



CALIFORNIA ENERGY MARKETS

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BILLBOARD No. 806

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[1] SMUD Report Crafts Annexation Portrait; Ratepayers in Yolo County Could See Savings

Davis, West Sacramento, Woodland and parts of unincorporated Yolo county could see a rate savings if they decide to become part of the Sacramento Municipal Utility District's service territory, but the savings would vary greatly depending on a number of factors, according to a report the muni has released. Factors that could drive the savings up or down include whether SMUD would attempt to buy Pacific Gas & Electric's existing transmission infrastructure, build its own, or purchase transmission services from the California Independent System Operator. *In other Regional News, the state Senate Energy, Utilities and Communications Committee takes shape at [14].*



[2] CPUC Tackles Debate over Who Should Manage Energy-Efficiency Programs, Multimillion-Dollar Funding

A debate has been brewing at the California Public Utilities Commission over who should be in charge of ratepayer-funded energy-efficiency programs in investor-owned utility service territories. Utilities want that control, and would get it under two draft decisions at the CPUC. But ratepayer groups and the city of San Francisco are against allowing the utilities to control \$400 million in annual energy-efficiency program funds, and propose a statewide independent administrator be put in charge. *One of the draft decisions would keep the door open for such a plan, at [11].*

[3] Mirant Issues Reorganization Plan; Settlement Gives PG&E Option to Buy Pittsburg, Contra Costa Plants

Just days after Mirant and the California parties announced they reached a settlement, the company declared that it had filed its long-awaited plan of reorganization with the US Bankruptcy Court in the Northern District of Texas. Estimated claims against Mirant Corp. and Mirant Americas Generating LLC total almost \$10 billion, while disputed unresolved claims are worth billions of dollars more. *In a twist of fate, the California parties agree to cover Mirant's costs of defending its claims in the Federal Energy Regulatory Commission refunds proceeding, at [20].*

[4] CEC Issues Updated Renewables Guidelines

The California Energy Commission approved a number of changes to the agency's emerging renewables program guidebook at its business meeting this week. Included is a new \$10 million performance-based incentive program for solar photovoltaic systems. The commission also adopted forms and instructions that are to be used by load-serving entities to submit electricity and transmission planning data to the agency for use in the 2005 Integrated Energy Policy Report. *The CEC blows another \$2.3 million toward the California Wind Energy Collaborative at [12].*

Regulation Status

[11] CPUC Tackles Debate over Who Should Administer Energy-Efficiency Programs (from [2])

In the late 1990s after the California Legislature deregulated the state's energy markets, the California Public Utilities Commission came up with new policies to match the shift from utility functions monopolized by investor-owned utilities to delivery of services by competitive providers.

Energy-efficiency programs, previously the exclusive domain of the IOUs, were included in this shift, with the idea that a range of energy-efficiency players would compete for program dollars, and that the programs would be administered by an independent nonprofit organization that would choose programs for funding based on performance, innovation and cost-effectiveness.

After the 2000-2001 energy crisis, those plans took a detour and the CPUC took over the job of administering the IOUs' energy-efficiency programs. The programs are funded by ratepayers through the public-goods charge (PGC) and have a current annual budget of \$400 million [R01-08-028].

Since 2001, the CPUC has been looking at ways to improve the performance and cost-effectiveness of IOU energy-efficiency programs and determine to whom it should hand off administration. After more than three years, Commissioner Susan Kennedy and Administrative Law Judge Meg Gottstein have come out with a controversial plan to return control and administration of the programs to the utilities. The IOUs are content with this arrangement, but consumer advocates have protested, arguing in favor of the CPUC's original intention to shift administration to an independent organization. Cities that plan to leave IOU service and serve local residents and businesses as community choice aggregators are also worried about giving control to the utilities.

In a draft decision issued in late November, Kennedy and Gottstein insisted that "non-IOUs will continue to play a role in delivering energy efficiency services to customers as program implementers." However, they argued that because "the energy crisis of 2000 and 2001 has changed the regulatory landscape in a profound way for California," it makes the most sense to return control of energy-efficiency money and programs to the IOUs. They argue that allowing an independent administrator to manage the programs would be too hard to set up procedurally and could be risky for the programs. It would also present challenges to the utilities, they said.

"[M]aking another entity (or entities) responsible for Program Choice and Portfolio Management of energy efficiency means that all the program selection

and day-to-day management decisions would be 'handed down' to the IOUs to incorporate into their resource plans and resource-adequacy projections," Kennedy and Gottstein wrote. "IOUs should not be required to adopt the forecasts and resource plans of others."

Their draft decision, issued November 29, would earmark 20 percent of PGC funds for non-utility program "implementers" under contracts to be selected through competitive bidding. All or most of the remaining 80 percent of funds could be spent on utility-run programs, non-competitive bilateral contracts between utilities and a contractor such as a local government agency, or other types of utility partnerships.

The Utility Reform Network and the City and County of San Francisco, among other parties, oppose giving IOUs control over the programs and insist a statewide independent administrator would be a better, more impartial manager.

Having an independent administrator oversee programs in the service territories of Pacific Gas & Electric, Southern California Edison, San Diego Gas & Electric and Southern California Gas would be the

most efficient and cost-effective way to manage the programs and ensure they are run and evaluated according to the same standard, TURN said. An independent administrator is less likely than a utility to "hide true administrative costs within program budgets" and "prefer their own programs over other possibly better and more cost-effective programs," TURN argued in

comments filed December 20. The group also characterized the utilities as having "institutional risk aversion" that "may stifle innovation."

