

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

Order Instituting Rulemaking to Promote Policy
and Program Coordination and Integration in
Electric Utility Resource Planning.

Rulemaking 04-04-003
(Filed April 1, 2004)
(QF Issues)

Order Instituting Rulemaking to Promote
Consistency in Methodology and Input
Assumptions in Commission Applications of
Short-Run And Long-Run Avoided Costs,
Including Pricing for Qualifying Facilities.

Rulemaking 04-04-025
(Filed April 22, 2004)
(QF Issues)

**REPLY COMMENTS OF THE CALIFORNIA WIND ENERGY ASSOCIATION
ON THE PROPOSED DECISION ON FUTURE POLICY AND PRICING FOR
QUALIFYING FACILITIES**

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I. INTRODUCTION

Pursuant to Rule 14.3(d) of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), the California Wind Energy Association (“CalWEA”)¹ submits these brief reply comments on the April 24, 2007 Proposed Decision of Administrative Law Judge Halligan in the above-captioned proceeding (“Proposed Decision”).

II. COMMENTS

- A. The Commission should employ CCC’s proposed combustion turbine costs in setting as-available capacity payments and clarify that all QFs with expiring contracts qualify for new long-term contracts.***

CalWEA supports the comments made by the California Cogeneration Council (“CCC”) on the Proposed Decision filed on May 25, 2007 (the “CCC Comments”)

¹ CalWEA is a party in the above-captioned proceeding and has previously participated in the proceeding as a member of the Renewables Coalition. CalWEA is comprised of wind energy generators, project developers and various wind generator service providers. Many CalWEA members own and operate QF projects that sell electricity to the utilities under existing standard offer contracts. In the aggregate, CalWEA member projects in California sell approximately 600 MW to the utilities.

concerning qualifying facility (“QF”) pricing issues and urges the Commission to adopt the proposals made in the CCC Comments. In particular, as stated in the CCC Comments, CalWEA urges the Commission, among other things, to (i) employ a levelized, nominal valuation of combustion turbine (“CT”) costs in setting as-available capacity payments, or in the alternative, if the avoided CT cost is based on the economic carrying charge rate, then use an annual escalation rate based on the changes in the Consumer Price Index;² and (ii) clarify that all QFs with expiring contracts qualify for new long-term contracts under the proposed “Prospective QF Program.”³

B. The Commission should disregard PG&E’s argument that providing long-term contract options would dissuade QFs from participating in the RPS solicitations.

CalWEA supports the Proposed Decision's provision of long-term power contract options for QFs as necessary complements to the Renewables Portfolio Standard (“RPS”) program.⁴ The Commission should reject the arguments made by the utilities that providing such long-term contract options would discourage QFs from participating in, and executing, RPS contracts.⁵ These arguments are unmerited, and there is concrete evidence on the record showing that providing long-term contract options to QFs does not necessarily discourage the QFs from also bidding into the utilities' RPS solicitations.

For example, as explained in the Opening Brief of the Renewables Coalition, “SCE witness Kevin Payne explained in response to cross-examination by counsel for the CCC that Coram Energy L.L.C. (‘Coram’), a renewable QF, executed a long-term, RS01 contract with SCE. Mr. Payne then explained that, despite its RS01 contract, Coram

² See Opening Comments of the California Cogeneration Council on Proposed Decision of ALJ Halligan, at 23 [hereinafter “CCC Comments”]; see also The Renewables Coalition/Tomeo, Ex. 90, at 5:21-28.

³ See CCC Comments at 24-25.

⁴ Proposed Decision at 85 (ordering the utilities to offer new QFs and QFs whose contracts expire a “one- to five-year as-available power contract” and a “one- to ten-year unit-contingent power contract”).

⁵ See Opening Comments of Pacific Gas and Electric Company on Proposed Decision of ALJ Halligan, at 9-10 [hereinafter “PG&E Comments on Proposed Decision”].

subsequently bid into an SCE RPS Solicitation, which resulted in Coram executing a RPS contract with SCE."⁶ The experience of Coram demonstrates that the availability of long-term contracts does not deter QFs from participating in the utilities' RPS solicitations.

Even with the availability of a long-term QF contract option, renewable QFs are likely to bid into the RPS solicitations for a variety of reasons including to attain long-term price certainty (as RPS contracts may be up to 20 years while the QF contracts are proposed to have 5 or 10 year terms), to avoid energy pricing that is directly related to gas price fluctuations, and to avoid regulatory and market uncertainty.⁷ For example, as Pacific Gas & Electric Company ("PG&E") acknowledges in its Comments on the Proposed Decision,⁸ many renewable QFs recently agreed to be bound by the IEP-PG&E settlement approved in Decision 06-07-032, which provided for fixed energy prices that were substantially below the then-current short-run avoided cost prices established by the Commission.⁹ Moreover, as the size of renewable projects continues to increase, fewer renewable resources will be eligible for QF status. This is because renewable QFs are limited to a capacity of 80 MWs or less under federal law.¹⁰ Lastly, as discussed in the Opening Brief of the Renewables Coalition, the long-term contract option would not deter, in particular, many of the new renewable QFs that are eligible to receive supplemental energy payments under the RPS program and to receive large federal tax incentives.¹¹

⁶ Opening Brief of the Renewables Coalition, at 14 (March 3, 2006) (citations omitted).

⁷ See, e.g., The Renewables Coalition/Tomeo, Exh. 90, at 7:5-16 (discussing the benefits of the fix-price option over SRAC pricing).

⁸ PG&E Comments on Proposed Decision, at 8.

⁹ *Opinion Adopting Settlement Agreement Between Pacific Gas And Electric Company And The Independent Energy Producers Association Regarding Qualifying Facilities*, D.06-07-032, at 10 ("Non-gas fueled QFs, including renewables, will receive a five-year fixed energy price of \$64.50/MWh, with a 1% annual escalation. This price is 15% below PG&E's current posted SRAC price and 45% below the formula yielded SRAC price for January 2006.").

¹⁰ 18 C.F.R. § 292.204(a) (describing the criteria for qualifying small power production facilities).

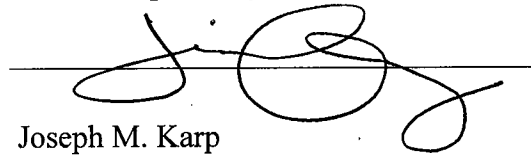
¹¹ Opening Brief of the Renewables Coalition, at 13-14.

Thus, for a variety of reasons, contrary to the utilities' arguments, providing a long-term QF contract option as a complement to the RPS program solicitations would not discourage QFs from participating in the RPS program solicitations.

III. CONCLUSION

CalWEA respectfully requests that the Commission revise the Proposed Decision as set forth above.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Joseph M. Karp", is written over a horizontal line. The signature is stylized and cursive.

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June 4, 2007


Certificate of Service

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

***Reply Comments of the California Wind Energy Association
On the Proposed Decision On Future Policy and Pricing
For Qualifying Facilities***

on all known parties to R.04-04-003 and R.04-04-025 by sending a copy via electronic mail and by mailing a properly addressed copy by first-class mail with postage prepaid to each party named in the official service list without an electronic mail address.

Executed on June 4, 2007 at San Francisco, California.



Rosalie Marschall