

**CALIFORNIA ENVIRONMENTAL PROTECTION  
AGENCY -- AIR RESOURCES BOARD**

**Proposed Concept Outline for the California  
Renewable Electricity Standard**

**Comments of the California Large Energy Consumers Association  
on the Proposed Concept Outline for a Renewable Energy Standard**

The California Large Energy Consumers Association ("CLECA") welcomes this opportunity to provide its comments on the Proposed Concept Outline for a Renewable Energy Standard ("RES") prepared by the staff of the California Air Resources Board ("CARB").

***Background on CLECA***

The California Large Energy Consumers Association is an ad hoc group of large industrial electric customers of PG&E and Edison, active on electric rate and service issues since 1987. Member companies are found in the steel, cement, industrial gas and refined oil products industries. CLECA member facilities represent more than 500 MW of demand and 3,000 GWH of annual energy use. Member facilities are served at transmission level voltages, are generally high load factor (they have 24 x 7 operations), and are among the very largest customers of the utilities. CLECA member facilities are split between bundled and direct access service, all are interruptible, and all are very price sensitive – electricity costs comprise a very significant percentage of their overall cost of production. Some CLECA member facilities use combined heat and power generation on-site, while others have installed renewable generation for a portion of their loads.

Prior to the California Energy crisis, CLECA members paid electric rates that averaged 4.5 ¢/kWh. Currently, they pay rates of 9 ¢ - 10 ¢/kWh, while their competitors in neighboring states pay rates that are 30% to 50% lower. Because the manufacturing entities that are members of CLECA are high load factor and served at transmission level, a very large percentage of their rates reflect generation-related costs. Increases in generation-related costs have a disproportionate impact on CLECA members.

***CLECA's Approach to the Issues Presented By an RES***

CLECA is pleased that the Governor has chosen to direct the CARB to proceed with the development of a 33% RES under the authority afforded by AB 32. We view an RES as one of the tools available and, indeed, necessary to the task of meeting the State's GHG goals. The CARB, given its duties under AB 32, is a natural choice as the agency to direct the development of a 33% RES.

We are particularly pleased that the CARB views as part of its mandate the development of an RES that is cost-effective. In particular, CLECA appreciates the CARB's focus on the cost of the regulation and on minimizing that cost. CLECA believes that the efforts of other agencies addressing increasing the amount of renewable resources in the electric power mix in the state have not paid sufficient attention to the costs that such a policy can impose on consumers when all relevant cost factors are taken into account.

Generation costs represent roughly 50% of total utility revenue requirement. The average generation portfolio cost for PG&E and Edison is about 8 ¢/kWh, including high-cost DWR and QF contracts. As part of its responsibilities for long term procurement planning, the California Public Utilities Commission ("CPUC") has developed an administratively determined market price proxy, the so-called Market Price Referent ("MPR"). The MPR is designed to estimate the cost of a new, long-term contract for the output of a combined cycle generation facility. It necessarily requires the CPUC to estimate natural gas prices forward for an extended period of time. Currently, the MPR for a 10-yr contract is roughly 11¢/kWh – some 40% higher than the

current average power portfolio price. While the utilities' renewable contracts are supposedly measured against the MPR, they are signing contract at prices well above the MPR.

Unfortunately, the near total lack of transparency in the long term procurement process makes it hard to know how much higher, or the cumulative cost of the new renewable contracts. This concerns electric customers, such as the members of CLECA, who worry that the addition of renewable power will be achieved without due consideration of the cost impacts. Further, and of even greater concern, the utilities have applied to build solar PV facilities that will provide power at nearly 30 ¢/kWh – 3.5 times the average portfolio cost -- and one such proposal has already been approved, and the other is pending approval.

We note that CARB has a responsibility to determine whether the RES regulation it plans to develop will have a significant statewide adverse impact directly affecting business and whether and to what extent the regulation will create or eliminate jobs and businesses. California electric rates are already among the highest in the nation. The implementation of new measures to reduce greenhouse gas ("GHG") emissions in all sectors, including the electric sector, will increase these already-high rates, with impacts on consumers. We urge CARB to take into account the cost impacts on the customers of the Load Serving Entities ("LSEs") and not just the LSEs, since the latter can pass through these costs but their customers often cannot. Given the rate protection afforded the majority of residential usage through caps on rate increases for approximately 70% of residential kWh, much of this cost increase associated with new renewable generation will fall on business. Thus, it is absolutely appropriate that CARB address the impact of these electric rate increases (as well as costs imposed by other GHG mitigation measures) on business.

