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 THE LARGE-SCALE SOLAR ASSOCIATION ON THE APRIL 5th ASSIGNED COMMISSIONER'S RULING AND THE 2012 RENEWABLES PORTFOLIO STANDARD PROCUREMENT PLANS

Linda Agerter
51 Parkside Drive
Berkeley, CA 94705
Phone 510.684.3093
Fax: 510.658.4849
Email: agerterlinda@gmail.com
Attorney for the Large-scale Solar Association

Shannon Eddy, Executive Director
Kristin Burford, Policy Director
Large-scale Solar Association
2501 Portola Way
Sacramento, California 95818
eddyconsulting@gmail.com
kristin.b.burford@gmail.com

June 27, 2012

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 THE LARGE-SCALE SOLAR ASSOCIATION ON THE APRIL 5th ASSIGNED COMMISSIONER'S RULING AND THE 2012 RENEWABLES PORTFOLIO STANDARD PROCUREMENT PLANS

Pursuant to the schedule set forth in Attachment A of the April 5th Ruling of Assigned Commissioner Ferron 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" or "ACR"), the Large-scale Solar Association ("LSA") respectfully submits these comments on issues to be considered as the California Public Utilities Commission ("Commission") moves forward with its consideration of the 2012 Renewables Portfolio Standard ("RPS") Procurement Plans (filed on May 23rd in accordance with the ACR schedule) and the proposals included in the ACR.

These comments reflect LSA's key policy principles for 2012 RPS procurement. First, LSA urges the Commission to consider the different policy drivers that will affect renewable energy development and costs in the coming years. Specifically, the expiration of the Investment Tax Credit ("ITC"), which is currently set for 2016, has

SB_GT&S_0579393

significant implications for RPS procurement costs in California. LSA encourages the Commission to consider the procurement rules and commercial arrangements that should be in place prior to the ITC expiration so that developers and load-serving entities ("LSEs") can maximize the ITC benefits, particularly in the third compliance period. Currently, projects must meet a commercial operation date ("COD") at the end of 2016 to take advantage of the ITC. The Commission's policies and the next solicitation are critical for enabling California consumers to capture the ITC benefit for consumers.

Second, LSA emphasizes the need for an open and transparent process for rule development and application. Generally, the procurement rules should be developed in Commission proceedings that provide an opportunity for stakeholder input. These proceedings should define uniform principles that apply across the solicitations, while providing some flexibility in the application of these principles to account for the different portfolios and renewable needs of the individual load-serving entities. To provide for an efficient and stable renewables market, the Commission should clearly establish how to value different types of renewable resources, whether it has a preference for various potential attributes of renewable generation, and how that preference will factor into the Commission's assessment of cost reasonableness. Developing procurement rules and standards in an open and transparent forum with opportunity for stakeholder review should result in a comprehensive policy regarding resource preference and cost evaluation, accounting for the cost and reliability of the overall electrical system. To the extent the Commission prefers specific RPS attributes and products, these preferences should be clearly conveyed to the market, which can respond to provide the

SB_GT&S_0579394

attributes or products cost-effectively. These comments identify two issues discussed in the procurement plans that need additional transparency and stakeholder input: integration costs and Time-of-Delivery ("TOD") factors.

I. The Commission Should Consider the Timing of the Investment Tax Credit Expiration when Evaluating the 2012 RPS Procurement Plans.

With the ITC set to expire in 2016, the Commission should establish RPS procurement policy in this docket which will maximize the ability of the utilities to capture the ITC benefits for consumers, particularly in the third compliance period. Generally, the ITC allows developers to achieve approximately a 30% discount to solar energy development costs; these savings will benefit California electricity consumers. Eligibility for the ITC requires a project to achieve COD by the end of 2016. LSA believes that the utilities should have flexibility to structure transactions in a manner that minimizes the risks to consumers of over-procurement in the short-term, while providing them with the commercial flexibility to capture the consumer benefit from the ITC over the long-term. Establishing procurement rules in this RPS docket will allow the market to craft commercial structures and the utilities to consider how to cost-effectively meet their RPS needs beyond 2016. The Commission should establish its policy with regard to commercial transactions in this docket for application in the next utility solicitation and provide the utilities the flexibility to evaluate commercial transactions in a way that maximizes overall consumer benefit.

SB_GT&S_0579395

In considering these 2012 RPS procurement plans, the Commission should also consider the timing among a ruling on the procurement plans, the request for offers ("RFO") that the plans are structured to influence, and the current 2016 expiration date of the ITC. Given the current 2016 expiration date for the ITC, RPS projects seeking to take advantage of the ITC should have a commercial arrangement by 2014 to enable a project COD by December of 2016. Based on timing estimates for a roughly 100 MW project, [1] LSA anticipates that developers will require a commercial arrangement in 2014 to allow for sufficient development and construction time and financing certainty to meet this timeline. Given the timelines to negotiate, execute and obtain Commission approval of contracts, we expect that the 2012 RFO will be the last opportunity for RPS projects to take advantage of the ITC in its current form.

