California Small Wind Coalition

August 4, 2009

The Honorable Julia Levin, Presiding Commissioner
The Honorable Karen Douglas, Associate Commissioner
California Energy Commission
Dockets Office, MS-4
RE: Docket No. 02-REN-1038
1516 Ninth Street
Sacramento, CA 95814-5512

RE: Docket No. 02-REN-1038: Staff Workshop on Possible Changes to the Emerging Renewables Program Guidebook

Dear Commissioners Levin and Douglas:

The California Small Wind Coalition appreciates the opportunity to comment on possible changes to the Emerging Renewables Program (ERP) Guidebook, as discussed at the July 21 Staff Workshop. The California Small Wind Coalition includes small wind system manufacturers and California distributors and installers of small wind systems. It was formed earlier this year to present a broader presence by the small wind industry in legislative and regulatory matters affecting the industry, and updates to the ERP Guidebook are a top priority for the industry. The Coalition was represented at the July 21 workshop, and this letter further elaborates on points made at the workshop.

We are very pleased that the Commission is finally at a point to consider and adopt changes to the ERP Guidebook affecting small wind. For several years the small wind industry has been urging the Commission to revise rebate levels for small wind and make other changes. More than 16 months ago (March 14, 2008) several members of the small wind industry presented a memo (Innovo memo) to CEC staff that made a compelling case for increased rebate levels and several additional changes. While we thought the meeting with CEC staff on these proposed changes was productive and we hoped for timely consideration of the proposals, the Commission instead directed its technical contractor, KEMA, to prepare a report that described California's small wind infrastructure and the barriers to greater use of small wind and recommended changes to the ERP to reduce these barriers. After several delays, that report is now before the Commission.

The KEMA report presents some interesting findings, many of which corroborate the industry's own experience and are consistent with our earlier presentations to the Commission. But we regret to say that we believe the report will be of limited help to the Commission in deciding on a course of action for the small wind program. At bottom, we believe the report fundamentally misanalyzes the nature of the barriers faced by the small wind industry in California and the steps that the Commission can and should take to reduce those barriers.

Specifically, the KEMA survey of existing small wind customers found that 68% would buy their system again and 80% would recommend a small wind system to others. Yet the bulk of KEMA's analysis and recommendations focus on product quality and tools for estimating available wind energy. While we agree these are issues that should be addressed, they are not the source of California's anemic market for small wind energy systems.

Conversely, the report pays only passing attention to the single feature of the ERP that 95% of survey respondents said was essential or very important in their purchase decision: the ERP rebate. In its recommendations, KEMA notes that "there is no single quantitative method for determining an ideal rebate amount…" and that "the determination of a rebate level is a policy decision that is more qualitative than quantitative." We agree, and note that the ERP Guidebook states clearly that

> *The goal of the ERP is to reduce the net cost of on-site renewable energy systems to end-use consumers, and thereby stimulate demand and increased sales of such systems. Increased sales are expected to encourage manufacturers, sellers, and installers to expand operations, improve distribution, and reduce system costs.*

We urge the Commission to focus its attention on the steps it can take to achieve this stated goal. We believe that by far the single most important step the Commission can take is to increase rebate levels for small wind systems.

The Innovo memo presented to CEC staff in March 2008 clearly shows that sales of PV solar systems began a steady climb in 2001 after the Commission increased rebate levels by 50%, from $3.00 to $4.50/W. That rebate increase stimulated demand and increased sales of PV solar; in fact solar rebates became over-subscribed. It was only then, when the program's goal was reached, that the solar rebate was reduced.

That goal clearly has not yet been reached for small wind. In fact, despite the state's potential for small wind development, installations of small wind systems supported by the ERP have declined 75% since 2001. During that time the rebate level for small wind was inexplicably reduced from $2.50 to $1.70/W at the same time that it was reduced for solar. The increase in 2007 back to $2.50/W (less after inflation than the same level in 2001, and this time limited to only the first 7.5 kW) has had a minimal salutary effect but certainly not enough to achieve the program's stated goal.

The main justification for KEMA recommending that the small wind rebate remain unchanged appears to be the fact that federal law now provides an investment tax credit for small wind. But this conclusion overlooks several important points:

- The ITC is of significant value only to purchasers with high taxable income. Because small wind is in most cases a more rural application, it attracts a relatively larger share of customers who are retirees and have purchased land. Many of these customers have little or no tax liability and the ITC is of no benefit.

- PV solar systems have enjoyed federal investment tax credits in the past, but this fact did not stop the Commission from increasing the solar rebate when it was needed to spur sales.

