

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

Order Instituting Rulemaking to Continue
Implementation and Administration of California
Renewables Portfolio Standard Program

R. 11-05-005
(Filed May 5, 2011)

**SIERRA CLUB CALIFORNIA REPLY COMMENTS ON
THE 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**

July 18, 2012

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I. INTRODUCTION

Pursuant to the 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, issued April 5, 2012 (“ACR”) Sierra Club California (Sierra Club) hereby submits these comments in accordance with the ACR and the California Public Utilities Commission’s Rules of Practice and Procedure.

Sierra Club California is the largest grassroots environmental organization in California, with over 150,000 members in California and 1.2 members and supporters nationally. Sierra Club works through education and advocacy to protect the environment and reduce greenhouse greenhouse gas emissions. Sierra Club has been an active participant in stakeholder groups relating to the Desert Renewable Energy Conservation Plan (“DRECP”), and has both supported but occasionally opposed specific renewable energy projects based on the need to implement the Renewables Portfolio Standard (“RPS”) while safeguarding natural resources.

Sierra Club agrees with several of the ACR proposals that seek to integrate transmission costs and transmission planning into the RPS Procurement Plans and Least Cost Best Fit (“LCBF”) methodology. However, the Commission should implement the LCBF examination in scope of this ruling in addition to new requirements and considerations in SB 2 1X prior to adopting new RPS Procurement Plans. Sierra Club believes that LCBF should include factors that integrate environmental stewardship of natural resources, and that LCBF should incorporate

load planning to benefit ratepayers by matching product type and capacity with load shape by geography to procure a balanced portfolio that reduces greenhouse gas emissions.

II. THE ACR PROPOSALS TO INTEGRATE TRANSMISSION COSTS AND PLANNING INTO RPS PROCUREMENT BENEFIT RATEPAYERS AND THE ENVIRONMENT AND SHOULD BE ADOPTED.

Sierra Club agrees that the procurement process should take into account transmission costs and related services required for procurement and integration into the grid.

A. THE NET MARKET VALUE METRICS SHOULD INCORPORATE ENVIRONMENTAL STEWARDSHIP. (PROPOSAL 7.1)

The ACR proposes the use of standardized variables in a net market value formula. Sierra Club supports aspects of this, such as the new deduction for “integration costs” for intermittent resources, which can help reflect the value of existing transmission infrastructure that a project is able to connect to. Sierra Club also supports the adjusted net market value for projects providing ancillary services, which can help encourage electricity projects that provide peak-hour resources and electricity storage services.

Both aspects are consistent with the new Public Utilities Code Section 399.13(a)(4)(A)(i) for the Commission to adopt LCBF criteria that take into account “indirect costs associated with needed transmission investments and ongoing electrical corporation expenses resulting from integrating and operating eligible renewable energy resources.” Integrating these measures of market value will reduce costs for ratepayers and conserve natural resources in the process.

Sierra Club believes that these market values should incorporate the full value of displacing greenhouse gas emissions, particularly considering the long-term avoided costs of natural gas generation and applicable carbon prices. Consideration should also be given to integrated resources planning, and how the market value metrics can further include incentives to plan electrical load when and where specific electricity product types are needed. Sierra Club agrees with parties that encourage the Commission to provide the utilities guidance as to resolving varying approaches to calculating this value.

B. THE USE OF TRANSMISSION COST STUDY ESTIMATES SHOULD BE ADOPTED (PROPOSAL 7.3).

The ACR proposes that “to the extent transmission cost estimates from CAISO GIP studies (or equivalent) are available, the IOUs rely on this data for their LCBF evaluations rather than the cost estimates from the TRCRs to more accurately reflect a bid’s value to ratepayers.”¹ Sierra Club supports the use of transmission cost estimates, since they are more accurate reflections of transmission costs.

C. THE PROPOSAL TO CREATE TWO SHORTLISTS BASED ON STATUS OF TRANSMISSION STUDY SHOULD BE ADOPTED (PROPOSAL 7.4).

The ACR proposes to use two shortlists, the first of which would be a primary shortlist for bids that have obtained CAISO GIP Phase II study results or equivalent, and the second a provisional shortlist. Bearing in mind anticipated comments from other interested parties, Sierra Club appreciates that this approach can focus procurement on projects with a greater likelihood of success, and a potentially reduced project failure rate. This could potentially improve project

¹ ACR at 19.

certainty in relation to meaningful milestones for RPS procurement planning that reflect actual infrastructure costs.

