

**STATE OF CALIFORNIA
ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION**

In the Matter of:)
Preparation of the) Docket No. 06-IEP-1A
2007 Integrated Energy Policy Report)
(IEPR) and the 2006 IEPR Update)

**Comments of the California Wind Energy Association
on the Committee Draft 2006 Integrated Energy Policy Report Update**

The California Wind Energy Association (“CalWEA”) appreciates this opportunity to provide comments on the November 2006 Committee Draft *2006 Integrated Energy Policy Report Update* (“Committee Draft”). We thank the Committee for inviting CalWEA to participate on all of the Renewables Portfolio Standard “Mid-Course Review” panels this past summer to share our views. Our comments here focus only on the RPS subject area of the Committee Draft.

I. Comments on the “Five Primary Barriers” to Achieving RPS Goals

The Committee Draft identifies (on p. E-2) five primary “barriers to achieving” the state’s Renewables Portfolio Standard (“RPS”)¹ goals:

- Inadequate transmission infrastructure to connect remotely located renewable resources
- Complexity and lack of transparency in the Renewables Portfolio Standard program for investor-owned utilities.²
- Insufficient attention to the real possibility for contract failure and delay.
- Uncertainty regarding the financeability of supplemental energy payment awards (SEPs).
- Lack of progress in repowering aging wind facilities.

We would separate the first barrier – inadequate transmission infrastructure – from all of the rest, in terms of the current and most important barriers to achieving RPS goals. The other issues do not “stand in the way” (p. E-15) of the RPS goals in the same way as does the lack of transmission access. In addition to lack of transmission access, we

¹ Note that, in the Committee Draft, the word “Renewable” in “Renewable Portfolio Standard” should be plural to match the term used in state law.

² This sentence, because of the way it was written, implies that the complexity and lack of transparency is a problem “for investor-owned utilities.” The Commission should consider revising the sentence to convey that these are problems for developers and the public, not for the IOUs as they are in control of the complexity.

would identify the inefficient use of the transmission system as an important issue that deserves attention. For example, the state should explore whether ISO and IOU rules and practices are promoting the most efficient use of the transmission system, in particular, economy interconnections and efficient management of North-South energy transfers. As we discuss further below, we do not agree with the statement (p. E-16) that “cost allocation issues for renewable transmission ... continue to plague renewable transmission projects.”

Three of the issues other than transmission – program complexity, contract failures, and repowering -- are not barriers per se, in the sense that they are all under the control of the RPS-obligated entities. They are not show-stoppers in the way that lack of transmission capacity is. Given that these three issues are under the utilities’ control, we strongly agree with the Committee Draft that the CPUC must hold the utilities accountable in meeting RPS targets, because they have deferred to their business judgment in many of the implementation details. We agree with the Committee Draft (p. E-4) that non-compliance penalties will be in order should the utilities fall short of their targets. Even a relatively small penalty is likely to spur the utilities to use the flexibility they have to do a much better job than they have been doing.

In the case of the unfinanceability of SEPs, while we agree that this problem must be addressed in 2007, it is not clear that it has posed a significant barrier thus far, in that only one or two contracts have triggered SEPs. (What is not known is whether any bidders might have signed contracts if the SEPs were financeable.) The CPUC’s draft 2007 MPR is high enough that SEPs seem unlikely to be triggered in the 2007 procurement cycle.

Finally, we would like to take this opportunity to urge the Commission to be mindful that the wind-avian siting guidelines that it is drafting now could – if not carefully crafted – create a barrier to achievement of the state’s RPS goals by imposing arbitrary requirements that could delay project permitting as compared to protocols based on site-specific biological assessment at a particular site. On the other hand, the Guidelines could facilitate wind project siting and the achievement of RPS goals if they recognize categories of low-impact projects that should qualify for streamlined environmental review as is the case with other energy developments, including certain categories of cogeneration and small hydro projects.

