California Biomass Energy Alliance

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August 16, 2012

California Energy Commission
Dockets Office, MS-4
Re: Docket No. **12-EPIC-01**
1516 Ninth Street
Sacramento, CA 95814-5512

Subject: EPIC Docket No. 12-EPIC-01

The California Biomass Energy Alliance ("CBEA") thanks you for the opportunity to comment on the development of the First Triennial Investment Plan for the Electric Program Investment Charge (EPIC) Program. CBEA has been supportive of the continued collection of ratepayer funds for ratepayer benefits and have the following clean energy innovation priority recommendation that serves both ratepayers and reduces environmental impacts, including climate change effects on the energy system.

Our comments are directed at the Program's investments for generation in the bioenergy arena including funding of projects that fall within the Technology Demonstration and Deployment category for which an annual $45 million will be administrated by the California Energy Commission and $30 million will be administered by the State's utilities. In particular, we address funding needs for technology demonstration of bioenergy projects, for which the California Public Utilities Commission established in its Decision 12-050037 for Rulemaking 11-10-003 on May 24, 2012, that at least 20 percent of the total $75 million to be administered annually by the CEC and utilities should be obligated to bioenergy generation.

One of the major barriers to developing and commercializing clean solid-fuel bioenergy technologies is the deployment of untapped fuels. The CEC recognizes the importance of tapping into the fuel source for generation of electricity by commercialized technologies in its support for funding of solar panels' expanded use to capture the sun's energy on rooftops. The issue of expanded solar use is not so much a question of advancing the technology, but of advancing the availability of the fuel (in this case the sun) to the technology. Similar to solar energy, technologies are available to take advantage and advance bioenergy generation, yet the State falls far short of its potential to produce clean, reliable bioenergy because its seemingly abundant fuel source – most notably agricultural and forest waste – remains inaccessible due to the significant cost of deployment.

Agricultural residues and in-forest residues are the most difficult types of biomass to collect, process, and transport. For those reasons, these bioenergy fuel sources are the most expensive to utilize. Yet, agricultural and forest wastes can provide the ratepayer with the most benefit as compared to other biomass fuel. Currently, much of the State's agricultural and in-forest wastes are disposed by open burning which is the least environmentally-preferable alternative for the disposal. Biomass-to-energy offers a much better alternative. In 2009, the California biomass industry converted 2.4 million tons of agricultural residues, and 1.1 million tons of in-forest residues into energy. In doing so, conventional air pollution from the combustion-for-disposal of these materials, including particulates, NOx, CO, and hydrocarbons, were reduced by factors of 10 – 100 times, and in the case of in-forest residues whose use as fuel facilitates the performance of needed thinnings, the overall health and fire-resiliency of the treated forest has been markedly improved. The fuel-production alternative also provides many more jobs than conventional disposal of the biomass materials, and significantly reduces the associated greenhouse-gas emissions.

CBEA believes funding emphasis should be placed on a program designed to maximize the deployment of a clean energy fuel source that addresses the need to access woody biomass. Funds for deployment of agricultural and forest waste as fuel will generate power from current operations in the State and provide for development of new operations. Specifically, we propose a different kind of program for biomass in California that is geared to promoting the use of very targeted kinds of biomass resources (agricultural and in-forest residues) that are both expensive to produce, and provide particularly valuable public benefits when used for energy production, rather than being disposed of using conventional means (usually open burning), or allowed to accumulate as overgrowth material in California's increasingly fire-prone forests (in-forest residues not removed in forest-treatment operations not performed). If California wants to advance bioenergy generation in California, it must address the fuel issue.

There is a strong connection between a targeted fuel deployment program and ratepayers. Electricity ratepayers in California would indeed be the beneficiaries of removing wood waste and residues from the fields and the forest. For example, approximately 25 million acres of forests in California are classified as high and medium fire risk areas. Many electrical power lines run through these forests. Vegetation along electrical transmission and distribution lines is an ongoing menace to the grid. Overgrown vegetation falling on power lines causes blackouts, and the presence of overgrowth material along power lines can trigger and/or spread wildfires, sometimes with dire consequences. Large fires in these areas result in significant costs to utilities. These fire-related costs result in higher electric rates for ratepayers due to increased insurance premiums, transmission and distribution equipment replacement, fire suppression cost reimbursement to the state and federal governments, and related costs. The attached two documents demonstrate ratepayer exposure to the cost of wildfires (Southern California Edison CPUC filing, Application No. 10-11-015, 9/26/11; and, San Diego Gas and Electric Wildfire Expense Balancing Account Fact Sheet, March 2012). A targeted fuel deployment program would not only improve grid reliability, it would also provide the impetus for the utilities to reduce their liability insurance costs and reduce these impacts to ratepayer.

