





Henwood Associates, Inc. respectfully submits the following reply comments regarding comments filed by other parties on the *Proposed Decision Adopting Joint Standard Contract For Section 399.20 Feed-In Tariff Program And Granting, In Part, Petitions For Modification Of Decision 12-05-035* ("PD") issued by Administrative Law Judge DeAngelis on March 19, 2013

## 1. Modified FiT Megawatt Allocation Process

San Diego Gas and Electric, Southern California Edison, and Pacific Gas and Electric Company ("IOUs") all seek to reduce the Proposed Decision's ("PD") 10 megawatt ("MW") bi-monthly offering for each product type to 5MW. The justifications range from mitigating ratepayer risk<sup>1</sup> and arguments that 5 MW will "provide an adequate supply of capacity in each product type"<sup>2</sup>

In all cases these parties continue to ignore the requirements of section 399.20 to develop a market price considering " *The long-term ownership, operating, and fixed-price fuel costs associated with fixed-price electricity from new generating facilities.*"<sup>3</sup> by failing to take into account the backlog of existing QF projects ("legacy projects") coming off contract and seeking new contracts. Note that the law requires the price to reflect **new** project costs.

The contract choices of legacy projects are very limited<sup>4</sup> ... either (1) a new FiT contract, (2) an onerous Legacy QF type of contract offering highly volatile spot energy prices, very small capacity prices, \$10 million insurance requirements, and high scheduling coordinator fees, or (3) interconnect with the ISO, if possible, and seek a sale with an other entity. This latter prospect is highly uncertain as evidenced by the significant over-subscription to the IOU's RAM auctions signaling the lack of other markets. Given these

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<sup>1</sup> PG&E April 8 comments at p3

<sup>2</sup> SCE April 8 comments at p3

<sup>3</sup> D12-05-035, page 16

<sup>4</sup> For a more detail review of the contracting choices see *Power Contracting for Legacy Small Hydro* at <http://www.henwoodassociates.com/files/Power Contracting for Legacy Small Hydro.pdf>

limited choices our analysis<sup>5</sup> has concluded the ReMat mechanism with 3 MW blocks will be oversubscribed by legacy projects and will result in prices less than require by section 399.20 for the new non-peaking as-available product type in PG&E's territory. Based on a review of our analysis we believe a 5 MW bi-monthly block size will have the same result as a 3 MW block size.

Several remedies are possible for this set of circumstances. By making adequate capacity available, in the form of 10 MW blocks in the PD, the ReMat mechanism should clear the backlog in PG&E in a few cycles without creating a downward pricing spiral creating a race to "un-viability". This was the basis of our April 8, 2013 comments on the PD. Alternatively, the Commission could repair this ReMat design issue by excluding FiT contracts signed from existing projects in the consideration of upward or downward pricing movements. Furthermore, the Commission could choose to consider these MW as outside the 750 MW section 399.20 requirement since they are already counted in the IOUs' RPS compliance plans.

## 2. The Joint Standard Contract

Unfortunately we conclude the IOU proposed joint standard contract is less streamlined and significantly more onerous and complex than the AB1969 FiT contract. We base this conclusion based to our having successfully developed SB1969 FiT projects and our extensive participation in the FiT portion of R11-05-005. Apparently other parties have reached the same conclusion<sup>6</sup>.

This outcome is undesirable and there should be no doubt that the additional costs, administrative complexity, and potential price reductions associated with the IOU proposed joint standard contract will negatively affect developers such as ourselves. In particular, we find the IOU efforts, **with no factual basis we are aware of**, to force

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<sup>5</sup> Our analysis, *The ReMat Mechanism: A Look at Prices and New Plants*, is published at [www.henwoodassociates.com/files/REMAT\\_Mechanism.pdf](http://www.henwoodassociates.com/files/REMAT_Mechanism.pdf)

<sup>6</sup> For example see the Comments of Sierra Club California at p3 where they conclude the proposed contract "does not achieve the simplicity that FiT programs are known for world-wide".

developers in the 500kW to 1MW range to meet a host of new requirements<sup>7</sup>, including joining the ISO, to be particularly troubling.

Furthermore, with respect to the ISO and 500kW to 1MW projects, IOUs already have the ability to schedule these smaller units into the ISO "in an aggregate resource ID"<sup>8</sup> thereby capturing full market value while avoiding any additional day-ahead / real-time market transactions<sup>9</sup>. If the IOUs believe they are not capturing some other small element of value for these small projects, or other similar resources such as net metered projects, rather than seek to shift costs to generators the IOUs have the option of working with the ISO to improve the market's recognition of the value of these resources. In the interest of promoting distributed generation, and to further one of our state's policy goals, in our view the IOUs are much better positioned to solve market problems than are small generators.

