

Existing CHP Generation Needs Certainty Now

California's existing program for combined heat and power (CHP) generation, adopted under the Public Utility Regulatory Policies Act of 1978 (PURPA), is playing a rapidly declining role in the state's efforts to encourage efficient and environmentally beneficial CHP generation. The CPUC-administered program will do nothing to encourage new CHP due to low prices and the threat of program termination in Q2 2009 by the utilities under the Energy Policy Act of 2005. Until California establishes a workable state CHP policy, however, the existing program is vital to the retention of existing CHP generation – a baseline of greenhouse gas savings that is simply assumed in current policy debates. Despite years of litigation, the CPUC's program remains unworkable, and a decisive, near-term solution is required to protect roughly 2000 MW of CHP generation immediately at risk. Simple solutions are available **now** both to preserve existing and encourage new CHP facilities.

1. Stop Utility Efforts to Unwind CHP Power Prices Retroactively.

A CHP facility, like any other business, has a right to know the price it will be paid at the time it delivers its product to the grid. The utilities continue to seek retroactive adjustments to CHP prices and urge the CPUC to adopt a policy that permits these actions on a regular basis. The potential for retroactive price reductions will stop the development of CHP on any material scale. Thus far, the CPUC has done little to stop utility efforts. It can and must act **now**.

2. Protect Existing Generation Against Utility Termination When the MRTU is Implemented on April 1.

EPAct 2005 permits a utility to terminate its obligation to take CHP power under PURPA under certain market conditions. The California utilities are set to claim the right to terminate their obligations on April 1, when the California Independent System Operator implements its new MRTU market design. California must make clear **now** in state policy and before the Federal Energy Regulatory Commission that a utility may not unwind historic relationships with existing CHP generators.

3. Provide a Commercially Viable Standard Offer Contract.

After more than 4 years of litigation, the CPUC has failed to produce a commercially viable Standard Offer contract under its PURPA program. Among other key issues, a CPUC decision should be issued **now** to:

- Ensure future GHG cost recovery for CHP consistent with utility practices for its own and other third-party contracts.
- Remove unreasonable utility termination rights.
- Resolve other commercial disputes with the aim of promoting CHP.

4. Create a CHP Portfolio Mandate.

- **No backsliding.** Consistent with 2007 CPUC decision, require utilities to at least maintain existing levels of CHP generation in their portfolios.
- **New development.** Consistent with ARB Scoping Plan, direct utilities to procure additional CHP to meet ARB reduction target of 6.7 MMTCO₂e.