BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Continue Implementation and Administration of California Renewables Portfolio Standard Program.	)))	Rulemaking 11-05-005 (Filed May 5, 2011)

PLACER COUNTY AIR POLLUTION CONTROL DISTRICT
REPLY COMMENTS TO SEC. 399.20 RULING, JUNE 27, 2011

INTRODUCTION

This rulemaking proceeding was instituted on May 5, 2011, as the successor to R.08.08-009, and as noted in the Order Instituting Rulemaking (OIR), ongoing administration of RPS procurement plans now requires a consideration of the recent RPS legislation (SB 2 [1X]) and necessary modifications to the existing program. These comments are in response to the Comments submitted on July 21, 2011, in response to the Sec. 399.20 Ruling dated June 27, 2011. The District reviewed all such comments and has prepared the following remarks for further consideration of the issues.

REPLY COMMENTS

Section 3. Compliance with SB 2 1X

Section 3.3 Additional Pricing Proposals

Section 3.3.1 Technology-Specific Rates and Product-Specific Rates

Parties providing comments consistently opined that technology-specific rates and product- specific rates would facilitate deployment of a diverse range of renewable technologies. The PCAPCD concurs and suggests that a blended portfolio of various

technologies (solar, wind, biomass, biogas, etc.) will help keep the average costs of energy manageable.

Should the Commission proceed with technology-specific avoided cost rates and product-specific rates (e.g., baseload, as available, peak) the PCAPCD agrees with Sustainable Conservation and FuelCell Energy comments that Work Groups representing each technology be convened to put forward a proposed avoided cost energy price schedule representative of that technology. In addition, the Work Groups should be tasked with proposing rate adders based on environmental and locational benefits afforded each technology. For example, biomass generation provides a suite of environmental benefits (e.g., net carbon negativity, improved forest health/watersheds, reduce air emissions) that should be recognized and accounted for using price adders. The Agricultural Energy Consumers Association comments suggest that technology subsets should have market prices adjusted to account for characteristics and benefits including GHG emissions reductions, other environmental benefits, and deferred transmission/distribution upgrades. The PCAPCD concurs.

We note with caution, however, comments by some IOUs that technologies considered as baseload generation (such as biomass and biogas) be saddled with penalties for underperformance, performance bonds, etc. which serve as severe disincentives for non-utility project developers (e.g., agricultural enterprises, forest products enterprises) to participate. We agree with the California Farm Bureau Federation that agricultural operations need to focus on core business. Applying penalties creates barriers to participation in a non-core function such as power generation. In light of the fact that many of the renewable technologies (e.g., biomass gasification, anaerobic digestion) are still in the commercialization phase, it is difficult

to precisely predict generation output in spite of the fact such technologies are theoretically capable of baseload generation. We feel the Commission should respect excess sale contracts, consistent with the Federal Power Act and not discourage leading edge biomass and biogas technologies with the imposition of performance penalties based solely on their mode (baseload) of generation.

Section 3.3.2 Market-Based Rate

The PCAPCD concurs with the Sierra Club, Sustainable Conservation and FuelCell Energy that neither the MPR nor the competitive auction mechanism are consistent with the intent of SB 32. The MPR does not address numerous key ratepayer benefits offered by small scale distributed generation such as: locational benefits, including avoided line loss, avoided transmission infrastructure burden; environmental benefits including improved forests/watersheds, reduced NOx, SOx, PM, Hg, HAPs, etc., as well as reduced or negative carbon emissions, and energy security benefits offered by localized rural generation. In addition, a technology-specific rate structure has the benefit of pricing certainty and will result in reduced financing and transaction costs that will increase the financial viability of small projects. This will allow delivery of lower cost energy with a higher project completion rate. We agree with Clean Coalition's comments that distribution-interconnected projects avoid transmission-related costs such as Transmission Access Charges (TAC). Locational benefits represent long-term savings for ratepayers, for example the average TAC for all three IOUs is 1.1c/kWh added to PPAs in 2011. Palo Alto Utilities estimate a 2.2c/kWh savings in transmission and distribution losses and fees through wholesale distributed generation

procurements. Locational benefits should be included as an energy price adder to reflect true savings to ratepayers.