D. THE PROPOSAL FOR SHORTLISTS TO EXPIRE AFTER 12 MONTHS WOULD ENCOURAGE USE OF MORE UP TO DATE INFORMATION (PROPOSAL 7.5).

The ACR proposes for shortlisted bids to be executed within 12 months. This proposal would encourage reliance on the most up to date information, requiring a new bid after a year has passed. This would promote a more current examination of the most competitive options at the time of the utility entering into a contract.

E. THE TWO-YEAR PROCUREMENT AUTHORIZATION SHOULD BE REJECTED OR DELAYED TO ALLOW TIME FOR OVERALL REVIEW OF LCBF.

As stated below in these comments, SB 2 1X requires consideration of maximizing environmental benefits and providing preference to projects that provide environmental benefits. The current LCBF methodology dates back to D.04-07-029 and has not been updated to consider the effect of SB 2 1X and current information about operationalizing best fit criteria to optimize environmental benefits and value to ratepayers. Indeed, overall review of LCBF is included within the scope of this proceeding, but this proposal would reduce the likelihood that such review would have a meaningful effect. For example, PG&E indicates in its plan preferences for projects that will come on-line in 2019, indicating that within two years that contracts for RPS implementation could already be spoken for before the Commission has the opportunity to conduct any review. Sierra Club also notes a debate on this proposal for other reasons relating to

changed circumstances within the two-year period. Sierra Club strongly urges for this proposal to be rejected or delayed to allow for Commission overall review of LCBF.

F. THE USE OF THE RPS PROCUREMENT PROCESS TO MINIMIZE TRANSMISSION COSTS BENEFITS RATEPAYERS AND THE ENVIRONMENT AND SHOULD BE REVISED TO IMPROVE TRANSPARANCY AND COORDINATION WITH RELIABILITY NEEDS (PROPOSAL 7.7).

The ACR describes the concerns with deliverability of projects being tied to certain transmission network upgrades, some of which will be built, and “many of which may never be built.”² While Sierra Club strongly supports the robust implementation of the RPS to reduce greenhouse gas emissions, we recognize that inefficient construction of transmission could lead to excessive costs to ratepayers in light of more efficient options. Indeed, Public Utilities Code 1005.1(a)(2) requires the Commission to first consider the utilization of existing transmission facilities and rights of way “where technically and economically justifiable,” to consider “the expansion of existing rights-of-way, if technically and economically feasible, when construction of new transmission lines is *required* (emphasis added), consideration of “the creation of new rights-of-way when justified by environmental, technical, and economic reasons,” and finally “the availability of cost-effective alternatives to transmission, such as energy efficiency measures and distributed generation.” Sierra Club agrees that the ACR proposal to limit execution of PPAs to projects “of high value and viability by limiting the total capacity” in certain areas will help avoid triggering unnecessary reliability or deliverability upgrades, and will focus procurement on existing transmission facilities and rights of way, in furtherance of the process

² ACR at 24.

that the Commission must consider when applying Section 1005.1(a)(2). These principles conserve both natural resources and fiscal resources that would be invested in new rights of way that may not be necessary to implement the RPS at a reasonable cost.

In reply to parties raising constructive concerns with this proposal, Sierra Club recognizes that this policy must be reviewed and modified to address the legitimate need for feasible options for meeting resource adequacy and reliability requirements. Sierra Club additionally supports the use of objective standards and a transparent process that would allow stakeholders, including advocacy organizations such as Sierra Club, to participate in this process. Documents relied upon should be subjected to workshops and comments on the record at the Commission, and CAISO determinations first should be made available for presentation and discussion.

Sierra Club would additionally support improvements to this policy that could help promote greater certainty for renewable project developers. The Commission should direct the utilities and CAISO to provide publicly available information to assist developers in focusing investment into locations that will rank with higher project viability ratings and transmission cost factors.

