December 9, 2005

John L. Geesman, Commissioner
California Energy Commission
Dockets Office, MS-4
1516 Ninth Street
Sacramento, CA 95814-5512

Re: Docket No. 05-RPS-1078

NEW HYDROPOWER AND CALIFORNIA'S ROLE IN THE DEVELOPMENT OF INTERNATIONAL RENEWABLE ENERGY RESOURCES

California has a demonstrated role as an international leader in environmental affairs. The enforcement of air quality standards through regulation of industrial and automotive emissions is one example. The California Energy Commission's (CEC) involvement in Renewable Portfolio Standard (RPS) guidelines is another such opportunity.

Meeting California's goals for renewable energy will take work, investment and time. The results will be impressive, but pitfalls could be encountered en route. In particular, the higher costs of preferred renewable technologies will tend to raise rates over the time of their deployment. Rate pressures could stimulate political opposition and threaten the long-term achievement of program goals. The CEC should give special consideration and prompt accommodation to opportunities that protect the rate base.

The RPS is designed to reduce greenhouse gas emissions and our dependence on fossil fuels by increasing renewable energy available to California utilities. Accommodating northern hydroelectric projects under California's RPS can accomplish that aim.

California leads the nation in recognizing the health risks of diesel exhaust. Most Southeast Alaska and many northwest interior communities rely on diesel powered generators for energy. Energy from diesel fuel is expensive and polluting. Because of the climate, Alaska generates very little domestic heating or cooling demand during peak seasonal periods of hydropower production. Existing Alaska hydropower resources often generate surpluses when demand is peaking elsewhere, as in California. Southeast Alaska is isolated and unconnected to the North American grid, therefore communities must maintain back-up diesel generation and tank farms.

The governments of Alaska and Canada's British Columbia have studied the potential for a "Southeast Alaska Intertie" to connect the region's communities and resources to one another and to the North American grid. The benefits are obvious -

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In Southeast Alaska it would enable summer surpluses to counterbalance winter deficits and reduce the existing dependence on fossil fuels. It would reduce the effect of pollution and environmental risk of diesel generation, as with the marine transport and storage of fuel reserves. It would stimulate the development of significant new hydropower resources in the region and support economic development. Communities in Southeast Alaska could decommission existing diesel generating plants and tank farms while serving their customers with cleaner renewable energy at lower retail rates.

In British Columbia, the Intertie would strengthen the British Columbia Transmission Corporation (BCTC) system, providing reliability to BC's northwest region. This beautiful and resource rich region features untapped economic development potential, including mining, forestry and tourism. Powering this corner of the North American grid with Alaskan and British Columbian hydropower will reduce line losses for BCTC and help support the entire grid.

California could benefit from a northern renewable energy surplus for years to come. The cost of hydropower is not affected by the price of fossil fuels and can be forecast over 30 years. Its availability could help keep rates low while a local renewable portfolio is developed. Because Alaska's seasonal hydropower energy production closely matches California's seasonal energy requirements, California is uniquely positioned to directly benefit and protect their rate base while providing international leadership in resource management.

A newly proposed Intertie would connect Southeast Alaska with the North American grid through the British Columbia Transmission Corporation system. The U.S. Congress has authorized an 80% project match capped at $384mm to connect the communities of Southeast Alaska. Investors are ready to develop the region's hydropower resources. Wheeling fees from the hydropower resources would cover the costs of maintenance and operation of the proposed transmission infrastructure. However, the region's growth and development has not yet produced an energy market and rate base sufficient to justify investment in the Southeast Alaska Intertie. Lack of access to sufficient markets keeps this incredible resource locked in a classic "chicken and egg" quandary. The CEC's RPS guidelines could be the key to unlocking this mutually beneficial potential.

Unfortunately, California's in-state concerns regarding water rights adjudication, appropriations and diversions have led to the crafting of language that is inimical to the development of this resource. Under the Commission's guidelines, hydropower suffers strictures related to water appropriations and diversions that often do not apply to northern hydropower production. For much of the rugged coast of Southeast Alaska, mountains jut from the sea, rising thousands of feet to foster glaciers that melt, supplying lakes and streams that discharge over precipitous abutments onto remote beaches. Issues common to California, such as agriculture and irrigation, are not at issue with Southeast Alaska sites.

Similarly, the guidelines uniquely limit eligible hydropower to 30 megawatts. The guidelines provide no such limit for any other mode of generation. It is unclear what protection or benefit this provides. Increasing capacity will generally reduce the cost/benefit for any hydropower project in both economic and environmental terms. Also, a 100 MW hydroelectric facility will likely impact the environment less than a 100 MW wind farm.

The eligibility guidelines reflect the commission's recognition that "...further work is needed to evaluate the RPS eligibility of small hydroelectric projects..." and will "...work with...the appropriate governing bodies outside of the state, to define changes in appropriation and diversion of water for evaluating the eligibility of small hydro projects" (p.12).

We are in contact with regulators and representatives of the "appropriate governing bodies" and can attest that there is a general consensus for developing these resources and connecting to the grid. We offer our assistance in collaboration with the Commission to assemble an ad hoc forum to explore these possibilities and to review draft language amending the guidelines as appropriate. This effort could have important benefits for many remote communities, the environment and California's rate base.

Until then, we believe the following changes deserve immediate consideration for Hydroelectric Facilities Located Outside of California:

> Add language changing the eligibility of small hydro projects to provide that:
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> To qualify a new or re-powered small hydroelectric facility located outside of California after September 12, 2002 requires a Federal Energy Regulatory Commission (FERC) license, or appropriate exemption as defined by FERC. A new or re-powered hydroelectric project shall also meet one of the following:
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> 1. New run-of-the-river hydroelectric project of any size.
> 2. New storage hydroelectric project if the storage dam is not higher than 15 feet above the natural stream course or impounded body of water.
> 3. New or re-powered generation on an existing dam of any size that was in place prior to September 12, 2002.
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> Delete the limit on size of the hydroelectric facility, or increase it to 100 megawatts.

FERC review is now very comprehensive in nature, requiring the consideration of all relevant agencies in pertinent political subdivisions, and affording them opportunity to adequately condition each project. The Commission may be able to save considerable time and effort if this review is found to be adequate. Alternatively, the Commission might wish to explore the desirability of adopting third party standards for the integrity of renewable energy production.

In any case, the California Energy Commission and the California PUC will retain the last say in accepting projects through its Market Price Referent limit. Above the Market Price Referent, the SEP and its requirements would take effect.

Thank you for your attention to these details. We would welcome any opportunity to follow up on these important considerations.

Sincerely,

Steven C. Marmon,
Manager
Cascade Creek, LLC