

**DOCKET****08-IEP-1**DATE JUN 10 2008RECD. JUN 10 2008**BEFORE THE CALIFORNIA ENERGY COMMISSION  
OF THE STATE OF CALIFORNIA**

In the Matter of:

Preparation of the  
2008 Integrated Energy Policy Report  
Update and the 2009 Integrated Energy  
Policy Report

Docket No. 08-IEP-1

**COMMENTS OF THE COGENERATION ASSOCIATION OF CALIFORNIA  
AND THE ENERGY PRODUCERS AND USERS COALITION ON  
THE 2009 INTEGRATED ENERGY POLICY REPORT SCOPE**

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June 10, 2008

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The Cogeneration Association of California<sup>1</sup> and the Energy Producers and Users Coalition<sup>2</sup> submit these comments to the California Energy Commission (Energy Commission) pursuant to the Notice of Committee Hearing. Actual implementation of past Integrated Energy Policy Report (IEPR) goals for Combined Heat and Power (CHP)<sup>3</sup> must be a critical focus of the 2009 IEPR.

Since the first IEPR in 2003, the Energy Commission has consistently supported CHP. The reasons for the Energy Commission's support have not changed. *"Benefits include improved reliability and power quality, peak shaving*

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<sup>1</sup> The Cogeneration Association of California represents the combined heat and power and cogeneration operation interests of the following entities: Coalinga Cogeneration Company, Mid-Set Cogeneration Company, Kern River Cogeneration Company, Sycamore Cogeneration Company, Sargent Canyon Cogeneration Company, Salinas River Cogeneration Company, Midway Sunset Cogeneration Company and Watson Cogeneration Company.

<sup>2</sup> The Energy Producers and Users Coalition is an ad hoc group representing the electric end use and customer generation interests of the following companies: Aera Energy LLC, BP West Coast Products LLC, Chevron U.S.A. Inc., ConocoPhillips Company, ExxonMobil Power and Gas Services Inc., Shell Oil Products US, THUMS Long Beach Company, Occidental Elk Hills, Inc., and Valero Refining Company – California.

<sup>3</sup> CHP and cogeneration are used interchangeably in these comments.

*options, security, and efficiency gains through the avoidance of line losses.”*<sup>4</sup>

*“Cogeneration offers another low-cost, low-emission option for the efficient use of natural gas.”*<sup>5</sup> CHP also offers benefits to *“utilities by deferring transmission and distribution construction, reducing resource acquisition costs and supporting the level of ancillary services offered.”*<sup>6</sup> Historically, these CHP benefits have been important. Now, their importance is even greater. Achieving high fuel use efficiency, with the accompanying greenhouse gas emissions reductions, and without compromising reliability, are particularly key for today’s carbon-constrained California.

The Energy Commission’s commitment to CHP, however, is not shared equally by all, with the result that IEPR goals for CHP are unfulfilled. The 2009 IEPR Scope will report on the status of past IEPR goals for CHP. Past IEPR goals were intended to remove barriers to the retention of existing CHP and the encouragement of new CHP. Active progress toward and promotion of these goals must be made over the next 18 months for the status report in the 2009 IEPR to reflect actual achievement.

**I. California’s “Slow Progress” In Addressing and Removing Barriers to CHP Must Be Rectified.**

CHP facilities helped keep the lights on during the energy crisis. As the 2003 IEPR explains:

*Despite not being paid for generation as a result of the adverse financial conditions of the IOUs, cogeneration and renewable facility operators*

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<sup>4</sup> 2003 IEPR, at 15.

<sup>5</sup> 2003 IEPR, at 24.

<sup>6</sup> 2003 IEPR, at 15.

*maintained relatively high levels of availability and were largely responsible for keeping the lights during the darkest days of the crisis.*<sup>7</sup>

This recognition of reliability, in conjunction with the fuel efficiencies and other benefits, led the Energy Commission to set as a 2003 goal increased system planning transparency to encourage cogeneration.<sup>8</sup> The 2004 IEPR Update acknowledged that *“the state has made slow progress in this area.”*<sup>9</sup> CHP was a major policy focus of the 2005 IEPR<sup>10</sup>, but the 2005 IEPR goals for CHP remain just that, goals. For example, despite the 2005 IEPR recommendation, CHP does not have its own spot in the loading order.

*“CHP is of such unique value in meeting loading order efficiency and new generation objectives that CHP deserves its own place in the loading order.”*<sup>11</sup>

In 2008, the slow pace of progress has not changed. Recent comments on the proposed scope of the 2008 IEPR Update outline the numerous, specific goals for CHP in the 2005 and 2007 IEPRs.<sup>12</sup> The below updates to three key goals should enable development of an implementation plan for the next 18 months.

#### **A. Eliminate all Non-Bypassable Departing Load Charges**

*“All nonbypassable charges should be eliminated for DG and CHP and standby reservation charges should be removed for DG.”*<sup>13</sup>

When load leaves the utility system to be served by CHP, it incurs substantial departing load charges. Today PG&E departing load charges for load

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<sup>7</sup> 2003 IEPR, at 7.

