DEPARTMENT OF THE NAVY

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President Michael R. Peevey
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

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Dear President Peevey:

I am writing to follow up on our meeting last October regarding the Department of the Navy's (DoN's) regional smart grid initiative, the Smart Power Partnership Initiative (SPPI.) I would also like to bring to your attention a significant related issue – the barriers we are encountering as we attempt to achieve our, and the State's, renewable energy goals. It has become increasingly clear that some regulatory and/or legislative modifications will be needed for us to be able to accomplish the ambitious renewable energy goals shared by the DoN and the State of California.

On the SPPI, we continue to receive encouraging support from all involved stakeholders, including the Governor's Office, the Energy Commission, the ISO, and San Diego Gas and Electric (SDG&E), among others. We have a core team in place at our Naval Facilities Engineering Command Southwest in San Diego that is developing a pilot with the support of technical consultants and expertise from many of the stakeholders noted above. Working with SDG&E, we are preparing to conduct a series of demand response table top exercises and actual controlled load reduction events over the next few months. These tests will help us better understand the load aggregation and deferment opportunities we have across our DoN bases in the Southwest. I remain convinced that, working with our partners, we will demonstrate an effective regional smart grid that can be exported to other states and regions.

As we have said, one important attribute of a regional smart grid will be its ability to "share" renewable resources across the regional bases. That is especially evident in southern California where we have a few installations where the potential for renewable power generation significantly exceeds those installations' needs. It has been our intention to support the development of renewables beyond the requirements of a single base and be able to send the excess into the grid for use on other bases or elsewhere in the State.

Our commitment to the development of renewables on our bases was highlighted by President Obama's announcement in his State of the Union address that the Navy will purchase enough renewable energy to power a quarter of a million homes – or, as the

Secretary of the Navy has stated, DON will produce or purchase one gigawatt of renewable energy. We made this commitment because we recognize that energy security is fundamental to national security.

A large portion of the gigawatt of renewable energy is likely to come from our California bases in the form of new solar, wind, and geothermal development. However, the lack of transmission capacity, coupled with a number of regulatory and legislative requirements, have stymied our efforts to optimize the renewable potential of the California bases. The most serious issues we are confronting are described below.

- The single most critical impediment to our renewables development in California is the lack of transmission capacity in the vicinity of those installations with the best potential for renewable energy production. As an example, transmission constraints at our China Lake Weapons Station, adjacent to Ridgecrest, have limited development on that base to the 13.78 MW PV project currently under construction. This is unfortunate since there is a great deal more renewable energy potential at this location. We have been told by SCE that relief from this constraint will take 8 years.

- The current capacity limit for net electric metering (NEM) is 1MW. DoN installations are typically considered to be a single "site" or "premise" per application of the utilities' Rule 1 definitions; this severely limits the ability of installations to develop more than 1MW of renewables, regardless of the installation's load or capacity to support renewable projects. For example, a recently installed 1.5MW wind turbine at MCLB Barstow has been "turned down" to 1MW in order to qualify for the NEM program.

- In southern California, all existing generation must be retrofit with telemetry once the 1 MW threshold is crossed, which is a significant expense and deterrent. The telemetry is required even if the generation assets are well below the load of the installation and there is little prospect of export to the grid. For example, one installation is being required to install telemetry infrastructure (at a cost of over $800,000) on approximately 1MW of generation even though the minimum baseload is 8MW and there is almost no possibility of generation ever exceeding the installation's load.

- Standby and departing load charges discourage the development of RE by imposing significant costs that offset the savings from the renewable energy production. For example, the recently-awarded 14 MW project at NAWS China Lake, will cause the base to incur approximately $650,000 in departing load and $1M in standby charges annually. These charges will potentially be offset by a $2M reduction in demand charges, but the reductions will not be realized if the system does not produce at full capacity during times of peak demand.

We would like to work closely with you and the other stakeholders to consider how to address this set of issues. Specifically, and most urgently, we would like to see, and would commit to engaging in, a process that would resolve the transmission constraints at our installations. I would encourage you to personally lead a team that would consist of the Chair of the Energy Commission, representative(s) from the Governor's office, a senior representative from the ISO, and the DoN to focus specifically on the potential development of renewable resources at DoN installations in California. I have tasked my team in the Southwest to remain engaged with your office and others to help identify coordinated solutions.

The Department of the Navy has made a strong and significant commitment to the development of renewable energy. Our California installations are critical to meeting our renewables goals, as they are to meeting California's RPS. I ask that you make eliminating the barriers to renewables development for the Department of the Navy a high priority of the Public Utilities Commission. I look forward to working with you on this matter of national and state concern.

Jackie

Jackalyne Pfannenstiel

Copy to:
Mr. Michael Picker. Office of the Governor of California
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Mr. Wade Crowfoot, Deputy Director, Governor's Office of Planning and Research
Karen Edson, Vice President, Policy and Client Services, California ISO