II. Comments on Recommended Changes to the RPS

A. Points of Agreement with the Committee Draft

- 1. Non-Compliance Penalties.** We strongly agree with the statement (p. E-3) that the CPUC “has deferred to the business judgment of investor-owned utilities in many of the details of conducting Renewable Portfolio Standard solicitations, and must therefore hold them accountable for meeting Renewable Portfolio Standard targets.” The CPUC has given the utilities wide latitude in the RFO process: in contract terms, in the LCBF analysis,

and in compliance strategy (including whether to create a margin of over-procurement, whether to promote repowers, and general program complexity). Even a relatively small penalty, as a first warning, will do wonders to get the utilities off the dime.

However, compliance delays associated with transmission are not necessarily the fault of the utilities. As long as the utilities have signed contracts for projects awaiting transmission, which transmission they have diligently pursued, the CPUC should consider some accommodation.

2. **RPS program structure.** We agree with the Committee's (albeit "reluctant") assessment (p. E-4) that "no major changes" to the RPS program structure are advisable, and that, instead, the focus should be on making incremental improvements to current protocols. We urge the Commission to call more attention to one of the necessary incremental improvements (which is mentioned on p. 38): that there should be greater standardization of contracts to eliminate terms that are unduly onerous. The current terms drive down participation, drive up prices, and lead to a long and expensive contract negotiation process.
3. **Least-cost/best-fit (LCBF) bid evaluation process.** We agree that the CPUC should make the LCBF process more open and transparent – and we would add to that "more uniform among the utilities." However, we do not perceive the lack of transparency as constituting a significant barrier to achievement of RPS goals (see comment III.C, below).
4. **MPR/hedge value.** We agree with the Committee Draft (p. E-4) that the CPUC could more fully recognize, in the MPR, the important value of renewable resources as a hedge against future natural gas price volatility. Currently, the hedge value is reflected only to the extent that the six-year forward price captures the value of price certainty, plus a small value to reflect the transaction cost of obtaining the forward price. This value does not capture the cost of fixing the long-term gas price after the initial six years of available forward prices, primarily for the practical reason that there are no available indicators of that cost. Adding a long-term hedge value has already proven to be a controversial exercise, and one that may not significantly change the MPR given that it will affect only 50% of the MPR's value (on a NPV basis).³ Still, the CPUC should consider the issue rather than implicitly assigning a value of zero, without getting bogged down in the issue.
5. **CPCN application processing.** We agree that it is critical that the CPUC expeditiously process CPCN applications, and believe that valuable time has been lost. Much attention has been paid to this issue at the CPUC, and CPUC procedures streamlining the CPCN application process have been established

³ The value of the long-term hedge is likely to be less than the value of a GHG adder.

by the Executive Director.⁴ In addition, a project manager for Tehachapi is in place. These are positive indications that the issue is being meaningfully addressed; we agree that it is critical that the CPUC remain vigilant on this issue.

We also agree with the following statement in the Committee Draft, and urge the Commission to elevate its prominence: “It is critical that the state undertake sufficient advance planning and make timely permitting decisions to allow for the efficient development of renewable transmission.” (p. E-16) We believe that the legislature should put a 33% RPS on the books as soon as possible in order to spur the transmission planning that will be needed to achieve this goal.

B. Points of disagreement with the Committee Draft

We disagree with the following recommendations in the Committee Draft. We do not believe that these issues rise to the level of deserving attention in the IEPR.

- 1. MPR/gas-price forecast consistency.** The Committee draft states (p. E-4), “The natural gas price forecast used in determining the market price referent should be consistent with forecasts used in other procurement-related activities, including those used for energy efficiency programs....”

The forecasts are, in fact, reasonably consistent. The long-term natural gas forecast methodology used to set the MPR is almost identical to the forecast approach used in the CPUC’s adopted cost-effectiveness test for energy efficiency programs. To test the cost-effectiveness of energy efficiency programs, the Commission has approved the E3 model of long-run avoided costs. When the CPUC first adopted the E3 model in D. 05-04-024, it directed that changes should be made to the E3 gas forecast to bring the E3 forecast into closer consistency with the MPR gas forecast.⁵ The E3 model employs a natural gas forecast that, like the MPR gas forecast, combines the use of forward market gas prices for the initial 4-6 years, then transitioning over several years to a long-term fundamentals forecast for years 8-20. In both forecasts, utility transportation costs are based on current tariffs escalated in future years. The MPR and the E3 model both are updated approximately once a year; these updates include a new gas forecast.⁶ If the two forecasts do not agree closely at any point in time, it is probably largely because they are updated at different times.

