

**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)

**REPLY COMMENTS OF
THE OFFICE OF RATEPAYER ADVOCATES ON STAFF PROPOSAL
TO REVISE THE METHODOLOGY USED TO CALCULATE THE
RENEWABLE NET SHORT FOR PROCUREMENT TO MEET THE
CALIFORNIA RENEWABLES PORTFOLIO STANDARD**

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I. INTRODUCTION

The Office of Ratepayer Advocates (ORA) respectfully provides these comments in reply to other parties' opening comments on the February 19, 2014 Administrative Law Judge's Ruling Requesting Comments on Staff Proposal for Revising the Methodology Used to Calculate the Renewable Net Short for Procurement to Meet the California Renewables Portfolio Standard (2014 Ruling). In summary, ORA recommends that:

- The Commission include a cost-effectiveness showing as part of a retail seller's portfolio optimization strategy, using confidential information and utility optimization calculations;
- The Commission not expand the reasons for use of the voluntary margin of over-procurement;
- The Commission standardize the risk adjustment methodology for projects in development; and
- The Commission require utilities to disclose volumes of renewable energy credits (RECs) associated with expiring contracts to help the Commission and parties assess the utilities' forecasts of compliance with Renewables Portfolio Standard (RPS) requirements and further greenhouse gas (GHG) reductions.

II. DISCUSSION

A. A Cost-Effectiveness Showing Should be Included as Part of a Retail Seller's Portfolio Optimization Strategy, Using Confidential Information and Utility Optimization Calculations

In the 2014 Ruling, the Commission asks, "What type of cost-effectiveness showing should be required as part of a retail seller's portfolio optimization strategy?"¹ San Diego Gas & Electric Company (SDG&E) opposes a cost-effectiveness showing for several reasons,² but those arguments lack merit.

¹ 2014 Ruling, Question 2 of Section 3.1 (Allocation of Excess Procurement) on p. 3. This refers to page 13 of the Staff Proposal in Attachment A of the 2014 Ruling, which states: "When seeking its RPS procurement authorization in its annual RPS plan, a retail seller must provide a cost-effectiveness showing that compares the value of using forecast RECs above the Procurement Quantity Requirement (PQR) against the value of procuring additional RECs to meet its RPS PQR."

² SDG&E Opening Comments on 2014 Ruling, p. 2-3.

First, SDG&E states that “there exists no RPS index to refer to for market pricing to use in the showing as this market is not liquid.”³ An RPS index, however, is unnecessary because SDG&E and the other utilities can use sources other than an RPS index for their cost-effectiveness showing, such as the confidential information shared in the Procurement Review Group (PRG), in Advice Letters, or from a utility’s previous Renewable Auction Mechanism (RAM) and annual RPS solicitations. ORA recommends that to protect ratepayers, any price-sensitive information or analysis in a utility’s cost-effectiveness showing should remain confidential.

Second, SDG&E claims that “RPS pricing changes across technologies from solicitation to solicitation making market pricing a moving target.”⁴ While this is somewhat true, confidential price data in the utilities’ previous RAM and annual RPS solicitations exhibit technology-specific trends that can be used as reliable market price referent points in a cost-effectiveness showing. Thus, to make cost-effectiveness showings, utilities may use information from their respective previous solicitations to create reasonably reliable forecasts of what RPS prices should be in an upcoming year.

Third, SDG&E is concerned that “any price specified by an investor-owned utility (“IOU”) in this type of analysis would become a price target.”⁵ The Staff Proposal does not suggest this information should be public; in fact, existing portions of a utility’s annual RPS plan are kept confidential precisely because of such concerns.

ORA recommends that the Commission require a cost-effectiveness showing in each utility’s annual RPS plan. ORA additionally recommends that the Commission allow utilities to use existing portfolio optimization calculations in the cost-effectiveness showing until such time that specific cost-effectiveness standards are adopted. ORA also recommends that the Commission require Energy Division Staff to determine if the utility has made a sufficient quantitative and qualitative showing of cost-effectiveness before approving any RPS plans.

³ Id.

⁴ Id.

⁵ Id.

B. The Commission Should Not Expand Reasons for the Use of the Voluntary Margin of Over-procurement

The Staff Proposal would require utilities to justify procurement for their voluntary margin of over-procurement (VMOP). The VMOP is meant to address any annual shortfalls due to project and forecasting risk.⁶ In its opening comments, the Union of Concerned Scientists (UCS) proposes expanding the reasons a utility may seek voluntary over-procurement, specifically policy uncertainty or project failure and delays.⁷ However, ORA recommends that the Commission not expand the reasons a utility may seek voluntary over-procurement.

The Minimum Margin of Over-procurement (MMOP) already authorizes utilities to procure additional resources to account for project failure and delays.⁸ Commission authorization for additional procurement to account for project failure and delays via VMOP is unnecessary. As for procuring through VMOP due to policy uncertainty, it is precisely that uncertainty that makes such a suggestion infeasible. It is uncertain when and by how much California's current RPS goals may increase, and therefore unclear what would be considered sufficient justification for or a sufficient amount of additional VMOP procurement because of policy uncertainty, especially considering the utilities' long position for the next several years.

