

In the Matter of:
Preparation of the 2009 Integrated
Energy Policy Report (2009 IEPR)

Docket No. 09-IEP-1H

**COMMENTS OF THE CALIFORNIA LARGE ENERGY CONSUMERS ASSOCIATION
ON THE JULY 23, 2009, WORKHOP ON COMBINED HEAT AND POWER POTENTIAL**

The California Large Energy Consumers Association (CLECA) herein provides comments on the presentation of ICF International on Combined Heat and Power (CHP) technical potential. CLECA's comments will focus on certain assumptions made by ICF regarding future electric rates and payback requirements for customers contemplating investment in CHP.

The first assumptions have to do with the forecast of electric rates. ICF starts with current rates and forecasts increases to 2020 and no real increases thereafter. It also assumes that T&D costs are fixed going forward in real dollars. These are not good assumptions for California. First of all, PG&E's current rates are roughly 2 cents/kWh higher than SCE's for large power customers due to recent balancing account adjustments and transfer payments related to the DWR contracts. They will be much closer to each other by early 2010 and probably closer still by 2011. ICF would do better to assume that these rates will be similar. For large power customers, the rates should be in the range of 8.5 to 12 cents/kWh in 2010, depending on service voltage. Preliminary forecasts may be found in PG&E's 2010 Forecast ERRR filing made on June 1, 2009 and SCE's Phase 2 GRC Settlement in A. 08-03-002.

ICF's assumption that the generation portion of electric rate escalation should be based on the incremental cost of power from natural gas combined cycle plants misses the fact that the vast majority of new generation will come from renewable projects as the utilities strive to meet their RPS targets.¹ These incremental costs are likely to be higher than those of combined cycle plant costs, particularly at recent natural gas prices. In addition, there have been analyses indicating that 7 to 9 or more new transmission lines will be needed to meet the State's goal of achieving 33% of its kWh from renewable power by 2020. The first few transmission lines, under construction, are already leading to significant increases in transmission rates and these increases will continue to exceed inflation. In addition, between the implementation of Advanced Metering Infrastructure (AMI) and other aspects of Smart Grid, distribution costs and rates will also increase in excess of inflation. There are two studies that ICF could review that make some

¹ ICF refers to the "marginal" cost of power from combined cycle plants, but it is not clear what marginal costs mean here. We have assumed that the reference was to the incremental costs of adding new generation resources to the system.

predictions of the cost of 33% RPS implementation on rates. These are the CPUC Energy Division report on 33% RPS, with participation of E3 and Aspen Consulting, and the Nexant study referenced by SCE in its comments on the June 29, 2009 IEPR workshop on 33% RPS. Both of these should be readily available to the CEC and ICF.

Customers with DG may well be on standby rates. It was not clear from ICF's presentation if it has factored in the cost of standby rates. In addition, ICF mentioned the cost of "exit fees", or departing load charges. We hope that ICF has taken into account CPUC Decision No. 08-09-012 in terms of what departing load charges would be for IOU customers and how they would differ for different types of departing load. There is currently a dispute about an SCE advice letter to implement such charges that parties believe overstates departing load charges specifically for customer generation departing load (CGDL).

Separately, CLECA questions ICF's conclusions about payback periods for customer investment in CHP. Certainly we are aware of customers with longer payback periods than 2-3 years and are surprised that 50-60% of customers required a 2-year payback period for a CHP investment. We understand that ICF's analysis was based on a survey conducted 5 years ago, when there was an anticipation that utility rates would go down after the energy crisis. While they did drop somewhat during that period, they have begun to go up again. We suggest that with higher electric rates and customer GHG mitigation obligations, the payback threshold for at least industrial customers may well have lengthened. Indeed, it might be useful to conduct another survey when the economy recovers. In addition, it is not clear from ICF's presentation if it has considered bottoming-cycle waste-heat recovery investments in addition to topping cycle projects. These may have different motivations and/or paybacks.

Respectfully submitted,

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