



October 16, 2013

California Energy Commission  
Docket Office MS-4  
Re: Docket No. 13-IEP-1  
1516 Ninth Street  
Sacramento, CA 95814-5512

**Re: Comments on Draft 2013 Integrated Energy Policy Report**

The Energy Producers and Users Coalition,<sup>1</sup> the Cogeneration Association of California,<sup>2</sup> and the California Cogeneration Council<sup>3</sup> (CHP Parties) appreciate the opportunity to submit comments on the Draft 2013 Integrated Energy Policy Report (Draft IEPR). For more than three decades, this Commission has championed combined heat and power (CHP) resources as a beneficial part of California's electricity supply portfolio. The public debate on CHP in this IEPR proceeding provides no foundation for material changes in the Commission's policy direction. The CHP Parties thus encourage the Commission to continue in its support for CHP resources and modify its conclusions in the Draft IEPR to reflect that continuing support.

**CHP Benefits**

The Scoping Order in this proceeding narrowly identified CHP issues, calling for forecasts of electricity demand that include a "*more comprehensive reflection of uncertainties related to California's policies for zero emission vehicles, combined heat and power, and distributed generation.*" While CHP falls within the scope of the IEPR, CHP has received little attention in comments and workshops, including the August 22, 2013, workshop on Distributed Generation (2013 IEPR 1H). CHP potential was only

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<sup>1</sup> EPUC is an ad hoc group representing the electric end use and customer generation interests of the following companies: Aera Energy LLC, Chevron U.S.A. Inc., ExxonMobil Power and Gas Services Inc., Phillips 66 Company, Shell Oil Products US, Tesoro Refining & Marketing Company LLC, THUMS Long Beach Company, and Occidental Elk Hills, Inc.

<sup>2</sup> CAC represents the combined heat and power and cogeneration operation interests of the following entities: Coalinga Cogeneration Company, Mid-Set Cogeneration Company, Kern River Cogeneration Company, Sycamore Cogeneration Company, Sargent Canyon Cogeneration Company, Salinas River Cogeneration Company, Midway Sunset Cogeneration Company and Watson Cogeneration Company.

<sup>3</sup> CCC is an ad hoc association of natural gas-fired cogenerators located throughout California



briefly addressed by Pacific Gas and Electric Company (PG&E) in the August 19, 2013, workshop on Electricity System Needs in 2030 (2013 IEPR 1D). In light of the narrow scope of discussion, there is no foundation for a shift in policy in this IEPR.

The Draft IEPR, accordingly, does not closely examine CHP. It simply recites the broad state and federal policy support for CHP, makes brief observations regarding the financial viability of these projects and acknowledges the fuel efficiency of CHP.<sup>4</sup> The Draft IEPR then unfortunately strays into a more substantive, controversial policy issue. It states:

*This calculation becomes more complex as renewable resources are added to the electric grid. The RPS requires utilities to procure one-third of their electricity from renewable resources by 2020. Electricity produced by CHP facilities and sold to the local utility counts toward utility procurement of natural gas resources and does not reduce the need for procurement of renewable generation. Electricity produced by CHP facilities that is used on site is not counted toward utility natural gas procurement and effectively reduces the amount of renewable generation the local utility has to procure. It is in this fashion that CHP may increase the demand for natural gas.*<sup>5</sup>

The source of this perspective is not entirely clear, but it can only have its roots in the ICF CHP study commissioned for the 2012 IEPR or the very limited comments offered by PG&E during and following the August 19, 2013 IEPR workshop.<sup>6</sup> In either case, it warrants observing that there was little, if any, public debate regarding CHP. The suggestion that CHP increases demand for natural gas or, as PG&E concludes, can increase GHG emissions, is misplaced for several reasons.

First, the conclusions rest very narrowly on potential GHG interactions between the RPS and CHP development. As the CHP Parties observed in the 2012 IEPR, RPS benefits have never been analyzed in the context of their overall interaction with other policies. It is thus unreasonable to single out CHP in this way, particularly without a much broader review of *all* supply interactions. Moreover, the analysis wholly ignores other non-carbon benefits arising from CHP, such as reliability, reductions in transmission and distribution losses and economic stimulus.

Second, assuming, as PG&E did, that the net impact on emissions of the RPS is a 33% reduction is unfounded. While it is generally understood that there will be an interaction between RPS intermittency and the gas-fired fleet required for integration, the effect has

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<sup>4</sup> Draft IEPR at 170-72.

<sup>5</sup> Id. at 172.

<sup>6</sup> *Finding Cost-Effective Greenhouse Gas Reductions (2030)*, CEC 2013 IEPR Workshop, August 19, 2013, slide 4; Comments of Pacific Gas and Electric Company, September 3, 2013, p. 4.



never been quantified. It is reasonable to assume, however, that the GHG benefits of the RPS will be offset to some degree by increased emissions from natural gas fired flexible resources.

Third, the apparent assumption that all CHP output will drive up natural gas demand or reduce RPS energy is flawed. A significant portion of CHP output is not serving on-site load but is exported to the grid; exports will not displace RPS energy.

Finally, there are a number of assumptions underlying both the ICF study and the PG&E analysis that merit closer consideration, including assumptions regarding thermal use, separate heat and power electric heat rates and other technical matters. The conclusions simply have not been substantiated.

For all of these reasons, the CHP Parties request that the Commission eliminate the Draft IEPR's discussion of the interaction of the RPS and CHP development. There is no foundation for the Draft IEPR's observations, and conclusions regarding RPS interaction with CHP policy should not be advanced until a more balanced debate can occur.

### **Bottoming Cycle CHP**

The Draft IEPR does not directly address bottoming cycle CHP, also known as waste heat recovery generation. The only discussion of CHP, which is in the chapter on Natural Gas, focuses solely on fired topping cycle CHP. Any credible analysis will need to include and differentiate bottoming cycle generation.

Unfired bottoming cycle generation is pure energy efficiency and, as both the California Public Utilities Commission and the California Air Resources Board have acknowledged, does not produce GHG emissions. Consequently, conclusions drawn regarding topping cycle CHP may not apply to unfired bottoming cycle resources. For example, the RPS interaction discussed above has no relevance in consideration of bottoming cycle CHP because this form of generation, like renewable resources, is zero emitting.

One point in the Draft IEPR regarding bottoming cycle generation requires correction. The Draft IEPR appears to be under the misimpression that the Wilmington Calciner is a fired facility that relies on petroleum coke.<sup>7</sup> It goes on to query whether the facility "*will convert to an alternate source of fuel or cease operation.*" To the contrary, the Wilmington Calciner is an industrial facility producing electricity from the waste heat of its calcining process using unfired bottoming cycle generation. Converting to an alternate source of fuel is simply not a relevant since this emissions free electricity is

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<sup>7</sup> Draft IEPR at p. 171.



merely a by-product in the primary business process of producing anode grade calcined coke used for the manufacture of aluminum and other industrial uses.

We look forward to a more expansive discussion of CHP in the 2014 IEPR.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Evelyn Kahl'.

Evelyn Kahl  
Counsel for the Energy Producers  
and Users Coalition

A handwritten signature in black ink, appearing to read 'Michael Alcantar'.

Michael Alcantar  
Counsel for the Cogeneration Association  
of California

A handwritten signature in black ink, appearing to read 'Beth Vaughn'.

Beth Vaughn  
Executive Director  
California Cogeneration Council