ORA notes that opening comments have generally focused on justifying the purchase of additional marginal procurement. ORA recommends that the Commission and other parties also consider the threshold at which a utility should consider selling previously contracted RPS procurement instead of banking it, in order to optimize its portfolio and maximize ratepayer value. A procurement strategy which simply plans for the worst-case scenario may ensure compliance but is unlikely to minimize costs. A procurement strategy which considers not only the worst-case scenario, but also considers the likelihood of that scenario, the cost and timing of hedging for that scenario through long-term procurement, and the cost and timing of hedging through alternative means can ensure compliance while minimizing costs to ratepayers. The utilities currently perform sophisticated analyses and hedging in other areas such as congestion

⁶ 2014 Ruling, Appendix B (Revised List of Assumptions and Definitions in the Updated RNS Methodology). p. 24.

⁷ UCS Opening Comments on 2014 Ruling, p. 2-4.

⁸ 2014 Ruling, Appendix B (Revised List of Assumptions and Definitions in the Updated RNS Methodology). p. 24.

and fuel to guard against excessive costs, and ORA recommends that the Commission require utilities to apply similar methods to their RPS procurement.

C. The Commission Should Standardize the Risk Adjustment Methodology for Projects in Development

Several parties question whether a standardized risk adjustment methodology within the renewable net short (RNS) calculation is necessary or efficient.⁹ Southern California Edison Company (SCE) and SDG&E argue that a “one-size-fits-all approach”¹⁰ is not appropriate to forecast the probability of project success because each retail seller has a distinct portfolio with a different risk profile. Pacific Gas & Electric Company (PG&E) points out that a standardized risk adjustment methodology may “obfuscate the understanding of the market and regulatory uncertainties inherent in the forward procurement process.”¹¹

ORA disagrees with these assessments and recommends that the Commission adopt a standardized risk adjustment methodology. The Commission expressed an intent to employ a risk adjustment metric that is “transparent and uniform in its approach” to increase the “public’s confidence that projects with demonstrated indicia of viability are given appropriate weight.”¹² A standardized risk adjustment methodology within the RNS cannot perfectly predict each utility’s distinct portfolio because it measures a project at a moment in time. But it will give the Commission a transparent and consistent tool to predict a project’s likelihood of success.

Currently, Energy Division uses the Project Viability Calculator to estimate risk adjustment.¹³ This has been a good starting point for the Commission to evaluate the success of a project. ORA recommends this Project Viability Calculator could be further improved with Staff’s proposed standardized screening tool to decrease the range of assumptions that are highly variable between each utility. For example, one utility may use a blanket estimate based on prior

⁹ Opening Comments of PG&E on 2014 Ruling, p. 3; Opening Comments of SCE on 2014 Ruling, p. 5; Opening Comments of SDG&E on 2014 Ruling p. 6.

¹⁰ Opening Comments of SDG&E on 2014 Ruling, p. 6; Opening Comments of SCE on 2014 Ruling, p. 5.

¹¹ Opening Comments of PG&E on 2014 Ruling, p. 4.

¹² D.09-06-018 Findings of Fact, Paragraph 8.

¹³ D.09-06-018 Conclusions of Law, Paragraph 10.

experience to determine a project's or group of project's likelihood of success while another utility may determine the likelihood of a success on a case-by-case basis through the determination of a project manager. This variability among the utility is not consistent nor is it transparent.

D. The Commission should require the utilities to disclose the expiring contract's volume of RECs since this will help the Commission and Parties assess the utilities' forecast of compliance with RPS requirements and further GHG reductions.

PG&E and SDG&E state that there is no way, in their respective portfolios, to accurately predict if, when, and what price expiring contracts will seek to re-contract.¹⁴ SDG&E states that it is best to “take a conservative approach and rely on an executed contract only for the term of the contract.”¹⁵ But as ORA stated in opening comments, PG&E has 4,178MW contracts expiring, SCE has 2,343MW contracts expiring, and SDG&E has 472MW contracts expiring over a 10 year period.¹⁶ These contracts have RECs associated with them as well as avoided greenhouse gas (GHG) attributes. Reduction of GHG emissions is a central part of California's climate change policy, principally embodied in the California Global Warming Solutions Act of 2006, Assembly Bill (AB) 32.

Given that a significant amount of contracts and their associated RECs and GHG reduction attributes will expire, a forecast based on zero contract renewals will not provide an accurate picture of the utility's portfolio, RPS compliance, and GHG reduction compliance. To further the objectives of the RPS program and the climate change policy embodied in AB 32, the Commission should require the utilities to provide an estimate of some amount of near-term contracts that may seek renewal and disclose the amount of RECs that are expiring. ORA acknowledges that the facilities must participate in a competitive process to renew their contracts but it is unrealistic to assume that none of these facilities will compete. Disclosing the amount of RECs that could potentially be re-contracted is an important step toward accuracy and

¹⁴ Opening Comments of PG&E on 2014 Ruling, p. 3; Opening Comments of SCE, p. 5; Opening Comments of SDG&E p. 6.

¹⁵ Opening Comments of SDG&E on 2014 Ruling, p. 7.

¹⁶ Opening Comments of ORA on 2014 Ruling, p. 6.

transparency, and will help the Commission ensure that the utilities maintain their RPS requirements and GHG reductions.

III. CONCLUSION

ORA reiterates its support for Staff's proposed methodology to calculate the RNS but recommends that it be modified as discussed above to ensure greater accuracy and transparency.

Respectfully submitted,

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VERIFICATION

I, Iryna A. Kwasny, am counsel of record for the Office of Ratepayer Advocates in proceeding R.11-05-005, and am authorized to make this verification on the organization's behalf. I have read the

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filed on March 26, 2014. 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 are true and correct.

Executed on March 26, 2014 at San Francisco, California.

/s/ IRYNA A. KWASNY

Staff Counsel