A clean energy fuel deployment program should also be a priority initiative within the Development and Deployment provisions in EPIC to reduce environmental impacts, including climate change effects on the energy system. Beyond reducing the insurance liabilities of the utilities, there are other anticipated and measureable benefits to ratepayers. Very clearly the collection of the biomass fuel will supplement biomass resources and, therefore, result in additional Renewable Portfolio Standard (RPS) eligible electricity generation. Such a program can deliver the maximum amount possible of environmental and jobs benefits, in addition to delivering the maximum amount possible of renewable electricity that the existing generating infrastructure can produce, and support future expansion of the industry in the State. This biomass stimulus will create much needed jobs in some rural areas of California.

Additionally, ratepayers will benefit from cleaner air, decreased consumption of landfill space, reduced wildfire risk in the State's forests, and generally healthier forests, and reduced biogenic greenhouse-gas emissions associated with the disposal of the State's biomass wastes. Benefits to electric ratepayers are directly tied to biomass-derived benefits. The CEC should not hesitate to commit EPIC funds in order to secure these benefits on behalf of ratepayers and the citizens of California.

California has had positive experiences in employing support programs for increasing the use of targeted fuels by the State's biomass generators. From 2000 to 2004, the State ran a series of programs to support the use of certain kinds of agricultural residues, like orchard prunings, that are expensive to produce, and have trouble competing with other fuel sources in the State's biomass fuel mix. When these targeted-support programs were in operation, albeit at a fairly modest scale, as much as 750,000 bdts of targeted residues in the State annually were diverted from conventional disposal, which for orchard prunings is open burning, to productive use as a fuel. More recently the federal BCAP program, which was in effect briefly and sporadically during 2009 – 2010, elicited a measurable market response, despite continual massive uncertainty concerning the program's structure and longevity. Today, no such program exists. California could once again be a leader in removing a major roadblock to deploying this important baseload renewable technology.

We support the creation of a program under EPIC for fuel incentives to increase the collection of these more expensive, but highly beneficial fuel types. The public-purpose rationale for providing such incentives is to ensure that the environmental benefits associated with their use continue to be provided to the citizens of California. This is a viable, tested concept and fuel incentive programs could be implemented easily. The State will realize tangible, easy-to-track results from this program. Biomass is an industry that needs to be enhanced if the State is ever going to realize its renewable energy, greenhouse-gas emissions reduction, air quality, and landfill-disposal reduction goals.

Thank you for the opportunity to comment on the First Triennial Investment Plan for the EPIC Program. CBEA looks forward to working with the CEC on addressing this very important issue for California.

Sincerely,
California Biomass Energy Alliance

Julee Malinowski Ball

Julee Malinowski Ball, Executive Director

Attachments

(1) Southern California Edison CPUC filing, Application No. 10-11-015, 9/26/11
(2) San Diego Gas and Electric Wildfire Expense Balancing Account Fact Sheet, March 2012

BEFORE THE PUBLIC UTILITIES COMMISSION OF TH

STATE OF CALIFORNIA

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Application of Southern California Edison Company (U 338-E) for Authority to, Among Other Things, Increase its Authorized Revenues For Electric Service In 2012, And to Reflect That Increase In Rates.	Application No. 10-11-015 (Filed November 23, 2010)

<u>OPENING BRIEF OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E)</u>

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$309,000 in 2012 over 2010 recorded.[1812] DRA's arbitrary adjustment is unfounded and will not support SCE's need to insure its new assets. The adjustment also fails to account for expected increases in insurance premiums in 2012.[1813] DRA's recommendation should be rejected and SCE's forecast adopted.

9.11.2 Account 925 – Liability Insurance

9.11.2.1 The Commission Should Authorize SCE To Purchase Supplemental Wildfire Insurance To Protect Ratepayers From The Risk Of Catastrophic Loss

SCE requested $52.563 million for liability insurance in 2012, an increase of $39.355 million from the 2009 recorded amount.[1814] This increase is primarily due to the increase in the cost of wildfire liability insurance and SCE's intent to purchase supplemental wildfire liability insurance.[1815] DRA does not even discuss SCE's need for supplemental wildfire liability insurance. In fact, DRA's entire testimony on the expenses in Account 925 is as follows: "DRA recommends that the 2010 recorded costs should be the basis for forecasting for the Test Year 2012. DRA's 2012 forecast is $28.366 million. DRA recommends that $24.197 million be removed from Test Year 2012."[1816] An adjustment of over $24 million is certainly large enough to warrant at least some analysis.[1817]

SCE did not purchase supplemental wildfire insurance in 2010, so the cost of that insurance is not reflected in the 2010 recorded amount.[1818] SCE should be authorized the expenses needed to purchase supplemental wildfire insurance to protect ratepayers from the risk of catastrophic loss from a wildfire. This is especially true since SCE has been unable to procure the level of wildfire insurance it held in the past.[1819] In the event SCE does not have adequate insurance to cover a large wildfire loss, ratepayers could be subject to significant exposure for uninsured wildfire costs.[1820] If DRA's recommendation to use 2010 recorded costs is adopted, the Commission will have signaled that it does

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1812 Exhibit DRA-12, p. 47.

