

CPUC Vote to Decide: Foreign Gas or Solar Hydrogen?

Thursday Jan 22 Lynch Plan Recognizes Renewables & Community Choice

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On Thursday the California Public Utilities Commission (CPUC) will choose between three very different frameworks for how one of the world's largest economies will power its homes, businesses and institutions. It is a momentous occasion because the decision will determine whether the state will lock ratepayers into a massive new investment in power plants that depend on gas imported from across the globe, or whether it will accommodate the many California communities, led by San Francisco, which are seeking to develop renewable energy and efficiency technologies through Community Choice Aggregation. In a nutshell, if the CPUC requires the utilities to overbuy power, it will not only be billed to ratepayers but it will also block them from leaving.

Commissioner Loretta Lynch's "Revised Alternate Decision" is the only decision among the three that makes a real effort to leave room for Community Choice. The other two, the "Proposed Decision" by Administrative Law Judge Walwyn and the "Alternate Decision" by CPUC President Michael Peevey, are severely prejudicial against the effective implementation of Community Choice Aggregation for a number of reasons outlined below.

The Lynch Alternate provides for greatest flexibility to incorporate Community Choice Aggregation opportunities and providers by requiring the utilities to submit five year load forecasts that model Community Choice Aggregation as a stand alone procurement option for the future. The Lynch alternate requires the utilities to run several load modeling scenarios for the future, including one that *specifically includes* Community Choice Aggregation.

The revised Peevey alternate and Proposed Walwyn Decision link Community Choice Aggregation with a proposed "core-noncore" model proposed by Governor Schwarzenegger for electric procurement that (1) would require legislative changes to move forward, and (2) would necessarily delay consideration of Community Choice Aggregation options to develop core-noncore scenarios, and (3) could intertwine Community Choice loads and goals with controversial core/noncore goals/scenarios.

Thus, neither the Peevey alternate nor Walwyn's Proposed Decision gives Community Choice load models or scenarios proper recognition as existing law giving ratepayers the entitlement to leave utility procurement, and authorizing their local governments to implement. By linking Community Choice load modeling to an unproven and controversial legislative option that has not yet been approved by the legislature, the Peevey and Walwyn decisions perpetuate the

Commission's systematic neglect of Community Choice while fast-tracking utility procurement.

The Lynch Alternate provides the best choice to enable Community Choice Aggregation to work in the future by providing an orderly four-year process for utilities to buy and lock in reserves at a 15% level, not the proposed 17% level which would exceed any other state, require the utilities to over-buy electricity, impose wasteful costs on ratepayers, and poison the well for renewable energy and efficiency development. Walwyn's Proposed Decision has changed to a 3 year phase in of 15% but is still too fast; the Peevey alternate has changed to a 2 year phase in of 17%. The Lynch alternate's 4-year phased in purchasing requirement, proposed and supported by all utilities, TURN, ORA and the CA Energy Commission, is the maximum rate and volume allowable to minimize "stranded costs" to communities such as San Francisco, San Deigo and dozens of others seeking to depart utility procurement to develop renewable energy and efficiency through Community Choice. Overbuying also salts the fields for renewable energy and efficiency, because you must pay for the gas-fired power that was bought whether you use it or not. The Lynch Alternate would give Community Choice Aggregators room to develop without locked in utility-purchased reserve **power costs** to pay for, and provide Community Choice Aggregators room to develop without a locked-in larger **reserve requirement** purchased by the utilities. Apart from facilitating renewable energy and efficiency technology development, the utilities have estimated that every 1% increase in reserves required to be purchased costs ratepayers \$100M.

The Lynch Alternate is the best choice to prevent transforming the current "buyers' market" for electricity, providing low prices for consumers, to a "sellers' market" in which prices rise and old power plants get long contracts. Currently, CA has excess power available because the utilities are not required to purchase large amounts for the future on an immediate basis. If the CPUC imposes a 17% reserve requirement to be phased in within two short years, the market will flip from a buyers' market to a sellers' market as all current generators will know that the utilities must buy their power before competing sources can be developed and brought on line.

