

**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 12-03-014
Filed May 5, 2011

**COMMENTS OF ORMAT TECHNOLOGIES INC. IN RESPONSE TO ALJ
GAMSON QUESTIONS OF SEPTEMBER 14, 2012**

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October 5, 2012

**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 11-05-005
Filed May 5, 2011

**COMMENTS OF ORMAT TECHNOLOGIES INC. IN RESPONSE TO ALJ
GAMSON QUESTIONS OF SEPTEMBER 14, 2012**

Ormat thanks the Commission for the opportunity to file comments addressing the questions posed by Administrative Law Judge (“ALJ”) David E Gamson in his September 14, 2012 ruling in R. 12-03-014. The ruling requests comments on six specific questions concerning changes to IOU procurement and indicates that the answers may be used to inform either Track 1 or Track 2 of this proceeding. Recognizing that Ormat Technologies has not filed testimony in Track 1 of R. 12-03-014, we noticed nonetheless that many of ALJ Gamson’s questions relate to issues that Ormat Technologies has commented on in related proceedings such as R. 11-05-005 and the Renewable Auction Mechanism Advice Letters. Accordingly, in an effort to help develop a robust record in this proceeding, Ormat Technologies offers the following in response to ALJ Gamson’s questions.

1. Response to Question 1

Ormat Technologies would change the rules governing utility resource solicitations to allow all potential resources to bid on a level playing field and that identify all energy, capacity, flexibility and ancillary service attributes desired for the resource portfolio so that bidders can

tailor their bids to provide Least-Cost/Best Fit (LCBF) resources that maximize value to ratepayers and the utilities can evaluate them properly. More specifically, a fair all source procurement solicitation should evolve toward meeting a set of required principles. These principles include:

- 1) As much information about the energy, capacity, flexibility and ancillary resource needs of the RFO issuing entity as can reasonably conveyed, including any location specific requirements or preferences;
- 2) The opportunity for bids that include any resource or portfolio of resources that meets some or all of the requirements described by the issuing entity;
- 3) The requirement that each submitted bid include information about the energy, capacity and flexibility resource capabilities of the bid resource or portfolio of resources;
- 4) The requirement that each submitted bid include information regarding its performance relative to the loading order; and,
- 5) The requirement that each submitted bid include information indicating the viability of the bid resource or portfolio of resources to deliver the bid energy, capacity and flexibility attributes within the specified time requirements.

A fair evaluation of bids in all source procurements should also evolve toward compliance with several principles. These evaluation principles include:

- 1) The energy, capacity, flexibility and ancillary service attributes of each bid should be evaluated relative to the stated energy, capacity and flexibility needs declared in the procurement RFO and the full value of these bid attributes should be calculated

- using external market values when possible (e.g., CAISO ancillary service market values) and reasonable value proxies where external market values are not available;
- 2) The energy, capacity, flexibility and ancillary service attributes created by the portfolio of resources should be recognized and the cost of acquiring the required integrating resources calculated;
 - 3) The viability of each bid should be evaluated relative to the likelihood that the submitted bid will deliver the promised resources and attributes in a timely way;
 - 4) A preference for resources relative to the value reflected by the CPUC adopted loading order should be incorporated into the bid evaluation process; and,
 - 5) Bid evaluation must take into account both prongs of the LCBF criterion by selecting on behalf of ratepayers the resources that offer the best value for the combination of value energy, capacity, flexibility and ancillary service attributes needed in the resource portfolio.

Strengthening the role of an independent evaluator is important in the early phases of the evolution toward the principles. As the RFO and RFO evaluation process approach the principles, the procurement process will be inherently more transparent and thus the role of the independent evaluator can diminish. Ormat Technologies recognizes that the utilities desire more flexibility in procurement; that flexibility is only feasible if the solicitations allow all resources to bid in, all attributes are included, and the evaluation of the attributes becomes more transparent.

The independent evaluator should use a score sheet that lists and includes all attributes, costs and viability measures referenced above. Bidders should be provided with a copy of the

score sheet evaluation of their respective projects so that they can see how their respective attributes were valued.

