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Summarizing Regional Energy Issues and News

November 2004 ◆ Volume 2, No. 11

Energy Watch

CPUC Moves Forward Reserve Margin Planning By Two Years

On October 28 the California Public Utilities Commission (CPUC) called for full implementation by the state's investor-owned utilities of a 15-17 percent planning reserve margin by June 1, 2006, instead of the January 1, 2008 deadline that was outlined in the Commission's initial decision.

Beginning November 16, the Commission started a series of workshops to initiate their second phase of ensuring resource adequacy. The primary objectives for Phase 2 will be establishing the implementation details that each investor-owned utility needs in order to acquire resources; and establishing the reporting requirements, review processes, and compliance tools that will shape how the investor-owned utilities satisfy the Commission that they have acquired these resources.

The Commission has already laid out the rules and requirements that dictate how investor-owned utilities are to comply with the Renewable Portfolio Standards law, SB 1078. Independent energy providers favor the idea of the state creating a market for renewable energy credits that would replace the need to actually contract for renewable power. The CPUC is expected to issue a scoping memo soon, with a schedule for the proceeding and the issues it will cover.

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Peaking Plant Construction Progresses

Construction has started and builders are wasting no time on KRCD's new 97-megawatt peaking power plant in Malaga.

"The foundation has been poured and all the generating equipment is being moved from storage to the site," said KRCD General Manager David Orth. "We're very pleased with the progress and excited by the important role KRCD will soon be playing in helping meet the central San Joaquin Valley's peak energy demands and needs."

The turbine and generator foundation.

Community Choice Aggregation

Proposed Decision For Phase 1 Is Issued

On October 29, 2004, the Administrative Law Judge Kim Malcolm issued a proposed decision in Phase 1 of Community Choice Aggregation (CCA) Rulemaking, R.03-10-003. The proposed decision resolves issues in order to facilitate formation of CCA programs and that is favorable to the interests of prospective Community Choice Aggregators.

Under the proposed decision, basic implementation costs would be charged to all ratepayers. The decision rejects proposals of SCE and SDG&E to charge CCAs for all implementation costs. The costs of specific specialized services would be charged to the individual CCA. Utilities would file transaction cost tariffs within 30 days of the final decision for consideration in Phase 2. Changes to the transaction fees will be considered in General Rate Cases (3 year cycle). In the meantime, Direct Access tariffs, as suggested by KRCD and other intervenors, can be used for utility transactions with CCAs pending approval of final CCA tariffs. The proposed decision rejects arguments that CCAs should have to pay for infrastructure development and other services in advance.

The decision also supports KRCD and the City and County of San Francisco's suggestion that the utilities' fees recognize the operational cost savings that might occur with CCA formation and that their proposed fees will incorporate program cost savings.

The Cost Responsibility Surcharge (CRS) will be charged directly to customers, not to the CCA. The decision approves an indifference charge (CCA-in/CCA-out) methodology, similar to the one adopted for direct access and municipal/self-generation "departing" load. The CRS is to be calculated separately for the Direct Access CRS and will not be subject to a cap. The CRS applies to new and existing customers that take service from the CCA. The CRS should incorporate any refunds to or credits associated with the accounts, bond

CCA, continued

charges and power purchase contracts that are subject to CRS treatment. The CRS will initially be set at 2.2 cents per kWh, subject to true up in 18 months or sooner if the utilities' forecast of CRS is 30 percent higher or lower than that amount. Thereafter, the CRS will be forecasted and trued-up on an annual basis.

Local governments that are investigating or pursuing CCA would have the right to detailed billing and load data without it being aggregated or masked in any way.

CCAs can phase in their programs. A phase in or pilot program may impose additional costs on the utility that can be recovered in tariffs from CCA. Some phase in plans may reduce costs. Utility tariffs should permit the utilities to negotiate with CCAs regarding phase-in plans that might reduce costs.

