

Crossborder Energy

Comprehensive Consulting for the North American Energy Industry

November 24, 2008

Mr. Paul Douglas
Mr. Sean Simon
Mr. Honesto Gatchalian
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: Comments of CalWEA / LSA / CCC / Solar Alliance on Draft Resolution E-4214 concerning the 2008 Market Price Referent

Dear Messrs. Douglas, Simon, and Gatchalian:

The California Wind Energy Association, the Large-scale Solar Association, the California Cogeneration Council, and the Solar Alliance (collectively, CalWEA *et al.*) appreciate the opportunity to submit brief comments on Draft Resolution E-4214, which proposes the 2008 Market Price Referent (2008 MPR). As the Energy Division is aware, CalWEA *et al.* have participated actively before the Commission on issues concerning the 2008 MPR, including the proceedings in R. 06-05-027 that led to the Commission's recent D. 08-10-026 refining the methodology used to calculate the 2008 MPR.

CalWEA *et al.* commend Energy Division for the thorough and professional work that is reflected in Draft Resolution E-4214. We believe that Energy Division has calculated the 2008 MPR using reasonable input assumptions, and the draft resolution fully justifies the choices for those assumptions. The calculation methods reflected in the 2008 MPR model appear to comply with the Commission's past directives for the MPR determination, including the most recent changes to the MPR methodology that were adopted last month in D. 08-10-026.

CalWEA *et al.* have been able to identify just one issue in Draft Resolution E-4214, a methodological issue that the Commission did not consider in the proceedings leading to D. 08-10-026. The Energy Division has reduced the 2008 MPR's greenhouse gas adder (GHG Adder) by 80% in 2012, 60% in 2013, 40% in 2014, and 20% in 2015. The draft resolution justifies these reductions as consistent with the phase-in approach to GHG regulation that the Commission recently adopted in D.08-10-037, the Commission's decision on GHG regulatory strategies. Energy Division observes that in D. 08-10-037 the Commission stated that "we conclude that in 2012 there should be 20% auctioning and 80% free allocation of allowances to deliverers, with a transition to 100%

auctioning by 2016”.¹ This transition has been reflected in the MPR model by assuming that a CCGT’s GHG compliance costs would be reduced by the percentage of GHG allowances that will be allocated without charge to deliverers in each year from 2012 to 2015.

CalWEA *et al.* do not believe that this reduction in the GHG Adder in 2012 – 2015 correctly reflects the impact of GHG regulations on market prices in California. The purpose of the MPR is to represent the long-term “market price of electricity.”² On the margin, the market price for GHG allowances will not reflect the fact that some subset of GHG allowances are allocated for free for the initial four years of GHG regulation in California. The amount of allowances to be allocated for free to deliverers will be a set amount each year during the period 2012 – 2015, and most if not all generators will be required to use the auction market to obtain the balance of the allowances that they need. In essence, the full market price for GHG allowances will represent the opportunity cost for generators to rationalize their allocation of allowances, including buying and selling allowances in response to changes in the demand for their power. In D. 08-10-037, the Commission correctly recognized that “there is an expectation that if allowances are auctioned GHG compliance costs would be internalized in wholesale electricity prices, sending more accurate price signals that would encourage participants in the electricity sector to reduce emissions.”³ Accordingly, the GHG Adder should reflect 100% of the expected market price for GHG allowances, and the GHG Adder should not be reduced because a limited amount of GHG allowances will be allocated for free to deliverers in 2012 – 2015.

Even if the Commission does not agree that, as a market price, the MPR should reflect 100% of GHG allowance prices, the Commission must recognize that the MPR represents the costs of a new entrant supplying gas-fired “brown” power to the California grid.⁴ Although D. 08-01-037 is not completely clear on the treatment of new entrants, the order appears to contemplate that new entrants will be required to obtain needed GHG allowances through the auction market:

A centralized auction of allowances undertaken by ARB or its agent would provide market liquidity, ensure that all deliverers have equal access to allowances, and reduce or avoid the need for a set-aside or other administrative accommodation for new entrants.⁵

Thus, for projects with start dates in 2012 or years thereafter, there is no basis in D. 08-10-037 to reduce the GHG Adder applicable to such projects, because these new entrants may not qualify for an administrative allocation of free allowances.