⁴ See the CPUC’s “Executive Director’s Statement Establishing Transmission Project Review Streamlining Directives” (7-13-06), available at: <http://www.cpuc.ca.gov/static/energy/environment/index.htm>.

⁵ See D. 05-04-024, at 32-35.

⁶ The CPUC has adopted MPRs for the last three years (2004 – 2006). The E3 model was adopted in D. 05-04-024, and the model was updated (including a new gas price forecast) in D. 06-06-063, at 55-56 and Attachment 3.

2. **MPR/TOD factors.** The Committee draft states (p. E-4), "... investor-owned utility methodologies for time of delivery factors should be standardized."

Time-of-delivery (TOD) factors are used widely in CPUC regulation – in electric rate design, in QF avoided cost pricing, and in electric procurement activities. Given the widespread use of TOD factors, it is difficult to standardize their calculation. The parties to a wide variety of CPUC cases are free to advocate whatever TOD factors they believe are most reasonable for the application under consideration at that time. TOD factors need to be updated periodically, and it would be difficult for the Commission to deny a party's right to argue for updating TOD factors in a particular CPUC case.

Furthermore, the lack of transparent and representative hourly electric market prices in the state is a major barrier to the standardization of utility TOD factors. Had the California PX proved to be a robust market with competitive and visible hourly prices, it would have provided a firm foundation for a standard set of TOD factors. However, the PX is defunct, and the current bilateral electric market reports only on- and off-peak prices. The CAISO real-time market has transparent hourly prices, but is a small balancing market. The implementation of the CAISO's new day-ahead market at the end of 2007 may provide a more robust source for hourly electric price data.

Notwithstanding these difficulties, the CPUC has made a serious effort to update and to benchmark the TOD factors used in the MPR. D. 05-12-042, at 17-23, contains an extensive discussion of TOD profiles. This order directed SCE to update its TOD factors, and required all of the utilities to "benchmark" their RPS factors – i.e., to demonstrate their reasonableness. Finally, the decision directed the utilities to ensure that TOD factors are used consistently throughout the RPS bidding, evaluation, and payment processes. In D. 06-05-039, the Commission reviewed the results of the benchmarking exercises, and approved the utilities' TOD factors for use with the 2006 RPS solicitations. The Commission concluded that, at this time, it did not have adequate information to develop a single TOD benchmarking method and that it is reasonable for now to allow each utility to develop its own market-based TOD valuations. CalWEA does not perceive this issue as warranting attention in the IEPR.

3. **Transmission/"third category."** The Committee Draft states: "The state's energy agencies and municipal utilities should actively support the California Independent System Operator's proposal to the Federal Energy Regulatory Commission to develop a third category of transmission projects to accommodate renewable resource development." (p. E-5)

We do not perceive the need for a new federal policy as a high-priority issue in meeting California's RPS goal, nor do we agree that "cost allocation issues

for renewable transmission ... continue to plague renewable transmission projects” (p. E-16). As we explained in comments to the CAISO,⁷ we believe the CAISO’s strategy has a low probability of success, and that the state has, through P.U.Code Section 399.25., the tool it needs to promote the financing of transmission lines that promote achievement of the RPS goals.⁸ What is important is that the CAISO and the transmission owning utilities look for comprehensive network solutions that address both renewable resource access issues and regional reliability needs. This goal has been achieved with the ISO’s approval of the Sunrise/Greenpath Transmission Project and with the Tehachapi Plan of Service that will come before the ISO board in January. These plans are enabling the transmission-owning utilities to finance these investments (or the necessary portions thereof). These are extremely positive developments that should be recognized in the IEPR Update and emulated in the future in conjunction with this Commission’s corridor planning process.

III. Comments on Other Statements in the Committee Draft

A. MPR/Portfolio approach. The Committee Draft recommends that “[t]he state should move away from stand-alone engineering calculations currently used in the market price referent to a portfolio approach.” (p. E-4).

