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California Energy Commission

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12-IEP-1D

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OCT. 19 2012

RE: Docket No. 12-IEP-1D - In Preparation of the 2012 Integrated Energy Policy Report Energy Update—Combined Heat and Power Staff Paper

Dear Commissioners:

The Southern California Gas Company (SoCalGas) appreciates the opportunity to provide comments on the California Energy Commission (CEC) Staff Paper, *"A New Generation of Combined Heat and Power: Policy Planning for 2030"* (Staff Paper). The paper identifies obstacles to the development of new combined heat and power (CHP) facilities necessary to meet the Air Resources Board's (ARB) and the Governor's CHP targets of 4000 megawatts (MW) of new CHP by 2020 and 6,500 MW by 2030. In these comments, SoCalGas discusses several of the "actionable items" identified in the Staff Paper and offers some comments in support of new CHP development.

In terms of the various actionable items listed in the CEC Staff Paper, of those in the Financing and Regulatory Barriers section, SoCalGas agrees with CEC Staff in its findings that one of the most important items to address is the following: "The CPUC should revisit demand charges, standby charges, and departing load charges as they apply to CHP resources." As discussed on pages 44-46 of the staff paper, these charges are high and have been a significant impediment to getting CHP installed.

The CPUC has recently taken some actions to encourage CHP development such as the QF Settlement, establishing AB1613 tariffs and contracts for small CHP systems up to 20 MW, and making revisions to the electric interconnection rules, electric Rule 21. However, thus far, the CPUC has not addressed demand, standby and departing load charges applicable to new installed gas CHP. SoCalGas suggests that these charges be revisited by the CPUC. To the extent they are not cost-based, they should be reduced.

New CHP is also disadvantaged by the AB32 Cap and Trade Program, which is another actionable item identified in the Staff Paper. Although ARB has announced¹ that for the first compliance period, 2013-2014, CHP installations having a compliance obligation for thermal energy that they would not have

¹ Mary Nichol's August 24, 2012 letter to Assembly Member Nathan Fletcher.

had “but for” installing CHP will be taken care of, the issue has not yet been resolved for the second and third compliance periods when both electricity and natural gas will be covered by the program. Since the allowance allocation for natural gas utilities on behalf of their customers has not yet been decided by ARB, SoCalGas suggests that ARB allocate 100% of the allowances required for CHP steam or waste heat emissions cap and trade compliance to natural gas utilities, which would in turn submit the allowances to ARB on behalf of their CHP customers. This approach helps resolve the issue of cap and trade compliance costs, which was identified in the staff paper as “the greatest uncertainty facing CHP developers,” (p.41) and is administratively simple for ARB, CHP owners, and gas utilities.

A third actionable item has to do with incenting utilities to support CHP development to encourage participation from both the investor owned and publicly owned utilities. One approach suggested in the Staff Paper is to allow a larger percentage of new utility-owned or co-owned CHP generation to count toward the utilities’ GHG reduction goals in the QF Settlement. Another is to implement a performance-based incentive framework to encourage gas utilities to develop and implement programs to promote cost effective small and mid-scale CHP implementation at commercial and industrial facilities. Precedent for this type of approach includes the CPUC’s successful use of performance-based incentives with the investor owned utilities (IOU) in the areas of safety, customer service, gas procurement, and energy efficiency.

Fourth, as more wind and solar resources are added to the electric system, less productive solar and wind locations will be used. Moreover, as the system peak net of variable renewables changes, solar becomes less valuable. As a result, the costs of renewables will increase, making CHP relatively more cost effective as a GHG reduction measure. The State should recognize that fact and promote CHP over distributed renewables where they are a more cost effective option for GHG reduction.

Finally, the Staff paper recognizes the impact on air pollution resulting from onsite generation. State policy should be consistent and recognize the many benefits of CHP of being close to the load (lower transmission/distribution losses, deferment of transmission/distribution capital expenditures) and other potential benefits to the electricity grid such as resource adequacy, power quality, and VAR support. The State should send a consistent message, making air agencies supportive of CHP. CHP implementations still need to meet local air districts’ emission requirements, but these should not be overwhelming barriers to new or expanded CHP.

Thank you for the opportunity to provide these comments.

Sincerely,

A handwritten signature in cursive script, reading "Samara Parly". The signature is written in dark ink and is positioned below the "Sincerely," text.