2. Response to Question 2

The Commission should direct the utilities to amend the RFOs to indicate that all resources may bid and to indicate the attributes that the utilities seek for addition to their portfolios and to value those attributes as further described herein.

3. Response to Question 3

All resources should be allowed to bid into the all source RFP and there should be no restriction on resources based on the presence or absence of any attribute. However, all bids should identify the attributes offered as well as identifying all costs imposed on the ratepayers associated with selecting the bid. In other words, the quantity and value of all attributes should be part of the bid and the quantity and cost of all integrating resources should also be part of the bid.

The winning bids in aggregate will constitute a portfolio of resources that collectively must satisfy the system needs identified in the RFO. Computing a qualifying capacity of a resource is a reasonable measure of capacity value which is one attribute that should be evaluated. Considering the contribution of a resource toward meeting an LCR requirement is a valid measure of the local capacity value of a resource. It should not be required that all resources provide threshold capacity values or threshold LCR values; rather, the portfolio in aggregate should constitute the best value portfolio of offers to meet the system requirement specified in the RFO. It should be noted that resource diversity may add value and thus

considering individual bids in isolation without considering the potential relative benefits of a portfolio of bids is likely to yield a sub-optimal resource selection relative to the LCBF aim of selecting the best value resources for consumers.

4. Response to Question 4

Response to 4A

Continuation of current practices will constitute lack of progress in the evolution toward the procurement principles outlined above and therefore is not acceptable.

Response to 4B

No comment.

Response to 4C

Ormat Technologies does not believe that resources should be restricted from bidding based on any pre-determined flexibility requirement but instead that all attributes, including flexibility, should be fairly valued in the selection process. To the extent that all attributes are not valued, then resources with greater flexibility and greater capacity value should be favored at the present time due to the operational challenges facing utilities in the CAISO footprint in the coming decade.

Response to 4D

The best way to enforce a strong showing that all resources and all resource attributes were properly considered is best achieved by strengthening the role of the independent evaluator.

However, if the role of the independent evaluator will not be strengthened then a strong showing would include:

- 1) More explicit description in the RFO of the energy, capacity, flexibility and ancillary service requirements of the issuing utility, as well as a description of any specific locational requirements;
- 2) Use of a score sheet by the issuing utility that identifies the attributes, values and costs identified in Ormat's answer to Question 1 above for every bid submitted; and
- 3) Demonstration of how the portfolio of bids selected in aggregate satisfy LCBF by providing the best value combination of bids to meet the stated utility requirements.

Response to Question 4E

No comment.

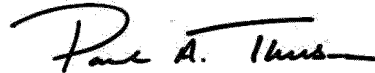
5. Response to Question 5

Ormat agrees that retrofits should be considered as a potential source of incremental capacity and should thus be allowed to bid into an all source solicitation. The RFOs need to add language indicating that retrofits can bid into the solicitation and ask for bid information about how the retrofit will increase efficiency of the existing unit. Payment streams should be different if the resource offers different characteristics. Retrofit resources might not only be lower cost but may impose lower environmental cost than new greenfield resources. The efficiency improvement and lower environmental costs could potentially be reflected by awarding a qualitative tie-breaker value. Similarly, retrofits such as expanded CHP capacity that

satisfy multiple goals should get a preference in the selection phase and be compensated for the attributes they provide.

6. Response to Question 6

No Comment.

A handwritten signature in black ink that reads "Paul A. Thomsen". The signature is written in a cursive style with a long horizontal stroke at the end.

Respectfully submitted,

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Dated: October 5, 2012

VERIFICATION

I, Paul Thomsen, am the Director, Policy & Business Development of Ormat Technologies, Inc. I am authorized to make this Verification on its behalf. I declare under penalty of perjury that the statements in the foregoing copy of **Comments of Ormat Technologies on ALJ Gamson Ruling** dated October 5, 2012 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 October 5, 2012 at Reno, Nevada.

A handwritten signature in black ink that reads "Paul A. Thomsen". The signature is written in a cursive style with a long horizontal stroke at the end.

Paul Thomsen
Director, Policy & Business Development, Ormat Technologies Inc.