In effect, this is a recommendation to eliminate the cost cap from the RPS statute. The legislature adopted a portfolio approach for renewables when it established the RPS, which guarantees renewables a certain market share subject to a cost containment policy. The cost containment component is comprised of the MPR and the SEP fund, which provided some comfort to ratepayers and the legislature that diversifying the portfolio with renewables would not come with too high of a price tag. It may well be that this cost cap is lower than is warranted by the value of renewables. So far, however, the issue is largely academic, as we do not appear to be in danger of reaching the cost cap. Therefore, although CalWEA would certainly not oppose removing the cost cap from the RPS, we disagree that the MPR now constitutes a barrier to achievement of RPS goals.

See, however, our comment in section IV, below, recommending a greenhouse gas (“GHG”) cost adder to the MPR. Inclusion of a GHG adder will further ensure that we meet the RPS portfolio goal, within the confines of the current statute.

⁷ These comments are posted on the CAISO’s website at: www.caiso.com/1833/1833dbc62ed40ex.html.

⁸ We believe that the CPUC could have implemented this provision of the law in a way that uses the law more aggressively to promote the financing of transmission needed to meet RPS goals. However, the rules in place appear to have given the transmission-owning utilities the minimum cost recovery assurances necessary to proceed with upfront financing for the transmission projects underway now.

- B. MPR clarity.** The Committee Draft states (p. E-3): “[T]he process for setting the benchmark price for electricity used to determine the above-market costs of meeting the Renewable Portfolio Standard is unclear, undermining public confidence in the awarding of public funds to further Renewable Portfolio Standard goals.”

In general, CalWEA believes that the MPR, and the process that produced it, have been credible and transparent. The key assumptions underlying the proposed MPR are available and well-documented, and Energy Division staff has conducted an open, informal, and inclusive process for making changes to the MPR input assumptions and calculation methods.

- C. LCBF transparency.** The Committee Draft states that the lack of transparency with the least-cost/best-fit bid evaluation methodology is “a significant barrier to the development of renewable resources in California.” (p. E-3).

While a uniform and more transparent LCBF bid evaluation methodology would improve the fairness of the process and could encourage more bidding, we do not believe that this shortcoming should be characterized as a primary barrier to achievement of RPS goals. It is an area that could and should be improved upon to instill greater confidence in the RPS process, which in turn may lead to greater bidder participation and bids that are tailored to be of greater value. But we do not believe that the lack of optimal design should be thought of as a significant barrier to achievement of RPS goals, because it is something that the RPS-obligated entities have significant control over. The CPUC is now in the process of evaluating possible changes.

- D. SEPs.** The Committee Draft states, “Many stakeholders have raised concerns that supplemental energy payment awards under the current program structure do not represent a financeable revenue stream, making it impossible for projects that require public funds to receive the financing needed to move forward.” [p. E-3]

We fully agree that SEPs are not financeable and that this problem must be remedied very soon, so that if and when SEP funds are required, they are secure enough to enable project financing.

- E. Repowers.** The Committee Draft states, “Over the last several years utilities have made little, if any, progress in pursuing repowering of aging wind facilities.” And, “The state’s energy agencies should evaluate possible incentives to encourage repowering of aging wind facilities to boost renewable generation from these prime sites while reducing avian impacts.”

The words “if any” should be eliminated from the statement, as several projects totaling 100 MW of capacity will have been repowered since 2005, as

of the end of this year. Still, we agree that the utilities and the CPUC could have been far more proactive than they have been in encouraging repowers. We are hopeful that the utilities and the Commission will act on the concrete proposals that CalWEA has recently put before them, with ratepayer group support. We do not believe that special incentives are necessary to encourage repowering.

IV. An Additional Point for the Committee's Consideration

The Commission may want to address, in the IEPR Update, the issue of whether the MPR should include a greenhouse-gas (GHG) adder. CalWEA recently urged the CPUC to adopt such an adder to the Draft 2006 MPR, which is necessary to be consistent with other CPUC policies and utility programs.⁹ As we noted in our comments to the CPUC, a GHG adder is necessary to prevent discrimination against renewables.

Respectfully submitted,



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⁹ See “Comments on Draft Resolution E-4049 on the 2006 Market Price Referent” (December 1, 2006), submitted by Crossborder Energy on behalf of CalWEA and the California Cogeneration Council.