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)

COMMENTS OF ENERGYSOURCE LLC ON THE ASSIGNED COMMISSIONER'S RULING IDENTIFYING ISSUES AND SCHEDULE OF REVIEW FOR 2012 RENEWABLES PORTFOLIO STANDARD PROCUREMENT PLANS

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Pursuant to the April 5, 2012 Assigned Commissioner's Ruling Identifying Issues and Schedule of Review for 2012 Renewables Portfolio Standard Procurement Plans Pursuant to Public Utilities Code Sections 399.11 et seq. and Requesting Comments on New Proposals ("Ruling"), EnergySource LLC ("EnergySource") hereby provides these comments on the new proposals described in the Ruling.[1]

I. Introduction and Summary

EnergySource was formed in 2006 as an independent power producer to develop geothermal projects in the Salton Sea resource area, one of the largest and highest temperature geothermal resources in North America. In early 2012, EnergySource successfully completed the construction and commenced operations of its first major power plant, the Featherstone Plant at Hudson Ranch Power 1, the first stand-alone geothermal plant built in the Salton Sea resource area in 20 years. Over the next decade, EnergySource will seek to develop additional geothermal projects in the Salton Sea resource area to help California meet the goals of the renewables portfolio standard ("RPS") program.

[1] Pursuant to Rule 1.4 of the California Public Utilities Commission's Rules of Practice and Procedure, EnergySource filed amotion to become a party to R.11-05-005 concurrently with these comments.

To advance the RPS program that was established to meet California's "need for a diversified and balanced energy generation portfolio" and "[c]ontributing to the safe and reliable operation of the electrical grid, including providing predictable electrical supply, voltage support, lower line losses, and congestion relief,"[2] the California Public Utilities Commission ("Commission") should: 1) promote the development and procurement of highly viable renewable generation facilities that provide California ratepayers with the most value at the least overall cost; 2) modify some of the new proposals in the Ruling to focus less on minimizing transmission costs and place a greater focus on encouraging highly valuable renewable generation and by promoting competition; 3) modify the new proposal to standardize the least-cost best-fit ("LCBF") methodologies used by California's utilities to consider additional value-based criteria to promote highly valuable renewable generation resources and optimize California's renewable objectives.

II. The Commission Should Not Focus Exclusively on Certain Price Components, but Should Instead Promote High Value and Viable Renewable Generation at the Lowest Overall Cost[3]

As set forth in the Ruling, the Commission is proposing to utilize "the RPS procurement review process to limit execution of power purchase agreements to projects of high value and viability by limiting the total capacity of power purchase agreements in certain areas so as to avoid triggering unnecessary reliability or deliverability upgrades."[4] The goal behind this proposal is to "minimize costly transmission upgrades resulting from RPS procurement."[5] EnergySource supports this proposal, but its scope should be expanded to review system

[2] Pub. Util. Code § 399.11(b)(6) and (b)(8).
[3] Ruling Section 7.7 – Utilize the Commission's RPS Procurement Process to Minimize Transmission Costs.
[4] Ruling, p. 24.
[5] Ruling, p. 24.

integration costs (i.e. operating reserves, regulation services, etc), and only to the extent that the emphasis is to limit procurement to projects of high value and viability by seeking to reduce total long-term ratepayers costs.

California has set an admirable and aggressive goal of 33% renewables by 2020 and has taken many positive steps to work towards achieving this goal. However, to help ensure that 33% renewables is attained, it is crucial that the Commission encourage the procurement of viable renewable resources that provide the highest value to California's ratepayers. This is not proposed in the Ruling, which instead seeks to minimize costs of delivery network upgrades ("DNU").[6] The Commission should not limit itself to minimizing DNU costs, but should instead concentrate on overall costs and value provided to California ratepayers. EnergySource is not proposing that DNU costs be ignored, but the Commission must take note that transmission costs and impacts are a relatively small portion of the total cost and impacts of providing electricity to ratepayers. Therefore, the Commission should instead emphasize minimizing the total costs of renewable electricity including the total integration costs of back-up power sources for intermittent renewables while ensuring that such electricity provides the optimum value for California.

To ensure that total costs are minimized, the Commission must address the big picture and encourage the development and procurement of viable and highly valuable renewable generation resources. While transmission costs do impact overall costs, it is more important that the Commission consider other factors such as deliverability, actual deliverable output, reliability (reliability network upgrades also influence overall cost), the need for ancillary services, and especially the real and total integration costs. The real and total cost must be visibly

[6] Ruling, p. 27.

incorporated into the decision making process for choosing the highest value least cost solution. It would signal consistency by the Commission since it has been standing policy to factor in higher transmission costs from California-based projects located outside of the California Independent System Operator in the decision making process. By concentrating solely on an approach to minimize DNU costs, the Commission is limiting available generation options and reducing competition, thereby increasing generation costs and potentially overall ratepayer bills. The Commission should promote more valuable renewable generation, such as geothermal power, which can provide reliable baseload generation and reduce the need for: (i) ancillary services (and the associated integration costs and emissions from such services); (ii) reliability network upgrades; and (iii) duplicative renewable generation procurement to hedge against intermittency (often requiring additional costly transmission). By encouraging more valuable procurement and seeking to reduce overall ratepayer costs, the Commission will also help protect against future renewable supply volatility by ensuring that a robust supply of valuable renewable options are competing to serve California. This will help California meet its goals at a lower overall cost while increasing the value provided to California ratepayers.

