

**CPUC-CEC Collaborative Staff Data Request:
Inviting Comments on Renewable Distributed Generation in the
Renewable Portfolio Standard Program**

CPUC-CEC Collaborative Staff invites comments on issues related to the incorporation of eligible renewable distributed generation (DG) in the RPS program, as called for in CPUC D.02-10-062. Staff is aware that the findings in this Decision, while intended to stimulate further installation of renewable DG technologies, may have instead sowed confusion and in fact be delaying DG projects that might otherwise move forward. We intend, via this call for comments, to begin the process of establishing clear and fair rules for DG participation in the RPS, as the RPS program continues to be developed by the two Commissions. Staff will analyze the comments provided and recommend that they be incorporated, as appropriate, into the CPUC's pending new RPS Rulemaking.

This document is being sent to relevant parties in CPUC and CEC proceedings, as well as to a number of parties not directly associated with present proceedings at either Commission, and as such some parties may receive this document more than once. Collaborative Staff apologizes for any inconvenience this may cause.

Background

D.02-10-062 established the following:

“In addition to these provisions in SB 1078, we include in our definition of renewable generation, for purposes of compliance with both D.02-08-071 and SB 1078, renewable distributed generation (DG) on the customer side of the meter. Customer-side distributed generation that utilizes the technologies listed in the first paragraph of this Section of the decision is eligible for RPA (sic.) participation. Including renewable DG as part of our definition will serve to encourage its installation, regardless of whether the utility purchases the output or whether it serves to meet on-site load. The full output of renewable DG should be credited to meeting the RPS or D.02-08-071 requirements, but only new renewable DG

installations are to be credited (existing renewable DG does not count toward the utility's RPS baseline calculation)."

Although it is unlikely that all technologies allowed under D.02-10-062 will be employed in a DG configuration, eligible technologies per the Decision include the following:

"Biomass, solar thermal, photovoltaic, wind, geothermal, fuel cells using renewable fuels, small hydroelectric generation of 30 megawatts (MW) or less, digester gas, municipal solid waste conversion, landfill gas, ocean wave, ocean thermal, or tidal current, and any additions or enhancements to the facility using that technology."

Staff believes that much of the confusion ensuing from this Decision results from the finding that DG output "should be credited" to meeting RPS requirements, without simultaneously establishing guidelines for the legal and financial relationships between the owner of the DG facility and the RPS-obligated entity. In other words, no clear property rights were established for the output of a renewable DG facility, and in the breach many parties have assumed that the Decision automatically transfers such property rights to the RPS-obligated entity, potentially without compensation to the DG owner. This interpretation of the Decision may also raise conflicts with existing contractual arrangements to sell Renewable Energy Credits (RECs) produced from DG facilities.

Staff does not believe that it was the intent of the Commission in D.02-10-062 to clearly establish that property rights for eligible DG energy are transferred to the IOUs, nor to interfere with existing contractual arrangements. In any case we hope, via these comments and subsequent deliberation on the topic, to establish rules that are clear and fair to all parties, respecting property rights and reflecting the state's commitment to renewable DG, and maximizing the potential of DG to contribute to California's renewable energy goals.

We also note that, as presently constructed by D.03-06-071, the RPS program does not allow obligated entities to meet their renewable targets by purchasing RECs without also purchasing the underlying energy. However, customer-sited renewable DG energy is typically intended for consumption on-site, rather than for sale to the utility. Where a system is installed with a net-metering tariff, generation is netted against consumption on an annual basis; more

frequent calculation of the generation/consumption balance is not possible under the present rules. In most if not all cases, any net positive generation for the year is not purchased by the utility.

The requirement that RECs must be bundled with energy suggests that only the *net positive* output of an eligible DG facility over a specified time period could count towards an RPS-obligated entity's targets, assuming the DG owner has not sold the associated RECs to any other party. Alternatively, to be consistent with the express direction in D.02-10-062 that the "full output of renewable DG should be credited to meeting the RPS," all of the output of the eligible DG facility could count towards an RPS-obligated entity's targets, assuming the DG owner has not sold the associated RECs to any other party, and considering the issue of property rights. This second alternative implies that output consumed on-site can be counted as part of 'retail sales' in some fashion. In either case, we are interested in exploring whether the RPS-obligated entity should expressly procure the DG power and/ or associated RECs, and how that transaction would be undertaken. We will need to understand these issues and reconcile conflicting interpretations, and invite party comment on this problem, as described below.

List of Issues

As a general matter, we invite parties to comment on the full range of issues relating to DG participation in the RPS, and to take a broad view of the potential implications of the DG findings in D.02-10-062. To the extent that an ultimate policy determination on RPS DG issues should differ from the general guidance provided in that Decision, based on a substantial record, there will be ample opportunity for the two Commissions to reassess past positions in subsequent decisions in their respective RPS dockets.

