

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

Order Instituting Rulemaking to Establish Policies and
Cost Recovery Mechanisms for Generation Procurement
and Renewable Resource Development.

Rulemaking 01-10-024
(Filed October 25, 2001)

REPLY COMMENTS OF THE CALIFORNIA WIND ENERGY ASSOCIATION
ON THE PROPOSED DECISION

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Pursuant to Rules 77.2 and 77.3 of the California Public Utilities Commission's ("Commission") Rules of Practice and Procedure, the California Wind Energy Association ("CalWEA") submits its reply comments on the Proposed Decision.

A. THE COMMISSION SHOULD MAINTAIN SEPARATE CAPACITY AND ENERGY VALUES

A number of parties have criticized the Proposed Decision's separation of energy and capacity values in the determination of the market price referent.¹ Such parties have proposed that the Commission should use an all-in market price referent. Some even suggest that the all-in benchmark would be necessary to protect the intermittent generators.² As the only party that represents exclusively intermittent generators, CalWEA believes that the only way to protect intermittent generators and to ensure a fair and transparent process is to uphold the separation of capacity and energy values in the Proposed Decision, with the Commission determining the value of capacity.

Parties that oppose separating energy and capacity values fail to acknowledge that, at some point in the RPS process, someone has to determine the value of capacity to evaluate bids.³ An all-in market price referent simply defers to the utilities, in their bid evaluation, to calculate the value of capacity. In their discretion, subject only to the non-binding input of the procurement review group ("PRG"), the utilities would be free to discriminate against intermittent, or any other disfavored class of, generators. CalWEA's proposed methodology,

¹ See e.g., *SDG&E's Comments* at 2-5; *TURN's Comments* at 3-4; *IEP's Comments* at 4-5.

² See e.g., *Green Power Institutes' Comments* at 8-11.

³ Edison acknowledges this in their comments. *Edison's Comments* at 8-10.

as adopted by the Proposed Decision, allows the Commission (and not the utilities) to determine, prior to the bidding process, what the value of capacity will be. This process provides for an unbiased determination of capacity value and the transparency that is essential to create an equal playing field for different types of renewable technologies.

1. Determining The Capacity Value Will Not Be Too Burdensome.

Parties have argued that separating energy and capacity values will create too much litigation and delays in the RPS implementation.⁴ This argument is baseless. The Commission has long used the costs of combustion turbines (“CTs”) as a proxy to determine the value of capacity.⁵ The parameters for determining the CT-proxy are no more complicated or controversial than those to be used in setting the combined cycle plants (“CCGT”) values and the CT is simply a component of the CCGT. It will be not be materially more time-consuming or litigious to develop a CT-proxy.

2. A Commission-Specified Capacity Referent Will Not Prevent Bidders From Bidding Their Costs.

Some parties have argued that if the Commission determines, in advance, the capacity value, bidders will be prevented from bidding their true costs.⁶ This argument is without merit. Bidders will develop a bid based upon their true costs, whether or not the Commission determines the capacity value. When the Commission determines the capacity value, bidders will internalize the expected capacity payments, just as they will internalize a PGC award or any other anticipated revenue stream. An expected capacity payment in excess of fixed costs should allow for a lower energy bid (depending upon the bidders competitive assessment); the converse is also true.

3. A Commission-Specified Capacity Value Will Not Reveal The Referent

Some parties argued that if the Commission predetermines the capacity component of the market price referent, bidders would be able to guess the total market price referent and thus gain an unfair advantage.⁷ This argument ignores the fact that the Commission does not need to disclose in advance the particular input values used to determine the capacity market

⁴ See e.g., *IEP's Comments* at 4.

⁵ See e.g., Decision No. (“D.”) 82-12-120, 10 CPUC 2d 553, 602 (noting that capacity payments were to be based on the cost of CTs), citing D.82-04-071.

⁶ *Green Power Institute's Comments* at 10.

price referent. Identifying the generic methodology and revealing the ultimate solution will not disclose all of the underlying assumptions and will not disrupt a fair bidding process.

4. Capacity Values In The Market Price Referent Are Not Designed To Reflect Specific Attributes Of A Particular Renewable Resource.

Some argued that the CT-proxy does not reflect the specific attributes of a given renewable resource (in particular, intermittent resources).⁸ The simple fact is that the market price referents are not suppose to reflect the costs of any particular renewable resource. The market price referent is supposed to reflect the market value of capacity for use in setting product-specific (not resource-specific) benchmarks. Just as an all-in market price referent will not reflect the true total costs of any particular renewable resource, the separate capacity value is not designed to reflect the capacity costs of any specific renewable resource.

B. THE COMMISSION SHOULD REJECT EDISON'S ARGUMENT THAT CAPACITY FOR A BASELOAD PRODUCT SHOULD BE BASED ON A CCGT PROXY.

Edison argued that the Commission should use the costs of a CCGT as the proxy for determining the capacity value of a baseload product. The Commission should reject Edison's argument. The Commission has long held that, if the utilities desired to obtain capacity through building a plant, they would do so by building a CT. That is why the CT-proxy best represents the value of capacity. Edison fails to recognize that, simply because it may cost more to obtain capacity from a plant that is expected to operate in a baseload fashion, it does not follow that the value of that the plant's capacity reflects these higher costs. If capacity can be obtained through a CT or other mechanism, the capital costs of installing a CCGT are unrelated to the market value of capacity.⁹ Because the capital costs of a CCGT are likely higher than the costs of the CT proxy, Edison's proposal would unduly inflate the value of capacity.

