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March 29, 2012

California Energy Commission  
Dockets Office – MS-4  
Re: Docket No. 11-RPS-01  
1516 Ninth Street  
Sacramento, CA 95814-5512

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| <b>DOCKET</b>    |                    |
| <b>11-RPS-01</b> |                    |
| DATE             | <u>MAR 29 2012</u> |
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**Re: Island Energy Comments on the 33 Percent Renewables Portfolio Standard Draft Regulations for Publicly Owned Electric Utilities Regulations Concept Paper (CEC Docket No. 11-RPS-01)**

Dear Commissioners:

Island Energy appreciates the opportunity to provide comments on the Draft Regulations discussing the 33 Percent Renewables Portfolio Standard (RPS) regulations for Publicly Owned Electric Utilities (POUs).<sup>1</sup> Island Energy's overriding concern is that the Energy Commission not lump Island Energy into the same regulatory basket as IOUs, retail sellers and large POUs. As a very small POU, Island Energy will have great difficulty procuring small amounts of RPS Category 1 electricity products, if even possible, without a substantial change to its existing business model for acquiring electricity and at a significant, and likely highly uneconomic cost. For these reasons, small POUs like Island Energy must be allowed flexibility in their RPS procurement and compliance activities and decisions. Therefore, Island Energy requests that the Energy Commission: (1) modify its Draft Regulations to permit small POUs like Island Energy to satisfy its RPS requirements in the same manner as permitted small IOUs under Section 399.18; (2) acknowledge that its jurisdiction over small POUs is limited to verifying compliance with SB X1-2 requirements<sup>2</sup>; and (3) not judge small POU boards' procurement and compliance decisions in comparison with IOUs, retail sellers and large POUs.

It is important to understand why Island Energy's circumstances are very different from entities such as IOUs, other CPUC-jurisdictional retail sellers and even other larger POUs. Island Energy serves less than 500 retail customers on the former Mare Island Naval Base, located just west of the City of Vallejo in the San Francisco bay, pursuant to a franchise service

<sup>1</sup> Gonzalez, Lorraine and Angela Gould. 2012. *33 Percent Renewables Portfolio Standard Pre-Rulemaking Draft Regulations*. California Energy Commission, Energy Efficiency and Renewable Energy Division. CEC-300-2012-001-SD.

<sup>2</sup> Chapter 1, Statutes of 2011-2012, First Extraordinary Session.

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agreement with the U.S. Navy. Island Energy's average system load is only approximately 2.5 MWs, with a peak system load of approximately 4 MWs. Moreover, Island Energy expects that load growth, if any, will be very modest for the foreseeable future. Further, due to its small size, loads and operating budget, Island Energy has only eight employees: one Manager, one Office Manager, one Field Supervisor and five Utility Technicians.

Also unlike most other retail entities, Island Energy purchases all of its electricity needs through a long-term "full requirements" contract with the Western Area Power Administration (Western). Under this arrangement, Western provides all necessary procurement, scheduling and wholesale delivery services for Island Energy's loads. This long-term contract is very cost-effective for Island Energy insofar as Western provides an attractive mix of lower-cost hydroelectric generation and other resources as well as related scheduling services.

However, the Western arrangement also means that Island Energy must rely on Western to provide all its energy needs, including California RPS-eligible power. Island Energy has no independent means of procuring RPS-eligible bundled power and, in any event, does not have and cannot afford the in-house expertise needed to independently implement and operate a RPS program similar to what is envisioned in the Draft Regulations. These are the characteristics of a very small utility like Island Energy; *much smaller* than the small utilities granted certain exemptions to the complex RPS program structure under Section 399.18.

Island Energy has contacted Western to inquire whether it is possible for Island Energy to procure Content Category 1 electricity products and has learned that such products currently are not designed to serve customers as small as Island Energy. First, the minimum size currently offered for Category 1 products are 1 megawatt, which exceeds Island Energy's total 33% RPS requirements. Second, market prices are expected to be higher for such small sized "odd lot" products. Finally, Western will require Island Energy to be fully responsible for costs incurred on its behalf, such as the unusual contracting and procurement costs associated with Western's provision of such "odd lot" products. Island Energy believes that such transaction costs likely would be a significant fraction of the overall price considering such small sized products lack any economies of scale. Hence, the price tag for Island Energy to procure Category 1 products, even if available, would be both highly uneconomic and provide little, if any benefit to Island Energy or the State of California. It is for these reasons that Island Energy must be allowed maximum flexibility in its procurement and compliance activities, including the ability to take advantage of the RPS program exemptions described in Section 399.18.

Island Energy also is concerned that the Energy Commission might evaluate its RPS procurement and compliance actions in comparison to IOUs, retail sellers and larger POUs. For example, Draft Regulations Section 3206(c) does not discuss whether the Energy Commission can review the reasonableness of a POU's "consistency" with the requirements of Public Utilities Code Section 399.30. However, the phrasing of question 1 posed in the March 1, 2012 workshop handout under the "Outstanding Questions – Consistency" heading: "Should the

Energy Commission determine reasonableness for cost limitations and delay of timely compliance based on the structure to be determined for retail sellers?" might imply the Energy Commission believes it has this authority.

As Island Energy described in its September 12, 2011 comments on the Commission's POU 33 Percent RPS Regulations Concept Paper, SB X1-2 specifically limits the Energy Commission's jurisdiction solely to: (1) "specifying procedures for enforcement" of SB X1-2 POU compliance requirements (Section 399.30(n)); and (2) upon determining that a POU has failed to comply with the POU compliance requirements of SB X1-2 requirements, to refer the POU to the ARB for possible penalties (Section 399.30(o)). It is critical that the Energy Commission acknowledge and make clear to staff that while they may review a POU board's RPS compliance rules to determine whether they satisfy SB X1-2 generally, the Energy Commission cannot judge the reasonableness of the rules adopted or the public rationale provided for the adoption of the rules. SB X1-2 leaves those decisions and determinations solely to POU boards.

Island Energy supports the use of renewables in its service territory through its existing Solar Incentive Program where customers may install photovoltaic systems on their premises to offset their retail purchases. But the imposition of the RPS program without modifications will harm Island Energy and its customers and stymie the goal of former military base conversion. To avoid these results, Island Energy again recommends that the Energy Commission allow *very small* POU's like Island Energy to satisfy their RPS requirements using realistic and cost-effective methods, such as a combination of load reductions resulting from energy efficiency and demand response (that, according to the energy resource loading order, are more valuable even than renewable resources), or by lifting the product content category requirements in favor of an unbundled REC product similar to the treatment provided to small IOUs under Section 399.18.

Respectfully submitted,



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