

California Energy Commission

Re: Docket No. 11-IEP-1A

## Clean Coalition Comments on Draft 2011 IEPR: Lead Commissioner Draft

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### I. Introduction

The Clean Coalition is a California-based advocacy group, part of Natural Capitalism Solutions, a non-profit entity based in Colorado. The Clean Coalition advocates primarily for policies and programs that enable the “wholesale distributed generation” market segment, which is generation that connects to the distribution grid for local use. The Clean Coalition is active in proceedings in many regulatory venues, including the Commission, Air Resources Board, and the Energy Commission in California; the Federal Energy Regulatory Commission; and in other state and local jurisdictions across the country.

### II. Summary

- The IEPR should take the opportunity to establish a definition for Distributed Generation which includes clear distinctions between Wholesale Distributed Generation and Retail Distributed Generation
- The IEPR should strongly recommend not only better inter-agency communication and coordination but also proactive bridging of energy policy silos

- The IEPR should call for a shift in RPS procurement approach, from contracting with a 40% failure rate assumption, to seeking lower risk projects and risk diversification across project size and resource types
- The concept of regional targets for Distributed Generation should be questioned with Table 3 removed or at a minimum, displayed with major caveats so that the stated results do not set future policy precedent
- The IEPR should acknowledge that Distributed Generation is already cost-competitive with central station generation under certain conditions and California energy policy needs to shift to this new reality

### III. General Comments

The Clean Coalition commends Commission staff for their efforts in providing a strong summary and comprehensive report of California's priority energy issues, including renewable energy and reaching future energy goals. This report is a positive step forward in keeping California at the forefront of energy policy as well as beginning to modernize policymakers' approach to electricity. However, with the 33% RPS and Governor Brown's 12,000 MW distributed generation (DG) goal, the previous approaches to energy policy need to be re-examined, updated and in some cases discarded in order to realize a vision of a smart energy future. The Clean Coalition encourages the Commission to continue to look forward and shift the paradigms of current energy policy to continue to progress towards meeting and/or exceeding the California's goals.

#### Distributed Generation

Historically, the different distributed generation (DG) markets have not been separately identified and thus, policy has not been designed to approach these markets in an individualized manner. By default, DG has been equated with "behind-the-meter" generation or "net-metering". As such, DG has been treated as demand reduction rather than a supply resource alongside other types of energy procurement.

The Clean Coalition has been leading the distinction of two main types of DG: Wholesale DG (WDG) and Retail DG (RDG). The simple distinction between the two is the purchaser of the electricity. For

Wholesale DG, the buyer is a utility that intends to resell the electricity. For Retail DG, the purchaser is the electricity consumer, normally on the same site as the generating facility.

A recent example of failing to distinguish these DG types is found in the California Clean Energy Future (CCEF) Overview<sup>1</sup> Furthermore, during the July 6, 2011 CEC IEPR Committee Workshop regarding the CCEF, the attending Commissioners and stakeholders identified the need to clearly define DG without settling on an agreed definition.

A widely used definition of DG that was disputed as recently as Governor Brown's conference on localized generation, was quoted in the IEPR as "localized generation, [further] defined as renewable distributed generation (DG) projects 20 MW and smaller that are interconnected to the distribution or transmission grid." Traditionally, the 20 MW line (and below) was used to distinguish "small" projects from "large" projects in interconnection. However, basing the definition solely on project size is insufficient for accurate analysis, realistic goal-setting and effective policy design. In addition, any generation connected to the transmission grid is clearly **not** localized and should not be equated with DG.

A simple and useful definition of DG can be described as follows: DG is generation interconnected to the utility distribution grid serving local load without requiring delivery over the transmission grid. This provides the clearest jurisdictional distinction of DG while capturing the locational benefits and economic benefits associated with DG as compared to remote, transmission-interconnected, central station generation.

The IEPR should take the opportunity in the 2012 report to establish a standard reference definition of distributed generation.

#### Coordination Between and Within Policy Areas

With the rapid advancement of energy related technologies and ambitious, interrelated energy goals, the Clean Coalition stresses the importance of effective communication between different energy policy

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<sup>1</sup> California's Clean Energy Future, "An Overview on Meeting California's Energy and Environmental Goals in the Electric Power Sector in 2010 and Beyond," Page 5.

areas that have traditionally been kept separate. These areas include but are not limited to: energy efficiency, demand response, energy generation, electric vehicles, smart grid and energy storage. In regards to the development of laws and regulations, these areas are typically discussed in “silos,” which often does not recognize the importance of the relationships and dependencies between the areas. This leads to inefficient policymaking and can hinder progress towards meeting California’s goals. The draft IEPR discusses this need for better inter-agency coordination, which is a significant step in a positive direction. However, even within agencies, policy proceedings should require discussions and suggestions from individuals in each area and consideration of related proceedings that could potentially affect all outcomes.

If status quo were to remain in place, California risks making future integration more difficult and more costly as policymaking progresses. In addition, policymakers continue to miss opportunities to develop policy that creatively integrates the different policy areas in an effective manner to meet outlined goals.

