CEPS, LLC

April 22, 2005

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John L. Geesman
California Energy Commission
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Sacramento, CA 95814

James Boyd
California Energy Commission
1516 Ninth Street, MS-34
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RE: Docket number 04-DIST-GEN-1, Order Instituting Investigation on Exploring Issues Associated with Implementation and Distribution Planning of Distributed Generation.
2005 Energy Report-CHP Workshop April 28, 2005

Gentlemen,

Thank you for taking a moment to read this letter. In the body, you will find the following points addressed:

- **SGIP Program and SCE Demand Rate Structure at Odds**
- **Cogeneration Improves System Load Demand for Summer**
- **SCE to Profit from Unjust Standby Rate**
- **Cogeneration Operators Seek Relief**

CEPS currently owns and operates a 1500 KW Co-generation plant in the City of Industry that provides steam, hot water, and electricity to Dean Foods at their Alta Dena Dairy Plant. The project was put in service in late 2004 and we are currently expanding it to 3000 KW. It has come to our attention that Southern California Edison (SCE) has a new rate structure that has been approved for Standby Power that will negatively impact our operation. I have been told by a SCE representative that those rates will be in effect starting April of 2005. This issue is of great concern to us and to many other owners of distributed generation facilities in southern California. Therefore, we have composed this outline of the issue to ensure that the members of the California Public Utility Commission have some understanding of the concern.

Under the current TOU-8 General Service rate structure; there is a standby schedule that spells out the standby charges that will apply to customers that generate a portion of their power on site. Facilities that are installed before June 30, 2005 and meet all of the requirements of Rule 21 are exempt from these standby charges. In addition they are credited for the contracted KW of the installed capacity of the co-generation system against the monthly Facilities Related Demand (FRD) charges. In calculating the FRD charges SCE looks at every 15 minute increment of time in a month and then bills for demand at the highest KW requirement in any 15 minute period. Under the new proposed rate structure there is a new standby rate, which does not give any credit for the contracted KW of the cogeneration system. The cogeneration customer will only save KW charges from FRD if the cogeneration is never down during any 15 minute period in the month.

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What this new rate will do is practically eliminate the savings of FRD charges at any base loaded cogeneration site in the SCE territory. It is virtually impossible to eliminate short outages of one to three hours at these grid paralleled sites. From first hand experience at our facility, we have had between one and four outages per month that are caused either by SCE outages or other utility interruptions from loss of a phase or switching. Every one of these occurrences causes our system to be down for at least one hour. Since we have cogeneration and there is interaction between the electric generator, the steam generator and the emissions systems, we require a manual restart after a power outage. We have the option of losing all of the Facilities Related Demand in the 8 winter months and both the Facilities Related Demand and the Peak Demand in the 4 summer months, or contesting the bill every month with the utility company; arguing that they caused our outages most of the time.

Since we estimate that approximately 25-35% of our gross revenue comes from demand savings on a plant of this type, the loss of even half of the demand savings would eliminate any chance that we could be profitable and still show savings in utility cost. In order to keep cogeneration viable this type of rate adjustment can not be allowed.

I do agree that the utility must insist that cogeneration facilities be reliable and available for a high percentage of the time. One suggestion for a rate change would be to require the cogen sites to maintain up time percentages above 90-95% in order to receive the capacity credit that they are currently receiving. This would be similar to what a large Independent Power Producer would expect as a requirement in a long term Power Purchase Agreement. There should be no reason to demand more reliability from small cogeneration plants than what is required from larger plants.

It seems very strange that the CPUC put strict requirements on California utility companies to pay incentives for building small cogeneration facilities and then allowed them to impose tariffs that will make it impossible for those same facilities to stay operational on a long term basis.

In the Assessment of California CHP Market and Policy Options Increased Penetration Draft Report, April 2005, there is a complete assessment of the cost of CHP generation from different types of generators. This cost per kWh to generate electricity as shown in the graph in Figure 2-9 on page 47 is based on saving 95% of all Energy Charges and 83% of all Demand Charges. Based on our experience in operating the 1.5 MW system for the past year, CHP systems that are consistently on line 95% of the time will receive no more than 20% of the Demand charges under the approved SCE standby rate.

It is our intent that this letter will bring the aforementioned concerns to light and hopefully get some discussion on the issue included in the cogeneration workshop related to the 2005 Energy Report. We would be happy to participate in any discussion that would further explore this issue.

Sincerely,

Tim Clemons
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