California Wind Energy Association

CalWEA

February 22, 2008

President Michael R. Peevey
Commissioner John A. Bohn
Commissioner Rachelle B. Chong
Commissioner Dian M. Grueneich
Commissioner Timothy Alan Simon
California Public Utilities Commission
505 Van Ness Avenue, Room 4002
San Francisco, California 94102

Re: TURN Protest to Daggett Wind Project

Dear Commissioners:

I am writing to bring to your attention the California wind industry's serious concerns with a recent filing made by The Utility Reform Network ("TURN"). TURN has always been a supporter of California's Renewables Portfolio Standard ("RPS") Program, and of wind generators' potential contributions thereto. It is therefore with considerable chagrin that I find myself on the opposite side of a controversy with TURN in connection with wind generation and the RPS program. Nevertheless, TURN has recently taken an unjustified and disturbing position on matters concerning the RPS program; I urge you to become aware of this matter and to reject TURN's misguided positions.

On January 22, 2008, TURN filed a protest of Southern California Edison Company ("SCE") Advice Letter 2198-E, which seeks approval, among other things, of a power purchase agreement ("PPA") between SCE and Daggett Ridge Wind Farm, LLC ("Daggett Ridge") a subsidiary of AES Corporation.[1] In the face of widely recognized increases in generation costs for all technology types, including wind generation, TURN protests the pricing of the SCE/Daggett Ridge PPA in what appears to be, at least in part, an ill-considered attempt to send a message to wind turbine manufacturers that recent increases in wind turbine prices will not be

[1] A representative of AES Wind Generation, Inc. is a Board Member of CalWEA.

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tolerated in California.[2] TURN further erroneously proposes that Supplemental Energy Payments ("SEPs") (payments above the Commission's Market Price Referent ("MPR")) should be reserved for experimental technologies and should not apply to "conventional" renewables like wind generation. TURN further argues that until wind generation costs come down, the utilities should be relieved of their RPS obligations. CalWEA urges the California Public Utilities Commission ("Commission") to reject TURN's arguments, which are without basis in fact or law, and which threaten to do serious harm to the RPS Program.

Daggett Ridge Project Overview

It is undeniable that California's progress toward meeting its 2010 RPS goals has been slower than desired. Although many PPAs have been signed, few have resulted in actual new generating projects to date. The Daggett Ridge Wind Project, although perhaps more expensive than previous wind contracts submitted to the Commission, must be viewed in light of its early expected on-line date (2009) and superior viability.

For instance, the Daggett Ridge Wind Project is a wholly owned subsidiary of AES Wind Generation, Inc. ("AES Wind Generation"). AES Wind Generation has over 20 years of experience in the wind industry and has developed over 1,000 MW of wind generation. The Commission can rest assured that the Daggett Ridge Wind Project is not a "paper project," but rather is a viable project using commercially proven technology, and will be developed by a well-funded, experienced company by a near-term 2009 in-service date.

Indeed, the permitting for the Daggett Ridge Wind Project is well underway, with completion estimated by December 2008. Construction is scheduled to commence in March 2009, with the first turbine placement by July 2009. The SCE/Daggett Ridge PPA, as opposed to other projects presented to the Commission with on-line dates farther into the future, will most assuredly bring California closer to meeting its 2010 RPS goals.

Furthermore, as the Commission is well aware, the development of many renewable projects is hindered by the current interconnection process logjam and the need for significant network upgrades. The Daggett Ridge Wind Project, however, is first in the SCE interconnection queue and requires no network upgrades. Indeed, execution of the interconnection agreement is imminent. It is also worth noting that the RPS Program requires consideration of indirect costs in bid evaluation, not just contract prices; the absence of any required network upgrades associated with this Daggett Ridge Wind Project is a valuable credit in its favor.

Additionally, it is essential to recognize that because the Daggett Ridge Wind Project is already in the advanced stages of permitting and development, the project costs are well-

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[2] "A price of [redacted] per MWh for wind power is unreasonable and reflects a lack of competition in the wind turbine industry." … "[T]he Commission must send a clear message to the wind industry that California ratepayers will not pay extreme prices for wind power." TURN Protest, p. 2 and p. 4, respectively.

understood and not variable. Indeed, AES Wind Generation has already ordered turbines earmarked for this project, thereby insulating the project from further price volatility in the wind turbine market. The contract price, although perhaps higher than wind contracts previously presented to the Commission, accurately represents the cost of developing wind power today.

Thus, CalWEA urges the Commission not to view the SCE/Daggett Ridge PPA in a vacuum or in reference to projects that have preceded it, but rather in light of the 2009 in-service date, as well as its superior viability.