III. THE COMMISSION SHOULD CONSIDER FURTHER REVIEW AND
MODIFICATION OF LCBF TO IMPLEMENT ENVIRONMENTAL CRITERIA
REQUIRED BY SB 2 1X.

The ACR proposals do not address the overall review and modification of LCBF, as identified in the July 8, 2011 Scoping Memo and Ruling of Assigned Commissioner.³ Indeed, the RPS Procurement Plans fail to implement the legislative intent for RPS implementation to be “[d]isplacing fossil fuel consumption within the state,”⁴ “[r]educing air pollution in the state,” “[m]eeting the state’s climate change goals by reducing emissions of greenhouse gases associated with electrical generation,” and the program objective to obtain “the greatest environmental benefits for California residents.”⁵ Public Utilities Code Section 399.13 (a)(7), which provides for “[i]n soliciting and procuring eligible renewable energy resources for California-based projects, each electrical corporation shall give preference to renewable energy projects that provide environmental and economic benefits to communities afflicted with poverty or high unemployment, or that suffer from high emission levels of toxic air contaminants, criteria air pollutants, and greenhouse gas emissions.” Each RPS Procurement Plan submitted to the Commission fails to implement or even discuss this point of law, and the ACR does not address this important principle.

Sierra Club California requests the Commission to consider further comment by parties on the overall modification of LCBF prior to the adoption of RPS Procurement Plans. In these comments we also propose initial considerations for implementing environmental stewardship and maximizing environmental benefits pursuant to law.

A. LEAST COST, BEST FIT (LCBF) PRINCIPLES FOR EVALUATING AND
RANKING RENEWABLE ENERGY GENERATION PROJECTS DO NOT
ADEQUATELY ADDRESS ENVIRONMENTAL CONCERNS.

³ April 5, 2012 Assigned Commissioner’s Ruling, p.18.

⁴ Public Utilities Code Section 399.11(b).

⁵ Public Resources Code Section 25740.5(c)

The LCBF bid evaluation methodology does not consider the impacts of renewable energy projects on optimizing greenhouse gas emission reductions, or on protected plant and animal species and their habitat.

1. THE LCBF METHODOLOGY SHOULD ACHIEVE PLANNING OBJECTIVES FOR A DIVERSE PORTFOLIO AND GREENHOUSE GAS EMISSION REDUCTIONS.

The LCBF process does not integrate important information such as load shape, time of delivery, and geographic needs across the distribution grid to coordinate the best fit of renewable resources and achieve a diverse portfolio that reduces greenhouse gas emissions. The RPS program is intended to displace fossil fuel generation, but renewable resources must be strategically planned to achieve these goals.

The legislature recognized the importance of planning a diverse portfolio in SB 2 1X when stating that the “program objective shall be ... fostering resource diversity and obtaining the greatest environmental benefits for California residents,”⁶ and that an intent of the program is to meet “the state’s need for a diversified and balanced energy generation portfolio.”⁷ The statute governing RPS Procurement Plans requires a showing that the procurement plan will achieve “a diversified procurement portfolio...”⁸ A diverse portfolio helps reduce fossil fuel generation and balances resources with temporal and reliability needs, saving ratepayers procurement costs.

⁶ Public Resources Code Section 25740.5.

⁷ Public Utilities Code Section 399.11(b)(6).

⁸ Public Utilities Code Section 454.5(b)(9)(B).

Therefore, Sierra Club urges the Commission to consider the following proposed changes to the LCBF methodology:

1. Using a grid operations model that can identify sections of the distribution grid where a diverse portfolio of renewable electricity projects (peaking, non-peaking, baseload) would displace fossil fuel generation and reduce greenhouse gas emissions, the Commission would establish best-fit procurement targets for renewable electricity product types and geographic areas.
2. The least-cost, best-fit selection would include best-fit procurement competition classes by geographic area and product type to meet the requirements of the best-fit procurement targets, with appropriate price limits to prevent disproportionate costs.
3. Consideration of alternative methods that would achieve procurement of a diverse portfolio to displace fossil fuel emissions and reduce greenhouse gas emissions.

