California Biomass Energy Alliance, LLC

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November 10, 2005

Commissioner John Geesman, Presiding Member
Commissioner Jackalyne Pfannensteil, Member
Renewables Committee
California Energy Commission
1516 Ninth Street
Sacramento CA 95814

RE: Existing Renewable Facilities Program – Increase in Target Price and Cap for Biomass Generating Facilities – Docket No. 02-REN-1038

Dear Commissioners Geesman and Pfannensteil:

The California Biomass Energy Alliance appreciates the efforts of the Renewables Committee and staff and your response to the industry's request for some relief from the rising cost of diesel fuel and its increasingly detrimental impact on California's solid fuel biomass electric generating facilities. However, the proposed amendment to the Tier 1 biomass plant support provides essentially no relief to over three-quarters of the industry. CBEA believes there is an alternate solution that would provide more immediate relief for the industry as a whole.

The current CEC Renewables Committee proposal, as you know, differs from CBEA's original proposal in both amount and duration. The result is that only 6 (Madera, Dinuba, Sierra Forest Products, Delano, Loyalton, and Colmac) of the 29 operating facilities would receive an increased incentive payment from November 2005 through April 2006. Under the CEC's suggested change, all the biomass facilities would receive an increased incentive payment during the months of May and June 2006. The industry came to the CEC with a solution that would benefit every facility as every facility has been, and continues to be, impacted by the same rising costs of diesel fuel. The Committee's solution, therefore, does not change the dynamics for most of the industry. CBEA would support the following alternative and provides justification below:

<u>Alternative</u>
Increase the Target Price for all Tier 1 biomass facilities by $0.008/ kWh, and increase the Cap by $0.005, from November 1, 2005 through April 30, 2006. Increase both the Target Price and Cap by $0.005 from May 1, 2006 through June 30, 2006.

<u>Justification</u>

- Immediate relief is needed – Biomass fuel needs to be procured now and over the winter and spring months. - May 2006 is too late.
- The Federal Production Tax Credit does not provide immediate help, and will only benefit a few plants after tax returns are filed in April 2006.

- The suggestion contained in the notice of the Commission meeting on November 16, 2005 provides no help. For most of the biomass plants, renegotiation of their contracts to cover increasing costs of operation is simply not possible. Most of the plants are operating under “fixed-price” agreements that expire between July 2006 and April 2007. These plants have attempted to negotiate an extension of these agreements at a price sufficient to cover the increasing operating costs, but have been rebuffed by the utilities. For those few biomass plants that face expiration of their contracts, negotiations for new or extended contracts have been unsuccessful. The CPUC is conducting two proceedings (R.04-04-003 and R.04-04-025) intended to establish the price that a biomass facility (as a Qualifying Facility) should be paid, and to establish what will be the long-term policy of the State for new or expiring QF contracts. These proceedings, which have been joined, have been delayed numerous times, and offer no hope of solution before late summer 2006.

We look forward to discussing this with you in preparation for the Business Meeting on November 16th. If you have any questions before then or need additional information, please contact the CBEA representative in Sacramento, Julee Malinowski-Ball at 441-0702.

Phil Reese, Chairman, CBEA

Cc: Mr. Tony Goncalves, CEC
Julee Malinowski-Ball