

## PG&E Comments on ETAAC 12 21 07 Draft – Part 1

Presented below are comments from Pacific Gas and Electric Company (PG&E) regarding ETAAC's Discussion Draft dated December 21, 2007. PG&E appreciates the opportunity to provide input and applauds the Committee's effort to date in developing this comprehensive draft report, subject to the proposed modifications described below. The proposed modifications will further strengthen this report and help ensure that the final product contains a robust and balanced set of recommendations that will help California meet its aggressive greenhouse gas emissions reductions goals.

Our comments below are divided into two sections: 1) comments on new materials contained in the 12/21/07 draft which were not present in the 11/15/07 draft, and 2) reiteration of some previously submitted comments which have yet to be incorporated. Please note that PG&E is separately submitting comments that pertain to Chapter 5, Electricity and Natural Gas Sectors (see PG&E Comments on ETAAC 12 21 07 Draft – Part 2). PG&E has been participating in the development of Chapter 5 in its capacity as an ETAAC committee member and an Energy Sector subcommittee member. PG&E's comments on Chapter 5 reflect discussions with and concurrence from the Energy Sector subcommittee.

### 1) Comments on New Materials

#### Chapter 1 Introduction

##### II Major Strategies and Opportunities:

1. Opportunity #1, Accelerate Efficiency Measures: There are various recommendations that relate to energy efficiency throughout the document. We are concerned with potential overlaps with and duplication of existing program efforts. Please add a caveat that all the proposed energy efficiency measures contained in this report should be coordinated to avoid overlaps, duplication of effort and double counting, and that additional incentives and technical assistances proposed in this report are not intended to duplicate or supersede existing utility energy efficiency programs.
2. Opportunity #1, Accelerate Efficiency Measures: We recommend revising the first sentence in second paragraph to “ETAAC believes that new types of financing ~~will~~ **could** increase the development and adoption of energy efficient technologies and practices.” While financing is likely to increase adoption of existing technologies, we do not yet know if the availability of financing (such as on-bill financing) will lead to *development* of new technologies. (p.1-6) Thus, we recommend the use of “could” instead of “will”.
3. Opportunity #4: We suggest revising the second sentence of the first paragraph by adding the bolded text below: “Significant opportunities **may** exist to reduce GHG emissions through established best practices, for example, the expanded **and judicious** use of combined heat and power in industry...” (p.1-7) Only those CHP applications that have lower emissions than combined cycle base load plants will lead to GHG reductions.

## **Chapter 4 Industrial, Commercial & Residential Energy Use**

### **II.E Customer Choice of Electric Service Provider**

This recommendation suggests examining the expansion of direct access as a means to increase renewable energy, energy efficiency and other GHG goals. This recommendation assumes that customers will choose to procure greater carbon free renewable resources given expanded direct access. There is no data indicating reinstatement of direct access will contribute to increase of renewables to 33 percent. In fact, the CEC's 2007 IEPR indicates that in 2006, "ESPs as a group increased their renewable energy to two per cent of retail sales. Of the 6 ESPs that reported both retail sales and RPS-eligible renewable energy, APS Energy reported the most (4.8 percent); the lowest was just under 1 percent...ESPs have a long way to go to meet the 2010 goals" (p. 175) It is also possible that expanded direct access could result in customers seeking low cost short-term purchases from wholesale markets, such that any GHG reductions gained from increased renewables would be offset by increased imports of power from unspecified resources, which may be fossil-based. Thus, we do not believe this recommendation should be included. Or, at a minimum, this recommendation should be modified. Our proposed redline edits shown in Attachment A.

## **Chapter 6 Agricultural Sector**

### **II.A – Manure-to-Energy Facilities**

This draft includes new language to require utilities to meet fixed interconnection timeframe for biogas projects. This language should be deleted. To ensure fair and equal treatment of all customers, PG&E believes that all interconnection projects should follow procedures pursuant to Rule 21. While we support and encourage biogas projects that can help reduce GHG emissions, we do not believe biogas customers should be given preferential treatment over other interconnection projects.

