

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Integrate)	
Procurement Policies and Consider Long-Term)	Rulemaking 06-02-013
Procurement Plans)	
)	

**PROPOSAL OF THE
CALIFORNIA COGENERATION COUNCIL
TO SUPPORT
NEW ELECTRIC GENERATION**

R. Thomas Beach
Crossborder Energy
2560 Ninth Street, Suite 316
Berkeley, California 94710
Telephone: 510-549-6922
Facsimile: 510-649-9793
E-mail: tomb@crossborderenergy.com

On Behalf of
THE CALIFORNIA COGENERATION COUNCIL

March 7, 2006

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The California Cogeneration Council¹ is pleased to respond to the Commission’s request, in the above-captioned Rulemaking issued February 16, 2006, for “proposals on additional policies to support new generation issues and long-term contracting.”

The Commission issued this Rulemaking as “the forum in which we consider, in an integrated fashion, the Commission’s electric resource procurement policies and programs.” *Rulemaking, at 1.* This case will be the “umbrella proceeding” in which the Commission will integrate all of its efforts in its procurement-related cases, including R. 04-04-025, the ongoing

¹ The CCC is an *ad hoc* association of natural gas-fired cogenerators located throughout California, in the service territories of all three of California’s major investor-owned electric utilities (IOUs) – Pacific Gas & Electric Company (PG&E), Southern California Edison Company (Edison), and San Diego Gas & Electric Company (SDG&E). CCC member facilities are certified as qualifying facilities (QFs) pursuant to the Public Utility Regulatory Policies Act of 1978 (PURPA). CCC members have sold their power to the IOUs since the early 1980s, pursuant to contract terms and avoided cost prices established by this Commission.

Cogeneration projects such as those operated by CCC members supply 12% of the total generating capacity located within the California Independent System Operator (CAISO) system. Cogeneration (also known as combined heat and power, or CHP) is the third-largest source of power in the state, trailing only thermal plants and hydroelectric facilities. Since cogeneration projects tend to operate as baseload resources, they produce an even larger share – about 17% – of the IOUs’ annual energy requirements. In addition, before cogenerators sell their surplus power to the IOUs, they serve on-site manufacturing, agricultural, or other commercial loads; statewide, such self-generation serves about 4% of California’s electricity requirements.

rulemaking on avoided costs and QF-related policy issues. *Rulemaking, at 7-8.* The Commission recently completed extensive hearings on QF pricing and policy issues in R. 04-04-025, and opening briefs were filed on March 3, 2006. R. 04-04-025 has been consolidated with R. 04-04-003, the predecessor to this Rulemaking. The CCC has participated actively in R. 04-04-025, as well as in R. 04-04-003, and files these comments to assist the Commission in integrating the policies under debate in R. 04-04-025 into this new Rulemaking.

The Rulemaking states that the recently adopted Energy Action Plan II (EAP II) will serve as the Commission's "guidepost" in this proceeding. *Rulemaking, at 2.* EAP II includes, as one of its key goals, providing for "the continued operation of cost-effective and environmentally-sound existing generation needed to meet current reliability needs, including combined heat and power generation." *EAP II, at 10.* The Rulemaking also commits to consider the recommendations contained in the California Energy Commission's (CEC) *2005 Integrated Energy Policy Report (2005 IEPR)*.² The 2005 IEPR includes a number of significant recommendations designed to preserve and enhance the state's CHP resources. Importantly, the 2005 IEPR recognizes that new CHP can make a major contribution to the state's energy future:

- California has the potential to develop 5,400 MW of new CHP capacity by 2020, in order to meet continued growth in electric demand. The state also needs to ensure that it retains its existing 9,000 MW of distributed, efficient CHP. *2005 IEPR, at E-4 and 78.*
- CHP resources are located in the state's load centers, and provide reliable local generation that supports the electric grid and reduces the need for new transmission lines. *2005 IEPR, at 74 and 77.*
- CHP is an efficient use of natural gas to produce both electric and thermal energy. This is particularly important given increasing concerns about the adequacy of natural gas supplies and the major natural gas price spikes following Hurricanes Katrina and Rita. *2005 IEPR, at 77 and 136.*

² California Energy Commission, "2005 Integrated Energy Policy Report," (Commission Report, November 2005, CEC Publication 100-2005-007-CMF), available at <http://www.energy.ca.gov/2005publications/CEC-100-2005-007/CEC-100-2005-007-CMF.PDF>.

The CCC applauds the substantial efforts that the CEC and this Commission have made in recent years to work together to meet the state's energy needs, an effort which the Rulemaking pledges to continue. *Rulemaking, at 9.* The CCC trusts that the Commission will give significant weight to the CEC's 2005 IEPR recommendations concerning the need for procurement policies designed to ensure that California retains and expands the benefits of its CHP resources.

To that end, the CCC has proposed a number of policies in R. 04-04-025 designed to encourage the further growth of the state's CHP resources. These proposals are fully consistent with the direction of state policy as set forth in EAP II and the 2005 IEPR. The two most important of these recommendations are:

1. **A CHP Portfolio Standard.** The Commission should adopt a CHP Portfolio Standard goal of a 25% increase in the IOUs' CHP capacity by 2010. Based on the cogeneration capacity of more than 5,000 MW now under contract to the IOUs, this goal represents an increase of about 1,300 MW. This is significantly less than the 2005 IEPR's assessment of the potential for new CHP in California. The 2005 IEPR, at E-4 and 78, concurs with this recommendation for a CHP procurement target for the IOUs.
2. **A Long-term Firm Capacity Contract.** The Commission should adopt a new long-term firm capacity contract that would be available to new QFs or to existing QFs whose original contracts are expiring. This contract would be available to new cogeneration QFs if the Cogeneration Portfolio Standard goal has not been met. The pricing in this contract would be at Commission-approved long-run avoided cost (LRAC) prices. The 2005 IEPR, at 77, supports the availability of such a contract.

Such policies will not only encourage the development of new CHP projects; they will also promote expansions and repowerings at existing CHP facilities. Such capital improvements are unlikely to be undertaken unless CHP QFs have the option of a long-term contract extension or renewal once their original utility contract expires. The CCC's testimony in R. 04-04-025 estimates that such repowerings could add as much as 600 MW to the state's generation portfolio, mostly in the IOU load centers where distributed generation is particularly valuable for maintaining grid reliability.³

³ R. 04-04-025, Exhibit 102, at 10.

The Rulemaking observes that the parties are in general agreement that the “urgent and priority goal” for this proceeding is to review “policies to ensure new generation gets built in California.” The Rulemaking expresses particular concern that private investment dollars are not flowing to California generation projects, and recognizes the Commission’s role in encouraging such investment. *Rulemaking at 12*. In the 1980s, during a similar period of tight generation supplies, the CCC’s member companies made major investments in the state’s energy infrastructure, with strong policy support from this Commission, and now those CHP projects are an integral part of the state’s resource mix. If the Commission again chooses policies that are supportive of CHP development – such as those set forth in the 2005 IEPR and in the CCC’s testimony in R. 04-04-025 – CHP projects can maintain and expand their valuable contribution to California’s generation portfolio. As this Rulemaking progresses, the Commission should recognize that the policies proposed in R. 04-04-025 can play a substantial role in meeting the state’s need for new electric generation.

Respectfully submitted,

R. Thomas Beach
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