

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

Order Instituting Rulemaking to Promote
Consistency in Methodology and Input
Assumption in Commission Applications
of Short-run and Long-run Avoided Costs,
Including Pricing for Qualifying Facilities.

Rulemaking 04-04-025

**PRE-WORKSHOP REPLY COMMENTS OF
INDEPENDENT ENERGY PRODUCERS ASSOCIATION**

Douglas K. Kerner
Ellison, Schneider & Harris, LLP
2015 H Street
Sacramento, CA 95814
Tel: (916) 447-2166
Fax: (916) 447-3512
Email: dkk@eslawfirm.com

June 18, 2004

Attorneys for Independent Energy
Producers Association

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Pursuant to the Notice of Workshop distributed electronically on May 17, 2004 (revised on May 27, 2004), the Independent Energy Producers Association (IEP) respectfully replies to the comments of Southern California Edison Company (Edison or SCE) and Pacific Gas & Electric Company (PG&E) submitted on June 4. Both Edison and PG&E argue that issues pertinent to the determination of avoided cost payments to qualifying facilities (QFs) should be separated from the rest of the analysis of avoided costs. IEP disagrees and urges the Commission to stay the course it has laid to develop “a common methodology, consistent input assumptions and updating procedures for avoided costs...” Order Instituting Rulemaking (OIR) at 2.¹

PG&E suggests that (QF) issues are so complicated and contentious that they “are likely to overwhelm all other avoided cost issues in this rulemaking if not dealt with separately.” PG&E Comments at 11. PG&E further argues for separating QF issues on

¹ Other parties have submitted in some cases substantial comments on the details of the E3 report. IEP looks forward to discussing the details of the E3 report in the workshops. The comments here are limited to the critical and discreet issue discussed in the body of this paper.

the basis that the E3² “approach to avoided cost pricing cannot be used to determine QF SRAC energy payments consistently with §390.” Ibid. Therefore PG&E recommends that “QF avoided cost issues [be dealt with] in separate workshops.” Ibid. Since the stated purpose of this OIR is to rationalize avoided cost across applications, beginning with energy efficiency, it is entirely inappropriate as PG&E suggests to sever one application *a priori*.

IEP recognizes that Public Utilities Code Section 390 is a governing influence on QF avoided cost payments; that is not necessarily perfectly incompatible with the development of a consistent and coordinated analysis and determination of avoided costs. The Commission is well aware that the exercise before it includes consideration of Section 390 and has already incorporated PG&E’s issue within the matters to be addressed in this proceeding. OIR at 9. IEP urges the Commission to maintain the integrity of the OIR as originally put forth and focus on the consistent development of avoided costs across various platforms.

There is a proper interest in the OIR’s purpose to create a consistent and universally applicable avoided cost theory, and one that lies at the heart of a transparent, thorough assessment of rational utility procurement strategy. Comparison of the cost effectiveness of different resource options necessitates the existence of a uniform, transparent avoided cost model. The goal, and IEP concurs with the Commission, is to get to an “apples to apples” comparison. OIR at 2. That comparison cannot be met if the

² “A Forecast of Cost Effectiveness, Avoided Cost and Externality Adders”, January 8, 2004, prepared by Energy and Environmental Economics, Inc. (E3). The report is located at <http://www.cpuc.ca.gov/static/industry/electric/energy+efficiency/rulemaking/cpucdraft01082004.pdf>

proposals to sever QF avoided cost applications from all others is approved. As IEP stated in its Opening Comments, “A common methodology for the determination of avoided costs is important to ensure that non-utility resources that serve load (whether from the supply- or demand-side) be acquired at just and reasonable prices equal to that incurred if the utility served the same load itself through whatever means are available to it.” IEP Comments at 2, emphasis added.

