



July 2, 2009

Senator Alex Padilla, Chair
Senate Energy, Utilities and Communications Committee
State Capitol
Sacramento, CA 95814

Re: AB 1106 (Fuentes) - Support if Amended

Dear Senator Padilla and committee members:

Sierra Club California appreciates the opportunity to provide you with our suggested changes to AB 1106.

California is a national leader in setting aggressive and necessary goals to reduce greenhouse gases from multiple sources and especially in electricity generation. While the state is setting great goals for its renewables program, it is now expected that the 20% RPS goal will not be met until 2013 at the earliest, and meeting the 33% target by 2020 will be a much greater challenge. A more effective method is needed. Feed-in Tariffs (FITs) are utilized in 18 nations and are the most successful policy tool for rapidly and cost-effectively increasing a country's supply of renewable energy.

An effective FIT program will allow us to realize the benefits that renewable energy programs can provide to California including:

- Creating new green collar jobs rapidly, helping to reverse the current increasing level of unemployment and beginning to increase the state's tax base.
- Bringing venture capital to re-capture California's leadership in renewable energy research and development, manufacturing and implementation while preventing those funds and jobs from going elsewhere.
- Providing more "green" electricity for the emerging plug-in hybrid and electric car markets, thus reducing our dependence on foreign oil and fossil fuel.
- Reducing green house gases.
- Reducing criteria pollutants and improving the health of our citizens.

We applaud Assemblyman Fuentes's efforts in putting forth a California Feed-in tariff bill that holds the promise of getting the state back on track to meet RPS targets. To help insure that this promise is realized, Sierra Club makes the following recommendations.



1. Increase the size of eligible projects for Tier 1 to up to 10 MW (from 5 MW) and for Tier 2 projects to 20 MW (from 10 MW).

Including projects up to 20 MW in size for a FIT program is consistent with CEC recommendations made in December 2008. Currently, the CPUC is holding workshops on FITs and its draft proposal includes two tiers – one up to 10 MW and the second from 10 MW to 20 MW. Therefore, increasing the range of eligible project size for these tiers is consistent with the direction of both the CEC and CPUC. To keep proposed renewable projects even smaller, as in the current AB 1106 language, would further delay California from reaching its objectives. Such size caps would also be contrary to the policy goal of reducing program rate impact. Allowing larger projects will help keep average costs per kilowatt-hour low.

2. Make applicable to all electrical utilities in the state – The bill applies only to IOUs (Investor owned utilities or “Electrical Corporations”) which only supply a portion of the electricity generated to meet state needs. We believe that it should also apply to publicly owned utilities (POUs) or the state will remain in jeopardy of not meeting its overall RPS targets.

3. Feed-in tariffs to be differentiated by project size and wind resource intensity.

- The current bill does a good job of requiring FITs to be differentiated by technology but needs to go further. Modeled on best practices from Europe, feed-in tariffs should be differentiated by project size. Wind energy should also have a special rate structure to mitigate on-site resource risk.

4. Contracts to be 20 years or longer – The bill currently allows 10, 15 or 20 year contracts at the generators’ option for Tier 2. This should be changed so that contracts are at least 20 years and may be longer with the generators’ agreement. Longer contract durations lower the cost of electricity because up-front costs are amortized over a longer time. The amended version of the bill mandates 25 year terms for Tier 1 contracts. This is a big improvement over previous versions, but we recommend that the CPUC be given discretion on contract length, provided that they are at least 20 years.

5. Create a single State-wide Standard Offer contract – The bill currently requires each electrical corporation to develop its own standard offer contract which must be approved by the commission. Standard offer contracts are a critical component of a successful FIT program. In fact, the CEC 2008 IEPR report states, “Feed-in tariffs will provide additional certainty to developers seeking project financing, and will reduce transaction costs associated with proposing, negotiating, and signing RPS contracts.” A further improvement of the bill would require the CPUC with approval from the CEC to develop a single standard offer contract to be utilized by all utilities throughout the state including (IOUs) and (POUs). This would allow generators that may implement projects in the service areas of multiple utilities to only have a single contract form to deal with.

6. **Timely Implementation** – Currently, the bill sets an implementation date of 7/1/2011. This creates further unnecessary delay in California getting back on track with getting renewables on-line. We urge you to change the implementation date to no later than 1/1/2011 while allowing the commission to implement FITs for some renewable technologies even sooner where they are able to complete the tariff setting process more quickly.

7. **Modify Proposed Cap on Tariffs Paid** – Currently, the bill states, “The maximum price paid by an electrical corporation pursuant to this paragraph shall not exceed thirty dollars (\$30) per kilowatt-hour or ___ percent above the average cost of electricity generated by eligible renewable energy resources, whichever is lower.” The “\$30” appears to be an error and should be thirty cents (\$0.30) / KWh. We recommend removing the percentage factor since it is very difficult to calculate and could produce unintended consequences, such as tying the payments for solar—which provides valuable peak power—to cheap baseload generation costs. The cap should also be indexed annually for inflation. In order to promote small projects and develop markets that are not currently supported by the state’s solar programs, we recommend allowing up to \$.45/ KWh for solar projects from 0 – 250 KW capacity. This would incentivize residents, businesses and non-profit entities that cannot benefit from tax incentives, to build larger and more cost effective systems than is allowed under a net metering cap. The rate should also be reduced at least 2% per year to limit program costs and encourage the industry to reduce prices.

8. **Increase the total program cap to 3000 megawatts, with longer-term goal to go much higher.** A 500 megawatt program would be insufficient to generate commercial interest from manufacturers to develop industry in California and to create secure green jobs here. We need to make a real commitment to get the real benefits from this program. The state will be spending tens of billions of dollars on remote renewable projects under the RPS program and it needs to provide at least some meaningful benefit from the renewables program in communities where people live. The legislature should include a requirement to review the program regularly to look at cost and benefits of the program. Feed-in tariffs have been tried and proven in many countries throughout the world; this is not an untested concept. The German program supports many gigawatts of renewables, but only costs a typical residential consumer a few dollars per month. With much better sun in California, we should be able to pay much lower rates for the solar component.

The need to apply very tight capacity limits in the program can be reduced by applying a range of cost containment strategies. Combining these 8 strategies can help greatly to limit the effect of the program on customer rates. These strategies include:

1. Insuring 20 year or longer contracts
2. Increasing average size of projects for the program
3. Better differentiation by project size to incorporate price break points

4. Incorporate tax credits into pricing when available
5. Standard offer contract greatly lowers small project transaction costs
6. Degression (reduction) of payment rates over time in appropriate technologies
7. Fixed payments balances control of pricing created by an RPS “sellers market”
8. Total program capacity limits

Sierra Club California encourages you to support these suggested changes and to support AB 1106 with your aye vote. With these critical amendments, AB 1106 represents a major needed legislative step towards driving the actual achievement of California’s RPS targets. This would both help improve the health of our economy and once again re-assert California’s national leadership in GHG reductions as a model for the rest of our nation.

Sincerely,

A handwritten signature in black ink that reads "Jim Metropulos". The signature is written in a cursive, flowing style.

Jim Metropulos
Senior Advocate

cc: Assemblymember Fuentes