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)

OPENING COMMENTS OF THE UTILITY REFORM NETWORK ON THE REVISED STAFF PROPOSAL AND ALTERNATIVE PROPOSALS FOR A METHODOLOGY TO IMPLEMENT PROCUREMENT EXPENDITURE LIMITATIONS FOR THE RENEWABLES PORTFOLIO STANDARD PROGRAM

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Pursuant to the February 20, 2014 ruling of ALJ Simon, The Utility Reform Network (TURN) hereby submits these opening comments on the revised staff proposal and updated alternative proposals for a methodology to implement the Procurement Expenditure Limitation (PEL) contained in Public Utilities Code §399.15 and enacted in SBx2 (Simitian). Due to staffing constraints and simultaneous deadlines across major Commission proceedings, TURN is unable to respond to the comprehensive list of questions provided in the ALJ ruling. Instead, TURN offers brief comments on the revised alternative proposal submitted by Southern California Edison and the Joint Parties. TURN urges the Commission to reject this proposal and instead adopt either a modified version of the staff proposal or the proposal of the California Wind Energy Association (CalWEA) and the Large-Scale Solar Association (LSA).

In enacting SBx2 (Simitian), the Legislature outlined a series of key requirements relating to cost containment. Any evaluation of cost containment proposals must apply the relevant statutory criteria and ensure, at a minimum, that the adopted approach does not directly conflict with the explicit language. At a high level, these requirements are intended to establish limits that consider two key factors.

Initially, the limitation should be tied to the expected cost of procuring new renewable resources needed to satisfy RPS targets. Under this approach, the Commission is directed to consider the types and quantities of resources needed by the utility in the coming years, the "expected cost of building, owning and operating eligible renewable energy resources", and the "potential that some planned resource additions may be delayed or canceled".[1] This section should be understood to direct

[1] Cal. Pub. Util. Code §399.15(c).

the Commission to consider the anticipated cost of actual incremental resources to be procured over the relevant time horizon. In other words, the Commission should be establish a procurement expenditure limitation that is expected to allow the fulfillment of all unmet RPS obligations given the known or estimated cost of resources that will be procured. The Commission should also assume that the costs of meeting any specific Legislatively-mandated procurement obligation are intended to be included in the "cost-based" analysis performed under §399.15(c) unless the authorizing language explicitly states that procurement may be limited based on the rules of the RPS program.

Despite the clear statutory language, the revised proposal of Southern California Edison and the Joint Parties makes no attempt to approximate the real-world costs of constructing, owning and operating eligible renewable energy resources or to estimate the likely costs of satisfying RPS targets. Under their proposal, RPS procurement costs would be limited based on the application of an arbitrary fixed premium to historic conventional generation costs contained in the current utility portfolio.[2] These parties suggest that the development of a Non-Renewable Generation Related Rate (GRR) would yield a reasonable benchmark of costs for "non-renewable resources" that can be used to determine the prevailing price for conventional energy that, in combination with a renewable premium, can serve as an effective PEL.

This approach suffers from several fatal flaws. First, the Non-Renewable GRR is calculated based on the costs of embedded resources in utility portfolios. As a result, it is a historic, rather than prospective, view of conventional generation costs. The portfolio used to calculate the Non-Renewable GRR includes heavily depreciated utility-owned nuclear and hydroelectric plants along with non-renewable Qualifying

[2] Revised alternative proposal of Southern California Edison, the California Large Energy Consumers Association, the Energy Producers and Users Coalition, and the California Manufacturers and Technology Association.

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Facilities, regional power exchange agreements that date back decades, and other conventional resources procured over the past decade. The Joint Parties have not demonstrated that these resources reflect the incremental cost for procuring capacity and energy in the current market. Since there are no new large hydroelectric or nuclear plants being constructed in California (or the WECC), for example, it is not reasonable to use these resources (based on historic costs that date back decades) to serve as a proxy for the cost of procuring new resources of any type in the current wholesale power market. Moreover, the Commission has consistently recognized that newly constructed conventional resources are typically more expensive (at least on a capacity basis) than many of the existing conventional resources in current utility portfolios. Indeed, TURN submits that many of SCE's forthcoming contracts for new gas-fired generating capacity in the LA Basin could prove more expensive than the Non-Renewable GRR that is intended to represent the cost of conventional power. Finally, this approach fails to capture the expected cost of GHG premiums over time since current resource costs include existing GHG allowance prices.[3]

Moreover, neither SCE nor the Joint Parties provide any basis for their proposed renewable premiums (which range from 12% to 25%) other than asserting that they represent some form of reasonable "buffer".[4] The Joint Parties explain that the resulting renewable price benchmark is unrelated to any forecasted price of renewable energy and instead represents an "exogenous benchmark" that attempts to compare renewable power costs (but not value) to the cost of conventional resources.[5] This approach makes no attempt to consider whether incremental renewable procurement is comparable to, or more expensive than, incremental procurement from conventional resources that would otherwise be procured.

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[3] In the case of large hydroelectric plants in the existing portfolio, there are no GHG costs included. By contrast, assumed future procurement from conventional resources should include a forecast of expected GHG prices over time.

[4] SCE/Joint Parties revised proposal, page 5.

[5] SCE/Joint Parties revised proposal, page 17.

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The second factor to be considered by the Commission relates to the goal of preventing "disproportionate rate impacts" resulting from the achievement of the RPS targets assuming the expected costs and identified needs.[6] Any analysis of retail rate impacts should consider whether net increases would be driven by renewable procurement, what alternatives exist to procuring renewable energy and the level of rates under a "base case" scenario. Given that a utility can be required to continue RPS procurement even after the PEL has been exhausted so long as there is no more than a "de minimis increase in rates"[7], it would be inappropriate to adopt a constraint that could lead to the procurement of any conventional resource that results in a larger rate impact than had the utility procured an available eligible renewable energy resource.

SCE/Joint Parties propose that RPS procurement costs should be capped either when an individual renewable contract exceeds the Alternative Renewable Rate (the Non-Renewable GRR plus a renewable premium) or if the entire Alternative Renewable Budget (a cumulative calculation of the ARRs multiplied by expected procurement volumes over a 10-year period) has been exhausted.[8] This approach similarly fails to consider the relative costs of alternative incremental procurement by the utility. Under this proposal, a utility could be allowed to avoid a renewable energy purchase that exceeds its Non-Renewable GRR and instead procure an even more expensive conventional resource. This outcome is illogical, does not protect the interests of ratepayers, and represents a fatal flaw in the proposal. As a result, SCE and the Joint Parties cannot demonstrate that this mechanism would prevent de minimis rate impacts even in the event that it is triggered.

TURN appreciates the hard work by Commission staff to propose a possible

[6] Cal. Pub. Util. Code §399.15(d)(1).
[7] Cal. Pub. Util. Code §399.15(f).
[8] SCE/Joint Parties revised proposal, page 16.

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implementation for the PEL and looks forward to responding to comments submitted by other parties.

Respectfully submitted,

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VERIFICATION

I, Matthew Freedman, am an attorney of record for THE UTILITY REFORM NETWORK in this proceeding and am authorized to make this verification on the organization's behalf. The statements in the foregoing document are true of my own knowledge, except for those matters which are stated on information and belief, and as to those matters, I believe them to be true.

I am making this verification on TURN's behalf because, as the lead attorney in the proceeding, I have unique personal knowledge of certain facts stated in the foregoing document.

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

Executed on March 19, 2014, at San Francisco, California.

_____/S/_____

Matthew Freedman
Staff Attorney

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