

**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 TENASKA SOLAR VENTURES
ON THE ASSIGNED COMMISSIONER'S MAY 10 RULING
IDENTIFYING ISSUES AND SCHEDULE OF REVIEW FOR 2013 RENEWABLES
PORTFOLIO STANDARD PROCUREMENT PLANS**

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I. INTRODUCTION

Tenaska Solar Ventures (“Tenaska”) submits these Comments pursuant to the May 10, 2013 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 a New Proposal. (“May 10 ACR”). The May 10 ACR invited comment by the parties to this proceeding on a number of issues relating to the Commission’s review of the 2013 Renewables Portfolio Standard (“RPS”) Procurement Plans for electric corporations.

Tenaska has been an active participant in this proceeding and has submitted detailed comments on previous Assigned Commissioner’s Rulings in this proceeding. In those comments, Tenaska has generally supported the goals of the Assigned Commissioner’s Rulings and has stated its support for, and agreement with, the Commission’s goal to ensure that each RPS project that the Commission approves is viable and allows the State to meet RPS requirements in a timely fashion.

Tenaska continues to support the overall direction for utility procurement of RPS resources that have been the subject of this proceeding and, specifically endorses the General Requirements for 2012 RPS Procurement set forth on page 6 of the May 10 ACR. Of particular importance is the general requirement that utility procurement plans for RPS resources must satisfy RPS program requirements “while minimizing cost and maximizing value to ratepayers.”¹ It is in keeping with both the letter and spirit of this requirement that Tenaska offers its Comments on the May 10 ACR.

In the interest of focus and brevity, Tenaska’s comments below will specifically address the Draft 2013 RPS Procurement Plan submitted by San Diego Gas & Electric Company (“SDG&E”) (Public Version) that was submitted on June 14, 2013 (“SDG&E Plan”). To the extent that Tenaska’s comments would also apply to text set forth in the procurement plans of any of the other entities that were required to submit such plans,² Tenaska would ask the Commission to consider the comments below to also apply to such procurement plans.

II. COMMENTS

A. The Commission Should Provide Special Consideration for Certain Projects Located in the Imperial Valley

Section 6.14 of the May 10 ACR states the Commission’s continuing concern that the utilities’ activities in connection with RPS projects in the Imperial Valley need “continued monitoring” and that the utilities’ RPS procurement plans should “provide a recommendation on whether the Commission should adopt remedial measures relative to Imperial Valley for 2013, such as to require the utilities to automatically shortlist all Imperial Valley proposals, include unique Imperial Valley bid evaluation metrics, or a solicitation dedicated to Imperial Valley

¹ May 10 ACR, at 6.

² See, Sections 4 and 5 of the May 10 ACR, at 8.

resources.”³ This continued Commission focus on projects in the Imperial Valley is an appropriate follow-up to the Commission’s decision last November in this proceeding, which clarified that “PG&E, SCE, and SDG&E should assume a maximum import capability of no less than 1,400 MW for imports from projects within the Imperial Irrigation District Balancing Authority Area to the CAISO Balancing Authority Area as part of the evaluation of projects and bids within the 2012 RPS solicitation.”⁴

In response to the directive in the May 10 ACR, the SDG&E Plan noted that it had received 238 bids from 36 counterparties, with the majority of projects coming online in 2017. Of the 238 bids it received, SDG&E stated that 20 were located in the territory of the Imperial Irrigation District (“IID”), and that SDG&E had short-listed two projects on a contingent basis as a result of its 2012 solicitation, one of which would be located in the Imperial Valley. As a result of this limited set of actions, the SDG&E Plan suggests that no remedial actions are necessary to encourage projects that would be located in the Imperial Valley.⁵ SDG&E’s stated concern in this regard is that “[f]avoring one region over another in this manner would reduce competition and lead to an increase in the risk of non-competitive pricing – an outcome that is clearly at odds with SDG&E’s goal of maximizing portfolio value for its ratepayers by minimizing risk.”⁶ However, the SDG&E Plan does affirmatively state that SDG&E does value resources from the Imperial Valley area.⁷

³ See, May 10 ACR, at 22-23; also see, D.09-06-016-19. 권G

⁴ D.12-11-016, at 17-18. Although in this Decision, the Commission did adopt continuing monitoring activities with regard to utility procurement of RPS resources in the Imperial Valley, the Commission declined to adopt additional oversight mechanisms that would support RPS procurement in the area.