Chula Vista and SDG&E Come To Terms

On October 26, the city of Chula Vista agreed to back away from plans to provide electricity to customers in greenfield areas if San Diego Gas & Electric undergrounds a number of power lines. SDG&E will pay for the undergrounding of two existing 138 KV transmission lines running along Chula Vista's bayfront corridor, and will underground a planned 230 KV line, to be installed as part of the Otay Mesa power plant project. SDG&E will also relocate a large substation. In all, SDG&E is offering the city more than $115 million in incentives. In exchange, the utility will continue to deliver electricity and natural gas to Chula Vista's residents and businesses, though the customers will have the option to select the city as their electricity provider once a CCA program is in place.

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Published monthly by KRCD's public information staff with special assistance from Navigant Consulting Inc.

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Energy Watch, continued

CEC Releases Updated Policy Report

The California Energy Commission has released a draft update of its second policy report. The report says the current 20 percent renewables requirement for the state should be accelerated further, urging a green portfolio goal of 33 percent for all utilities and municipal agencies by 2020. The update suggests Edison should increase its renewables portfolio by 1 percent a year-to reach 25 percent by 2010 and 30 percent by 2015. Transmission is a big part of the report update. The CEC committee proposed that the state initiate a "comprehensive, statewide transmission planning process as a part of the California Independent System Operator's (CAISO) current grid management plan."

California should reexamine the link between the CAISO transmission expansion process and local area reliability efforts to ensure that the process stimulates investment. The CEC believes the state should begin a transmission corridor planning process to facilitate right-of-way banking. California has fallen short in its efforts to maximize the energy efficiency of buildings, devise speedy, consolidated permitting for bulk electricity transmission and, particularly, rapidly set up advanced meters and the implementation of real-time dynamic pricing tariffs. Schwarzenegger's staff is expected to respond to the report by the end of December.

Federal Legislative Developments

President Bush signed the "JOBS" bill on October 22 that expands the Production Tax Credit (PTC) to include other renewable energy resources, besides wind and closed-loop biomass. The PTC provides relief from the Alternative Minimum Tax for the first four years of turbine operation. The deadline for the PTC is December 31, 2005. Because of the impending deadline, unless projects are already in the pipeline, it is unlikely that they will be able to benefit from the PTC. There is no guarantee of an extension beyond 2005. The 2-year extension of the production tax credit is retroactive to Dec. 31, 2003.

Congress has restored the alternative-fuel and hybrid vehicle federal income tax deduction to $2,000 for vehicles purchased in calendar years 2004 and 2005. Under current law, the value of the deduction would have reduced by 25 percent, and reduced by an additional 25 percent in 2005. The value of the deduction in 2006 remains at only $500, as under current law, and the deduction will sunset entirely at the end of 2006.

State Legislative Developments

SB 1652, to be reintroduced to the legislature in January, would provide $100 million in annual residential solar-power incentives for 10 years and require the installation of solar generation on 5 percent of new large residential developments starting in 2010. The bill requires Pacific Gas & Electric, Southern California Edison and San Diego Gas & Electric to establish a solar energy charge across all rate classes sufficient to collect $100 million a year starting on January 1, 2005 and running through December 31, 2014. In 2004, the bill died in the Assembly Committee on Appropriations because Democrats said they could not stomach an electricity rate increase.

Peaking Plant Construction, *continued*

The contractor is BMZ, a joint venture comprised of two firms, Barton Malow of Michigan and Zachary Construction of Texas. KRCD in May awarded a $35.467 million contract to BMZ for engineering, procurement and construction.

KRCD President Ceil W. Howe Jr. termed the peaking plant "a critically important addition to the central San Joaquin Valley's electrical energy portfolio."

"In getting this power project to the groundbreaking stage, we've taken less than two-dozen months to accomplish what sometimes takes decades," Howe told the groundbreaking audience.

Orth said the plant should be in operation when next summer's hot weather arrives and creates peak demand for energy. KRCD must have the plant ready to go on line at any time requested by state officials.