Order Instituting Rulemaking to Continue Implementation and Administration, and Consider Further Development, of California Renewables Portfolio Standard Program.	Rulemaking 18-07-003 (Filed July 12, 2018)

INFORMAL COMMENTS OF L. JAN REID ON STAFF PROPOSAL

I. Introduction

On October 30, 2018, the Energy Division requested that parties answer a series of questions concerning the Staff Proposal concerning the BioMat program in the Renewables Portfolio Standard proceeding (Rulemaking 18-07-003). L. Jan Reid submits his response to questions 1-7 below. The Energy Division's questions are italicized, and my answers are given in roman type.

II. Question 1

Do you support the proposal to reduce the market depth requirement from five to three for unaffiliated applicants? Why or why not?

No. Ratepayers must be protected against unreasonable BioMat costs. Table 1 shows that BioMat prices have recently ranged from $127.72/megawatt hour (MWh) to $199.72/MWh. This is many times the costs of more traditional renewables generation, a level which is not cost-effective for ratepayers.

Staff notes that: (Staff Proposal, p. 8)

> However, with a small number of developers having a stake in a large share of the projects under development across several categories, there is the potential that individual developers could manage market depth and price acceptances to influence the offer price under current program rules. Thus, Staff continues to be concerned that the potential exists for developers to influence market depth and the resulting offer price through multiple projects with which they are directly or indirectly affiliated.

III. Question 2

Do you support proposal 2 to revise when the BioMAT offer price moves up, moves down, and stays the same? Why or why not?

No. As shown in Table 1, the existing program has not produced cost-effective prices for California ratepayers. There is no assurance that Proposal 2 will solve this problem and it may make the problem worse.

If my proposal given in my answer to Question 7 is not accepted, then I support the first alternative proposal given on pages 14-15 of the Staff Proposal. Staff states that under the first alternative proposal: (Staff Proposal, p. 14)

> Alternatively, the IOUs could offer a fixed price feed-in-tariff (FiT) within each technology category. Such an approach could produce an even simpler procurement process and reduce the administrative costs of BioMAT. It would also allow project developers to plan around a specific PPA price.

IV. Question 3

Should the Commission transition to a fixed price feed-in-tariff instead of the price adjusting mechanism? Why or why not?

See my answer to Question 7.

V. Question 4

Should the Commission transition to a renewable auction mechanism (RAM) instead of the price adjusting mechanism? Why or why not?

I do not support Proposal 2 because it does not protect ratepayers from unreasonably high BioMat prices.

Staff states that: (Staff Proposal, p. 15)

> However, this approach would reduce price certainty and could result in uncompetitive solicitations if there are a low number of bidders. In order to consider such an approach, the Commission would have to determine how much capacity to offer in each RAM solicitation, the criteria to evaluate bids, and how to protect ratepayers from high prices resulting from uncompetitive solicitations.

VI. Question 5

Should the Commission consider changes to the BioMAT definition of "unaffiliated applicants" to better ensure that projects with common developers count as affiliated for the purpose of determining market depth? Why or why not?

a. If so, please explain what the changes should be.

The Question is unclear in respect to the use of the term common developers. Is Staff referring to a situation in which there is one common developer or is Staff referring to a situation in which the same developers are proposing different projects?

VII. Question 6

As noted in Staff's observations on page 7, BioMAT offer prices are now sufficiently high to encourage price acceptance and project development within each category. This raises a concern that even small price adjustments in the future could lead to ratepayer overpayment for projects willing to execute contracts at lower PPA prices, and offer prices that are too low for other projects that need higher PPA prices. For example, a project developer willing to execute a contract for an additional $4/MWh would receive an $8/MWh windfall if the offer price increases by $12/MWh. Should the Commission consider changes to simplify the price adjustment mechanism and allow for more granular pricing (e.g. revise the price adjustment amount to $4 per MWh, rather than the current system of $4, $8, and $12)? Please explain.

No. See my answer to Question 7.

VIII. Question 7

Are there any other program pricing proposals that the Commission should consider? If so, explain the proposal and how it would be consistent with Public Utilities Code section 399.20.

I propose a modified form of Proposal 2 referred to in Question 3. Under my modified proposal, the Commission would establish a bidding system where the maximum allowable bid is explained in my answer to Question 3a below. I believe that this system will protect ratepayers against unreasonable BioMat prices.

Developers should submit bids for BioMat contracts. However, the maximum price paid should be determined as a percentage of the RPS prices paid by the IOUs each year for the three types of technology given in Table 1 of the Staff Proposal.

The Padilla Report to the California Legislature is required by Public Utilities Code Section 913.3. The CPUC has explained that "Each May 1, the California Public Utilities Commission is required to report to the Legislature the aggregated costs and cost savings of renewable energy expenditures and contracts for the previous year. (2018 Padilla Report, About This Report, www.cpuc.ca.gov/uploadedFiles/CPUCWebsite/Content/About_Us/Organization/ Divisions/Office_of_Governmental_Affairs/Legislation/2018/MASTER%202018%20PADILLA%20REPORT_FINAL.pdf)
The Report states that "The large IOUs' average procurement expenditure for all RPS contracts online fell slightly from 10.2 cents per kilowatt-hour (¢/kWh) in 2016 to 10.1 ¢/kWh in 2017." (2018 Padilla Report, p. 1)

I note that 10.1 cents/kilowatt hour is equivalent to $101/megawatt hour (MWh). Table 1 of the Staff Proposal indicates that the cost of different BioMat technologies in Program Period 17 was:

- $127.72 MWh for Biogas (126.46% of average RPS cost)
- $187.72 MWh for Dairy (185.86% of average RPS cost)
- $187.72 MWh for Other Agriculture (185.86% of average RPS cost)
- $199.72 MWh for Sustainable Forest (199.74% of average RPS cost)

Therefore, I recommend the following:

1. The maximum allowable Biogas bid in 2019 will be set to 126% of the average RPS cost as given in the 2018 Padilla Report.

2. The maximum allowable Dairy and Other Agriculture bid in 2019 will be set to 186% of the average RPS cost as given in the 2018 Padilla Report.

3. The maximum allowable Sustainable Forest bid in 2019 will be set to 200% of the average RPS cost as given in the 2018 Padilla Report.

4. The maximum price will be reset annually based on the prices in the annual Padilla Reports. For example, if the 2019 Padilla Report indicates an average price of $105/MWh, then the maximum Biogas bid will be reset to $132.30/MWh (105 x 1.26 =132.30) for bids in 2020.

My proposal is consistent with Public Utilities Code Section (PUC §) 399.20. This statute requires that "The commission shall establish a methodology to determine the market price of electricity for terms corresponding to the length of contracts with an electric generation facility . . ." (PUC § 399.20(d)(2))

Under my proposal, the market price for electricity will be set annually based on the overall cost of RPS and the bids submitted by the BioMat developers.

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Dated December 7, 2018, at Santa Cruz, California

/s/

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