In the 1980's California led the nation, and the world, in creating a viable market for renewable energy projects<sup>10</sup>. When reviewing the various comments on contract terms, including our comments, we urge the Commission to help continue California's historic leadership role by making decisions that land on the side of simplicity, low cost, and a demonstrated needs to place new burdens on small developers.

### **3. Initial ReMat Price**

The Division of Ratepayer Advocates ("DRA")<sup>11</sup> has suggested the Commission recalculate the starting price for the ReMat process using data from a more recent RAM auction. DRA also noted that part of the rationale for using the RAM auction results was

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<sup>7</sup> some of the other increased requirements are: a 5 fold increase in insurance limits over current AB1969 FiT requirements, permanent collateral requirements, price penalties for over/under generation, ISO jurisdiction costs for 500 – 999 kW projects, telemetering costs, bill preparation costs, and forecasting costs, WREGIS mandated QRE costs, and CEC compliance costs.

<sup>8</sup> personal communication with IOU representative

<sup>9</sup> note that with Convergence Bidding in the ISO there is no reason to believe there will be any persistent difference in DA and RT market prices and that unbiased scheduling errors will wash out monetarily.

<sup>10</sup> We have first hand knowledge since our company was a part of that exciting time participating in CPUC proceedings and developing projects.

<sup>11</sup> Division of Ratepayer Advocates, April 8, 2013 Comments at page 6

"because there was insufficient information to set a unique starting price for each category". In the event the Commission decides to re-examine the starting price we request the Commission also re-examine the conclusion that there is insufficient information to set a unique starting price with respect to the non-peaking as-available product type.

We make this recommendation based on the fact there are now at least three **new** FiT operational non-peaking as-available project in the PG&E territory and at least one more similar project in the SCE territory. The projects in the PG&E territory<sup>12</sup> are:

<b>Project</b>	<b>Fit Contract Price (\$/MWh)</b>
Sierra Green Energy, LLC	113.90
Twin Valley Hydro	117.30
San Jose Water Company	100.98

These prices induced new capacity and are a better indicator of the market than using RAM prices which suffer from deficiencies in the case of as-available non-peaking projects. First, the RAM projects are significantly larger than FiT projects and as such have different economics, costs, and ability to shoulder administrative costs. Equally importantly, the RAM auction results from 2011 were dominated by the peaking as-available product type. This product type receives highly TOU differentiated prices resulting in peak prices as high as \$247.17/MWh<sup>13</sup> and average prices significantly higher than the starting ReMat price of \$89.23/MWh..

Using logic similar to the Commission's logic regarding the RAM prices, we would conclude the average price of the operational FiT projects, or \$110.72 / MWh, would be an appropriate ReMat starting price for the non-peaking as-available product type.

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[http://www.pge.com/includes/docs/word\\_xls/b2b/energysupply/wholesaleelectricssuppliersolicitation/standardcontractsforpurchase/Contract\\_Updates\\_Spreadsheet.xls](http://www.pge.com/includes/docs/word_xls/b2b/energysupply/wholesaleelectricssuppliersolicitation/standardcontractsforpurchase/Contract_Updates_Spreadsheet.xls) available on 3/7/2013. We have been unable to locate similar data for SCE.

<sup>13</sup> This price of \$247.17/MWh results from the \$89.23/MWh starting ReMat price multiplied by the Summer On-Peak Full Capacity Deliverability Payment Allocation Factor of 2.77 in the SCE territory. Note this compares to the highest Summer On-Peak price of \$43.9/MWh offered to Qualifying Facilities in SCE the 2012

We appreciate the opportunity to comment on these important matters.

Respectfully submitted,

MARK HENWOOD

*/s/ Mark Henwood*

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CEO of Henwood Associates, Inc.

## VERIFICATION

I, Mark Henwood, am the CEO of Henwood Associates, Inc., a corporation, and I am authorized to make this verification on its behalf. The statements in the foregoing *REPLY COMMENTS OF HENWOOD ASSOCIATES, INC. ON THE PROPOSED DECISION ADOPTING JOINT STANDARD CONTRACT FOR SECTION 399.20 FEED-IN ARIFF PROGRAM AND GRANTING, IN PART, PETITIONS FOR MODIFICATION OF DECISION 12-05-035* have been prepared and read by me and are true of my own knowledge, except as to matters which are therein stated on information or 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 and executed on April 15, 2013, at Sacramento, California.

Respectfully submitted,

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