## **2) Previously Submitted Comments**

## **Chapter 4 Industrial, Commercial & Residential Energy Use**

### **IV.H – Rebates for Load Reduction**

This recommendation would expand load reduction rebate programs to include non-generation technologies, such as solar technologies that provide refrigeration/cooling without combustion or compression, waste heat technologies that provide refrigeration/cooling and energy storage technologies that allow peak reduction and demand response (p.4-9). We recommend that this section further describe how this program fits in with and should be coordinated with existing programs such as energy efficiency, customer generation and demand response programs.

#### **IV.I – Improve Policies for Combined Heat and Power Plants (CHP)**

1. This recommendation calls for defining qualifying CHP, determining the total qualifying CHP potential and adopting a statewide target in accordance with AB1613. This recommendation also calls for establishing targets and qualifying criteria for larger units not covered by AB1613 (p.4-9). PG&E agrees that it is important to clearly define the circumstances under which CHP contributes to GHG emissions reductions, and we support determination of the potential in California for CHP that meets the criteria. However, PG&E points out that AB 1613 does not set a statewide target for CHP, nor can PG&E support such a recommendation. Further, we do not believe larger CHP units that are not covered by AB1613 should be included. This recommendation should focus on qualifying CHPs that reduce GHG emissions through waste heat recovery and improved overall energy utilization, and not on large generators that offer little or no benefit over baseload combined cycle power plants.
2. The problem statement states that “...state and utility policies with regard to ‘self-generation’ have in part discouraged full penetration of cost-effective CHP into the industrial and commercial sectors” (p.4-10). PG&E disagrees with this statement. Cogenerators currently receive a number of benefits, including favorable gas transportation prices, favorable buy-back rates for surplus power under must-take arrangements, and exemptions from some of the non-bypassable charges. Further, the CPUC is expected to implement AB 1613, which provides another customer option that supports proliferation of CHP. We believe that it is important that ETAAC present a balanced view on this topic. Thus, please either delete this statement or include a description of the benefits that customers of investor owned utilities who install CHP currently receive and will soon receive. PG&E supports extension of these benefits to customers of publicly owned utilities.
3. This recommendation also would recognize CHP in the State’s electricity supply loading order as an energy efficiency measure, so long as all other cost-effective energy efficiency has been achieved in the facility (p.4-10). We agree that facilities must first implement all cost-effective energy efficiency measures before sizing and installing CHP systems. In addition, because there is such recognition that energy efficiency must come first and thus distinct from CHP, we do not believe CHP should be considered the same as energy efficiency in the loading order. There are significant differences between energy efficiency and CHP. Specifically, Energy efficiency focuses on customers’ end uses, is widely dispersed, reduces demand through improved technology, is available to any customer, and does not require back-up power at any time. In contrast, CHP focuses on generation, not demand reduction, substitutes one source of electricity with another, and requires the distribution grid to provide back up power. Thus, CHP is not energy efficiency and should not be equivalent to energy efficiency in the loading order. In the current loading order, renewable generation precedes CHP; and PG&E agrees with this determination. There is no compelling contribution that CHP provides to GHG emissions reductions that warrants putting it ahead of renewables in the loading order. We also have concerns regarding fossil-fueled CHP (or any non-renewable distributed generation, for that matter), in that the relatively small size of CHP projects generally means that carbon capture and sequestration will not be cost-effective, if feasible at all. In other

words, we should not assume that CHP will result in greater emission reductions than renewables and thus give it preferential treatment in the loading order.

