WPTF
Western Power Trading Forum

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Jeffrey D. Byron
Chairman and Presiding Member
2009 Integrated Energy Policy Report Committee
California Energy Commission
1516 Ninth Street, MS-29
Sacramento, CA 95814-5512

James D. Boyd
Vice Chair and Associate Member
2009 Integrated Energy Policy Report Committee
California Energy Commission
1516 Ninth Street, MS-29
Sacramento, CA 95814-5512

RE: Docket No. 09-IEP-1A -- Draft 2009 IEPR

Dear Chairman Byron and Vice Chair Boyd:

The Western Power Trading Forum ("WPTF")[1] is submitting these brief comments with respect to California's hybrid energy market in response to the Workshop Notice issued in advance of the October 14, 2009 Hearing ("Workshop Notice") on the *Draft 2009 Integrated Policy Report,* dated September 2009 ("Draft IEPR").

[1] WPTF is a California non-profit, mutual benefit corporation. It is a broadly based membership organization dedicated to enhancing competition in Western electric markets in order to reduce the cost of electricity to consumers throughout the region while maintaining the current high level of system reliability. WPTF actions are focused on supporting development of competitive electricity markets throughout the region and developing uniform operating rules to facilitate transactions among market participants.

The Workshop Notice stated that the "Committee is particularly interested in receiving input and potential recommendations on how the state should proceed to expedite successful implementation of the 33 percent Renewables Portfolio Standard, ***how to address the hybrid electricity market [emphasis added]***, and improving the electricity procurement process."[2]

Finally, at the October 14, 2009 hearing you also raised specific concerns about how well (or poorly) the hybrid market was functioning in California.

WPTF agrees that there is good reason to be concerned about the efficacy of the hybrid market structure. WPTF has, in numerous forums before the California Public Utilities Commission ("CPUC"), argued that it is untenable to expect merchant investment to occur in the supply sector when regulatory policy authorizes the Investor Owned Utilities ("IOUs") to make supply-side investment with full cost recovery through regulated rates. Moreover, the hybrid market issues go beyond new utility-owned generation; indeed, competitive, independent developers have built new infrastructure in this state only when they have been awarded long term contracts by the IOUs, the costs of which the IOUs recover through regulated rates. Even this limited form of wholesale competition is increasingly threatened by the IOUs pursuit of additional ownership opportunities. For example, PG&E assumed ownership of one project (Colusa) that originally was procured from an independent developer in its 2004 Long-Term Request For Offers. In addition, PG&E and SCE recently have announced plans to develop utility-

[2] See Workshop Notice, page 1.

plans to develop utility-owned solar PV[3], and PG&E has submitted an application to develop compressed-air energy storage (CAES).[4]

This procurement framework, in which new investment only occurs when financed through long-term commitments on behalf of ratepayers, shifts risk to ratepayers that developers and investors might otherwise bear in a more balanced procurement framework. In addition, by securing and socializing the costs of large tranches of future supply it undermines the potential for retail competition by burdening alternate providers with the cost of these commitments and preventing them from independently securing resource adequacy capacity. While leaders trumpet the benefits of the "smart grid,"[5] in California, we continue to rely on regulated utilities to deliver the new retail products and tariffs that actually utilize the smart grid's capabilities. Robust retail competition is essential to deliver this innovation in products and tariffs.

Briefly stated, the "hybrid market" is not really a market at all given that asset investment is currently dominated by the IOUs, either because they get approval to build and own facilities outright, or because they have contractual control of the assets through long term contracts. The CPUC has acknowledged that there is a conundrum that exists with respect to the hybrid market:

> [the] position that continued reliance on UOG (and ratepayer-backed PPAs) is incompatible with the development of a competitive market model that stimulates private investment is consistent with basic economic theory. The Commission is taking measured, cautious steps in the

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[3] See http://www.pge.com/about/news/mediarelations/newsreleases/q1_2009/090224.shtml and http://www.cpuc.ca.gov/PUC/energy/Renewables/SCE+Solar+PV+Program.htm

[4] http://www.next100.com/2009/08/pge-opts-for-energy-storage.php

[5] For example, see http://blogs.wsj.com/environmentalcapital/2009/10/27/get-smart-team-obamas-3-billion-smart-grid-push/.

> direction of this end-state, and a number of programs and security measures must be developed and tested before California relies on competitive markets to provide this critical resource to our state. D.06-07-029 stated that we were in a transitional period, and this remains the case. Anticipated rulings on forward RA requirements (and the market structures for acquiring these resources) in Phase 2 of the RA proceeding and the development of a transparent PRM methodology in the PRM rulemaking are key steps in this process.[6]

WPTF is grateful that you have acknowledged that the there may be significant problems with a hybrid market structure. We urge you to make sure that these issues get fuller attention in the IEPR process.. Specifically, WPTF requests that your IEPR recommendations specify that California's hybrid market structure and its impact on competitive wholesale and retail markets will be fully evaluated to determine what reforms are necessary with respect to utility procurement practices to address any identified harmful impacts, and that such an evaluation should be conducted jointly with the CPUC. Below is a link to testimony submitted by WPTF on this topic that provides some additional background information on these issues.

http://www.wptf.org/Reg_Docs/03-02-07+WPTF+Testimony+-+FINAL.pdf

Related to our concerns about the "hybrid market," WPTF members are opposed to the Draft IEPR's call for "need assessment" and "need conformance" and the potential additional complexities that such a process would add to the development of new sources. For example, if the policy objective is to limit greenhouse gas (GHG) emissions, then a cap and trade system is a transparent means of achieving the objective and obviates the need for detailed and non-transparent regulatory reviews of the GHG emissions of individual projects. Another layer of regulatory review of new generation projects

[6] See Decision 07-12-052 issued in R.06-02-013, page 200.

inherently favors utility ownership of new projects because the IOUs are able to recover the non-trivial costs associated with participation in such regulatory processes through rates whereas independent developers generally are not.

In summary, WPTF maintains a strong preference for competitive market solutions to the complicated policy challenges facing the state. Clear market rules and transparent metrics will facilitate competition, and the market solutions they create, and will serve consumers better than complex planning regimes that impose command and control solutions.

WPTF appreciates your attention to this important topic.

Respectfully submitted,

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