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08-15-12

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**BEFORE THE
PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

_____))
Order Instituting Rulemaking to Continue)
Implementation and Administration of)
California Renewables Portfolio Standard)
Program)
_____))

R.11-05-005
(Filed August 15, 2012)

**COMMENTS OF HENWOOD ASSOCIATES, INC. ON THE
JOINT SUBMISSION OF THIRD REVISED PROPOSED STANDARD FORM
CONTRACT FOR THE SECTION 399.20 FEED-IN TARIFF PROGRAM**

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CEO of
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August 15, 2012

In response to the Administrative Law Judge's Ruling on June 27, 2012 regarding Section 399.20 Filing Dates for Standard Contracts and Tariffs, Henwood Associates, Inc. respectfully submits the following comments on the Joint IOU Power Purchase Agreement (the PPA) filed July 18, 2012.

The Joint IOUs are proposing to make several significant, and in our view, unjustified, changes in the contracting arrangement for FiT projects in the 500 - 999 kW size range. These changes, collectively, will increase the cost and complexity of the contract to these small producers thereby acting counter to the intent of SB 32. Many other changes are proposed to the currently workable FiT contracts that increase the cost of all FiT generators. The net effect of the proposed FiT contract will be to either reduce the amount of power available from small projects or increase the price paid by ratepayers¹ over what could be obtained without the changes we have identified in the FiT contract.

Our comments on these changes follow.

1. Background

Henwood Associates, Inc. has a unique perspective on the Feed-in Tarriff (FiT) contract by virtue of (1) having negotiated the “pre FiT” contract with PG&E, (2) moved from the “pre-FiT” contract to the Commission adopted FiT contract, and (3) financed, constructed, and operated the Tunnel Hill Hydro LLC projects pursuant to the PG&E FiT contract.²

Additionally, we have participated in the workshop on the PPA conducted on February 22, 2012, submitted written comments on the PPA on March 5, 2012, commented before Commissioner's Ferron and Florio at the FiT All Party session on May 1, 2012, and participated in the Joint IOU hosted workshop conducted on May 7, 2012.

¹ Ratepayers will see the effect of these contract changes as they play out in the reMAT pricing mechanism.

² Tunnel Hill Hydro LLC is an affiliate of HAI that was formed by HAI for the purpose of contracting with PG&E and financing the Tunnel Hill and Buckeye Hydroelectric Projects. HAI currently manages Tunnel Hill and operates the projects.

Our comments on the PPA are based on our practical experience developing projects pursuant to Feed-in Tariff (FiT) contracts, our interactions with the commission staff and the Joint IOU's, and further research regarding the impact on the Joint IOUs of small generators, and the mechanics of participating in the CAISO as a small generator.

2. CAISO Jurisdiction for Generators between 500 and 999 kW

The PPA as filed by the Joint IOUs requires generators 500kW or greater to execute and maintain Participating Generator and Meter Service Agreements with the CAISO³. We requested information on the justification for this change to the existing FiT contracts at the February 22 workshop and it was explained that this was a policy decision for the Commission to address. We proposed modifications to the PPA in our comments filed on March 5 which were not accepted by the joint IOUs.

We further pursued this topic at the May 7th workshop conducted by the Joint IOUs. During this workshop the Joint IOU representatives asserted that the reason for seeking 500 - 999 kW generators to become CAISO metered and scheduled was the utilities were losing money due to the mechanics of the allocation of costs associated with "Unaccounted for Energy" that would be avoided if the utilities scheduled the projects.

Based on a review of the CAISO website we conclude that the Joint IOU's concerns in this regard are unfounded. As a result of this review and based on conversations with CAISO personnel, our understanding is Unaccounted for Energy (UFE - CC 6474) is "UFE is the quantity of Energy that represents the difference between the net Energy delivered into a UDC Service Area and the total net-metered Demand (with respect to Generation) within the UDC Service Area, after accounting for the effects of Transmission Losses within the UDC Service Area. UDC losses are calculated through use of system network model and associated nodal pricing application that serve

³ PPA Section 6.1

as the basis for the MRTU market software, as well as the reliable operation of the power grid within the CAISO Control Area. "⁴ Based on our reading of this CAISO document, this number should be small since it represents the difference in actual losses and losses represented in the network model. It also appears to be unrelated to the scheduling function.

What isn't small is the cost a generator in the 500 - 999 kW size range will incur to participate in the CAISO. Establishing and maintaining agreements with the CAISO requires time, effort, and money not required under the current FiT contracts for this size generator. In some cases these agreements require additional equipment for CAISO purposes further increasing costs. Contrary to the intent of SB 32, these increases in the cost and complexity of 500 - 999 kW projects will negatively impact their success rate by increasing the risks developers face.