#### IV. Specific Comments

##### Discussion of Table 1

Table 1 (located on page 29 of the Draft Report) correctly recognizes Wholesale DG. However, the Table uses the general term “Distributed Generation” to refer to Retail DG. As discussed in the General Comments, the Clean Coalition emphasizes the significant distinction between Wholesale DG and Retail DG. The Clean Coalition recommends that the CEC also place importance on this distinction in this IEPR and all future reports.

##### Risk of Contract Failure

The Draft Report states “it would be prudent for utilities to contract for renewable generation in the range of 55,000 GWh (contract failure rate of 30 percent) to 85,000 GWh (contract failure rate of 40 percent).”<sup>2</sup> In other words, the Report recommends that utilities expect and actually account for a 30-40% failure rate of procured contracts. This approach to contract procurement should no longer be used as it costs ratepayers more in time and money, and the near-term benefits of clean energy are lost. To

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<sup>2</sup> 2011 IEPR Lead Commissioner Draft page 30

move forward with a better procurement strategy, the IEPR should recommend that energy procurement decisions account for risk, rather than procuring more with high-risk projects. The reaction to 30-40% failure should not be to procure more, but to “procure smarter”. In addition, the IEPR should recommend spreading risk over a larger number of smaller projects rather than placing a small number of bets on larger and riskier projects. Up until now, RPS procurement has been almost entirely large-scale central station, while in many cases, Wholesale DG projects would be less risky. This lower risk rate is of higher value to ratepayers and should be an explicit policy standard in the interest of cost-efficiency.

### Discussion of Table 3

The Clean Coalition urges the Commission to remove Table 3 completely (located on page 31) as well as the regional target numbers from the 2011 IEPR.

While the significant work conducted by Commission staff to produce these regional targets should be recognized, the Clean Coalition strongly recommends that the resulting numbers should not be established in the record due to the counterproductive precedent that would be set. This recommendation is based on the following reasons:

- The regional target numbers were presented and discussed at the Governor’s conference in July and were not accepted by any stakeholders as effective in guiding future policy work; The many questions and concerns raised at the event suggested a major overhaul of the target setting methodology as well as reexamination of the intent of setting regional targets.
- The methodology of calculating the numbers was presented as complex, preventing substantive vetting.
- The regional targets were not based on any specified policy objectives such as cost effectiveness, job creation, implementation timeline or environmental benefits. There was no basis provided for evaluating whether or not the numbers were “correct,” thus stakeholders and policymakers would have no basis by which to take action if the regions either fall short or exceed those numbers;

- There was no explanation included in the Draft Report of the division of regional targets between Retail DG and Wholesale DG. This does not serve as an effective foundation for designing policy.
- Lastly, no reasoning was given for the stated assumption that all DG installed since 2007 will count towards the outlined 12,000 MW goal. The assumption that these projects would be included is unsound since it results in fewer new capacity installed, ultimately resulting in fewer jobs created in the Clean Energy Jobs Plan.

The Clean Coalition thus recommends that the IEPR acknowledge that the regional targets were produced, but also recognize that stakeholders did not accept the resulting numbers. Then, the following matters could be addressed in the 2012 IEPR Update:

- 1) The re-evaluation of the concept of regional targets;
- 2) If the regional targets are determined to be a worthy concept, then a new analysis is conducted with a methodology based on a foundation of *clearly stated* policy objectives. This methodology would be as transparent as possible in explaining the concept of regional targets and what the California would hope to achieve with these targets.

#### Cost-Competitiveness of Distributed Generation

In the discussion of the cost-competitiveness of DG, the Draft Report states that “it is likely that there will be significant changes in the market in the next five to ten years as DG systems become more cost competitive.”<sup>3</sup>

The Clean Coalition recommends that the IEPR recognize that DG can *currently* be considered cost-competitive with central station, assuming that all costs and risks are *truly* accounted for. The attached appendix, “The Superior Value of Wholesale DG,” demonstrates that ground-mounted Wholesale DG can have equal or better value than central station even before considering the non-energy benefits

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<sup>3</sup> 2011 IEPR Lead Commissioner Draft Page 42

Wholesale DG can provide. As costs are of high importance when considering a new policy direction, the cost-competitiveness of DG should be effectually highlighted by the Commission.

Recommendations

The Draft Report offers a strong set of high level recommendations that signify an evolution towards more modern approaches to energy efficiency and clean energy. All additional recommendations should seek to promote high levels of transparency and accountability in every aspect of the energy industry, especially as it relates to distributed generation. Lack of transparency and accountability is a notorious barrier to effective policy design, as well as an obstacle to rapid, cost-effective deployment of clean energy. These two items of importance should be included in all stages of the policymaking process as California continues to move forward towards efficient and effective clean energy solutions.

The Clean Coalition looks forward to collaborating with the Commission in 2012 to assist in developing the details of the stated recommendations in the 2012 IEPR update.

Respectfully Submitted,

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