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 COMMENTS ON THE STAFF PROPOSAL FOR A METHODOLOGY TO IMPLEMENT PROCUREMENT EXPENDITURE LIMITATIONS FOR THE RENEWABLES PORTFOLIO STANDARD PROGRAM

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I. Introduction

In accordance with the Administrative Law Judge's Ruling Requesting Comments on Staff Proposal for a Methodology to Implement Procurement Expenditure Limitations for the Renewables Portfolio Standard, Sierra Club California respectfully submits these Comments. Due to the complexity of issues involved in developing the Procurement Expenditure Limitation ("PEL"), Sierra Club California at this time is providing comment on selected important principles at this time, and reserving further comment for the time when the Staff Proposal can be compared to Alternative Proposals that may be presented by Parties. Sierra Club California is interested in an iterative discussion prior to determining which elements of the Staff Proposed methodology or potential Alternative Proposed methodologies should be used for the PEL, at which time we can offer cumulative comments on the proposals for the PEL.

II. The PEL should be grounded in the reasonably expected costs of RPS Compliance, taking into account total cost of renewables procurement.

The statute requires that the PEL be used for all expenditures used to comply with the RPS requirement.[1] The Commission must rely on the most recent renewable energy procurement plan,[2] and the "procurement expenditures the expected cost of procuring, owning, and operating eligible renewable energy resources."[3] Given this direction in law, it is reasonable for the PEL to be centered on the reasonably expected costs of compliance with the RPS. In doing so, the Commission should take into account the total cost of renewables procurement.[4]

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1 Section 399.15(c).

2 Section 399.15(c)(1).

3 Section 399.15(c)(2).

4 Section 399.15(d)(2).

III. The PEL should retain flexibility to adapt to changing retail sales, RNS assumptions, and cost projections.

In determining the limitation on expenditures that should be based on the total expected cost of procurement, the PEL should retain the flexibility to adapt to changing conditions. The PEL should be used as a mechanism to keep costs proportionate to expenses at market prices, and should improve certainty in the renewables market in California. Therefore, the PEL should be adjusted to take into account changes in expected procurement costs as retail sales fluctuate, reflect updated cost projections, including an overhaul to the RPS Calculator that would reflect program- and product-specific pricing, and adapt to updates in Renewables Net Short ("RNS") assumptions, and expansion of the RAM and/or RE-MAT.

The RNS is proposed as an input to ensure that the most recent renewables procurement plan is incorporated into the PEL.[5] This tool is only as accurate as its relation to actual costs, which very by specific programs, and often products within programs. The RPS Calculator and RNS assumptions should undergo a major update to include detail that relates to specific programs ordered by the Commission and/or proposed by RPS Procurement Plans. This includes fuel and technology type, facility size, and governing program (RAM, Renewable Market Adjusting Tariff/FIT).

IV. Portfolio optimization should be directed through a planning process.

The Staff Proposal outlines guiding principles including the encouragement of portfolio optimization by utilities. Sierra Club California agrees that the electric generation portfolio should be optimized to reduce greenhouse gas emissions, and take into account the planning-informed siting constraints based on land use and habitat designations from state, federal, and local agencies. To ensure that the PEL remains consistent with this optimization, the RPS Procurement Plans, and in turn the RNS should then be updated to be consistent with this portfolio optimization for reducing greenhouse gas emissions, siting constraints, and the reformed Least Cost Best Fit ("LCBF").

5 Section 399.15(c)(1).

Deductions for indirect expenses such as sale of excess energy and decreased generation from existing resources should encourage utility portfolio optimization for greenhouse gas emissions reduction. The Commission should consider how utilities may need to manage fossil fuel generation to prioritize use of more efficient and less carbon intensive generation resources. To the extent that utilities incur actual expenses related to this generation, the RPS statute regards these expenses as "indirect" for the purposes of the PEL.[6] The Commission should give weight to this distinction so that utilities have an incentive to optimize resources to reduce fossil fuel use.

Question 21 of the Ruling refers to the net market value ("NVP") approach used by utilities in project selection pursuant to least-cost, best-fit criteria as required by Section 399.13(a)(4)(A). To reconcile the anticipated situation when the net market value approach (NVP) used by utilities to could potentially result in a perverse outcome of utility selection of lower-valued contracts to avoid conflicts with the PEL, the Commission should direct utilities to proactively optimize their portfolios through a planning process that optimizes for these values. This process would result in RPS Procurement Plans with sufficient data to guide the RNS to incorporate these higher values. In the event that the situation still occurs despite this optimized planning process, the Commission could incorporate a crediting mechanism within the PEL that reinforces selection of projects with the best fit and greatest value so that utilities continue to be informed by the NVP and other optimization factors.

Respectfully Submitted,

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6 Section 399.15(d)(3).