For its part, Edison argues that “unique constraints” exist with regard to QF issues and Short-Run Avoided Cost (SRAC) pricing and recommends that this OIR “be narrowed in focus to serve as a procedural vehicle to address these QF avoided cost issues.” SCE Comments at 16. This recommendation and Edison’s further suggestion that the OIR should be parsed out among existing related proceedings (Id. at 15-16) is antithetical to the OIR’s purpose; the OIR at page 1 states its intention to explore the development of “avoided costs in a consistent and coordinated manner across Commission proceedings.” Edison’s main argument for separating the QF issues is that the Commission needs to address a statutory and legal quagmire between state and federal law, on the one hand, and the constraints of Section 390 on the other. As stated above, the implications of Section 390 are well in play and specifically addressed in the OIR. It is the consistency among avoided cost applications that is key here for the ultimate goal of fairly comparing different resource options. Edison itself “recognizes that there is value in having an underlying consistent basis for avoided costs applied in different applications.” SCE Comments at 15.

The Commission has seen value in this coordination effort over the past year (OIR at 9) and IEP urges the Commission to continue along this course.

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Respectfully submitted,

Douglas K. Kerner

Ellison, Schneider & Harris, LLP
2015 H Street
Sacramento, CA 95814
Tel: (916) 447-2166
Fax: (916) 447-3512
Email: dkk@eslawfirm.com

Attorneys for Independent Energy
Producers Association

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the “Pre-Workshop Reply Comments of Independent Energy Producers Association” on all known parties to R.04-04-025 by transmitting an e-mail message with the document attached to each party named in the official service list.

Executed on June 18, 2004 at Sacramento, California.

Eric Janssen

R.04-04-025

Service List

June 4, 2004

dgulino@ridgewoodpower.com
sesco@optonline.net
jheckdoyle@aol.com
mcmannes@aol.com
berj.parseghian@sce.com
bjl@bry.com
chris@emeter.com
freedman@turn.org
mflorio@turn.org
nes@a-klaw.com
rsa@a-klaw.com
dbachrach@nrdc.org
placourciere@thelenreid.com
christopherhilen@dwt.com
stevegreenwald@dwt.com
lindseyhowdowning@dwt.com
ssmyers@att.net
gmorris@emf.net
tomb@crossborderenergy.com
aglandenergy@earthlink.net
chrism@mid.org
scottst@mid.org
joyw@mid.org
bill@jbsenergy.com.
steven@iepa.com
dkk@eslawfirm.com
etiedemann@kmtg.com
mpa@a-klaw.com
bshort@ridgewoodpower.com
csmoots@thelenreid.com
rberliner@manatt.com
jack@jackgreenhalgh.com
jimross@r-c-s-inc.com
dsaul@solel.com
kmcspadden@milbank.com
hchoy@isd.co.la.ca.us
dhuard@manatt.com
pucservice@manatt.com
case.admin@sce.com
j.eric.isken@sce.com
gary.allen@sce.com
woodrujb@sce.com
jennifer.hasbrouck@sce.com
lizbeth.mcdannel@sce.com
jleslie@luce.com
pepper@cleanpowermarkets.com

mdjoseph@adamsbroadwell.com
difellman@fellmanlaw.com
filings@a-klaw.com
vjw3@pge.com
mrh2@pge.com
cem@newsdata.com
bcragg@gmssr.com
jkarp@whitecase.com
ren@ethree.com
snuller@ethree.com
robertgex@dwt.com
phanschen@mofoc.com
mrw@mrwassoc.com
rschmidt@bartlewells.com
jgalloway@ucsusa.org
brbarkovich@earthlink.net
rmccann@umich.edu
dreynolds@aspensys.com
abb@eslawfirm.com
bmeister@energy.state.ca.us
kdw@woodruff-expert-
services.com
tgerman@lmlaw.net
karen@klindh.com
rfp@eesconsulting.com
mer@cpuc.ca.gov
tam@cpuc.ca.gov
ewk@cpuc.ca.gov
jmh@cpuc.ca.gov
dhouck@energy.state.ca.us
wsm@cpuc.ca.gov