Thermal Energy Development Partnership, LP
Tracy Biomass Plant

June 17, 2008

Mr. Jason Orta
California Energy Commission
1516 9th Street
Sacramento, CA 95814-5512

VIA E-MAIL and FAX (916) 653-2543

Subject: Docket No. - 02-REN-1038 – Guideline Revisions for the Renewable Energy Facilities Program

Dear Mr. Orta:

Thermal Energy Development Partnership, LP ("Tracy Biomass") is pleased to provide written comments, in addition to the verbal comments made at the June 12, 2008 Staff Workshop, on the above-referenced proceeding.

Tracy Biomass is a 20 MW solid-fuel bioenergy facility, in operation since 1999, which is in the 2nd year of a 5-year fixed-price amendment with PG&E. The first year average annual energy price was 6.39 cents/kWh which has since escalated 1% to the current annual average of 6.45 cents/kWh.

For the following reasons, Tracy Biomass strongly supports Option 2, as presented by he California Biomass Energy Alliance ("CBEA") in letter form and discussed at the Workshop.

During the 2007 ERFP application process, CEC Staff requested extensive information from Tracy Biomass regarding how the requested ERFP funds would be used to 1) increase the annual energy output and capacity factor, and, 2) help the plant achieve self-sustainability by the end of the ERFP in 2011. Tracy Biomass responded by developing an intensive $7.4 million 5-year major capital investment plan which, barring unforeseen factors, would allow achievement of these 2 goals. In fact, the 2007 ERFP award, received in January 2008, arrived just in time to help pay for a $1.4 million plant improvement project from December 2007, which has helped to significantly increase the plant's capacity factor so far in 2008. The investment plan called for spending another $3.5 - 4.1 million in 2008 which will both further increase the capacity factor and bring the plant closer to self-sustainability.

Since putting together the capital investment plan last year, Tracy Biomass' operating costs have dramatically increased at a rate much greater than anticipated. In particular, the unprecedented run-up in diesel fuel prices has forced Tracy Biomass to pay much more for biomass fuel. In fact, CA diesel prices are $2.00/gallon higher today than they were in 2007 when the investment

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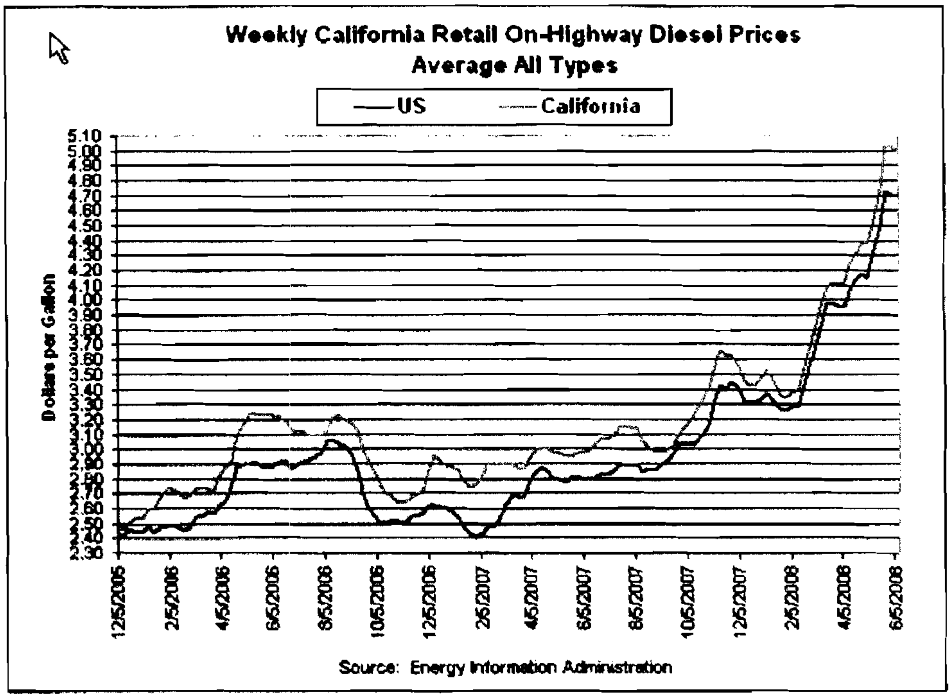
Weekly Retail On-Highway Diesel Prices

Average All Types	Low and Ultra-Low Sulfur

Weekly Retail On-Highway Diesel Prices - Average All Types
(Dollars per gallon, including all taxes)

Region	05/26/08	06/02/08	06/09/08	Change from week ago	Change from year ago
U.S.	4.723	4.707	4.692	-0.015	1.900
East Coast	4.779	4.759	4.743	-0.016	1.954
New England	4.843	4.846	4.834	-0.012	1.952
Central Atlantic	4.913	4.907	4.879	-0.028	2.006
Lower Atlantic	4.717	4.687	4.677	-0.010	1.933
Midwest	4.667	4.643	4.615	-0.028	1.862
Gulf Coast	4.673	4.664	4.658	-0.006	1.916
Rocky Mountain	4.653	4.680	4.698	0.018	1.761
West Coast	4.883	4.878	4.874	-0.004	1.933
California	5.027	5.027	4.992	-0.035	1.995



plan was made (see Table and Chart above). It takes roughly 4 gallons of diesel to gather, process, and deliver 1 BDT of biomass fuel. The $2.00/gallon increase translates to additional fuel costs in 2008 vs. 2007 of about $8.00/BDT, or about 0.8 cents/kWh.

In light of the dramatic and unanticipated increases in biomass fuel and other operating costs, Tracy Biomass has been forced to reevaluate the planned $3.5-4.1 million (about 2.6 cents/kWh) in capital projects for 2008. If Staff were to recommend implementing Option 1 as proposed by Staff, Tracy would be placed in Category 4 and be eligible to receive a maximum of 0.25 cents/kWh for ½ the year, or the equivalent of 0.125 cents/kWh for the remainder of the ERFP. This level of support would force Tracy Biomass to completely abandon the 5-year capital investment plan and drop back into survival mode, using the ERFP funds exclusively to help cover increased operating costs not covered by the 1% annual increase in energy price through 2011.

Tracy Biomass supports Option 2 as proposed by the CBEA. Under Option 2, Tracy would be eligible to receive a maximum of 1.5 cents/kWh for the 6 months of May through October, or the equivalent of 0.75 cents/kWh over the entire year. This level of support will help pay for the increased operating costs as well as a few of most cost-effective capital investment projects resulting in the plant being closer to self-sustainability by the end of 2011. Our sense, which is being increasingly shared by many in the industry, is that energy prices will be much higher when the 5-year fixed price period expires in late 2011. Our hope is that these higher energy prices will bridge any remaining gap which remains to self-sustainability at the end of the ERFP.

Thank you again for the opportunity to comment on the four proposed Guidebook Options. Tracy Biomass strongly urges CEC Staff to recommend Option 2 for the Revised ERFP Guidebook.

Sincerely Yours,

Chris Trott
Fuel Manager

Cc/ Stephen Mullenix, USRG
Joel Lepoutre, PurEnergy
Julee Malinowski-Ball, CBEA
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