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CONFIDENTIAL
Pricing for SB 32 Feed-in Tariff

DRA Position:
1) The Commission Should Adopt the *Net Surplus Compensation Rate* for the SB 32 Feed-in Tariff because it complies with PUC Code 399.20 (d)(1) and (d)(3).
2) The Commission Should **Not** Adopt the *Pricing Mechanism Component* of the Renewable Feed-in Tariff Staff Proposal.

Background

Energy Division (ED) Staff Proposal: Tariff based on the market clearing prices from each product category (baseload, peaking, as-available) of the IOUs' Renewable Auction Mechanism (RAM) program.

- **Market Clearing Prices = Base Tariff Price**: Adjusted for Time of Delivery (TOD) and augmented by a Locational Adder Payment for projects located in designated "Hot Spots."
  - **"Hot Spots":** Areas that serve 5 – 10% of the IOUs' load. Locked in for 3 – 5 years.
- **Locational Adder Payment:** Additional payment rewarded to developers (on top of the base tariff price) for avoided or deferred transmission and distribution upgrades (T&D) and line losses.
  - Varies by IOU and by product category.
  - Alone can be as high as $77.50/MWh for a peaking project located in SCE's Hot Spot area. [E3, *Using Avoided Costs to Set SB 32 Feed-in Tariffs,* 9/2611]

DRA Proposal: Tariff based on the Net Surplus Compensation (NSC) Rate.

- NSC Rate is the payment made to Net Energy Metering customers for surplus generation:

"Default Load Aggregation Point" (DLAP) price + Renewable Premium / "REC" payment

Advantages of Implementing NSC Rate as Pricing Mechanism

- State Policy Supports NSC Rate as an Avoided Cost Pricing Mechanism.
  - The CPUC adopted and implemented the NSC Rate for Net Energy Metering customers.
    - NSC Rate represents an avoided cost and complies with PURPA. [CPUC D.11-06-016; Resolution E-4422]
  - Consistent with both clauses of PUC Code 399.20: SB 32 tariff must be offered at market price [399.20(d)(1)] and promote ratepayer indifference [399.20 (d)(3)].
- Tariff is available immediately; no waiting for the results of the RAM auctions to be finalized.

ED's Locational Adder Payment Will Result in Higher Costs for Ratepayers

- **Undermines the RAM Program:**
  - Rewards SB 32 participants a RAM clearing price ***plus*** a premium payment for ***perceived*** avoided or deferred T&D upgrades.
  - Conflicts with the ratepayer indifference clause [399.20 (d)(3)] and avoided cost under PURPA.
- **Places FiT Contract Prices at a Premium:**
  - [redacted] **2011 Market Price Referent** ($76.89 – $131.60/MWh).
  - Will increase contract prices from **5%** - **85%**.
- **Not Vetted by Parties:**
  - No research to demonstrate T&D costs will actually be deferred due to SB 32 projects.
  - IOUs have all stated that providing an **upfront** Locational Adder Payment cannot avoid or defer T&D upgrades in hot spot areas indefinitely or to any identifiable degree.
- **Will Lead to Overpayment by Ratepayers:**
  - It is uncertain that any given Hot Spot will experience enough participation to actually avoid or defer T&D upgrades in these areas.
  - Hot Spots may lose their Hot Spot status, yet SB 32 projects in these areas would continue to receive Locational Adder Payments throughout the duration of the 10, 15, or 20 year contract.

ED Proposal Lacks Necessary Cost-Containment Protections

- Pricing proposal does not comply with Staff Guiding Principal #2: "Contain Costs and Ensure Maximum Value to the Ratepayer and Utility." [*Section 399.20 Renewable Feed-in Tariff Workshop*, September 26, 2011, p. 6]
  - Lacks a tracking / accounting method to ensure IOUs do not request ratepayer funds for T&D upgrades in Hot Spot areas, which could lead to ratepayers double paying for T&D upgrades.