TURN's Arguments are Unsupported by Evidence

TURN makes three primary but flawed arguments in support of its conclusion that the Commission must reject the SCE/Daggett Ridge PPA. First, TURN argues that the contract price is *per se* unreasonable due to the lack of a competitive market for wind turbines. TURN then argues that because of this lack of a competitive market for wind turbines, SCE should be excused from meeting its 2010 RPS obligations. Finally, in an argument unjustified by any Commission policy or decision to date, and contrary to the RPS legislation, TURN asserts that SEPs should be used for emerging technology projects only, to the exclusion of viable, full scale renewable projects such as the Daggett Ridge Wind Project. TURN's arguments would turn current Commission policy and precedent on its head, and the Commission should reject TURN's attempts to *de facto* restructure the RPS program.

A. The Daggett Ridge Contract Price Is Not *Per Se* Unreasonable

TURN is wrong that the Daggett Ridge Wind Project contract price is *per se* unreasonable or evidences a lack of a competitive market for wind turbines. In reality, the price of wind power is increasing for several reasons, such as the cost of wind turbines, a weak dollar relative to the euro, increasing commodities costs (including, for example, concrete, copper and steel), and the natural progression to sites that may not be as windy as prior sites (especially in light of the present lack of transmission access to windier sites). Additionally, an increase in turbine prices, which indisputably has taken place, may be attributable to a number of factors other than anti-competitive behavior by turbine manufacturers. The most obvious causes are the dramatically increased demand for renewable energy, and wind in particular, throughout the world. Furthermore, increasing labor and transportation costs also factor into the increased price of wind power. All of these factors combine to justify the current contract price and not, as TURN alleges, anti-competitive behavior in the wind turbine industry.

These same cost factors have also substantially driven up the price of conventional gas projects. For example, the costs that Edison is seeking to recover for simple-cycle combustion turbine (CT) peakers are double or triple the assumptions for the cost of CT capacity that this Commission has adopted recently.[3] Likewise, CalWEA expects that the 2008 MPR will increase

[3] See "Comments of the California Cogeneration Council and California Wind Energy Association on the Application of Southern California Edison Company for Recovery of Peaker Costs," (A. 07-12-029), February 4, 2008.

substantially as compared to the 2007 MPR to which the SCE/Daggett Ridge PPA price is being compared. Unfortunately, the MPR lags behind actual market costs, which in this case likely resulted in the need for SEP funds.

TURN offers no evidence that current turbine prices are a result of anything other than natural competitive forces responding to free-market supply and demand cycles. Furthermore, rejecting the SCE/Daggett Ridge PPA will not send a message to wind turbine manufacturers, as TURN purports. California renewable developers compete in a global market for turbines and other project components. If California does not want wind projects, Texas, China or other locations will gladly absorb them.

Finally, the Daggett Ridge Wind Project was selected after competitive bidding on a "total cost" basis pursuant to a process that is consistent with Commission decisions and SCE's procurement plan, which the Commission approved. SCE evaluated the Daggett Ridge Wind Project against other proposals in its RFO process and chose the Daggett Ridge Wind Project because it is a viable project capable of delivering renewable energy prior to 2010. The Commission should reject TURN's arguments, because the SCE/Daggett Ridge PPA represents the end product of a transparent competitive solicitation process for procuring renewable energy.

B. The Daggett Ridge Wind Project Is an Ideal Candidate for SEP Funds

TURN's contention that SEP funds should only be used to support emerging renewable projects flies in the face of the RPS statute and Commission precedent and policy. As the Commission is well aware, faced with the possibility that renewable sources of power may be more costly than fossil fuel sources of power, and in an attempt to facilitate the deployment of renewable energy, the California Legislature established the SEP funds to support the construction of new or repowered RPS facilities.[4] Given its early in-service date and high degree of viability, the Daggett Ridge Wind Project is an ideal candidate for SEP funds. Other funds and programs have been established and are operating to substantially support emerging renewable energy technologies.

Finally, TURN's request that the Commission release SCE from its 2010 RPS obligations is wholly inappropriate at this time. It may be the case that three years from now, at the end of 2010, SCE has not been able to procure 20% renewable energy. At this time, however, many developers are bidding against each other in a competitive market, and the reality is that the cost of renewable energy (and traditional energy) will change over time due to normal market forces. The RPS Program should not be abandoned. This is precisely why SEP funds were created, and SEP funds are appropriate for the Daggett Ridge Wind Project.

In sum, the Commission should reject TURN's arguments. The Daggett Ridge Wind Project is a viable project that is on schedule to come on line in 2009 and will assist California in

[4] Public Utilities Code § 399.15.

meeting its 2010 RPS goals. The Daggett Ridge Wind Project is precisely the type of renewable project that the Legislature intended SEP funds to support.

Best regards,

Nancy Rader

Nancy Rader
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California Wind Energy Association