CARB is responsible for finding that no alternative would be more effective in carrying out the purpose for which a regulation is proposed or would be as effective and less burdensome to the affected private persons than the adopted regulation. In this context, this responsibility means that CARB should look at the most cost-effective way to mitigate GHG emissions and

take into account the cost-effectiveness of increasing renewable energy for that purpose. This cost-effectiveness analysis should include the costs of integrating and shaping intermittent renewables and of new transmission to bring these resources into service.

CARB says it will look at the GHG consequences of various renewable options. It would be useful for CARB to create a rank ordering of renewables based on their cost-effectiveness in reducing GHG among themselves, and among other GHG reduction measures.

***Response to the CARB's Request for Feedback on Specific Elements of the Renewable Electricity Standard Concept Outline***

1. ***Applicability*** -- *Should the RES apply to all Load Serving Entities ("LSEs"), to those with sales above 500 GWh, to the DWR, and/or to WAPA? Should 22 small local Publicly Owned Utilities ("POUs") be excluded?*

CLECA's initial reaction is that the RES should apply to all LSEs in California. GHG mitigation is a statewide policy and the RES is a tool available to the State to use in its efforts to achieve the GHG goals. It would be a mistake to artificially restrict the scope or application of the RES. The regulated electric utilities sell approximately 70% of all electricity consumed in the State. Limiting application of the RES to these utilities would unnecessarily limit the usefulness of the RES tool. It clearly should apply to all municipally owned utilities. If renewable options are limited for certain LSEs, such as small POUs, one possible solution would be for them to form a buying pool and jointly meet the requirement. Since the DWR is a major consumer of electricity in the state, there would have to be a compelling reason for it to be excluded from the obligation. CLECA believes that it should be included.

2. ***RES Eligible Resources*** -- *Should the list of eligible renewable technologies be expanded? What is the geographic scope of eligible facilities? Should RECs be used?*

CLECA believes that the RES should include the broadest reasonable definition of renewable technologies. The test should be the capability of the technology to contribute to

meeting the GHG goals of the State. If a technology will reduce emissions of GHG associated with the production of electricity, it should be considered. Artificial limitations by technology type will restrict the pool of potential resources, making achievement of the goals more difficult from the perspective of siting, permitting, funding and cost effectiveness. For example, the current exclusion of large hydro and/or nuclear facilities is problematic from the perspective of meeting GHG goals. We believe that a fresh look at the value of all resources for potential GHG savings is certainly worthwhile.

CLECA also believes that it would be a grave mistake to artificially limit the geographic scope of the renewable resources. California is connected electrically to all of the western states and routinely shares in the movement of power generated in, and transmitted through, all of those states. There are vast renewable resources situated throughout the western states and California would be foolish to limit itself to resources physically situated within the State.

CLECA would also support the use of WREGIS-approved RECs for compliance with the RES as long as there is no double-counting. It is the role of WREGIS to prevent such double-counting. However, the CEC proposal to use displacement of existing generation to determine an average marginal emission reduction factor by balancing authority is highly problematic. California has numerous balancing authorities, unlike the Eastern US. It also imports large amount of electricity from neighboring states, which have still other balancing authorities. RECs could also come from renewable resources in other states and balancing authorities. Furthermore, the GHG impacts extend beyond the balancing authorities where the resources are located. Lastly, it is not clear that we have enough information as to what resources are at the margin in all these locations at different times. For all of these reasons, the CEC proposal appears to us to be unworkable.

3. ***Compliance -- What is the potential impact of modifying the deliverability requirements for out of state generation? Evaluate the eligibility, delivery, and environmental conditions currently applied to imported power. Should compliance be measured in terms of MWh provided by renewable resources, reductions in GHG emissions, or both?***

CLECA's concern about the imposition of delivery requirements relates to the implications of such limitations on the pool of available renewable resources that can be procured. Limiting access to resources will increase the market power of those resources that can be procured, with likely increases in cost to the LSEs and their customers. If the goal is to reduce GHG emissions, the impact of the emissions reduction is global, unlike the impact of criteria air pollutant emissions. Furthermore, deliverability requirements would be very hard to implement and impose added burden on management of the state's electricity grid. This would increase costs and could have negative consequences for reliability, neither of which is desirable. Throughout the process of developing the RES, the CARB should attempt to keep its eye firmly on the goal of GHG reduction and not be distracted by the demands of market participants who might be favored by limitations on technology types, physical location or deliverability.