Given the economic benefits provided by the ITC, LSA anticipates that, even if projects do not begin delivering energy to their contracted LSE until 2018 or later, buyers and sellers will still seek to take advantage of the ITC. To this end, the Commission should establish clear guidance to utilities and allow commercial flexibility to structure transactions and allow the market to step up with creative, cost-effective options in the next solicitation. To ensure that the RPS procurement is targeted to achieve the full benefit of the ITC, LSA encourages the Commission to consider the maximum RPS needs based on the most conservative net short calculations.

[1] To provide certainty for investors, industry experience suggests that projects would need to reach COD by end of 2015/early 2016 on paper. Working backwards to determine the procurement timelines for projects, the industry average (assuming permitting is complete) for projects roughly in this size range is 24 months for interconnection and construction. This indicates that that contracts for ITC projects need to be approved by the Commission by the end of 2013/early 2014.

SB_GT&S_0579396

II. Treatment of Integration Costs Should Not Disadvantage Renewable Generators.

1. The Commission Should Conduct an Open Public Process to Determine Both the Amount, and Use of, the Integration Costs in Ranking RPS Bids.

The ACR calls for integration costs to be included as one variable in calculating the net market value ("NMV") of RPS projects. LSA agrees with Pacific Gas and Electric Company's ("PG&E") comment that the RPS-obligated entities need further guidance than is provided in the ACR, which directs that "…inputs …should be consistent with Long-Term Procurement Plan authorizations…"[2] As PG&E states, the ACR does not provide LSEs or other parties enough information to determine appropriate inputs, or to develop a methodology.[3]

Southern California Edison Company ("SCE") indicates that it will consider integration costs in its next RPS solicitation, and recommends that "an integration study that reflects updated regulatory and procurement expectations should be used as a basis for measuring integration costs",[4] although it does not offer a specific methodology or proposed amount. In its filing, PG&E proposes to use an integration cost adder for variable energy resources of $7.50/MWh, but indicates that this may be adjusted for resources "with reduced levels of intermittency" on a case-by-case basis.[5]

LSA appreciates the comments of both utilities in this regard, and notes that the divergence in approach points to a need for greater uniformity and clarity on the

---

[2] ACR, p.17.
[3] PG&E 2012 Renewable Energy Procurement Plan (May 23, 2012), Section 8.4.1, p. 65. ("PG&E 2012 Plan").
[4] SCE 2012 Renewables Portfolio Standard Procurement Plan, Volume 2 (May 23, 2012), Appendix F.1, Section II.A.1.a, p. 5. ("SCE 2012 Plan").
[5] PG&E 2012 Plan, Section 1.4.2, p. 15-16.

SB_GT&S_0579397

quantification of the integration cost estimate. This will increase transparency of the role of integration costs in bid evaluations.

LSA requests that any cost estimate, or other adjustment to least-cost, best fit ("LCBF") to attain a balanced portfolio, be developed through a focused public process. Thus, LSA recommends that the Commission, through a limited number of workshops and opportunities for public comment, develop a clear methodology for calculating the LCBF adjustment — including defining the applicable inputs, computing a publicly-known baseline amount for the adjustment, and describing how to modify the adjustment for variable resources with differing characteristics and for LSEs with different portfolio needs.

Specifically, the ACR states that the Net Market Value will be computed from the following inputs:

E = Energy Value
C = Capacity Value
P = Post-Time-of-Delivery Adjusted Power Purchase Agreement Price
T = Transmission Network Upgrade Costs
G = Congestion Costs
I = Integration Costs
S = Ancillary Services Value

LSA notes that all of these values, with the exception of integration costs, are assessable values in the California market (recognizing that RA is a bilateral product and the backstop price is the only public market price). The evaluation of each should be based on a forward assessment of these values over the specified contract period. With regard to integration costs, the California Independent System Operator Corporation's ("CAISO") proposed flexi-ramp product, to be implemented in 2013, will provide an

SB_GT&S_0579398

additional price point for the costs associated with resource variability.[6] To the extent possible, the integration value adopted in this proceeding should be continually rationalized against actual market outcomes. LSA supports further discussion about use of the flexi-ramp clearing price or other appropriate market prices for use in the calculation going forward.

It is further LSA's position that the key inputs and the method of applying the integration cost adjustment must be standardized among LSEs.

2. Integration Costs Should Not Be Directly Attributed to, or Paid By, RPS Generators.

The appropriate use of any integration cost estimates in the procurement process is to rank alternative RPS bids, which constitutes a straightforward extension of the current market valuation methodologies. Current market valuation methods calculate a "green premium" by subtracting the energy value and capacity value of a submitted bid from its bid costs; the expanded method would simply also add integration costs to the cost side of the equation. This would enable the LSEs to appropriately rank bids based on relative contribution to integration costs, using transparent inputs that would send a clear signal to the market.

LSA maintains its position that, in no instance, should investor-owned utilities ("IOUs") be allowed to directly pass through integration costs to individual generators in their PPAs, whether through assigning those costs directly, passing though scheduling

[6] LSA notes that integration costs are actively being discussed at the CAISO through its development of cost allocation principles for its market products (on-going), proposed cost allocation for the flexi-ramp product (in development), and expressed intent to apply the cost allocation principles to other market products (to occur later this year).

