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BEFORE THE CALIFORNIA ENERGY COMMISSION

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Achieving the Preferred Loading Order White Paper

Docket 04-DIST-GEN-1

Order Instituting Investigation on Exploring Issues Associated with
Implementation and Distribution Planning of Distributed Generation

In the Matter of :

2005 Energy Report-CHP Workshop April 28, 2005

COMMENTS OF COGENWORKS COALITION

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CogenWorks, a California-based coalition of 50 cogenerators that supply power to cities, hospitals, universities, industry, and a variety of other small and large businesses throughout California, is pleased to present these written comments on the Commission's 2005 Energy Report-CHP Workshop on April 28, 2005.

The California Energy Commission workshop on April 28th outlined the important issues facing the preservation and expansion of cogeneration. Cogeneration, a form of combined heat and power, is an environmentally efficient, economic, and reliable source of electricity in California. As discussed at the workshop there is significant economic and technical potential for cogeneration in California. In addition there could be numerous market opportunities for cogeneration applications within the state that can play a vital role in contributing to the state's Energy Action Plan. The workshop however also provided less than optimistic views from cogenerators regarding the ability of existing cogens to continue providing electricity unless IOU's allow them to extend the terms of their existing contracts. If the IOU's are unwilling to take power from cogenerators it leaves a looming question regarding future investments in expanded cogeneration within the state.

One of the participants at the workshop, an independent oil company, testified that the company has been utilizing cogeneration as a part of its enhanced oil recovery (EOR) operations since 1986. The independent oil company presently has the capacity to produce 90 MW of energy of which 10 MW is used onsite and the balance exported. The company representative noted that this cogeneration operation only supplied about half of the thermal needs of the independent oil company's EOR operation. Beginning in 2000-2001, the company tried to expand its cogeneration operation to add an additional 90 MW facility to meet these additional thermal needs. However, because the company was not able to find a utility willing to sign a contract to take the power that would be produced by this facility, it finally gave up on this option and instead installed boilers to meet its thermal needs.

Examples of the obstacles this independent oil company has faced in trying to preserve its cogeneration operations include the following: (1) although it has been operating reliably 24/7 for twelve years with no changes to its operations, upon the expiration of an existing contract it took the independent oil company a full year to obtain an interconnection agreement; (2) it has had to sign a Participating Generator Agreement with the ISO which subjects the independent oil company to the entire ISO Tariff and all amendments to that Tariff whether pending or to come; (3) it has had to install metering at its facility and was hit with a penalty which those that don't sign the ISO's PGA do not have; and (4) it has been operating under interim agreements with the utilities because the IOUs refuse to sign long term contracts – the independent oil company cannot operate effectively under a short term contract. For all of these reasons, CogenWorks feels that the Energy Commission must do something for new and existing cogeneration facilities that presently face a huge uphill battle in attempting to stay online.

Existing in-state cogeneration assets supply a significant number of megawatts to the state's grid and relieve the demand for additional megawatts through customer

generation. These resources are an important and beneficial component of the state's electricity portfolio that must be maintained to meet the current and growing demand for power.

Since the early 1980s, the promotion of cogeneration has been an integral part of California's strategy for the efficient use of energy, and has been closely coordinated with state policies to encourage the increased use of renewable power. California has led the nation and the world in adopting policies that have encouraged the development of renewable resources such as geothermal, wind, and solar, as well as alternative technologies such as cogeneration.

As a direct result of these policies, cogeneration now supplies about 12 percent of the total demand for electricity on the system of the California Independent System Operator, approximately 6,100 megawatts, while relieving the demand for thousands of additional megawatts through customer generation. These cogeneration resources are a vital and beneficial component of the state's electricity portfolio that must be maintained to meet current demand and developed further to help meet the growing power needs of the state. Today, however, the continued development of cogeneration is not an explicit goal in the Energy Action Plan.

The Energy Action Plan, adopted jointly by the Public Utilities Commission, Energy Commission and Power Authority, calls for a balanced approach to meeting the state's energy demand and specifies a "loading order," front-loaded with efficiency, conservation and renewable technologies, followed by standard generation. We agree that energy efficiency and conservation are a vital part of our energy future.

To ensure that Californians benefit from a cost-effective and environmentally efficient power portfolio, **cogeneration should be added as an explicit and integral part of this loading order.** California's Energy Action Plan should advocate the establishment of cogeneration as a priority resource on par with renewables and distributed generation as the second element in the Action Plan's "loading order."

Cogeneration already plays an important part in meeting the energy savings goals of the Energy Action Plan. The net energy savings from existing cogeneration is equivalent to approximately a 7 percent annual reduction of energy consumed for statewide electrical production in a year. The goal of reducing the use of such resources as natural gas under increased demand can be met with the efficiencies provided by cogeneration.

As regulators develop the 2005 Integrated Energy Policy Report (IEPR), it is imperative to examine the policies that influence new and existing cogeneration in California. Cogeneration helps to stabilize the price of energy consumed in the state by reducing the demand on the state's electrical grid and lowering the risk of rolling blackouts. Last year the California Energy Commission unanimously approved the final 2003 IEPR and strongly endorsed cogeneration:

Distributed generation, including cogeneration, has tremendous potential to help meet California's growing energy needs as an additional generation source. Its use offers potential benefits that extend to customers, utilities and the [electricity] system as a whole and can be used strategically to meet the policy objectives of the Renewable Portfolio Standard and the reduction of greenhouse gasses.

Adding cogeneration to the state's loading order will help preserve and secure this important segment of existing state infrastructure, reduce environmental impacts and overall use of natural gas. It will also maintain resource diversity in our electrical system, encourage further investment, and meet the obligations by the state to facilities with Qualifying Facility status.

State policy must ensure that California continues to enjoy the many benefits of this remarkably clean and efficient, proven and reliable technology. As California continues to lead the way in promoting reliable clean energy sources it is vital that the state make cogeneration a priority resource in California's electricity loading order.