Section 3.4 Additional Pricing Questions

Energy price adjustment factors should be considered to address cost variables that generation facilities will likely face over the life of a PPA. Sustainable Conservation comments suggested that the Commission should address three distinct variables: an annual inflation factor, the increasing cost of O & M as the facility ages and fuel cost. The PCAPCD concurs. Holding project revenue fixed over 20 years in the face of annually rising labor, maintenance and fuel costs seems inconsistent with IOU price raises to ratepayers over a similar period.

Section 3.5 Ratepayer Indifference

The PCAPCD agrees with the Agricultural Energy Consumers Association that customer indifference means that the customer should not be better or worse off as a result of a particular program. Additionally, the seller should be fully compensated for the value of the resources provided. The customer indifference standard requires that the price for power must include specific attributes of the power (such as environmental and locational benefits), the costs to obtain those benefits, and the value of those attributes to other customers. Items such as the avoidance of line loss, consumption of power on-site, and reduced burden on transmission infrastructure should weigh on the Commission's energy price considerations, on par with the environmental and energy security benefits of small scale projects.

Section 4. Compliance with SB 32

Section 4.1 Increase Size of Eligible Facility to 3 MW

Most party comments felt that the increase in size to 3 MW was acceptable, and the

PCAPCD concurs. Some comments suggested increasing eligible facility size (e.g., 5 MW or 20 MW) in order to capture economies of scale. Larger scale (over 3 MW) projects defeat the purpose and intent of SB 32 to promote small distributed generation facilities. In addition, with the current program cap set at 750 MW, it will be important that multiple distributed generation facilities be sited throughout California. If facility size is set at 20 MW, there will be a reduced number of facilities sited.

Section 4.2 Proportionate Share and Increased Program Cap to 750 MW

Most party responses were supportive of the 750 MW program cap and the PCAPCD concurs. FuelCell Energy suggested that the Commission develop a policy that addresses projects that drop out of the program after signing a contract or otherwise fail to initiate commercial operations or decrease project size. The unused capacity associated with such projects should be added back into the IOU's total available MW allocation. The PCAPCD concurs and suggests that the Commission provide specific instructions on how to administer this process.

It is, however, important that current PPA applicants under AB 1969 have priority and maintain their application queue position over new applicants under SB 32. We also recommend that as SB 32 is implemented the Commission not count signed AB 1969 PPAs or operational projects, completed before SB 32 is implemented, against the 750MW allocation for new projects.

Section 4.10 Expedited Interconnection Procedures

The costs for small project developers to interconnect to the grid can be daunting and many times serve as a significant barrier to project completion. As the Sierra Club points out in

their comments, these costs will ultimately be borne by the IOUs and absorbed into the rate base. Having IOUs absorb these costs upfront in the process will free up small distributed generators to focus on core business issues.

Major impediments for project developers are existing interconnection procedures and timely implementation. The IOUs must be held accountable and be engaged in the interconnection process. The PCAPCD agrees with Sustainable Conservation's recommendation that the IOUs submit a semi-annual report on the number of interconnection requests, by technology type and size, location and date that the interconnection request was initially submitted. The report should indicate any project for which an interconnection request has been pending more than six months and identify what the IOU is doing to complete the interconnection request. Most importantly, the utility should track the barriers that developers experience in trying to interconnect and identify what is being done to address them.

We fully concur with Sustainable Conservation that a mechanism for arbitrating interconnection disputes between an IOU and a project proponent is needed. Currently there is no court of appeal for a utilities pronouncement on interconnect nor on any adherence to self-imposed timelines. We are aware of System Impact Studies that have taken 270 days where the utility stated timeline is 30 days.

CONCLUSION

In summary the PCPACD has supplied reply responses to comments made on Sections 3.3.1, 3.3.2, 3.4, 3.5, 4.1, 4.2, and 4.10. PCAPCD appreciates the opportunity to comment and

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will continue to participate in the process.

DATED: July 28, 2011.

Respectfully submitted,

/s/ Christiana Darlington

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VERIFICATION

I am an officer of the non-profit organization herein, and am authorized to make this verification on its behalf. The statements in the foregoing document are true of my own knowledge, except as to matters which are therein stated on information or belief, and, as to those matters, I believe them to be true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed this 28th day of July, 2011, at Auburn, California.

CHRISTIANA DARLINGTON
General Counsel