III. Additional Value-Based Criteria Should Be Included in Any Standardized LCBF Market Valuation Methodology[7]

EnergySource commends the Commission for its proposal to standardize the approach for the LCBF market valuation methodology. Additional refinements are needed, however, to truly capture the qualities required to meet California's renewable and environmental goals and to provide the most value to California's ratepayers. The Commission's proposal is vastly superior

[7] Ruling Section 7.1 – Standardized Variables in LCBF Market Valuation.

to a "price" only approach, but additional elements must be incorporated to fully account for the changes and additions needed to meet California's renewable goals.

To fully account for real integrated resource planning and genuine risk diversification, the Commission's proposed approach to standardize the LCBF valuation must be revised to provide greater flexibility and complexity to account for the myriad of changes that must occur to satisfy renewable procurement targets. The temporal nature of the Ruling's proposed approach is too static to properly account for the anticipated shift to additional renewable generation resources. Furthermore, the proposal fails to account for project development schedules that are required to avoid large congestion and integration costs. These concerns are further compounded as meeting California's goals is a multi-faceted, multi-year process.

To address such concerns, the Commission should modify its LCBF market valuation approach by assessing additional facility qualities to provide California's ratepayers with the most value using a "Greatest-Value Best-Fit" approach. The current LCBF approach is arbitrary and fundamentally flawed by failing to account for certain values provided by many renewable resources. Geothermal facilities that provide reliable baseload power are often overlooked in favor of intermittent renewable resources, even though such intermittent resources provide only a fraction of the overall renewable energy and reliability value to California and its ratepayers. To remedy the current approach, the Commission should adopt value-based criteria other than price. Therefore, in addition to the standardized variables suggested in the Ruling, the Commission should include the following variables to provide a "Greatest-Value Best-Fit" approach that will

simultaneously capture all aspects of a renewable resource to evaluate the real costs and benefits of that resource[8]:

- Job creation benefits – When assessing job creation benefits, the methodology should consider jobs created for project development as well as jobs associated with the operation and maintenance of a project. Therefore, a higher value would be assigned to facilities with greater employment creation and longer operational lives.

- Tax benefits and revenues – A higher value should be assigned to projects that provide increased tax revenue to California and the U.S.

- Integration costs – the myriad of ancillary services needed to support intermittent generation (i.e. spinning and non-spinning reserves, regulation, etc) as well as DNU costs.

- Other environmental advantages – A higher value should be assigned to projects that promote or advance other environmental or green industries.[9] For example, geothermal projects in the Salton Sea resource area are an essential first step to support lithium production required for cost effective electric cars and energy storage. California should support the advancement of other environmental industries and reward technologies that do so accordingly.

Utilizing a "Greatest-Value Best-Fit" approach will help maximize environmental benefits for California and provide additional value to ratepayers by ensuring that more valuation variables are included in the facility ranking methodology. This approach, ultimately, will help ensure that more valuable renewable resources provide power to California while further advancing renewable and environmental goals.

IV. Conclusion

For the foregoing reasons, the Commission should modify the new proposals in its Ruling to promote the development and procurement of viable and highly valuable renewable

[8] An assessment of the real costs and benefits of a resource will evaluate any back-up fossil fuel generation that must exist to act as a spinning reserve for the intermittent resource to level the playing field between baseload and as-available resources.

[9] Pub. Util. Code § 399.11(b) encourages, among other things, "[d]isplacing fossil fuel consumption within the state" and "[r]educing air pollution in the state."

generation. The Commission should focus on reducing overall ratepayer costs by encouraging highly valuable renewable generation and promoting competition, rather than simply seeking to reduce DNU costs which only comprise one part of overall ratepayer costs. Additionally, the new proposal to standardize the LCBF market valuation methodology should be modified to consider additional value-based criteria to promote highly valuable renewable generation resources and help meet California's RPS and environmental goals. These changes will help the Commission realize an RPS program that was established to meet California's "need for a diversified and balanced energy generation portfolio" and "[c]ontributing to the safe and reliable operation of the electrical grid, including providing predictable electrical supply, voltage support, lower line losses, and congestion relief,"[10] as intended.

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Respectfully submitted,

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[10] Pub. Util. Code § 399.11(b)(6) and (b)(8).

VERIFICATION

I am the attorney for EnergySource LLC and am authorized to make this verification on its behalf. EnergySource LLC is absent from the County of Sacramento, California, where I have my office, and I make this verification for that reason. The statements in the foregoing document are true of my own knowledge, except as to matters which are therein stated on information and belief, and as to those matters I believe them to be true.

I declare under penalty of perjury that the forgoing is true and correct.

Executed on June 27, 2012 at Sacramento, California.

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