A short phase in requirement allows the current fossil fuel merchant generators to lock in long-term contracts on their current old, polluting plants by requiring the utilities, if they want to meet their two year reserves requirement to in fact buy from current buyers for 5 years or even longer, again both poisoning the well for green power and putting ratepayers over exactly the same barrel the state was put over with former Governor Davis' power contracts, the state needed power immediately but offered power now only if California would buy it for 4-10 years.

Requiring high levels of reserves to be purchased on a short time frame will establish poor conditions for building additional renewable resources, provide additional energy efficiency, or even build additional fossil fuel plants to provide more power options to meet those reserve requirements. Without good conditions, the Commission's commitment to accelerate the Renewables Portfolio Standard implementation to 20% by 2010 will go the way of the Zero Emission Vehicle requirement set by California in the late 1990's then dropped by Governor Davis when the deadline arrived. We have heard a lot of promises from the Commission too, such as the guaranteed 5% rate decrease that would be followed by a promised 10% decrease. In the end, ratepayers were made to pay for their own decrease in the form of non-bypassable

surcharges on their monthly electric bills, and debt service on bonds. It is a shabby way for the Commission to proceed: attend to the details of implementing a renewables framework (with Community Choice) or the Renewable Portfolio Standard will prove similarly disingenuous.

If the buyers' market turns into a sellers' market from imposing a too-high reserve requirement within a too short a time frame, Community Choice Aggregators will face higher stranded costs if they want to get out from under PG&E fossil fuel power procurement obligations in the future. The Lynch Alternate provides Community Choice Aggregators the most flexibility and least cost opportunities by requiring the utilities to lock in 90% of the power needs a year ahead only for those five summer months in which CA might possibly face shortages (May-September). Walwyn's Proposed Decision and the Peevey Alternate each require the utilities to lock in 90% of their power needs a year ahead *for each and every hour of every day of the year*. This will also a priori impose stranded costs on ratepayers that choose to escape utility procurement.

It is another case of overbuying and imposing unnecessary costs on ratepayers, due to a bad CPUC process. California has surplus supplies for non-peak periods in the other seven months, leading to locked down contracts for power that might not be needed in the non-peak months. Even the utilities support locking down 90% power requirements only for peak summer months.

The Lynch Alternate does not approve 2005 utility purchase plans before they submit their five year plans, requiring that the utilities produce evidentiary data and modeling before 2005 purchases are judged to be just and reasonable by the Commission. Both Walwyn's Proposed Decision and the Peevey Alternate approve utility purchases for 2005 without data or modeling, before even reviewing the utilities' new procurement plans they call for in 2005 - and how those plans fit within their five year goals.

Because AB 57 (Wright, 2001) requires the PUC to determine whether utility costs are just and reasonable up front, it is critical to review actual data and modeling before the PUC gives the utilities a blank check from the ratepayers' checkbook. A major blank check is handed by the Peevey Alternate, which needlessly *requires the utilities to enter into new five year contracts with all QFs* whose contracts have either expired or are due to expire before January 1, 2005. In contrast, the Lynch Alternate and Walwyn's Proposed Decision wisely tell the utilities to extend their contracts with "Qualifying Facilities" ("QF"- power contracts dating back decades) expiring before the end of 2005, and requires the utilities to model their needs for QF contracts, and to propose future their own QF policies to the Commission as a component of their five year plans, to be submitted this spring and considered for approval by the Commission. Clearly, this would also avoid new stranded costs on ratepayers that escape utility procurement contracts through Community Choice.

With the Community Choice proceeding now open with two rounds of comments already filed and a number of workshops held on this issue, the Lynch Alternate makes it possible that the Commission might coordinate the two halves of California's electricity market (utility procurement and Community Choice) to minimize costs for all ratepayers.

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