1813 Exhibit SCE-22, Vol. 3, pp. 50-51; *see also* SCE (Marsh), Kempsey, Tr. 19/3139-3144 (discussing the competitive process used to procure insurance).

1814 Exhibit SCE-07, Vol. 3, p. 65 (Figure IV-9).

1815 Exhibit SCE-07, Vol. 3C, pp. 58-60, 67.

1816 Exhibit DRA-12, p. 48.

1817 DRA has not met its burden to produce evidence explaining its counterproposal. *See Re Pacific Bell*, D.87-12-067, 27 CPUC2d 1, 22.

1818 Exhibit SCE-22, Vol. 3, Appendix C, p. C-1; SCE (Marsh), Kempsey, Tr. 19/3145-3146. *See also* Exhibit SCE-22, Vol. 3, p. 52 n.150 ("The Commission approved recovery of the increased premium expense resulting from SDG&E's purchase of similarly priced wildfire insurance when it approved SDG&E's Z-Factor application. *See* generally, D.10-12-053.").

1819 Exhibit SCE-07, Vol. 3, p. 59; Exhibit SCE-07, Vol. 3C, pp. 59-61; *see also* Exhibit SCE-07, Vol. 2, pp. 41-43 (describing why and how SCE's liability insurance structure changed in 2009 due to the 2007 wildfires).

not see the need for SCE to purchase this insurance to protect ratepayers from the significant risk posed by a catastrophic wildfire.[1821] The Commission should specifically authorize the purchase of supplemental wildfire liability insurance by adopting SCE's forecast for this account.

10. POWER PROCUREMENT

For Test Year 2012 SCE forecasts $59,340,000[1822] of O&M expenses for SCE's Power Procurement Business Unit (PPBU), and capital expenditures of $73,350,000 for 2010 through 2012.[1823] DRA relies primarily on two assertions for nearly 97 percent of its recommended $31,322,000[1824] cuts to SCE's estimates, which cut across every division within PPBU. First, DRA would remove all costs associated with Market Redesign and Technology Upgrade (MRTU) activities from the GRC and move them to the MRTU Memorandum Account (MRTUMA). Second, DRA claims that no additional resources are needed for PPBU to achieve and manage the State's 33 percent Renewables Portfolio Standard (RPS) goals.

10.1 The Commission Should Reject DRA's Proposed Reduction For MRTU-Related Costs And Expenses

DRA proposes a $26,950,500 cut to PPBU's 2012 estimates by moving MRTU-related labor, non-labor and capital expenditure costs to the MRTUMA.[1825] DRA provides no rationale for why the MRTUMA should continue; DRA simply cites to the Commission's resolution [1826] originally establishing the account and states that when a cost "...could be recovered in more than one proceeding, then the cost or expense should be recouped from only one proceeding. The most relevant other proceeding for the purposes of recouping costs related to changes in the electricity markets is the MRTU [Memorandum Account]."[1827] SCE, on the other hand, has provided compelling testimony describing why it is now appropriate to move MRTU-related costs into this GRC.[1828] MRTU first went live on March 31, 2009 after many years of development. While it is true there are on-going refinements and

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1820 Exhibit SCE-07, Vol. 2, pp. 41-42; Exhibit SCE-07, Vol. 3C, pp. 59-61.

1821 Exhibit SCE-22, Vol. 3, p. 52; *see also* SCE (Marsh), Kempsey, Tr. 19/3146 ("Q. So do I understand you that if such costs could not be funded, Edison might not purchase [supplemental wildfire insurance]? A. I believe that it would be a signal to Edison that the Commission doesn't think that that purchase should be made.").

1822 Exhibit SCE-8, p. 4.

1823 *Id.* at pp. 112-154.

1824 Exhibit DRA-14, p.1.

1825 Exhibit DRA-14.

1826 Resolution E-4087, dated May 24, 2007.

1827 Exhibit SCE-23, Appendix A, DRA response to SCE-DRA-MBE-014, Question 2.

1828 Exhibit SCE-25, Vol. 1, pp. 7-9.

SDGE connected
A Sempra Energy utility

WILDFIRE EXPENSE BALANCING ACCOUNT (WEBA) FACT SHEET MARCH 2012

BACKGROUND

San Diego Gas & Electric (SDG&E) and Southern California Gas Co. (SoCalGas) have asked for approval from the California Public Utilities Commission (CPUC) to establish a Wildfire Expense Balancing Account (WEBA) to record wildfire-related costs in excess of a utility's insurance coverage for potential future recovery in rates. The joint application by all four investor-owned utilities was filed Aug. 31, 2009, then amended and re-filed in August 2010. In late 2011, Pacific Gas & Electric (PG&E) and Southern California Edison (Edison) elected not to continue to participate in these proceedings.