Furthermore, even if the utilities are not individually scheduling the 500 - 999 kW class of generators with the ISO, pursuant to the proposed FiT contract⁵ they will have the information needed to net these resources from their load forecast submitted to the CAISO. By reducing their load forecast for the effect of small generators, it appears to us that this will reduce the amount of ancillary services the utility will be required to purchase and could result in a cost savings to their ratepayers , rather than lost revenue as alleged by the Joint IOUs.

Base on our analysis we see certainty that costs to small generators will increase if the CAISO requirement is lowered to 500 kW and no clear case that the 500 - 999 kW generators are costing the utility or their ratepayers money. Consequently, absence actual evidence of cost, we request the Commission to direct the Joint IOUs to modify the contract to continue the current CAISO level of 1 MW.

⁴ [http://www.caiso.com/Documents/CGCC6474-Real-TimeUnaccountedEnergy Settlement.pdf](http://www.caiso.com/Documents/CGCC6474-Real-TimeUnaccountedEnergy%20Settlement.pdf)

⁵ Appendix D, Forecasting and Outage Notification Requirements, provides the information needed by the Joint IOUs for day-ahead and real-time scheduling at the CAISO.

3. Metering and Billing for Generators between 500 and 999 kW

For many years QF generators have been metered by the Joint IOUs and associated bills calculated by the Joint IOUs. Utilities have been reimbursed for the cost of their metering facilities as part of the interconnection cost. This practice continued with the current FiT contract with, in the case of PG&E, the metering of our affiliate's facilities being owned and maintained by PG&E at our affiliates expense. Additionally, revenue statements and service bills are computed for our affiliate's projects by PG&E.

These arrangements have worked and continue to work. They leverage well established expertise of the Joint IOUs.

In PPA Sections 3.7 and 6.2 the Joint IOUs are proposing a complete overhaul of the current FiT arrangements in place at PG&E.

PPA Sections 3.7 was added by the utilities to replace the currently functional Billing provisions in PG&E's FIT contract. This requirement imposes a significant cost and administrative burden on small developers. Utilities are well equipped to continue undertaking the settlement function for small projects as they have been doing it for 30 years. They should continue this practice for small sellers under the FIT program.

In PPA Section 6.2 the contract would require all projects under 1 MW, including those interconnecting at distribution voltage levels, to be subject to CAISO metering requirements. We see no justification for changing the currently workable approach of utilities supplying meters for under 1MW projects pursuant to special facilities charges and computing associated bills. Consequently, we request the Commission direct the Joint IOUs to continue current practices for generators below 1 MW in size.

4. Telemetry System for Generators between 500 and 999 kW

PG&E and SCE are proposing⁶ to require generators between 500 and 999kW install telemetry systems, with no cost cap, that meet CAISO's business Practice Manual for Direct Telemetry. These are additional costs not currently borne by this class of generator and are only the result of the Joint IOUs seeking to require this group of generators, for the first time, to be subject to CAISO requirements.

During the workshops on February 22 and May 7 these requirements were discussed and some utilities representatives explained part of the value of these requirements will be to assist utilities with scheduling.

We don't find this argument persuasive. The CAISO telemetry parameters contained in PPA Appendix F are all refer to real-time instantaneous data⁷ reporting that may be useful for system operation but are, in our opinion, of little value in the scheduling world. Day-ahead schedules are submitted the day ahead, real-time schedules are due 90 minutes ahead of real-time. Instantaneous readings are not the information we would use to predict conditions tomorrow, or even 90 minutes ahead.

SDG&E has taken a more reasonable approach to telemetry, namely *"If the nameplate rating of the Project is 1 MW or greater, a Telemetry System at the metering location may be required at the Seller's expense."*⁸. We request the Commission direct all of the Joint IOUs to utilize the approach proposed by SDG&E.

5. Transmission Delay

The PPA provides in Section 2.8.2.2 for an extension of the Guaranteed Commercial Operation Date of no more than six months for a Transmission Delay. We believe it is completely unreasonable that a contract could be terminated because of the

⁶ PPA Appendix F

⁷ with the exception of a Running 30 day total of precipitation.

⁸ PPA, Appendix F, SDG&E Telemetry Requirements.

engineering time or construction time of a utility's distribution group. These items are under the control of the utility. We request the Commission allow an indefinite extension in the event a Transmission Delay is due to the engineering time or construction time of a utility's distribution group.

6. Contract Price

In addition to seasonal and time differentiated energy payments, the PPA in Section 3.6.3 also seeks downward adjustments in the Contract Price for annual variations in Delivered Energy above 120% of the Contract Quantity. For small hydro facilities water conditions fluctuate significantly from year-to-year and, in some cases, would cause the clause to be triggered in up to 30% of years.

