this form of “opt out” could work, provided that LSEs that have “opted out” are required to contract for their share of the new generation on the same timeline as the CPUC-designated LSEs to ensure that an option to procure the required new generation exists in case the LSEs that “opted out” fail to enter into commercially viable contracts. In practice, however, such a result can still lead to inequities and reliability concerns.

As the CPUC is aware, an LSE’s load obligation is not static. Therefore, a determination now as to how much new generation an LSE is responsible to contract for will not likely reflect the actual amount of load that the LSE serves during the 10-year term of the transitional new generation contracts that result from the Joint Proposal. To the extent that the LSE serves more load than originally forecast, it will obtain a cost advantage relative to LSEs that serve less load than originally forecast, unless the CPUC requires the portion of the LSE’s increased load to also be allocated a prorated share of the costs and benefits of the new generation that the CPUC-designated entity procured as part of the Joint Proposal. This creates obvious accounting and administrative complexities that are not warranted at this time given the limited amount of generation being considered under the Joint Proposal (approximately 1,900 MW total in SP-15

by 2011), or inequity among LSEs in terms of the burden of securing and paying for new generation if a static forecast is used for the allocation of responsibility.

An “opt out” mechanism that allows LSEs to attempt to separately procure their share of required new generation can also lead to reliability concerns if the efforts to contract for and construct new generation fail. The time that will have elapsed between the decision of an LSE to “opt out” and the determination that the “opted out” LSE’s share of new generation will not materialize will be time that cannot be recouped, and may lead to a longer period of resource deficiency than necessary. The CPUC would have to assume the challenging and contentious role of determining which LSEs are reasonably capable of contracting for and delivering their share of new generation to the grid outside of the Joint Proposal process. Because the Joint Proposal is designed to be a transitional mechanism, SCE believes the CPUC should preclude a new generation “opt out” option at this time given the numerous challenges involved.

V.

CONCLUSION

For all of the foregoing reasons, SCE respectfully requests that the CPUC find that: a) SCE’s need analysis is reasonable; b) under such analysis, SCE is authorized to procure up to 1,500 MW of new generation resources to address such need upon the approval of the Joint Proposal; and c) there can be no “opt out” provision to the Joint Proposal.

Respectfully submitted,

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March 7, 2006

CERTIFICATE OF SERVICE

I hereby certify that, pursuant to the CPUC's Rules of Practice and Procedure, I have this day served a true copy of COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) ON ADDITIONAL POLICIES NECESSARY TO SUPPORT NEW GENERATION AND LONG-TERM CONTRACTING on all parties identified on the attached service list(s).

Service was effected by one or more means indicated below:

- Transmitting the copies via e-mail to all parties who have provided an e-mail address. First class mail will be used if electronic service cannot be effectuated.
- Placing the copies in sealed envelopes and causing such envelopes to be delivered by hand or by overnight courier to the offices of the CPUC or other addressee(s).
- Placing copies in properly addressed sealed envelopes and depositing such copies in the United States mail with first-class postage prepaid to all parties.
- Directing Prographics to place the copies in properly addressed sealed envelopes and to deposit such envelopes in the United States mail with first-class postage prepaid to all parties.

Executed this **7th day of March, 2006**, at Rosemead, California.

Robin Taylor
Project Analyst
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