2. THE LCBF METHODOLOGY SHOULD INCLUDE MEANINGFUL QUANTIFICATION OF BIOLOGICAL IMPACTS.

Although environmental stewardship is listed as a qualitative factor, LCBF does not allow the utilities an opportunity to adequately analyze or weigh environmental impacts in the procurement process. Over the years that LCBF has been in place, there has been no meaningful analysis or weighting of environmental stewardship, while several examples exist where the investor-owned utilities have entered into power purchase agreements (“PPAs”) for projects with extraordinarily high environmental impacts. Including the concept of environmental stewardship as a qualitative consideration, rather than a quantitative factor, and without giving the IOUs

guidance on what environmental stewardship means or how it should be evaluated, has led to inadequate consideration of wildlife and other environmental concerns.

The failure to consider biological impacts in the IOU's evaluation and ranking of projects has caused the direct mortality of threatened and endangered animal species and serious long-term impacts to such species through habitat loss. Additionally, California's ratepayers have paid directly or indirectly the high mitigation costs associated with these projects, which have in many cases have led to increased contract prices or contract failure.

Although in many cases the environmental review of generation projects is not complete at the time the project is shortlisted, comments to environmental review documents are often publicly available at the point in which the IOUs are making procurement decisions, and reviewing these recommendations and taking them into account should be required as part of the IOUs diligence process. The Desert Renewable Energy Conservation Plan ("DRECP") is one example of a process that will provide guidance on some areas that are inappropriate for renewable energy development due to high-conservation values, although this process is not yet complete, and should not be a substitute for project-specific diligence.

Therefore, Sierra Club urges the Commission to consider the following proposed changes to the LCBF methodology:

1. Include environmental stewardship of natural resources as a significant quantitative factor in the LCBF analysis.

2. Environmental stewardship should be scored according to detailed criteria quantifying the project's environmental stewardship based on impacts to protected status species and habitat, including information from DRECP.⁹
3. Projects with a low environmental stewardship score should be ineligible for short-listing.
4. Projects with a high environmental stewardship score should be given a significant preference and a higher valuation in the IOU's evaluation and ranking.
5. The concept of environmental stewardship should be recast more precisely as "biological conservation and impacts."

IV. THE COMMISSION SHOULD INCLUDE A GREATER ROLE FOR DISTRIBUTED GENERATION IN RPS PROCUREMENT PLANNING.

Rather than exist as ad-hoc programs, the Commission should better integrate distributed generation programs such as the utility solar, RAM, and FIT into procurement planning. This integration is essential to inform planning efforts relating to geographic need, and to enable the expansion of successful and cost-effective programs that can help meet California energy goals. The Governor's Clean Energy Jobs Plan calls for 12,000 MW of distributed generation, and this target is presented in depth in the 2011 Integrated Energy Policy Report,¹⁰ but this is not reflected in the draft RPS Procurement Plans. Sierra Club recommends for the Commission and

⁹ As an illustrative example for further review, Sierra Club refers to the June 18, 2010 33% Environmental Scoring Criteria Presented by Brewster Birdsall, P.E., of Aspen Environmental Group. Available at <http://www.cpuc.ca.gov/NR/rdonlyres/431E5A0B-E226-4FF6-9BA9-4D8D5A86A28D/0/AspenEnvironmentalScoring.pdf>

¹⁰ California Energy Commission, 2011. 2011 Integrated Energy Policy Report. CEC-100-2011-001-CMF. p.20-34

utilities to expand the role of distributed generation programs in their RPS Procurement Plans. Sierra Club California recommends the expansion of a combination of the RAM, FIT, and successor programs to achieve at a minimum the 3,017 MW remaining capacity toward meeting the Governor's 12,000 MW Goal.¹¹

Respectfully Submitted,

July 18, 2012

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¹¹ Id. at 32. The Commission should also consider any shortfall associated with the additional 3,740 MW of "Pending/Authorized" capacity.

VERIFICATION

I am the Senior Advocate with Sierra Club California and am authorized to make this verification on its behalf. I am informed and believe that the matters stated in this pleading are true.

I declare under penalty of perjury that the matters stated in this pleading are true and correct.

Executed on the **18th day of July, 2012**, at Sacramento, California.

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