SB_GT&S_0579399

coordinator costs associated with integration products, or imposing charges associated with schedule deviations. The Commission should continue its policy, most recently reaffirmed in the Renewable Auction Mechanism ("RAM") resolution, that utilities shall be the scheduling coordinator for RPS resources. Specifically, the most recent RAM resolution stated:

> **Scheduling Coordinator**: Where possible, the contracting IOU shall be the scheduling coordinator for each project using the RAM, and the IOU shall bear the risk of scheduling deviations if the generator provides the IOU with timely information on its availability; the IOU can decline scheduling coordinator responsibilities only upon a written, affirmative request from the seller that the IOU not be the scheduling coordinator, or if unable to perform these duties[7]

LSA supports the Commission adopting the above scheduling coordinator and deviation risk policy in this docket for application in the pro forma RPS contract going forward. While this specific topic was not specifically found in LSA's review of either the April 5th ACR or the 2012 RPS Procurement Plans of the IOUs, LSA raises this concern here in light of the ongoing activities at the CAISO around cost allocation and the flexi-ramp product and the potential relevance of these activities to 2012 RPS PPAs.

LSA notes that it is clear that integration costs are a function of myriad factors, including geographic diversity, system conditions, imports, overall portfolio balance, and system response to those portfolios. Allocating integration costs to individual generators does not address the critical importance of aggregate RPS portfolio decisions made by the IOUs, as well as influenced by their other investment decisions on alternative integration resources, whether generation, storage, or demand response. Thus, the assignment of

[7] Commission Resolution E-4489 (April 19, 2012), App. B, p. 31-32.

SB_GT&S_0579400

integration costs should reflect the portfolio decisions of the IOUs, through their scheduling coordinators. And, LSEs that procure a more balanced portfolio that imposes less integration needs on the grid should not be responsible for sharing costs with LSEs that have procured more variable portfolios. As further justification to not place the burden of these costs on individual generators, LSA notes that forcing generators to individually assess the costs and associated risk of integration and schedule deviation costs will likely be more costly than assigning them to the LSE, who can manage those costs through the market, as opposed to contracts, and balance the costs across a large portfolio.

III. The Commission Should Not Allow IOUs to Change TOD factors Without Supporting Documentation and Opportunity for Review.

LSA notes that the Time-of-Delivery ("TOD") Factors in the SCE and PG&E filings have changed considerably from the TOD Factors used in the 2011 Request for Offers ("RFO") and in earlier RFOs. Both utilities have proposed to differentiate between Energy-Only Product Payment Allocation Factors and Full-Capacity-Deliverability Product Payment Allocation Factors. The Energy-Only factors are dramatically different than the factors that have been applied in the past. The Energy-Only TOD factors are essentially flat—they do not recognize any incremental value for peak production over off peak in summer or winter. For renewable energy products providing Full Capacity Deliverability, the changes are significant as well. SCE changed

SB_GT&S_0579401

the values for daytime factors for both winter and summer seasons. [8] In the case of the value for Summer On-Peak period, reduction is over 11 percent. PG&E has not provided new numerical values but indicates the values are subject to revision.[9]

LSA is concerned that SCE and PG&E's TOD adjustments have the potential to dramatically change the relative value of solar resources in the RFO mix. LSA understands the need to differentiate energy value by TOD but believes that such significant changes should only be adopted with clear justification and support. LSA requests that the Commission set a focused workshop to discuss the principles behind TOD adjustment, and require that utilities provide supporting documentation for these adjustments that fit within the uniform principles developed through the workshop process. Until the changes have been properly vetted, the utilities should continue to use the TOD factors used in prior approved procurement plans.

//

//

//

//

//

//

//

//

[8] SCE 2012 Plan, Section XIII.B.2, p. 31.
[9] PG&E 2012 Plan - 2012 Solicitation Protocol, Section VII.B, p. 20-22.

SB_GT&S_0579402

CONCLUSION

LSA appreciates the opportunity to provide these comments. To summarize the key concerns raised in these comments, LSA urges the Commission to consider the different policy drivers, including the ITC, that will affect renewable energy development and costs in the coming years as it considers procurement policy in this proceeding. Also, LSA emphasizes the need for an open and transparent process for rule development and application, specifically with respect to integration costs and TOD factors.

Dated: June 27, 2012

Respectfully Submitted,

/s/ Kristin Burford

Kristin Burford
Policy Director
Large-scale Solar Association
2501 Portola Way
Sacramento, California 95818

Phone: (916) 599-8633
Email: kristin.b.burford@gmail.com

VERIFICATION

I, Shannon Eddy, am the Executive Director of the Large-scale Solar Association. I am authorized to make this Verification on its behalf. I declare that the statements in the foregoing copy of *Comments of the Large-scale Solar Association on the April 5th Assigned Commissioner's Ruling and the 2012 Renewables Portfolio Standard Procurement Plans* are true of my own knowledge, except as to the 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 foregoing is true and correct. Executed on June 27, 2012 at Sacramento, California.

/s/ Shannon Eddy
Shannon Eddy
Executive Director, Large-scale
Solar Association