4. This recommendation would also eliminate departing load charges for qualifying CHP (p.4-10). PG&E does not support this recommendation. In addition, this issue has already been litigated, and the California legislature and the CPUC have determined that CHPs should not be exempt from departing load charges. Therefore, it is important that the draft report note this and provide the policy context of why CHPs are currently subject to departing load charges. Please add the following to the text: “California legislature and the CPUC have determined that CHPs should not be exempt from certain fees (such as departing load charges) that are incurred on their behalf and that would otherwise be borne by other California ratepayers. If the state creates a viable carbon market, the question of additional subsidy may go away, as many more CHP projects can capitalize on the carbon value to improve project economics without ratepayer subsidy.”
5. This recommendation would also restore qualifying combustion technologies to the Self Generation Incentive Program (p.4-11). Please also add a clarification in the text that only CHP or Self-generation that emit less CO<sub>2</sub> than combined cycle gas turbine should be considered for SGIP incentives.

## **Chapter 6 Agricultural Sector**

### **II.A – Manure-to-Energy Facilities**

1. This recommendation would develop a standard contract price for power from manure-to-energy facilities, as well as permit owner/generator to own RECs, including cases other than those directly related to RPS compliance and specific contractual arrangements pertaining to RECs (p.6-5). We agree that regulatory and price certainty would encourage investment in biogas system; however, we also believe that the standard contract price for power from manure-to-energy facilities should be consistent with the MPR (market price referent). Please also note that if the project owner/generator is selling the biogas to utilities to be used to create RPS-eligible electricity, then the REC is included in the transaction. PG&E notes that California investor owned utilities will soon have a tariff that will provide this benefit for manure-to-energy facilities. PG&E’s Schedule E-SRG, which is expected to be effective January 31, 2008, gives customers with renewable generation the opportunity to first off-set their own usage, then sell excess generation to PG&E at MPR rates. Thus, there is in fact no need for this recommendation for the investor owned utilities. PG&E supports the position that this benefit should be extended to customers of publicly owned utilities.
2. This recommendation would also eliminate demand charges for net metered biogas for service interruptions due to routine maintenance (p.6-5), Please note that the demand charges would not really be “eliminated” – the burden would just shift to other ratepayers. The text does not provide a compelling reason why other ratepayers should bear this burden. Thus, we recommend that the draft report either eliminate this recommendation, or explicitly state that other ratepayers will pick up the cost and explain why that should be the case.

## **II.C – Agricultural Biomass Utilization**

The text asserts that the ability for biomass power generators to sell power is not certain, as the utilities have not always been willing to buy power from third-party renewable generators, and that ownership of the RECs is also subject to differing interpretations (p.6-8). These statements are out-of-date. All three IOUs have made extra efforts to sign bio-energy contracts in the last several years. PG&E has signed 11 such contracts since 2002. SCE has created 3 special standard contracts to facilitate bio-energy purchases. The REC and GHG credit issues have been the subject of multiple CPUC proceedings and are fully resolved. As discussed above, PG&E will soon have a tariff that will allow customers to sell excess electricity from renewable generation. Again, we believe it is important that the draft report contain a balanced view; thus, please amend this section accordingly, or remove this observation as it applies to investor owned utilities. PG&E supports the position that these benefits should be extended to customers of publicly owned utilities. Finally, please note that PG&E supports the conversion of biomass into renewable natural gas, as converting biomass into natural gas may make more sense in relatively remote areas near transmission pipelines surrounded by plenty of biomass. PG&E currently has several contracts with customers to purchase the natural gas from biomass conversion.

## **Chapter 7 Forestry Sector**

### **IV.A – Link Forest Fuels Management and Biomass Utilization: Green Bio-fuels Index**

This recommendation states that “small price increase for bio-power would mobilize more wood waste out of the forest, at least to a break-even point to support fuel reduction costs” (p.7-7). However, there is no discussion regarding what that entails. Please include more details. Also, please include reference to PG&E’s Schedule E-SRG, and similar tariffs for other investor owned utilities. Finally, please include a recommendation that these tariffs should be extended to customers of publicly owned utilities.