

Statement of Peter S. Garris, Deputy Director
California Energy Resources Scheduling Division,
Department of Water Resources
To the Little Hoover Commission Concerning
The Creation of a Department of Energy

Good morning. My name is Pete Garris, and I am the Deputy Director of the Department of Water Resources with responsibility for the California Energy Resources Scheduling (or CERS) Division of the Department. I appreciate the opportunity to appear here today to provide the Commission my comments on the proposed reorganization plan to create a Department of Energy.

Let me first start by briefly describing my background in California energy matters. I began working for the Department of Water Resources in October 1971 as a Hydro Electric Plant Operator for the State Water Project. I retired from State Service in 1997 to join the start-up team at the California Independent System Operator (CAISO). I returned to DWR three years later to become the Chief Water and Power Dispatcher for the State Water Project. Because of the energy crisis, the Governor issued an emergency proclamation on January 17, 2001 that directed DWR to begin purchasing energy for the end-use customers of California's financially strapped investor-owned utilities. My role at that time was to set up and oversee the Energy Reliability and Trading Office with the responsibility for short-term energy procurement. On September 1, 2001, I assumed the role of Deputy Director for CERS.

Through my experience, I've had the opportunity to observe the start-up of two entities with significant energy responsibilities in California, the CAISO and CERS. One of which, the CAISO, was created after a long period of planning, the other, CERS, was created overnight, and it is with this perspective that I offer my comments to you today.

I believe that the proposal before you creating a Department of Energy represents a common sense approach to managing state policy with respect to energy. The idea to integrate and centralize the development of state energy policy has been around for some time, but it took the electrical emergency of 2001 to bring the energy needs of the state

into focus. During the crisis itself, there were an estimated 13 different state entities with some role in energy.

To say that the state was not prepared to deal with the emergency would be a very accurate description of the then current conditions. I would like to describe two events that I think illustrate why it makes sense to move the proposed reorganization of energy responsibilities forward.

First, at that time of the crisis, the Administration's ability to take effective steps to address the situation was compromised because they were receiving inaccurate, incomplete, or conflicting information from a variety of sources. As a result, it wasn't until a meeting in Washington DC, where various parties had gathered to discuss options for keeping the lights on in California that the Department of Water Resources was identified as an active participant in power markets through its operation of the State Water Project.

The other thing that I remember quite vividly was the number of energy experts that emerged with differing opinions, creating confusion and misinformation surrounding the crisis. The absence of a credible, reliable, unbiased source of information was, in many respects, the Achilles heel of the legislature as they too were having difficulty acquiring accurate information. What this experience left me with was the recognition that there is a very strong, sound, and rational basis for reorganizing and centralizing the energy policy process in the State. Under the proposed reorganization plan, there will be significant opportunity for stakeholder input, accountability, and finally a place for an administration and legislature to turn to for comprehensive and integrated information concerning the complex energy issues that face the state.

Response to Commission Questions

1. What will be the long-term role for CERS in meeting California's energy needs?

CERS long-term role in meeting California's energy needs resides with the management of the long-term power contracts that were signed by the Department of Water Resources during the state's energy crisis in 2001. The contracts represent up to one-quarter of the energy needs of the state's three investor-owned utilities (IOUs) through 2010. The scheduling, dispatch, and certain other administrative functions for the long-term contracts have been transferred to the IOUs. However, DWR retains the legal and financial responsibility for the long-term contracts until there is complete assignment of the contracts and release of DWR, or the contracts expire. As a result, CERS is in a position of having to stay actively involved in energy issues that will have an impact on the long-term contracts. This may include such things as the CAISO's market redesign, natural gas pricing and supply, and resource adequacy requirements.

2. What factors should be taken into consideration when placing CERS into the organizational structure?

- 1) The continued delivery of reliable energy at the lowest cost.
- 2) Sensitivity to CERS costs and accounting methods. CERS recovers its costs of operation from ratepayers through an annual revenue requirement prepared by CERS and rate setting implemented by the California Public Utilities Commission. Costs and revenues should be structured in a manner that facilitates the monthly reporting of operating results and the periodic preparation of revenue requirements. To this end, it may be more efficient for the new Department of Energy to execute an Interagency Agreement with the Department of Water Resources to use DWR's integrated accounting system and fiscal staff to assist in administering the CERS Electric Power Fund.
- 3) Sensitivity to the perceptions and demands of the credit rating agencies as this affects the Electric Power Fund's credit rating, which has a direct effect on the cost of the CERS program.

- 4) Recognition of CERS experience. For example, CERS experience in grid reliability and market operations will add an element of real world experience and technical expertise that should enhance the effectiveness of the Department of Energy and the development of sound energy policy. The impact of State energy policy, therefore, on the long-term contracts should be more effectively managed by placing CERS in the Department of Energy.
 - 5) Sensitivity to the impact of the proposed reorganization on the DWR power supply bond trust indenture covenants. Counsel's review of the proposed legislative language to implement the reorganization concluded that the bond trust indenture covenants will not be affected.
3. Does the role of CERS as a purchaser of electricity create any conflicts with the State's other energy roles, such as the permitting of facilities or market oversight, that should be considered in reorganizing these functions?

Some of CERS long-term contracts are tied to the construction of new power plants that have gone through, or are scheduled to go through the California Energy Commission's siting process. It is anticipated that the standards applied to the permitting and siting of power plants associated with the CERS long term contracts will be no different from any other party going through that process.

Because CERS makes no new purchases of electricity in the various energy markets CERS is no longer a market participant and should not have a conflict with respect to oversight of these markets on a going forward basis. CERS, however, does participate in the CAISO's stakeholder process for the proposed market redesign with the focus of ensuring that the new market rules preserve the value of the long-term contracts and their contribution to system reliability.

4. How might the CERS' function need to change once the state establishes a direction of its electricity policy? How might those choices influence how the CERS functions should be structured or governed?

Because CERS' activities are governed by its obligations under the long-term power contracts and the bond indentures there should not be any change in its core functions as

a result of the state establishing a direction in electricity policy. It may be useful for CERS to provide technical support to other offices and divisions within the Department of Energy depending on the area of policy being developed and or implemented. Conversely, it is expected that other divisions within the Department of Energy would provide similar support to CERS to help CERS administer the long-term energy contracts in the manner that best supports State energy policy.