Ratepayer advocate Women's Energy Matters agreed with TURN and noted that in past years the utilities double-billed energy-efficiency expenditures, performed sloppy accounting and did not have documentation supporting claimed results from energy-efficiency programs, according to an audit the CPUC commissioned.

The audit, issued last July by blueCONSULTING INC., reviewed IOU energy-efficiency programs from 1998 through 2002 and found that while other areas of the utilities' program management were sufficient, Edison, for example, inadequately monitored contractors and vendors; SDG&E "did not have adequate procedures" for selecting and controlling contractors; and SoCal Gas "failed to achieve its therm savings goals in three of its six programs with energy savings goals." SoCal Gas also did not have an effective program for verifying vendor work and on-site inspections, the audit found. It also found that all four utilities had various accounting deficiencies and had used PGC funds to cover certain labor expenses that were already paid for by base rates.

'IOUs should not be required to adopt the forecasts and resource plans of others.'

“The audit turned up all kinds of problems” with utility-run efficiency programs, said Barbara George, WEM’s executive director. “It found that in utilities’ selection of contractors, they didn’t run solicitations according to approved business practices. There’s a lot of favoritism in their contract selection. We think it’s absurd the CPUC is putting them in charge of selecting programs.”

Ratepayer advocates and San Francisco have found a sympathetic ear in CPUC Commissioner Geoffrey Brown, who recently introduced an alternate decision that would adopt most of the contents of Kennedy’s and Gottstein’s decision, but would authorize a pilot program that would put an independent energy-efficiency program administrator in charge of programs in Northern California.

The utilities oppose the pilot, saying it undermines the return of program control to the utilities and would be an improper use of funds.

The pilot program “would constitute an abuse of discretion,” said PG&E, which scored the best in blueCONSULTING’s audit of the four utilities.

In comments filed January 20,

PG&E added that the program “perpetuates doubt over how California IOUs will

‘There’s a lot of favoritism in [utilities’] contract selection.’

procure energy efficiency at the precise instant California needs assurance that the IOUs can produce the necessary demand side contribution to an integrated energy planning framework.”

But San Francisco disagreed, arguing that a pilot program would yield information that could either support or refute Kennedy’s and Gottstein’s theory that an independent administrator would be risky.

“[T]he commission should give the localities that have voiced the greatest concern during this proceeding about potential bias resulting from utility administration an opportunity to work with the commission to demonstrate the viability of alternative administration,” San Francisco said in comments filed January 19. The city added that, “the pilot could also allay some of the concerns of local governments” like San Francisco that plan to break away from IOU service to form CCAs. San Francisco worries that if utilities have sole control of the state’s energy-efficiency programs, they will exercise an “inherent bias against CCAs.”

Those comments and others that parties filed late Thursday with the CPUC could persuade Brown to change his alternate, said Dave Gamson, Brown’s advisor. Brown is particularly concerned about ensuring that energy-efficiency programs chosen for funding are the most innovative, productive and cost-effective ones available and that there is stringent oversight of utility-run programs, Gamson said.

Brown is “planning to take a look at the comments coming in today and decide what to do,” Gamson told *California Energy Markets* on Thursday. “We haven’t decided if we’re going to change” the alternate decision [*Cassandra Sweet*].

[11.1] CPUC Commissioner Grueneich Sworn In

The California Public Utilities Commission welcomed Dian Grueneich this week as its newest commissioner.

Grueneich was sworn in Tuesday in the CPUC’s San Francisco auditorium by federal magistrate Elizabeth LaPorte, a friend of Grueneich’s.

Prior to her recent appointment to the CPUC by Governor Arnold Schwarzenegger, Grueneich, an attorney, was the principal of Grueneich Resource Advocates, an energy and environmental law consulting firm.

Fellow CPUC appointee Steve Poizner has not yet been officially sworn in as a commissioner [*C. S.*].

[12] CEC Approves Changes to Renewables Guidelines (from [4])

The California Energy Commission approved a number of changes this week to the agency’s “Guidebook for the Emerging Renewables Program.” The most substantive change is the addition of a \$10 million performance-based incentive program for solar photovoltaic systems.

The pilot initiative will test whether electricity production can be maximized by offering incentives based on how well participating PV systems perform. The program will have a single incentive payment of \$0.50 per kilowatt-hour, to be paid over three years. The maximum that will be paid to any system or group of systems at one site is \$400,000, according to a final draft of the guidebook the commission adopted at its January 19 business meeting [*CEC-300-2005-001-ED4F*].

The CEC’s renewables committee, comprised of John Geesman and Jackalyne Pfannenstiel, initially recommended an incentive level of \$0.35/KWh. The committee decided to raise the incentive to \$0.50/KWh after stakeholders complained at a December workshop that the amount was inadequate, noted a final committee decision document issued on January 7 [*CEC-300-2005-002-CTF*] (see *CEM*No. 799 [11]).

Another new committee recommendation contained in the guidebook is a requirement that participants in the incentive program coordinate with a third-party provider when using a Web-based reporting system to submit performance data. System performance data may also be collected and reported to the CEC through a participant’s electric utility.

The updated guidebook also contains a new requirement that participants in the CEC’s emerging renewables program have PV inverter ratings tested and verified by a nationally recognized test laboratory. In addition, the CEC introduced a ban on time extensions for system installations once a reservation request is made.

The commission also approved data request forms and instructions for all California load-serving entities (LSEs) with a peak retail load equal to or greater than 200 MW. The CEC is conducting a comprehensive review of electricity supply, resource and transmission planning efforts by LSEs, to be used in the 2005 Integrated Energy Policy Report [*CEC-100-2205-002*] (see story at [12.1]).