<sup>8</sup> 2003 IEPR, at vi, vii, and .15

<sup>9</sup> 2004 IEPR Update, at 56.

<sup>10</sup> *Id.* (“The recommendations associated with this issue [benefits of distributed generation including cogeneration] are expected to be a major component of the 2005 Energy Report process.”)

<sup>11</sup> 2005 IEPR, at 78.

<sup>12</sup> See, Comments of CAC and EPUC, filed April 30, 2008 in Docket No. 08-IEP-1.

<sup>13</sup> 2007 IEPR, at 163.

served by CHP systems over 5 MW are about \$13 MWh, while the SCE charges total about \$10 MWh. Depending upon the outcome of pending CPUC proceedings, additional departing load charges could be added. Even if these new categories of charges are not added, the existing categories are on the rise. The California Public Utilities Commission (CPUC) is addressing the two new departing load charges in its 2006 long term procurement planning rulemaking, R.06-02-013. A decision on the applicability of the Procurement NBC and the Cost Allocation Mechanism NBC to CHP, however, has been pending since the fall of 2007. There is no current procedural home for the development of a CHP exemption from the existing NBCs.

**B. Enable Easy and Efficient Excess Electricity Sales by CHP**

*“Streamline utilities’ long-term contract processes so that CHP owners can easily and efficiently sell their excess electricity to their local utility.”<sup>14</sup>*

Like departing load charges, the lack of an assured and reasonable contract for excess power sales is a significant barrier to the development of new CHP facilities. Standard Offer contract development to enable easy and efficient power sales to the local utility is even more important for existing CHP units with expiring contracts.

**1. Develop Utility Standard Offer Contracts for Avoided Cost Purchases of CHP Power**

*“By the end of 2006, the CPUC should require IOUs to buy, through standardized contracts, all electricity from CHP plants in their service territories at their avoided cost”<sup>15</sup>*

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<sup>14</sup> 2005 IEPR, at 78.

<sup>15</sup> 2005 IEPR, at 79.

CHP contracts with reasonable pricing provisions are critical to ensure the economic viability of CHP facilities. Despite the CPUC's issuance of D.07-09-040, which adopted policies and pricing mechanisms for utility purchases of QF power, QF contract policy remains unfinished business. While D.07-09-040 was issued last fall, the contentious development of utility-QF standard contracts continues.<sup>16</sup> Without firm contracts in place with rational, equitable treatment of carbon risk, existing CHP has no assurances that any CHP will receive reasonable prices to ensure economic viability.

## **2. Set Annual IOU Procurement Targets for CHP**

- ⇒ *"By the end of 2006, the Energy Commission and CPUC should collaboratively translate this goal (5400 MW of CHP by 2020) into annual IOU procurement targets."*<sup>17</sup>
- ⇒ *"A DG portfolio standard (which would include CHP) should be developed. In the alternative CHP and DG should be treated like efficiency programs."*<sup>18</sup>
- ⇒ *"Programs should be established to allow high efficiency CHP to export power more easily to the utilities. Options could include ... Allowing CHP output to count towards energy efficiency targets [or] Creating a CHP portfolio standard."*<sup>19</sup>

Although supported by CHP parties, there has been no progress on the creation of a CHP portfolio standard or annual procurement targets.

## **C. Reflect CHP Benefits in GHG Regulations**

*GHG regulations should reflect CHP benefits.*<sup>20</sup>

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<sup>16</sup> The filing of utility advice letters with standard offer contracts was initially anticipated by mid-January 2008. Parties are now engaged in a series of meetings, with the objective of revised utility advice letter filings in mid-July.

<sup>17</sup> 2005 IEPR, at 77.

<sup>18</sup> 2007 IEPR, at 163.

<sup>19</sup> 2007 IEPR, at 163-164.

<sup>20</sup> 2007 IEPR, at 164.

The Energy Commission and the CPUC are engaged in ongoing, intensive development of GHG regulations. Comments focusing on the appropriate treatment of CHP have been filed and a proposed, joint CPUC and Energy Commission decision on CHP is anticipated later this summer.

## **II. Conclusion**

Work remains on these critical Energy Commission goals for CHP. While past IEPR support has edified the CHP industry and enabled some steps forward at the CPUC, more significant progress is needed. Appropriate CPUC decisions and policies on departing load charges must be adopted and implemented. Reasonable contracts for sales of CHP power with adequate treatment of carbon risk must be developed and executed. For CHP to continue to help keep the lights on and offer proven benefits, these goals need to be made a reality. The 2009 IEPR focus on the CHP goals, it is hoped, will help achieve this result.

Dated: June 10, 2008

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Michael Alcantar", with a long horizontal flourish extending to the right.

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Rod Aoki

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A handwritten signature in blue ink, appearing to read "Evelyn Kahl", with a long horizontal flourish extending to the right.

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