this was a
big issue before
CA re Fere.
Fere did rule
in favor of utility
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committee

Ermin has memo

find out what this is

FERC should dismiss the SCE and SDG&E petitions for cancellation of the California Competitive Electricity Bid

Background:

- After failing to convince Californians, San Diego Gas & Electric (SDG&E) and Southern California Edison (SCE) petitioned the Federal Energy Regulatory Commission (FERC) in January to order that the California competitive bid process produced prices higher than the utilities' avoided cost. Avoided cost is the cost which the utilities would incur to provide the same power needs from plants which they build and own.

- In doing so, SCE and SDG&E are asking the FERC to overrule the collective decisions of the California Public Utility Commission, the California Energy Commission, and the State Legislature over a 5 year period. The source of their opposition is that their own plants were beaten soundly in the first ever competitive auction for new power supplies. Prices of the winning bidders were 20% to 50% below the cost of utility built options, just 3.8 cents/kWh. Both renewable and fossil fired independent power beat the utility options. SCE and SDG&E were unprepared for the competitiveness of the auction. Their opposition to it began when it became clear that they would not win.

- The California bid process has been designed with the singular goal of providing the lowest cost reliable electricity to California consumers over the long term. The only factors considered by the California process were those which would yield low cost reliable electricity to consumers. The auction used environmental factors to account for the future costs of addressing California's significant air quality problems. The environmental factors did not increase the cost of the auction one cent above the utility built options.

- If FERC intervenes in this case, it will set a precedent for Federal intrusion into all future State electricity planning decisions. In a number of rulings, as recently as last month, FERC has reaffirmed that it should not second-guess the states determination of what will be lowest cost to the consumer. SCE and SDG&E are asking FERC to do just that. If FERC were to intervene, all future energy planning decisions in every state will potentially end up before the FERC. This costly and onerous prospect is inconsistent with the general trend towards less centralized control of peoples lives.

- These decisions are highly technical and complex. If FERC were to begin making resource decisions for every state, the FERC would need a many fold increase in its budget, and it would create an unreasonable burden for local utilities, commissions and intervenors to conduct their business in Washington, DC, rather than within their state. The FERC is completely unprepared to address the numerous local issues which arise in selecting energy resources. Further, there is no cost or efficiency advantage to creating a duplicative federal regulatory system on top of a functioning state system.

- The process which California followed in creating the energy competition was called Integrated Resource Planning or IRP. This process determined the mix of independent, utility, and energy efficiency options which create the lowest overall cost to consumers. This process is specifically encouraged in the Energy Policy Act of 1992, and is advocated by utilities, the Department of Energy, state utility commissions, consumer, and environmental groups. It is currently in use in 38 states. The effect of FERC's intervention in California would be to call into question the legality of all 38 state processes, and question the basis of over 160 competitive solicitations, most of which used a utility owned resource plan as the benchmark for the competition.

- The utilities have also claimed that these projects would become 'stranded costs' in future utility industry restructuring. The California commission addressed this explicitly in the order approving the auction December 21, 1994, making clear that the utility shareholders would not be put at risk from these plants. Further, as the bids were less costly than utility options, they should be in a better position to compete than with their own higher cost plants.

- The FERC should deny the utility petitions, and clear the way to lower cost, clean energy resources for California.