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June 20, 2008
AGM/ES 08-027Darren Bouton
Assistant Cabinet Secretary
Governor Arnold Schwarzenegger's Office
State Capitol
Sacramento, CA 95814

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Dear Mr. Bouton:

This letter is to follow-up on our meeting of June 4 (also attended by CEC Commissioner Douglas & staff, SMUD, LADWP, SCPA, NCPA, and CMUA) to discuss a possible upcoming Executive Order from the Governor announcing a 33% renewable energy supply goal by 2020 for California. Such an Executive Order is expected to include actions that the state would implement to increase the likelihood of achieving the goal by 2020.

A 33% goal by 2020 is very aggressive and will require a major collaborative commitment of the State of California, California IOUs & POUs, the renewable energy industry, electricity consumers, environmental organizations, federal & local governments, and others. As noted in this meeting, though SMUD fully supports the advancement of renewable energy resources, we are also concerned about the imposition of more mandates. These mandates impact our ability to continue to be creative in addressing our customer-owners' energy needs in an environmentally friendly and cost-effective manner. In addition, as was also discussed, there are valid concerns about the ability of the state's transmission system to reliably handle additional renewable energy resources above the 20% level without significant investment in upgrades. However, in order to help achieve expansion of renewable energy resources, SMUD staff has prepared a list of state actions that we believe could greatly accelerate the adoption of renewable energy for California (see attachment).

Thank you once again for taking the time to meet with POUs before finalizing the RPS Executive Order. We hope that the attached list will be helpful to you.

Please contact me directly (916-732-6757) or Michael DeAngelis (916-732-6589) if you have any questions or comments.

Sincerely,

James R. Shetler
Assistant General Manager
Energy Supply

Attachment

cc: Karen Douglas, CEC
Jerry Jordan, CMUA
Jim Pope, NCPA
Bill Carnahan, SCPPA
Randy Howard, LADWP

bc: John DiStasio
Mike DeAngelis
Arlen Orchard

SMUD RECOMMENDATIONS OF POSSIBLE STATE ACTIONS TO ACCELERATE RENEWABLE ENERGY SUPPLY FOR CALIFORNIA

A. Transmission

Background: One of the most challenging obstacles to timely and efficient transmission line siting analysis, environmental review, and permitting are the numerous federal, state, county, and city planning and permitting agencies with some level of jurisdiction or involvement along the proposed transmission line route. Each agency has its own rules, policies, ordinances, and processes. Even within some agencies, there can be significant differences between districts within the same agency. In addition, if a project does not have a federal nexus such as federal land ownership, federal project funding, or overall federal project sponsorship, the timeline for the required United States Fish and Wildlife (USFWS) consultation for endangered species and other federal agency reviews is extremely unpredictable.

Suggested Actions:

1. Create a special "One-Stop" joint federal/state inter-agency process that expedites and represents all of the local jurisdictions and permitting stakeholders. The transmission line siting analysis, NEPA/CEQA environmental review, and permitting effort would be completed together. At the end of the process, an applicant would have a complete federal, state, and local jurisdiction approved and permitted project.
 - Proactive state and federal involvement in transmission is needed perhaps through federal funding or sponsorship that will require NEPA environmental review simultaneously with CEQA environmental review for the entire transmission line project length. The USFWS consultation and other federal permitting processes should be in collaboration with state agencies and would have a more predictable time line.
 - Establish a federal, state, and local jurisdiction approved standard mitigation approach for transmission projects.
 - Emphasize an accelerated timeline - - as needed, provide staff augmentation funding to federal and state agencies specifically for proposed transmission line projects. This is currently being used very successfully by local jurisdictions to prioritize and schedule projects.
2. Provide financial and staffing support to collaborative efforts and studies to determine the most cost-effective renewable energy zones in the west including the cost of transmission.

B. Emerging Technology Incentives

Background: To achieve a 33% by 2020 goal in a cost effective manner, renewable technologies emerging from R&D need to be grown and rapidly brought to commercialization. The next generation of renewable energy technologies (including concentrating solar thermal, central PV, biomass gasification, renewables fuels with fuel cells, etc.) has good potential for cost reductions, and many of these technologies can be built near load centers and thus are not as dependent on transmission construction as conventional renewables such as wind and geothermal. Incentives are needed to accelerate the movement of these technologies from the development phase to commercialization.

