

ACE COGENERATION AND RIO BRAVO

October 5, 2011

California Energy Commission
Docket Office, MS-4
Re: Docket No. 11-IEP-1
Sacramento, California 95814-5512
docket@energy.state.ca.us

DOCKET

11-IEP-1G

DATE Oct. 05 2011

RECD. Oct. 05 2011

RE: Docket No. 11-IEP-1G: Draft Renewable Power in California: Status and Issues

Dear Commissioners:

ACE Cogeneration and Rio Bravo submit these comments on the Staff Report, *Renewable Power in California, Status and Issues* (Pub. # CEC-150-2011-002) and the September 14, 2011 Committee Workshop on Draft Renewable Power in California: Status and Issues. ACE Cogeneration and the Rio Bravo Poso and Rio Bravo Jasmin facilities are three combined heat and power (CHP) plants in California with existing long-term contracts, and are in the process of converting their fuel sources from high carbon content solid fuels to lower carbon sources such as natural gas, biomass, solar or some combination of technologies.¹ The fuel / technology conversion investments will significantly reduce those facilities' existing greenhouse gas emission profiles, while allowing these CHP units to continue generating reliable baseload electricity for California and providing steam for industrial purposes. Moreover, conversion of these existing facilities will keep well-paying green-jobs in some of the more economically stressed California counties. ACE Cogeneration and Rio Bravo request that the 2011 Integrated Energy Policy Report ("IEPR") and the aforementioned staff report acknowledge the opportunity for fuel conversion at existing facilities.

A transition period is required to complete fuel / technology conversion option evaluations, prepare engineering designs, obtain financing and required permits, complete construction and begin operations. During this time period, these existing plants will be subject to the state's new greenhouse gas emission reduction rules but, due to the structure of the proposed cap-and-trade regulations, the GHG allowances for these facilities are not being distributed in a manner that will allow for a transition period to lower emitting or renewable fuels or technologies. In addition, due to the structure of the existing, PUC-approved contractual agreements, the cogeneration facility owners will not be able to pass through or otherwise recover the additional, new regulatory cost burdens associated with acquiring the GHG allowances from the host electrical distribution utilities, thus jeopardizing the economic viability of the facilities during the transition period. Similarly, with respect to GHG compliance costs associated with the provision of thermal energy to unaffiliated entities under contracts that do not permit pass-through of GHG compliance costs, there is no ability to recover to GHG compliance costs.

¹ Further detail on ACE and Rio Bravo's facilities, operations and contractual concerns is available in ACE and Rio Bravo's comments on the July 25, 2011 version of the cap-and-trade regulation, available at: [http://www.arb.ca.gov/lists/capandtrade10/1532-110811_ace_and_rio_bravo_comments_on_carbs_cnt_regulation_00017266 .pdf](http://www.arb.ca.gov/lists/capandtrade10/1532-110811_ace_and_rio_bravo_comments_on_carbs_cnt_regulation_00017266.pdf)

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ACE Cogeneration and Rio Bravo request that the Commission acknowledge the need for a transition period by including the following statement in the 2011 IEPR and aforementioned Staff Report:

A small group of existing combined heat and power (CHP) power plants are in the process of converting their energy source from solid fuels to natural gas, biomass, solar or lower carbon technologies. The conversions will significantly reduce greenhouse gas emissions, allow the facilities to continue generating steam for industrial purposes, and retain well-paying jobs in economically stressed counties. A transition period of up to 5 years may be required to complete conversion option evaluations, prepare engineering designs, obtain financing and required permits, complete construction and begin operations. During this time period, these plants will be subject to the state's new greenhouse gas emission reduction rules but, due to the structure of existing contractual agreements, will not be able to pass through or otherwise recover the new regulatory costs. To avoid premature closure of these facilities, the Commission urges:

1. That the California Air Resources Board provide specific consideration to ensure that existing solid fuel CHP plants converting to lower or neutral GHG fuels are not adversely affected by the new greenhouse gas emission reduction rules for the reasonable time required to make the conversion.
2. That the California Public Utilities Commission provide a means to support the resources contracted with the utilities through continuation of the existing fixed price contracts for the reasonable time required to undertake the fuel conversion and to facilitate renegotiation of the contracts for the lower GHG emitting facilities.

ACE Cogeneration, Rio Bravo Poso and Rio Bravo Jasmin appreciate the opportunity to present these comments.

Sincerely,

October 5, 2011

/s/

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for ACE Cogeneration, Rio Bravo Poso and Rio
Bravo Jasmin