¹ D.08-10-037, p. 206. http://docs.cpuc.ca.gov/word_pdf/FINAL_DECISION/92591.doc

² P.U. Code Section 399.15[c].

³ D. 08-01-037, Finding of Fact 28.

⁴ P.U. Code Section 399.15[c][2]; D. 03-06-071, at 15 - 21.

⁵ *Ibid.*, Finding of Fact 27.

Furthermore, Energy Division's assumption that the MPR's combined-cycle proxy plant would receive free allowances for 80% of its emissions in 2012 is based on an assumption that the fuel-adjusted, output-based allocation of allowances to deliverers, in pounds of CO₂ per MWh, would exactly match the MPR proxy plant's GHG emissions rate. The MPR proxy plant in Draft Resolution E-4214 has GHG emissions of 810 pounds per MWh.⁶ The Energy Division's adjustment to the 2008 MPR is correct only if the fuel-adjusted, output-based allocation of allowances from 2012 – 2015 is also 810 pounds per MWh. D. 08-10-037 does not adopt, or even cite, a figure for the expected fuel-adjusted, output-based allocation of allowances in 2012, and admits that more work is needed before such a figure can be developed.⁷ If this allocation is much lower than 810 pounds per MWh – for example, 600 pounds per MWh – then the Energy Division's assumed reductions to the GHG adder are overstated by 35%. Given this uncertainty, even if the Commission is sympathetic to the concept of this reduction in the GHG Adder, CalWEA *et al.* urge the Commission not to adopt it until an accurate calculation can be performed.

Finally, CalWEA *et al.* observe that, in the debate this year on the methodology for the 2008 MPR, no party raised the issue of reducing the GHG Adder to reflect the free allocation of allowances to deliverers, even though it was well known that many parties to the Commission's GHG proceeding, R. 06-04-009, were advocating the free allocation of allowances to deliverers. This adjustment was not reviewed in the proceedings leading to D. 08-10-026, and simply has not received adequate scrutiny for inclusion in the MPR calculation at this time.

CalWEA *et al.* appreciate the Commission's attention to these comments, and ask the Commission to make the one change to the 2008 MPR calculation discussed above. As requested, we have attached to these comments the following:

- A subject index listing the recommended change to the draft resolution, and
- A table of authorities.

We also attach to these comments with a version of the MPR spreadsheet model with the recommended change highlighted in yellow. With the changes to the body of the draft resolution that are presented in the attached subject index, there is no need to change the proposed findings and ordering paragraphs.

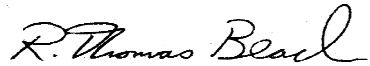
⁶ Based on the 2008 MPR heat rate of 6,924 Btu/kWh and a GHG emissions rate of 117 pounds/MWh.

⁷ D. 08-01-037, at 214, referencing the "modeling limitations" that prevent the Commission from showing the exact rate implications of its recommended allocation. Also see page 160: "Because of current modeling limitations, the fuel differentiated option has not been modeled in this proceeding."

Comments of CalWEA *et al.* on Draft Resolution E-4214
November 24, 2008

Thank you for your attention to this matter.

Respectfully,

A handwritten signature in cursive script that reads "R. Thomas Beach".

R. Thomas Beach, Principal
Crossborder Energy

On behalf of
**California Wind Energy Association,
Large-scale Solar Association,
California Cogeneration Council, and
Solar Alliance**

Subject Index of Proposed Changes

Page 16: Remove the first paragraph on page 16 discussing D.08-10-037, the Commission’s decision on Greenhouse Gas Regulatory Strategies. The table following this paragraph should show that the MPR GHG compliance costs for 2012 to 2015 are identical to the values from the Synapse study.

Table of Authorities

Public Utilities Code Section 399.15[c].....	2
D. 03-06-071.....	2
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CERTIFICATE OF SERVICE

I hereby certify that I have this day caused to be served a copy of the foregoing document, **Comments of the CalWEA / LSA / CCC / Solar Alliance on Draft Resolution E-4214 Concerning the 2008 Market Price Referent**, by Electronic Mail where possible and First-Class Mail where not, on all known parties to R. 06-02-012, named on the service list attached to the original certificate of this document pursuant to the Commission's Rules of Practice and Procedure.

I declare under penalty of perjury that the foregoing is true and correct.

Executed at Berkeley, California, Monday, November 24, 2008.

/s/ Christa Goldblatt

Christa Goldblatt