PROPOSED FRAMEWORK

The "balancing account" framework was proposed to establish up front the policies, protocols and procedures for rate recovery for wildfire-related expenses and to provide some clarity and certainty around the issue for utilities and their customers, regulators, the insurance industry and the investment community. The major fires that have occurred in Southern California over the past few years have driven up the cost of liability insurance for utilities. The cost of SDG&E's insurance premiums skyrocketed 1,000 percent between 2007 and today. Some insurers warn that if there's another major wildfire in California, regardless of whether utility equipment is involved, SDG&E might not be able to get any liability coverage in the future.

"OBLIGATION TO SERVE"

SDG&E is required to provide natural gas and electricity to all its customers without exception, including those in the most dangerous, fire-prone areas. While insurance companies can raise their rates or choose not to serve a high-risk customer, SDG&E does not have that option.

"STRICT LIABILITY"

In addition, California courts have ruled that utilities may be held responsible if their equipment is involved in an event that causes property damage -- no matter the circumstances or who is at fault. For example, if a driver runs his car into a power pole causing the lines to fall and spark a fire, SDG&E could be on the hook to pay damages, not the driver. In this case, SDG&E could pursue recovery from the driver for damage to utility facilities, but SDG&E still would be responsible for settling the claims from customers affected by the fire. If a natural disaster, such as an earthquake or firestorm, ruptured a pipeline or blew a tree branch into power lines, the damage caused could be the responsibility of the utility. This is the legal concept of "strict liability."

WINDS & WILDFIRES

In 2003, the Cedar fire caused $204 million in damage, burning more than 280,000 acres for 25 miles from East San Diego County toward the coast. It was the worst fire in California history. Power lines were not involved; a lost hunter's signal fire was the starting point, but strong Santa Ana winds whipped the flames into a conflagration. According to fire officials, the fire exploded from 20 acres to 62,000 acres in just 10 hours. Without the extreme winds, the signal fire might have alerted help as intended, and then simply have been extinguished.

WILDFIRE COST RECOVERY

In 2007, years of drought, overgrown brush, inadequate fire-fighting resources, and near hurricane-force Santa Ana winds combined to create a massive firestorm that raged across seven counties in Southern California for two weeks. Cal Fire determined SDG&E's power lines were the ignition source for three fires in San Diego County.

Who should pay for damages related to the 2007 wildfires <u>in excess</u> of SDG&E's insurance coverage? According to well-established regulatory principles, damages caused in the process of the utility's fulfillment of its obligation to serve its customers should be recoverable in utility rates. The cost of the utility's liability insurance premiums already is included in rates. The damages related to the 2007 wildfires, however, are unique. It's the first time that fire-related, third-party damages have exceeded the utility's liability insurance coverage.

The Federal Regulatory Commission already has approved SDG&E's request to recover a portion of the transmission-related 2007 wildfire costs in transmission rates. The CPUC did not object to that decision.

"REGULATORY ASSET"

Hundreds of lawsuits have been filed against SDG&E the majority of which have been resolved through settlements. The costs to resolve the lawsuits continue to mount; SDG&E has recorded $594 million as a "regulatory asset" in its latest report to shareholders, in accordance with Security & Exchange Commission requirements and generally accepted accounting principles. That amount eventually could be larger or smaller, depending on the results of additional counter-claims made by SDG&E against its contractors, but the actual amount won't be known for some time.

NEXT STEPS:
PUBLIC HEARINGS

The CPUC has scheduled public participation hearings in San Diego April 5 as part of the WEBA proceeding. The balancing account, if approved, would keep track of costs incurred in excess of insurance coverage and recoveries from other responsible third parties. Before SDG&E could include in rates any of the costs incurred, however, the utility would have to file a separate application in another proceeding before the CPUC to ask for authority to do so. If the WEBA proposal is not approved, SDG&E still could ask the CPUC to consider its request for rate recovery through another type of filing.

SAN DIEGO GAS & ELECTRIC

San Diego Gas & Electric (SDG&E) is a regulated utility that provides service to 3.5 million consumers through 1.4 million electric meters and more than 850,000 natural gas meters in San Diego and southern Orange counties. SDG&E's service area covers 4,100 square miles, covering two counties and 25 cities.

SDG&E is a regulated subsidiary of San Diego-based Sempra Energy (NYSE: SRE), a Fortune 500 energy services holding company with 2010 revenues of $9 billion. The Sempra Energy companies' nearly 16,000 employees serve about 26 million consumers worldwide.

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