

## CALIFORNIA ENERGY COMMISSION

1516 NINTH STREET  
SACRAMENTO, CA 95814-5512  
www.energy.ca.gov



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Dorothy Duda ([DOT@cpuc.ca.gov](mailto:DOT@cpuc.ca.gov))  
Maryam Ebke ([MEB@cpuc.ca.gov](mailto:MEB@cpuc.ca.gov))  
Administrative Law Judges  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 95814  
(letter sent via e-mail only)

Re: **Prehearing Conference and Preliminary Scoping Memo Comments by the California Energy Commission  
California Public Utilities Commission Rulemaking 08-03-008**

Dear ALJs Duda and Ebke:

As requested in the Order Instituting Rulemaking (OIR) dated March 17, 2008, the California Energy Commission (Energy Commission) respectfully submits the following comments on the preliminary scoping memo in California Public Utilities Commission (CPUC) Rulemaking 08-03-008. The Energy Commission collaborated with the CPUC in the preceding rulemaking, R.06-03-004, regarding some of the issues involved in this rulemaking. The CPUC has invited the Energy Commission to take a collaborative role in this proceeding, as well.

**1. Distributed Generation (DG) Policy Issues and Self-Generation Incentive Program (SGIP) Rules and Management**

The Energy Commission supports and appreciates the CPUC's willingness to consider a broad range of DG and SGIP issues within the scope of this proceeding, as indicated by the following statement in the OIR:

*In this proceeding we will address, as needed, any policy, legal, or administrative issues that arise in the broad context of DG or within the ongoing SGIP. These may include, but are not limited to funding levels, incentive amounts, and program modification requests. We will also consider changes to incentive levels and technologies as market conditions change, as long as the changes are in compliance with [Public Utilities Code] Section 379.6. (OIR, p. 11)*

The Energy Commission requests that the following issues be placed within the scope of R.08-030-008, in addition to those specifically referenced in Section 3.2 of the OIR:

### **A. Utility Hedging of Natural Gas Price Risk of Small CHP**

A key obstacle to the development of combined heat and power (CHP) connected at the distribution level is natural gas price volatility.

Most commercially available gas packages that provide hedges against changes in price only do so for brief periods before buyers are once again fully exposed to price changes; the market has failed to produce third-party providers of hedging services for buyers of small quantities of natural gas. While a CHP project owner can undertake a sophisticated hedging strategy to offset this failure, doing so requires an investment in resources that reduces the benefits of the project.

Within the scope of this proceeding, the CPUC should consider policy measures that reduce the impact of gas price volatility on the development of small CHP projects. As investor-owned utilities are able to hedge gas price risk over longer periods, and likely at a lower per-unit cost than small CHP owners, the CPUC should consider arrangements under which the utilities hedge gas on behalf of new, small CHP projects and provide it at the utility's portfolio cost. This can be accomplished with little incremental risk being assumed by the utilities, given the current volume of gas being provided under tolling agreements and additional hedging undertaken to hedge the risk associated with QF contracts.

### **B. Implementation of AB 1613**

Assembly Bill (AB) 1613 (Blakeslee), Ch. 713, Stats. 2007, was enacted with the intent to support and facilitate both customer- and utility-owned CHP systems.<sup>1</sup> In order to encourage the development of small (i.e., less than or equal to 20 MW) CHP projects, AB 1613 does the following:

- Authorizes the CPUC to require the purchase of excess electricity by IOUs from projects that meet sizing, efficiency, and emission requirements subject to a maximum kWh limitation on purchases to be established by the CPUC;
- Requires the CPUC to establish a tariff for such purchases that included time-of-use (TOU) rates and options for different durations up to ten years subject to the constraint that other ratepayers be indifferent to the tariff;
- Requires the CPUC to adopt or maintain stand-by rates for CHP systems that are based only upon assumptions that are supported by factual data; and

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<sup>1</sup> Public Utilities Code Section 2840.6(c)

- Requires the CPUC to establish a pay-as-you-save pilot program to finance the upfront costs for the development of up to 100 MW of small CHP.

As development of a cost-benefit methodology for DG is within the scope of the proceeding, R.08-03-008 is an appropriate and logical forum in which to implement the mandates of AB 1613. The legislation requires that other ratepayers be held indifferent to the tariff developed, requiring the costs and benefits of qualifying CHP projects to be accurately assessed.

AB 1613 also requires the CEC to develop guidelines for new CHP projects that must be met in order to qualify for the tariff and pilot program established by the legislation and implemented by the CPUC. While these guidelines are not required to be in place until January 2010, Energy Commission staff hopes to begin coordinating with the CPUC by August 2008 on the process for adopting these guidelines.

### **C. Review of Stand-By and Non-Bypassable Charges for Small CHP**

Stand-by and non-bypassable charges have been identified as major obstacles to the development of DG. Elimination of all non-bypassable charges for DG and stand-by reservation charges for DG is a policy recommendation of the *2007 Integrated Energy Policy Report*.<sup>2</sup> This issue becomes all the more appropriate for discussion in this proceeding if implementation of AB 1613 is in the scope as well, as the latter requires that the CPUC adopt or maintain standby rates or charges for CHP systems that are supported by factual data.<sup>3</sup>

### **2. Cost Benefit Methodology for Natural Gas-Fueled DG**

The Energy Commission supports the CPUC in its proposed goal in this proceeding to define and establish a way of measuring the costs and benefits of DG. Accurate measurement of the costs and benefits of DG projects is a crucial step in formulating policy that will result in the development of DG that maximizes both economic and environmental benefits. Recent studies have indicated that the potential for DG to contribute to the goals of reduced or more efficient use of natural gas, and concomitant reductions in greenhouse gas emissions and reduced need for transmission and distribution, is substantial. Pursuant to AB 2778 (Lieber) Ch. 617, Stats. of 2006, the Energy Commission, in consultation with the CPUC, is required to conduct a cost-benefit evaluation of SGIP technologies. TIAX, LLC, has been contracted to develop a methodology and evaluation of the costs and benefits of present and potential SGIP

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<sup>2</sup> *2007 Integrated Energy Policy Report*, p. 163

<sup>3</sup> Public Utilities Code Section 2841(g)

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technologies, with a report due on or before November 2008. The staffs of the Energy Commission and the CPUC have been in communication during and after the Request for Proposal stage of this contract. The Energy Commission encourages continued close coordination with the CPUC in this effort in order to define and establish a viable methodology with results that have long-term durability.

Consistent with the anticipated results of the TIAX effort, the Energy Commission recommends that cost-benefit evaluations not be focused exclusively on the set of technologies currently eligible for the California Solar Initiative or SGIP. For example, as CHP improves the efficiency with which useful thermal output and electricity are jointly produced, it offers an additional dimension of relationships for cost-benefit analysis. To ignore these in the course of establishing a methodology, one that is likely to be widely applied by the CPUC and the Energy Commission, could result in an unnecessary duplication of effort in future proceedings.

Thank you the opportunity to provide these comments.

Sincerely,

A handwritten signature in black ink, appearing to read 'Melissa Jones', written over a horizontal line.

MELISSA JONES  
Executive Director

cc: Vice-Chair James D. Boyd  
Commissioner Jeffrey D. Byron  
Service List, R.08-03-008