⁵ SDG&E Plan, at 43.

⁶ *Id.*

⁷ *Id.*

Tenaska itself has two PPAs with SDG&E for projects being developed in the Imperial Valley, and Tenaska certainly appreciates SDG&E's efforts to date to encourage development in the Imperial Valley. That said, Tenaska would suggest that notwithstanding SDG&E's recommendation to the contrary, there are compelling reasons why the Commission *should* seriously consider providing special consideration for certain RPS projects that are proposed to be sited in the Imperial Valley.

Under SDG&E's current Least-Cost Best-Fit ("LCBF") analysis, quantitative factors are used to develop a bid-ranking price.⁸ The projects with the lowest bid ranking prices are selected for the shortlist, and qualitative factors are only used to decide between two projects with similar costs.⁹ Tenaska believes special consideration for Imperial Valley projects would fit within this framework. Specifically, the Commission should consider adopting a mechanism under which: (1) projects on SDG&E's shortlist that would be located in Imperial County and have a direct interconnection to a CAISO delivery point on SDG&E's Sunrise Power Link transmission line ("Sunrise") would be prioritized above others regardless of the projects' bid ranking prices; and (2) if such projects do not appear on a utility's initial shortlist, such projects would be automatically shortlisted if they fall within the top 10 lowest bid ranking prices that are not shortlisted, so long as the scale and scope of the potential preferred projects are compatible with what the utility is seeking to procure.

There are important policy and technical considerations that justify this proposed mechanism. These considerations are as follows:

1. The establishment of a preference for the high-quality resources of the Imperial Valley would not be a novel action for the Commission to take. Indeed, the Commission *has*

⁸ SDG&E Advice Letter 2488-E, p. 8 (June 7, 2013).

⁹ *Id.*

created locational preferences for projects that provide special value to the state in the past. A classic example of the Commission's specific encouragement of the development of particular resources is the extended effort that the Commission put in to the development of wind resources in and near the Tehachapi area early in the last decade. The Commission, working with the California Energy Commission, had identified over 4,000 MW of wind resources that could be developed in Tehachapi area, and spent several years working with the CAISO and SCE to identify a set of optimal transmission lines to allow for the full interconnection and delivery of those wind resources. After the topology of the needed transmission upgrades was identified and approved by the CAISO, SCE began the process of siting and building those transmission lines. The construction of the Tehachapi Renewable Transmission Project is now significantly completed, and SCE has entered into PPAs for most of the wind energy that was intended to be served by that project.

It should be noted that the existence of this "preference" for Tehachapi wind energy did not have any associated "risk" of non-competitive prices, in part, no doubt, because the cost of wind projects has, in the last five or more years, been largely commoditized. Similarly, in the past two years or so, the price of solar photovoltaic cells has been commoditized, such that there is no particular reason to expect that the establishment of a "preference" for RPS projects (especially solar projects) in the Imperial Valley would create a credible "risk" of non-competitive prices, either.

2. Despite its protestations to the contrary, such preferred projects located in the Imperial Valley *would* satisfy SDG&E's concern for maximizing ratepayer value, because they would almost certainly do very well in a Least-Cost Best-Fit comparison. As SDG&E itself indicated, it received 20 bids in its 2012 solicitation from proposed projects within the territory

of the IID. It strains credulity to think that when there are 20 entities bidding for a contract where there will only be a small number of winners, that those entities would somehow set unreasonably high prices for the sole reason that they were all located in a “preferred” geographical area. Competition is still the underlying principle that shapes the RPS bidding process, and the establishment of a policy preference for development of renewables in a large, if clearly defined, geographical area¹⁰ will not undermine competition among the many entities that would be more than happy to win the contract. That said, in a competitive procurement, a utility would only be seeking to procure a specified amount of resources, and the least cost preferred resources that satisfy the scale and scope of what the utility is seeking to procure can be expected to prevail in terms of “Least Cost.” As to “Best Fit,” there can be no doubt that resources in Imperial County that would have a direct interconnection to Sunrise would be a natural “Best Fit” for SDG&E’s needs, as outlined in greater detail below.