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Suggested Actions:

1. Provide additional RD&D funding for emerging renewable technologies (e.g. CSP Solar Thermal, Central Station PV, Biomass Gasification, Ocean, Biogas and MSW Conversion, renewables fuels with fuel cells, and Advanced Storage) and also for improvements to conventional renewables.
2. Develop and provide state Renewable R&D Tax Credits in addition to current state R&D tax credits.
3. Develop and offer a simplified & expanded funding access and process for demonstration projects for new technologies.
4. Establish a state funding program for advanced storage facilities to provide capacity for managing renewables intermittency.
5. Consider establishing and funding a Golden Carrot Award Program (e.g., a financial prize) or a guaranteed state purchases program for specific emerging renewable energy technologies to achieve cost and performance targets.
6. Establish a loan guarantee and interest subsidy program(s) for initial emerging technologies demonstrations.
7. Establish consumer protection programs through standards development and performance guarantees (e.g., tied to incentives) and required information disclosure to address investor pressures to prematurely bring new technologies to market.
8. Establish state purchase programs specifically for state facilities. Examples include:
 - Distributed generation projects on state properties.
 - Long-term renewable energy purchases by the state (e.g., the DWR) from projects in locations that will stimulate the construction of transmission lines.

C. Conventional Renewable Incentives

Background: State incentives are needed to promote the development of renewable energy using commercially available technologies. For a greater impact, these incentives need to add to or coincide with other existing federal incentives to increase and accelerate development.

Suggested Actions:

1. Establish state ITC, PTC, and ACRS incentives for renewables to match federal incentives.
2. Establish a state CREBs and/or REPI program so that public institutions also have state incentives to develop renewable energy.
3. Establish a state level "Solar Shares" program on state lands and buildings.
4. Establish a state subsidy for agricultural lands used/co-used with renewable energy generation.
5. Establish promotional programs for renewable energy on state lands (e.g., zoned state lands for Renewable Energy project development, programmatic EIRs, etc.).
6. Establish or continue property and new sales tax incentives for renewables projects.
7. Establish consumer protection programs through standards development and performance guarantees (e.g., tied to incentives) and required information disclosure to address investor pressures to prematurely bring new technologies to market.

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8. Establish state purchase programs specifically for state facilities. Examples include:
- Distributed generation projects on state properties.
 - Out of state purchase to stimulate transmission construction.

D. Statutory and Regulatory Streamlining

Background: Some state statutes and regulations need to be analyzed and fine tuned to maximize and optimize the available renewable resource pool.

Examples include:

- Allow the flexibility of Renewable Energy Credits alone to be eligible for the RPS.
- Modifying the CIWMB definition of MSW conversion technologies and also the CEC definition to allow MSW to be eligible for diversion credits and also for the RPS. In Sacramento alone, this could provide up to 100 MW of mostly renewable generation and also provide significant environmental benefits by diverting waste from landfills.
- Coordination and use of GhG regulations through AB 32 to incentivize renewables development (e.g., provide allowances also for renewables in a cap and trade program; allow GhG emissions credits for out of state renewables in bundled contracts where the energy from the specific project may not be delivered to California, etc.).

E. Training, Education and Licensing

Background: Specific training, education, and licensing programs need to be developed for renewable technologies to build a strong supporting infrastructure for sustainable renewable growth in California.

Suggested Actions:

1. Promote collaborative development of training programs for Renewable Energy technologies for delivery by the IOUs and POU's.
2. Develop renewable energy specific training programs integrated in the high school and college curricula.
3. Develop a clearinghouse service for renewable energy implementers.
4. Support the publication of renewable energy case studies.

F. Renewable Generation Permitting

Background: As in transmission, permitting of renewable generation can be a slow complicated process that may involve many regulatory agencies. Consolidated/accelerated permitting by local, state and federal government for renewable generation projects can address this issue.

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Suggested Actions:

1. Convene a renewable energy collaborative panel of industry, environmental, utility, and state/federal/local government representatives to evaluate and make recommendations on how to streamline and make less burdensome the renewable energy project permitting process at both the CEC (for 50MW + thermal) and in other government agencies (for non thermal renewables and less than 50MW thermal renewables). This would include evaluating the power plant NEPA/CEQA environmental review, and other permitting efforts to determine whether integrated processes are better (e.g., a single process for an applicant with complete federal, state, and local jurisdiction approvals and permitting for their project).
2. Establish a federal, state, and local jurisdiction approved standard mitigation approach for renewable generation projects.