While parties should feel free to comment on the full suite of RPS DG issues, we request comment on the following specific points:

1. **Eligibility of customer-side DG:** Under what conditions should renewable DG installed on the customer side of the meter be eligible for the RPS? At present, the RPS program requires

that generation facilities package their energy together with their environmental attributes in the form of Renewable Energy Credits. Should special consideration be given to DG facilities to allow separation of the energy from the RECs, allowing the power to be consumed on-site and the REC sold to an RPS-obligated entity?

2. **Relationship of the DG owner to the RPS-obligated entity:** For DG to count toward the RPS, should there be a requirement that a DG owner sign a contract with an RPS-obligated entity or aggregator, and if so, how should such a contract be structured? If a contract is not necessary, what other methods (i.e. a spot market) are available to correlate the output and renewable energy credits of specific DG facilities to the RPS targets of obligated entities, and ensure that they are not sold to, or claimed by, any other party? Should an RPS-obligated utility be allowed to contract for the output of a DG facility outside of its service territory? How should these rules change, if at all, to allow ESPs to meet their RPS targets with DG?
3. **Calculating the output of eligible DG facilities:** What is the best method of calculating the contribution of RPS-eligible customer-side DG facility? Are meters required, or is an appropriate estimation method available? If meters are needed, who should fund their purchase and installation, and how should this requirement be structured for net-metering installations? Recall that net metering law prevents utilities from requiring two meters to measure both gross and net generation. If meters are not required, how should output be consistently estimated across the state, and should estimated output be periodically verified in some way? In either case, should a line loss factor be applied to output that is sold into the grid, consistent with the findings in D.03-06-071 regarding central-station power? (Decision at p.21) Finally, how should power be treated that is exported to the grid without sale to an obligated entity?
4. **Interaction with Utility Net Metering tariffs:** Should an eligible DG facility participating in net metering (e.g. solar PV < 1 MW) be allowed to participate in the RPS while maintaining its net metered status? If so, is it appropriate to allow exported energy within the netting period to count for RPS purposes while being credited against that customer's grid usage?
5. **Interaction with public subsidies:** Should an eligible DG facility that has received public subsidies of its capital costs from the Commission or CEC be allowed to participate in the

RPS? Does the provision of public subsidy, funded by ratepayers, to support renewable DG facilities render the renewable output a public good, payment for which would represent a second subsidy to the DG owner? If so, how should the RPS-eligible energy be counted towards the RPS, if at all? Please explain whether such incentives should be treated similarly or differently than SEP payments for central-station renewable facilities under the RPS structure.

6. **Implications of DG participation for Renewable Energy Credit (REC) tracking and potential trading:** The Commission recommended in D.03-06-071 that the CEC adopt a REC tracking system as the method of monitoring RPS compliance. The CEC shares this view and is in the process of developing such a system. How does the participation of renewable DG affect this REC system? Must a REC from a DG facility represent the same amount of output, and be retired in the same fashion, as a REC from a central-station facility? On a prospective basis, if the Commission ultimately chooses to adopt a REC trading system as an RPS compliance mechanism, what impact would the participation of DG have?
7. **Interaction with Retail Sales Accounting:** The renewable procurement needs of an RPS-obligated entity are calculated on the basis of total retail sales by that entity. If energy and attributes from a DG facility are procured for the RPS, how should they be accounted for in terms of calculating retail sales? Since energy generated on-site reduces retail sales, should the quantity of RPS-eligible DG energy used on-site be added to the total amount of retail sales of the obligated entity, for purposes of calculating RPS targets and compliance? Alternatively, for purposes of IOU compliance with the RPS, should a service-territory perspective be taken, and, assuming property rights are secured, credit the gross output of eligible DG energy within the IOU's service territory to its RPS targets, without adjusting retail sales to reflect on-site generation and use? How should DG output be accounted for if the facility sells its output to an entity outside the IOU's service area?
8. **Interaction With MPR and SEP:** How would eligible DG facilities be considered in terms of the solicitations, market price referents, and possible supplemental energy payments that are part of the RPS structure for most central-station systems? Should eligible DG facilities be allowed to participate in RPS solicitations, on an individual or aggregated basis? Is the central-station market price referent process relevant to customer-sited generation, or should

a separate market price referent for distributed generation be established? If eligible, should customer-sited DG be allowed to receive SEP in addition to PGC-funded capital cost buydowns, or instead of these incentives? Alternatively, should DG participation in the RPS be enabled via mechanisms independent from the procurement of central-station renewable power?

9. **Eligible DG technologies:** Is the list provided in D.02-10-062 sufficient, or should it be altered to add or subtract particular technologies?

While we believe the above list of topics is a fairly comprehensive, parties should comment on any other DG-specific issues that are relevant to the RPS program.

Call For Comments

CPUC-CEC Collaborative Staff is requesting that interested parties provide written responses to this data request by November 10, 2003. Parties should respond by sending their comments to jhg@cpuc.ca.gov.

CPUC-CEC Collaborative Staff is serving this Data Request on parties in multiple CPUC and CEC dockets, and on members of the DG community who may not be active in either forum. We ask that parties who wish to receive the full set of responses to this data request notify the Collaborative Staff by responding to this email. When the data requests are received and compiled, they will be forwarded as one document to parties who wish to receive them.