



# California Onsite Generation

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Point of View by Craig Lewis

## **Should Distributed Generation be Prioritized Based on its Superior Value and its Ability to Deploy Quickly?**

The question of whether Distributed Generation (DG) should be a priority is seemingly a rhetorical one given that virtually all regulatory parties have indicated that the answer is a resounding yes. The real question then is why the California Independent System Operator (CAISO) is proposing to add significant interconnection delays to DG projects?

Here is the background required to understand the situation:

- 1) There are two types of DG:
  - a) Retail DG (RDG), which is generally referred to as net metering and is comprised of generation projects that are interconnected behind a customer meter.
  - b) Wholesale DG (WDG), which is comprised of 20MW-and-smaller generation projects that are interconnected directly to the distribution grid.
- 2) Energy generation that is interconnected and consumed within a distribution grid has significantly higher value than energy generation that is interconnected to the transmission grid. At the minimum, the increased value can be quantified by the fact that Transmission Access Charges (TACs) in California are roughly 1.5 cents/kWh. This means that energy generation that is interconnected to transmission will incur an additional 1.5 cents/kWh of cost as it is transferred to a distribution grid on its way to being delivered to a load. In California, the increased value of energy that avoids TACs is at least 15%, and this is easy to determine because California's baseline Market Price Referent (MPR) is less than 10 cents/kWh. Note that MPR is calculated to be the value of natural gas generated electricity that is interconnected to the transmission grid, valued at the point of interconnection. There are many studies that place the increased value of avoiding transmission far higher.
- 3) Transmission build-outs require at least a decade and a significant percentage of proposed transmission projects will never get built due to environmental issues and/or community opposition. Hence, given that most central station renewables projects are dependent on new transmission build-

outs, it is highly unlikely that central station renewables can play the leading role in fulfilling California's Renewables Portfolio Standards (RPS) mandates.

- 4) The scale of achieving California's 33%-by-2020 RPS mandate is massive; it will require that California add the equivalent of 4GW of solar generation each year between 2011 and 2020 for a total of 40GW. California will have to do things differently in order to achieve its RPS mandates given that it has only added a little more than 1GW of RPS-eligible renewables, cumulatively, over the 8 years since the RPS program was introduced in 2002. The added capacity is so low that over the 8-year history of the RPS program, California's renewables percentage has remained nearly constant: In 2002, the renewables percentage was 14% while after 8 years it stands at a mere 15% today.
- 5) The Federal Energy Regulatory Commission (FERC) established the Small Generator Interconnection Procedure (SGIP) in 2006 in order to streamline 20MW-and-smaller wholesale projects. FERC's establishment of the SGIP recognized the tremendous potential of small projects to drive renewables deployments and the overwhelming challenges associated with small projects having to compete with large projects through a common interconnection procedure.
- 6) CAISO has recently proposed to undo FERC's foresight on small projects by eliminating the use of SGIP. The stated reason is that there are too many small projects being proposed and CAISO and the utilities cannot keep up with the applications. Apparently, this is a problem even though California needs to increase its rate of adding renewables by more than a factor of 10 in order to fulfill its RPS mandates.
- 7) A group of companies and organizations led by the FIT Coalition is opposing the CAISO proposal and has circulated a sign-on letter to amplify its message to CAISO, FERC, and other policymaking bodies. The sign-on letter is very comprehensive in explaining the details and the letter can be found at this link:

[www.fitcoalition.com/storage/resources/submissions/caiso-improving\\_SGIP-july162010.pdf](http://www.fitcoalition.com/storage/resources/submissions/caiso-improving_SGIP-july162010.pdf)

If you want to learn more about preserving and enhancing SGIP, please read the FIT Coalition sign-on letter to learn how you can help.

Craig Lewis is Founding Principal of RightCycle and FIT Coalition. Craig Lewis has significant experience developing renewables projects in California, and was an active member of the team that navigated the first successful solar project through California's RPS solicitation process. After experiencing first-hand the difficulties of developing renewables projects in the United States, Craig formed the FIT Coalition, which is a non-profit policy organization that identifies global best-practices for scaling cost-effective renewables and implements those policies throughout the United States. Reach him at 650-204-9768 [craig@fitcoalition.com](mailto:craig@fitcoalition.com)