One final note on this point. Although the utilities and the CPUC staff have spent a great deal of time and energy trying to clearly delineate the optimal methodology for calculating the “Least-Cost Best-Fit” of competing renewable resources, the fundamental concept of “Least-Cost Best-Fit” is intrinsically slippery. One project may have the lowest bid and the lowest overall cost, but it may not meet a lot of other, harder to quantify criteria that the utility is seeking to satisfy. As these other criteria become increasingly important factors in distinguishing between competitors, the objective basis for comparing one project against another that LCBF is supposed to provide begins to break down. Thus, although in Section 6.8,

¹⁰ Imperial County has 4,482 square miles of area. Assuming that all of California’s peak power demands could be met with solar energy, that would require only 600 square miles of California to be covered with solar generating equipment (about 100 MW of solar generation can be sited in one square mile, and California’s peak power demand is about 60,000 MW). Even assuming, for purposes of argument, that as much as 10,000 MW of solar generating facilities could or would be sited in Imperial County, that would occupy only 100 square miles, or less than one-fortieth of the county’s area.

the Commission asks the utilities to value and evaluate bids “based on the LCBF methodology,”¹¹ the Commission and staff should recognize (as we believe that they do) that LCBF cannot, and does not, provide definitive answers. That said, a determination by the Commission to provide the requested competitive advantage to well-positioned RPS projects in the Imperial Valley will unquestionably be consistent with the “Best Fit” element of the LCBF evaluation and will help alleviate the lack of definitive answers that this test may otherwise provide, to the benefit of the CPUC’s public policy preferences.

3. Such preferred projects would have special value to ratepayers by utilizing Sunrise, which is already operational. The interconnection of RPS projects that could easily interconnect to the CAISO-controlled grid via Sunrise would be straightforward and comparatively inexpensive. Accordingly, these preferred projects, which would have minimal transmission costs, would have an intrinsic, natural advantage over many other proposed RPS projects, which would require major transmission system upgrades (often costing hundreds of millions of dollars). In this regard, it should be recalled that the calculation of appropriate “transmission cost adders” associated with major new renewable energy projects has been technically challenging for the CPUC staff and the utilities over the years,¹² and the identification of a set of preferred projects that would have limited transmission costs would both benefit and expedite the process of achieving the state’s overall renewable energy goals.

¹¹ See, May 10 ACR, at 15.

¹² The historic challenge of evaluating the transmission costs associated with RPS projects is shown by the fact that the May 10 ACR states in Section 6.9 that in the 2013 RPS procurement process, there is no longer a need for the utilities to provide a Transmission Ranking Cost Report, because “[i]n D.1211-016, the Commission required that bids have a minimum of a completed California Independent System Operator Generator Interconnection Procedures Phase I (or equivalent) study to bid into a solicitation” and that such studies would be used in Least-Cost Best-Fit evaluations to estimate transmission costs. See, May 10 ACR, at 15-17.

4. The renewable energy resources in the Imperial Valley area, especially the solar resources, are among the highest quality resources anywhere in the world. It would be a shame for California to neglect developing these resources. Also, the siting constraints in the Imperial Valley area are likely to be less severe than in many other high-quality renewable resource areas within the state. For this reason alone, the costs and challenges of developing resources in the Imperial Valley are likely to be lower than in most other locations in the state.

5. Finally, the development of a significant number of RPS projects in the Imperial Valley would provide economic growth and beneficial social-economic impacts to that region, which is one of, if not the, poorest regions in the state.¹³ This Commission has a long and honorable tradition of recognizing and helping to meet the needs of the less fortunate people in the state. Examples include the long-standing lifeline programs for low-income gas, electricity and telephone customers, as well as the nationally respected deaf and disabled program for telecommunications customers. Given this proud history, it would be only a very small step for the Commission to identify an area of unusually high quality renewable resources where there is an economically depressed, largely minority population and a dramatic need for major economic development as a “preferred area” for the siting of such resources.

For all the foregoing reasons, the Commission should actively revisit its determination in D.12-11-016 not to provide additional oversight mechanisms that would support RPS procurement in the Imperial Valley.

B. The Commission Should Not Authorize the IOUs to Procure Resources pursuant to their RPS Procurement Plans over a Two-Year Period.