CLECA also believes that it is critically important for CARB to evaluate the GHG consequences of the various renewable options and the cost-effectiveness of using these technologies to reduce GHG. Renewable electricity is a major part of the AB 32 Scoping Plan. While renewable electricity has other benefits, such as diversity of electricity supply which can provide a degree of price hedging if the costs of the various technologies are within a reasonable range, CARB's interest in renewable electricity should focus on its role in mitigating GHG and criteria air pollutants. CLECA would oppose an RES that had as primary goal the "support" or "pump priming" or "transformation" of particular technologies. The process of developing and implementing the RES involves a fundamental change in the way electricity is produced for consumption by California customers and it will have a very significant cost impact on such customers. These customers should not also be required to provide the financial support for new, fledgling or otherwise non-competitive technologies.

CLECA does not support the use of a uniform GHG metric for all renewables since such a metric would imply and assume that the GHG impacts of all renewables are the same, when

they are not. CARB should consider a metric that accounts for differing impacts, so that cost-effectiveness analysis can be performed related to the cost of mitigating GHG using different renewable technologies. The concept of developing a metric based on tons of CO2 reduction is a very good idea and CLECA supports its use for RES.

#### ***4. Monitoring.***

CLECA has no comments on these issues at this time.

#### ***5. Compliance Requirements***

CLECA believes that an annual period does not provide enough flexibility for LSEs to comply with the RES requirement because of the timing uncertainty associated with bringing new renewable resources on line. In addition to project development uncertainty, many projects will be dependent on the completion of new transmission lines. For these reasons, multi-year compliance will provide needed flexibility. Annual reporting with enforceable compliance targets at three-year intervals appears fair. The reporting will allow CARB and others to track the LSEs' progress but provide the LSEs with flexibility in meeting targets. It is also fair to allow excess compliance credits to be bankable. If an LSE cannot comply, CARB's proposal to carry shortfall forward and to allow up to three years for shortfall to be remedied if due to circumstances beyond control appears reasonable.

CLECA believes that RES compliance by LSEs should not be required for end uses that are separately compliant with the AB 32 Scoping Plan requirements. This would include distributed PV and Combined Heat and Power ("CHP"). However, there is still an issue as to whether the exclusion would apply to on-site usage, sales to the grid, or both. Arguably, sales to the grid from renewable net-metered Distributed Generation ("DG") in excess of on-site usage would count toward meeting the RES requirement, since they would represent renewable electricity available to serve other customers of the LSE. We would hope that such power would be a cost-effective alternative means of mitigating GHG. The actual GHG impact should take

into account the intermittency of the resource, however. Similarly, we support exclusion of on-site CHP use from LSE compliance if the CHP meets AB 32 requirements. If sales of excess power from CHP are made to LSEs, and if these sales meet AB 32 Scoping Plan requirements, it appears that there should not be a need for the LSE to acquire renewable electricity to meet the same GHG mitigation need.

The CARB Concept Outline asks if future load deliveries to plug-in hybrid vehicles should be excluded. This requires an analysis of the net GHG impact. For example, if power were coal-fired, would there be a net GHG benefit? We believe that some analysis is needed before responding to this question.

The Concept Outline also asks if there are other adjustment factors that should be applied based on the location or operational regime of various resources. Yes, there clearly are. We note that if a resource is intermittent and requires additional resources for integration or shaping, and these additional resources (such as natural-gas fired facilities to provide ancillary services) produce GHG, then such emissions need to be attributed to the specific renewable resource. The GHG impacts of these additional fossil resources should be taken into account through a reduced GHG compliance credit or some other adjustment.

CARB asks whether resources that require additional thermal support should receive a smaller RES GHG factor. If this refers to solar with supplemental gas firing, then the GHG from the gas should be taken into account.

***Conclusion***

CLECA appreciates this opportunity to provide its initial comments on CARB's proposed concept outline for the RES. We intend to participate fully in the standard development process in the interest of seeking the most cost-effective means of meeting GHG mitigation and RES compliance goals.

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Respectfully submitted,

/s/

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