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BEFORE THE CALIFORNIA ENERGY COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of:

Preparation of the
2011 Integrated Energy Policy Report
(IEPR)

Docket No. 11-IEP-1A

Comments of the California Cogeneration Council on the Draft 2011 Integrated Energy Policy Report

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On behalf of the
CALIFORNIA COGENERATION COUNCIL

December 22, 2011

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**Comments of the California Cogeneration Council on the
Draft 2011 Integrated Energy Policy Report**

The California Energy Commission (CEC) published the draft 2011 Integrated Energy Policy Report (IEPR) on December 5, 2011, requesting comment by December 23, 2011. While the draft IEPR discusses a number of important energy issues, the comments of the California Cogeneration Council (CCC)¹ are limited to the discussion on combined heat and power (CHP).

The CCC appreciates the discussion on page 135 of the draft IEPR, indicating that CEC staff plan to do further work in 2012 to identify likely CHP development over the next decade, as well as the policy measures that will incent development to assist in reaching the 2030 CHP goal of an additional 6,500 MW of new CHP, as articulated in Governor Brown's Clean Energy Jobs Plan. The CCC is committed to working with staff and will provide detailed input to the 2012 IEPR update proceeding.

In terms of the content of the draft 2011 IEPR discussion on CHP, the CCC offers clarifying comments regarding the discussion on page 134 about new CHP procured in utility request for offers (RFOs), which states:

New CHP that elects to participate in utility request for offers will not only have to meet the GHG emission benchmark, but provide energy and capacity in a least-cost, best fit manner, thereby competing with conventional resources.

¹ The CCC is an *ad hoc* association of natural gas-fired combined heat and power (CHP) facilities located throughout California, in the service territories of all three of California's major investor-owned electric utilities (IOUs) – Pacific Gas & Electric Company (PG&E), Southern California Edison Company (Edison), and San Diego Gas & Electric Company (SDG&E). CCC member facilities are certified as qualifying facilities (QFs) pursuant to the Public Utility Regulatory Policies Act of 1978 (PURPA), and CCC is a party to the QF/CHP Settlement that establishes a new state CHP Program. In aggregate, CCC members' more than 30 different CHP projects in California generate 1,300 megawatts (MW) of power, most of which is sold to the IOUs. The CCC represents a significant share of the distributed CHP projects now operating in California.

This statement is supported by footnote 149 that refers to Section 6.9 of the CHP Program Settlement Term Sheet. Section 6.9 describes the allowed justifications for a utility's failure to meet GHG emissions reduction targets, not the justification for failure to meet megawatt (MW) targets which is described in Section 5.4.

During the Initial Program period of the CHP State Program (November 23, 2011 through November 23, 2015), the Investor Owned Utilities (IOUs) combined CHP procurement target is 3,000 MW. The MW targets may be met through any of the procurement processes described in Section 4 of the Term Sheet, but one of the main vehicles is CHP-only RFOs. In these RFOs CHP facilities will be evaluated against similar CHP generation, not generation that may otherwise bid into an All Source RFO or an RPS RFO. During this period the utilities may not justify non-procurement of CHP based upon "least-cost, best fit". Section 5.4 describes the allowed justifications for failure to meet MW targets and was carefully crafted to allow for only the following three justifications: (i) lack of sufficient offers, (ii) efficiency compared to the double benchmark, and (iii) excessive offer prices. Lack of need or portfolio fit arguments are explicitly rejected as reasons to justify failure to procure the MW targets. Section 5.4 of the CHP Program Settlement Agreement Term Sheet is provided below:

5.4 Justification for Failure to Meet MW Targets

Any IOU that is unable to meet its MW Target must make a showing to justify its inability to meet the MW Target. Lack of sufficient offers can be used as a reason to justify failure to procure the MW Targets and GHG Emissions Reduction Targets. The efficiency of the CHP Facility participating in the IOUs' procurement programs as compared to the Double Benchmark, offer prices in excess of levels as provided herein, and the amount of GHG emissions reductions may be valid justifications for missing the IOU MW Targets and GHG Emissions Reduction Targets. **Lack of need or portfolio fit arguments shall not be used as reasons to justify failure to procure the MW Targets, but are reasons to justify an inability to meet the GHG Emissions Reduction Targets.**

- 5.4.1 Offer prices: If the IOU claims that CHP RFO offer prices are excessive, the IOU must refer to independent or publicly-available sources. For example, when making a justification on the basis of price of new or repowered fossil fuel-fired generation, the IOU may compare offer prices to prices reflected in sources such as Cambridge Energy Research Associates' capital cost index, CPUC estimates of new fossil fuel-fired generation, CEC estimates of new fossil fuel-fired generation, forward market prices, or other similar third-party information **regarding the cost of new generation CHP Facilities in California.**

The CCC recommends correcting the statement on page 134 of the draft IEPR with the following edits:

*New CHP that elects to participate in utility **CHP-only** request for offers **in the Initial Program Period** will ~~not only have to meet the GHG emission benchmark, but provide energy and capacity in a least-cost, best fit manner, thereby competing with conventional resources~~ **be evaluated against similar CHP generation. Lack of need or portfolio fit arguments are not acceptable reasons to justify not procuring the 3,000 MW CHP target.***

Governor Brown's Clean Energy Jobs Plan advocates the goal to "develop 6,500 MW of combined heat and power over the next 20 years." The CCC understands this goal to include the 4,000 MW adopted in the California Air Resources Board's Scoping Plan Combined Heat and Power Recommended Reduction Measure (CARB CHP RRM); thus, the Governor's goal can be interpreted as an additional 2,500 MW over an additional 10 year period, from 2021 through the end of 2030. The CCC supports this goal as a complementary measure to CARB's CHP RRM, and the goals of the State CHP Program. Adoption of a 2030 CHP goal sends an important signal to the market that California is committed to the development of clean and efficient CHP over a sufficient time period as to encourage investment and development in new facilities. This recognizes that the installation of new CHP requires a number of years to permit and build before coming online and the benefits being realized.

While the new State CHP Program embodied in the CHP QF Settlement Agreement addresses some of the barriers inhibiting the development of new CHP, further policy progress is needed if this laudable goal is to be achieved. The CCC is encouraged that the CEC plans to address these issues in the upcoming 2012 IEPR update and will be convening CHP stakeholders to identify barriers and develop solutions to ensure progress can be made toward the Governor's CHP goal.

The CCC appreciates the opportunity to present these comments.

Respectfully submitted,



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