- Beyond the ITC, PV solar has for 30 years enjoyed an exemption from "new construction" for purposes of property tax calculations. Small wind enjoys no such exemption. For long-time homeowners considering installing a small wind system, the recalculation of property tax to current assessed values based on the "new construction" of a small wind system is a powerful disincentive and a significant ongoing cost. Because the solar exemption is in the state constitution, changing this inequity requires a constitutional amendment and is not nearly as easy as KEMA seems to believe.

Finally, we note that the ERP account is taking in more than it is spending. According to recent information from CEC staff, the account receives about $52 million annually and $94 million is currently in the account, indicating a buildup of surplus funds.

In brief, then, the stated goal of the ERP to increase demand and sales has not yet been achieved for small wind, the rebate level is the predominant tool available to the CEC to achieve the goal, and the ERP account has available funds to increase the rebate level.

Instead of focusing on the ability of the rebate level to achieve the program's policy goal, the KEMA report cites a number of non-monetary disincentives to the adoption of small wind systems, such as siting, permitting, and product certification. But the stated goal of the ERP is to take the market as it is, including non-monetary signals, and in essence to monetize them through the use of the rebate. We do not disagree that permitting and siting, for example, are ongoing problems, and we are working legislatively to reduce those barriers. But the Commission should not keep its main tool sheathed simply because those barriers exist. Instead it should use the rebate to help overcome those barriers. That's what was done for solar, and it should be done as well for small wind.

With an increase in the rebate level for small wind as the foundation, the California Small Wind Coalition urges the Commission to adopt the following recommendations:

Increase the rebate level to at least $3.00/W. The Commission increased the solar rebate in 2001 for the express purpose of stimulating demand, and it worked. The small wind industry deserves the same consideration.

Eliminate the two-tier small wind rebate. There is no apparent reason for reducing the rebate for systems exceeding 7.5 kW. In fact, the current decrement creates a disincentive to buy what is the most common and appropriate-sized turbine for most homes and small business applications, the 10 kW unit. The KEMA report itself notes a difference in per watt costs between small systems below 3 kW and larger systems around 10 kW. This finding would seem to justify, at a minimum, adjusting the second tier to 10 kW from its current 7.5 kW.

Eliminate double-counting of inverter efficiency. The existing ERP Guidelines require that rebates be calculated using the solar industry's model of rating solar energy output exclusive of the inverter, then factoring in the inverter's efficiency. But small wind energy output ratings already include inverter efficiency in the calculation. By requiring that the inverter's efficiency factor be incorporated into the small wind output rating I to double-count the losses from the inverter's efficiency and impose a 6-10% penalty on small wind system rebates. This inequity, which creates yet another cost disincentive for small wind, should never have existed, and it should be corrected immediately.

Eliminate penalty for self-installation. Customers with adequate expertise can reduce their overall costs by self-installing a small wind energy system. Self-installation amounts to an economic incentive that can reduce payback. But the 15% self-install penalty creates a countervailing disincentive. The Commission removed the self-install penalty for solar installations under the New Solar Homes Program in 2007. It should do the same for small wind.

Establish stakeholder process to develop innovative responses to permitting issues. The Coalition is well aware of the permitting challenges that exist in various jurisdictions. Unlike the Solar Rights Act, which all but guarantees "by right" approval of solar installations by local permitting offices, many applicants for local small wind permits face exorbitant fees, months and years of delays, and a lack of knowledge by local officials of small wind systems. The industry is continuing to work in the Legislature to reduce these permitting barriers.

While the Commission obviously has no authority to override or influence local decisions, it can take steps to encourage greater acceptance of small wind by local officials. For example:

- Dedicate a portion of ERP funds to a buydown of local costs to process small wind applications, provided those jurisdictions adopt wind-friendly local ordinances. Mike Bergey, President of Bergey Windpower, has cited in his comments a similar program in Connecticut.

- Create a staff "Red Team" to work with local jurisdictions when technical issues arise regarding permitting of as small wind system. Because relatively few small wind turbines have been installed in California in recent years, many staff at local permitting desks simply are not familiar with small wind systems and their technical features. A CEC Small wind Red Team could act as a buffer between applicants and local permitting staff, to answer technical questions, reduce misunderstandings, reduce unnecessary permitting costs and expedite processing.

Thank you for the opportunity to express the views of the California Small Wind Coalition on proposed changes to the ERP Guidebook. California has excellent resources for small wind and an opportunity to be a national leader in the adoption of small wind energy systems. The Emerging Renewables Program has always been at the center of the state's policy to encourage greater use of small wind energy, and we share your desire to see it flourish. As always, we appreciate the hard work and the cooperation of staff, and we look forward to working with you and them to get the maximum benefit from the next round of updates to the ERP Guidebook. Please do not hesitate to contact me if you wish to discuss any of these matters further.

Sincerely,

Pete Price

Pete Price
California Small Wind Coalition