⁷ *SDG&E's Comments* at 2; *TURN's Comments* at 4.

⁸ *IEP's Comments* at 4-5; *Green Power Institute's Comments* at 10-11.

⁹ The Commission, however, is not required to pay 100% of the CT value at all times. The Commission may develop an Energy Reliability Index methodology (similar to the one used in the context of contracts with qualifying facilities) to provide for only a portion of the capacity value.

C. THE COMMISSION SHOULD CLARIFY THAT PEAKING PRODUCTS ARE NOT EXCLUSIVELY DISPATCHABLE PRODUCTS

Edison has suggested that the Commission limit the CT-proxy to use only with dispatchable products.¹⁰ This should be rejected. The Commission should recognize that peaking plants, or peaking products, are not necessarily dispatchable. Solar generators, for example, tend to deliver during the peak hours and may desire not to be subject to dispatched-of by the utilities; they may not want to run all the time that they are able to run.

D. THE COMMISSION SHOULD RECOGNIZE THAT ENERGY COMMISSION'S ELCC STUDIES HAVE VALUE, ESPECIALLY IN THE LEAST-COST / BEST-FIT EVALUATION.

CalWEA supports ORA's and Green Power Institute's comments that the Energy Commission's effective load carrying capacity ("ELCC") studies have a place in the RPS program.¹¹ In particular, the Commission should use ELCCs in the least-cost / best-fit evaluation process, instead of in the development of the market price referent. The ELCC studies should be used in conjunction with the predetermined capacity payment to calculate the total expected costs associated with a given bidder. This must be done on a technology-specific basis. The ELCC studies are well suited for this purpose.

E. THE COMMISSION SHOULD BE MORE SPECIFIC IN REQUIRING THE UTILITIES AND WIND GENERATORS TO NEGOTIATE ON REPOWERING ISSUES.

TURN has suggested that the Commission provide specific direction with respect to the mandate that the utilities and wind generators negotiate on the issue of repowering existing wind projects.¹² TURN suggested that the Commission require the utilities to enter into negotiation for amendments with repowered projects such that they will be able to bid their incremental output into the RPS auction.¹³ TURN would require the utilities to provide periodic report of their progress, and to resolve the issue by the end of 2003. CalWEA supports TURN's proposal.

¹⁰ *Edison's Comments* at 7-8.

¹¹ *ORA's Comments* at 2-3, *Green Power Institute's Comments* at 8-10

¹² *TURN's Comments* at 15-16.

¹³ *Id.*

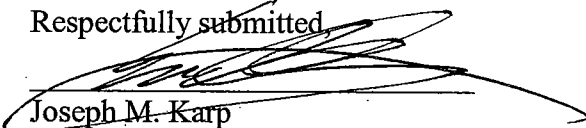
F. THE COMMISSION SHOULD REJECT EDISON'S ARGUMENT THAT ADOPTING AMENDMENT 42 WILL INCREASE TOTAL COSTS.

Edison argued that by relying on Amendment 42 to determine intermittent generators' deviation costs, the Commission would have ignored additional integration costs.¹⁴ Edison ignores the comments by all other parties, and the independent determinations of FERC and ISO, that Amendment 42 will not impose additional costs. Citing only one passage from the ISO's cover letter to FERC, Edison ignores other statements such as that neither costs would be shifted onto other entities as a result of Amendment 42.¹⁵

G. INTERIM RENEWABLE PROCUREMENT SHOULD BE COUNTED TOWARD THE BASELINE, NOT THE ANNUAL PROCUREMENT TARGET.

Edison has that renewable procurement under the interim procurement process should be counted toward its APT for the first year.¹⁶ This proposal should be rejected. The interim procurement occurred prior to implementation of the APTs and the RPS program. There was no least-cost / best-fit evaluation associated with the interim procurement. Accordingly, the Commission should clarify that renewable contracts signed during the interim renewable procurement process should be counted toward the baseline, but not the APT. This would allow the interim procurement count toward the 20% by 2017 RPS requirement, but no unduly delay least-cost / best-fit procurement under the RPS program.

Respectfully submitted,



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June 16, 2003

¹⁴ *Edison's Comments* at 10.

¹⁵ ISO's January 31, 2002 letter to FERC filed in Docket ER02-922-000
<<http://www.aiso.com/docs/2002/02/01/200202011109294760.pdf>>.

¹⁶ *Edison's Comments* at 11-12.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the

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on all known parties to R.01-10-024 named in the official service list by electronic mail for all parties providing an email address, and by mailing a properly addressed copy by first-class mail with postage prepaid to each of the parties not providing an email address.

Executed on June 16, 2003, at San Francisco, California.



Ruby F. Wheeler