The May 10 ACR proposes to revisit a proposal that was included in the April 5, 2012,

¹³ The unemployment rate in Imperial County in May 2013 was 22.8%. For that month, this was, by far, highest unemployment rate of any county in the State. (Source: State of California Employment Development Department.)

namely, to modify the Commission's RPS procurement and planning process from an annual process to a biennial process. Tenaska opposed that proposal in its Comments on the April 5, 2012 ACR, and Tenaska sees no changed circumstances, or other reasons, why the Commission should allow for two-year procurement authorization, and certainly not for the three major investor-owned utilities, *i.e.*, SDG&E, Pacific Gas & Electric Company ("PG&E") and the Southern California Edison Company ("SCE"). The fact that SCE has requested the Commission to excuse it from conducting an RPS procurement for the 2013 cycle does not provide a rationale for a rule of general applicability that would expand RPS procurement activities from a one-year to a two-year cycle.

In support of its opposition to this restated proposal, Tenaska would itself restate the primary concern that it offered in its comments last year, namely, that not all projects that submit winning bids into the IOUs' RPS procurement solicitations are viable. Extending the procurement cycle to two years would breathe unnecessary additional life into such unviable projects while viable projects incur carrying costs. Moreover, prices for renewable energy projects will change over the course of time, and stretching the RPS procurement cycle over a period of two years or longer will only contribute to greater price uncertainty, to the significant potential detriment of ratepayers.

SDG&E, SCE and PG&E all supported this proposed reform last year, primarily on the ground that it would enhance the efficiency of their procurement processes.¹⁴ However, in its plan, SDG&E conceded that given the uncertainty of the market, a two-year procurement cycle could result in the need for the IOU to procure additional resources in a year when it was not

¹⁴ SDG&E 2012 RPS Plan, at 34-35; SCE Comments on April 5, 2012 ACR, at 9; PG&E 2012 RPS Plan, at 68-69.

conducting an RPS solicitation and could increase the risk of IOU procurement being benchmarked to outdated data.¹⁵

We note again that this proposed reform, if adopted, would be at odds with the reform proposed last year that called for the expiration of shortlists after 12 months. If the RPS procurement cycle is two years or longer, it would seem that there will be a 12-month shortlist only once every two years.

The Commission has previously acknowledged the fact that in the past, a significant number of the entities that were successful in negotiating PPAs with the IOUs were ultimately unable to develop their projects, and the Commission has previously taken this fact into account in its projections of the amount of renewable energy resources that the IOUs need to procure. A two-year RPS procurement cycle will exacerbate the problem of over-shooting the mark and, if adopted, is likely to result in the IOUs signing up even more unviable projects, thereby putting the Commission's laudable goal of seeking to meet the 33% RPS by 2020 at greater risk than it needs to be, as well as creating unnecessary uncertainty and delay for well-established and reliable developers of RPS projects.

Tenaska appreciates the Commission's apparent desire to reduce the burden on the utilities to file annual RPS procurement plans, but substituting a requirement for the utilities to file a Supplemental RPS Procurement Plan by Tier 2 Advice Letter in the second year of a two-year procurement cycle rather than to file a new plan with the Commission will not, in fact, dramatically reduce the effort required on the part of the utilities.

¹⁵ SDG&E 2012 RPS Plan, at 35.

III. CONCLUSION

For all the foregoing reasons, Tenaska urges the Commission to move forward with approval of the various 2013 RPS Procurement Plans that were submitted in the last month in a manner that is consistent with the substance of the foregoing comments.

Respectfully submitted,



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July 12, 2013

VERIFICATION

I am the attorney for Tenaska Solar Ventures (Tenaska Solar) in this matter. Tenaska Solar is absent from the County of Alameda, where my office is located, and under Rule 1.11(d) of the Commission's Rules of Practice and Procedure, I am submitting this verification on behalf of Tenaska Solar for that reason. I have read the attached **COMMENTS OF TENASKA SOLAR VENTURES ON THE ASSIGNED COMMISSIONER'S RULING MAY 10 RULING IDENTIFYING ISSUES AND SCHEDULE OF REVIEW FOR 2013 RENEWABLES PORTFOLIO STANDARD PROCUREMENT PLANS**. I am informed and believe, and on that ground allege, that the matters stated in this document are true.

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

Executed this 12th day of July 2013, at Oakland, California.



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