The Joint IOU's have already recognized there are differences in production patterns for renewable technologies in their Guaranteed Energy Production measure. We request the Commission direct the Joint IOUs to provide a similar treatment for the Contract Price adjustment mechanism in Section 3.6.3.

7. Qualified Reporting Entity (QRE)

It is our understanding that for project's being metered by the CAISO the CAISO will act as the QRE for the project at no additional cost. For projects not metered by the CAISO, current practice is for the utility to install the project's revenue meter, to read the meter, and to act as the QRE. The Joint IOUs have the expertise and systems in place to perform the QRE function and this practice is currently embedded in PG&E's FiT contract and is working.

In PPA Section 4.3.8, PG&E and SDG&E have proposed the QRE function be performed by them at their option, potentially causing non-CAISO metered projects to seek out and contract with third parties for this limited function. We believe, as does SCE, that having the utility purchasing the power perform the QRE function is desirable and we request the Commission direct the contract to be modified accordingly.

8. Insurance

The Joint IOUs are seeking to modify the current FiT contract by requiring insurance to be in place at the time of contract signing (PPA Section 10.2.1) rather than prior to commencing operations. During the various workshops, the utilities provided no information that they have ever been exposed to damages during the period between contract execution and operations. Absence any such evidence we see no reason this requirement be accelerated thereby causing another hurdle to obtaining a power contract. Consequently we would request the Commission to direct the Joint IOUs to provide information that this provision is needed or to continue with the current practice.

The PPA also seeks in Section 10.1.4 to increase the required liability coverage by a factor of five (5) over the current FiT contract to a total of \$5 million, an amount in excess of the requirements in the Renewable Auction Mechanism (RAM) contract⁹. When asked at the February 22, 2012 workshop if there was loss history justifying this massive increase the utility response was to indicate their risk department is “comfortable” with the additional \$4 million.

Once again, absent any evidence of loss history to justify requiring this addition expense on small generators we request the Commission to continue with the current practice contained in PG&E's FiT contract.

9. Collateral Requirements

In PPA Section 13.1 the proposed contract seeks collateral equal to \$50/kW for contract in excess of 999kW. This would result in sellers under the FiT contract having a higher collateral requirement than the \$20/kW required from projects up to 5MW under the RAM contract.

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http://www.pge.com/includes/docs/word_xls/b2b/wholesaleelectricssolicitation/RAM/Appendix%20B%20-%20PGE%20RAM%20PPA.doc

Absence any evidence of a need for higher collateral under FiT contracts versus RAM contracts we request the Commission direct the utilities to use a uniform \$20/kW under the FiT contract.

10. Letter of Credit

Section 13.6.1 of the PPA requires issuers of a Letter of Credit to be rated by Moody's or S&P. This requirement, unfortunately, does not provide for the use of banks not rated by either of these agencies. Previously we have been able to post a Letter of Credit with PG&E issued by a regional bank¹⁰. This bank is responsive to the needs of a small producer but unrated by either Moody's or S&P. Given the small size¹¹ of the Letters of Credit that will be required under FiT contracts we request the Commission provide greater latitude in the selection of banks that can provide this service.

¹⁰ Five Star Bank, Rancho Cordova, CA www.fivestarb.com

¹¹ Even with the proposed \$50/kW collateral, the largest Letter of Credit that could be required for a FiT contract is \$150,000, an amount easily dealt with by even the smallest bank.

11. Conclusion

If the intent of the FiT program is to encourage small, strategically located generation, then the FiT contract needs to be designed to encourage projects. The previous FiT contract offered by PG&E was workable for both parties and did not cause unnecessary cost for the generating party.

Despite the successes obtained under the PG&E FiT contract, the Joint IOUs have proposed a PPA that makes significant changes to the relationship that we believe are unwarranted, will discourage project development, and will increase the cost to ratepayers. Consequently, we request the Commission direct the Joint IOU to make the changes we have identified in our comments.

Respectfully submitted,

MARK HENWOOD

/s/ Mark Henwood

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CEO of
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VERIFICATION

I, Mark Henwood, am the CEO of Henwood Associates, Inc., a corporation, and I am authorized to make this verification on its behalf. The statements in the foregoing "Comments of Henwood Associates, Inc. On The On The Joint Submission Of Third Revised Proposed Standard Form Contract For The Section 399.20 Feed-In Tariff Program" have been prepared and read by me and are true of my own knowledge, except as to matters which are therein stated on information or belief, and as to those matters I believe them to be true.

I declare under penalty of perjury that the foregoing is true and correct and executed on August 15, 2012, at Sacramento, California.

Respectfully submitted,

MARK HENWOOD

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