

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

Order Instituting Rulemaking to Integrate
and Refine Procurement Policies and
Consider Long-Term Procurement Plans.

Rulemaking 10-05-006
(Filed May 6, 2010)

**COMMENTS OF THE COGENERATION ASSOCIATION OF CALIFORNIA ON
PROPOSED DECISION ON SYSTEM TRACK I AND RULES TRACK III**

Pursuant to Rule 14.3 of the Commission's Rules of Practice and Procedure, the Cogeneration Association of California (CAC)¹ hereby comments on the Proposed Decision (PD) issued in this docket on February 21, 2012. CAC provides the following comments:

- The settlement of Track I issues submitted by the parties should be accepted as indicated in the PD.
- The prescription of a specified range of procurement of GHG compliance instruments could unnecessarily restrict utility GHG procurement strategies, to the detriment of ratepayers; instead, the utilities should be required to prudently procure such instruments in a manner that minimizes ratepayer cost exposure with an opportunity for Commission review of the procurement activities.
- Any authorization of GHG procurement should be coordinated with the monetization of GHG allowances on behalf of ratepayers to minimize a mismatch in timing or a mismatch of allowance costs and auction revenues.

I. THE SETTLEMENT OF TRACK I ISSUES SHOULD BE APPROVED, WITH A COMMITMENT TO URGENT ACTION

The settlement proposed by the parties regarding the treatment of the Track I system plans should be approved. The settlement is based on the need for further

¹ CAC represents the combined heat and power and cogeneration operation interests of the following entities: Coalinga Cogeneration Company, Mid-Set Cogeneration Company, Kern River Cogeneration Company, Sycamore Cogeneration Company, Sargent Canyon Cogeneration Company, Salinas River Cogeneration Company, Midway Sunset Cogeneration Company and Watson Cogeneration Company.

modeling, particularly of the integration requirements for renewables. CAC urges the Commission and the Presiding ALJ to expedite this further modeling and the resulting procurement decisions. Further delay in setting procurement authorizations will result in greater uncertainty and volatility in utility costs, which may be imposed on ratepayers. The utilities should have the greatest opportunity to implement their obligations to prudently procure.

II. GHG PROCUREMENT AUTHORIZATION MUST BE REVISED

A. The Percentage Limitations Should Be Replaced with a Standard of Prudent Procurement.

The PD proposes to control utility procurement of GHG compliance instruments by imposing annual limitations of a percentage of the compliance obligation.² These percentage limits should not be imposed for three reasons.

First, both the concept of and values for an annual limitation were first proposed in the IOUs' confidential testimony, and the parties have not had an opportunity to review and consider the impacts. If such a limitation is to be imposed, it should be done only after the parties have the opportunity to conduct discovery and thoroughly analyze the impacts both on the utilities' fulfillment of their obligations and on costs to ratepayers.

Second, the values placed in the limitation range appear arbitrary. For instance, the utilities may procure in 2013 no more than 20% of their compliance obligation for the 2015-2017 period. There is no rationale or underlying calculus that demonstrates 20% is more appropriate than 30% or 40%.

² PD, p. 54.

Third, placing specific percentage limitations may affect utility procurement strategy to the detriment of ratepayers. If the utility's best judgment is that more than 20% should be procured in 2013 for the 2015-17 period, it should be permitted to pursue this strategy.

A qualitative obligation, rather than specific annual limitations, would best serve utility ratepayers. The utilities should be permitted to exercise judgment and prudence to make these procurements in a manner that minimizes ratepayer costs, maximizes the utility's flexibility and ensures it meets the compliance obligations.

B. GHG Procurement Must Be Subject to a Reasonableness Review.

Regardless of whether utility procurement remains subject to the ranges in the table or is subject to a more conceptual obligation to act prudently, those procurement decisions must be subject to reasonableness review. When the utilities seek to include GHG procurement costs in their rates, the reasonableness and prudence of their procurement decisions should be subject to review and acceptance by this Commission. The PD should explicitly state that procurement decisions will be subject to review

C. All CPUC Supervision of GHG Instruments Should Be Coordinated.

Treatment of GHG procurement in this docket should be coordinated with the Commission's consideration of related issues in other dockets, including R.11-03-012. Ratepayers will be affected not only by the cost of GHG compliance instruments procured by the utility, but by the manner in which the utility monetizes its free allowance allocation. To ensure that there are not significant timing mismatches between procurement and monetization that result in rate volatility, and to ensure that there are not mismatches between GHG costs and revenues, the utilities should be

required to have a coordinated strategy. The coordinated strategy should be subject to a single review, enabling the Commission and ratepayers to see the results of the utility judgment. This review will occur naturally in the annual Energy Resource Recovery Account proceeding, for example, if the utilities' proposal in R.11-03-012 is adopted.

Respectfully submitted,

A handwritten signature in black ink that reads "Donald Brookhyser". The signature is written in a cursive style and is positioned above the typed name and contact information.

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on behalf of the Cogeneration Association of
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March 12, 2012

APPENDIX

CHANGES TO FINDINGS OF FACT AND CONCLUSIONS OF LAW

Conclusions of Law:

9. To reduce risk to ratepayers, the quantities and sources of greenhouse gas compliance instruments shall be procured by the utilities in a manner that minimizes ratepayer costs.

NEW 10. The cost, quantities and sources of greenhouse gas compliance instruments procured by the utilities shall be reviewed by the Commission for reasonableness and prudence.