

Paul Gipe

208 S. Green St., #5, Tehachapi, CA 93561-1741 USA

+1 661 325 9590 pgipe@igc.org

www.wind-works.org

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1516 Ninth Street, MS-4

Sacramento, CA 95814-5512

docket@energy.state.ca.us

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Below are some general observations on the CEC's workshop on feed-in tariffs and my answers to some of the CEC's questions for the October 1st workshop.

General Observations

- Nearly everyone agrees that California needs a dramatic increase in renewable energy development of all types, in all sizes, in all locations, by all means to meet its RPS and Climate Change targets. That should be a given.
- Nearly all agree that the RPS has not delivered the progress promised and that new mechanisms must be implemented immediately.
- Many acknowledge that one of the weaknesses of existing policy is its fragmentation: one program (the CSI) for solar PV, another for wind (essentially the RPS is a wind program), and the PUC's simple feed-in tariff for sewage-treatment gas.

There appeared to be a consensus developing at the October 1st workshop that feed-in tariffs should be restricted to projects less than 20 MW. However, we need a policy that enables projects of all sizes, not just those less than 20 MW. The Germans don't limit project size, nor do the French. The Spanish limit projects to 50 MW. Feed in-tariffs should not be relegated to a "small project ghetto".

Clearly, we need a comprehensive policy that encompasses all technologies, in all regions, in all sizes, that does not conflict or derail existing program such as the CSI, and existing contracts granted under the RPS.

To develop a true system of Advanced Renewable Tariffs like those used in Germany, France, and Spain, we need tariff differentiation based on technology, application, size, and in the case of wind on resource intensity. The tariffs must be based on the cost of

generation plus a reasonable profit. The CEC and the PUC are fully capable of making such calculations and there are ample examples around the world for state regulators to follow.

If regulators at the CEC and, more importantly, at the PUC get bogged down in seemingly endless reports such that these discussions are dragged out into 2010, then California should simply adopt the German or French tariffs and we should get on with it. Of course we can discount tariffs for solar PV by an appropriate amount based on differences in resource intensity (insolation) between Germany and California. But it has all been done before and we should just get on with it. Lengthy reports, hearing after hearing, just delay the date when policymakers have to make a decision to do this or not.

Moreover, the policy paths offered in the CEC's most recent report are not sufficiently inclusive and unduly restrict the most obvious policy choice: full market implementation of a program with no project size caps, no program limit within the ultimate RPS target, differentiated tariffs based on cost of generation plus reasonable profit, 20-year contracts open to all, no caps on "more expensive technologies", and immediate implementation. That this option was not included under "policy paths" unreasonably limits the CEC's policy choices.

Answers to CEC Questions

A. Representative Policy Paths. In the draft consultant report, a series of six representative potential policy paths are posed to stimulate reaction.

1. Of the representative policy paths described in the draft report, which are the most appealing? Least appealing? Why?

The status quo is unacceptable. The situation calls for action and not endless discussion. The situation also calls for a full program, like those in Germany, France, and Spain that is implemented immediately.

Option 1 is the least unappealing. It should be modified, as noted above, to a full-market program of all technologies, tariffs differentiated by technology, application, size, and in the case of wind by resource intensity. There should be no project caps, no technology caps, and the tariffs should be based on the cost of generation plus reasonable profit. Simply using the German program would substitute for Option 1.

2. Which policy paths are most appropriate for implementing in the near-term, mid-term, and long-term?

California should strive to meet its RPS target as rapidly as possible. In all likelihood the current target will be insufficient to meet the state's climate change and energy needs in the long-term. But once we learn that we will need more renewable capacity than our current modest targets, we'll find ourselves trapped by a tepid, tentative program not

robust enough to meet future demands. Therefore, there is an urgency that's not conveyed in the draft report.

Vice President Al Gore has effectively upped the ante of RPS programs across the country. Gore is calling for what is in effect a 75% national RPS target, that is, replacing all fossil-fired thermal generation in the country within ten years. California's 20% by 2010 target looks timid in comparison.

3. Does the California Public Utilities Commission have authority to implement expanded feed-in tariffs through the proposed paths?

4. If no, then what additional statutory and/or regulatory authority, or policy direction, is needed or recommended to implement any particular path?

5. What are the pros and cons of implementing pilot-scale feed-in tariffs in the near-term? What type of pilot programs might be desirable-single-utility, single-generation-type, limited size, limited scale (maximum MW/facility), within Competitive Renewable Energy Zones (CREZ) only?

There is no need of pilots or to limit program implementation to any single region, zone, or utility. These programs have proven successful in widely differing markets (18 EU countries now use some form of feed-in tariffs).

6. What are the pros and cons of automatically conditioning implementation of expanded feed-in tariffs on a future triggering milestone, such as failure of RPS solicitations to meet a specified target?

The trigger has been pulled. The CEC itself has acknowledged that the state will miss its RPS target. Therefore, immediate implementation is called for. There is no need for further "triggers". This just delays implementation and makes meeting the RPS target even more unlikely.

7. What changes could be made to the representative policy paths; or what alternative paths, or combination of policy paths, could be proposed to help achieve RPS renewable energy objectives.

As noted above, immediate implementation of a program with no size caps, open to all technologies, with a full suite of differentiated tariffs like those used in Germany or France.

B. Interaction between Policy Paths. The draft consultant report discusses potential interactions between representative policy paths, or ways in which one policy path could lead to or transition to another.

1. What are the pros and cons of the illustrative policy interactions shown in

Figure 3 of the draft consultants report?

2. What other transitions from one policy path to another might be worth considering?

C. Interaction with RPS & other policies.

1. What are the primary attributes of feed-in tariffs and can they help to facilitate achieving the California Renewable Portfolio Standard (RPS) goal of 33 percent renewable generation by 2020?

Feed-in tariffs have been shown to be the single policy mechanism that puts more renewable energy generation in the ground-or on the roof-more rapidly, in a more equitable fashion, and at lower cost than any other policy. The Stern report acknowledges that feed-in tariffs result in more actual generating capacity, as opposed to contracts, at lower costs than quota systems like the RPS.

2. Which policy paths are best suited to coexist with the current RPS solicitation process? Which are the most problematic?

A full feed-in tariff program can be launched alongside the existing RPS program but independent from it. Utilities can continue to solicit contracts to meet their obligations under the RPS. However, one of the key criteria of any successful feed-in tariff program is the right to connect, and the obligation by the utility to purchase the generation at the posted tariff.

3. What types of problems might the implementation of each policy path impose on the current RPS solicitation regime? How could they be mitigated?

4. How could expanded feed-in tariffs be used to maximize the use of CREZ transmission?

Feed-in tariffs should not be limited to CREZ zones. Bonus payments per kWh above the base tariff for each technology can be used to encourage location within a CREZ zone if desired. But the feed-in tariff program must not be limited to only CREZ zones.

5. How does a Feed-in Tariff process work with an Market Price Referent process? Is it conflicting? Competing? Independent? Complimentary?

Feed-in tariffs should not be based on the MPR. Instead they should be based on the cost of generation plus a reasonable profit. In some cases, the feed-in tariff may be less than the MPR. That is the case today in the case of wind energy at windy sites. The annualized inflation-adjusted tariffs for wind energy in Germany and France at windy sites is less than the current MPR. The focus of attention on German and French feed-in tariffs for wind energy is often on the tariffs for low to moderate wind sites. However,

Germany and France use tariffs based on wind resource intensity. For the first five years all wind turbines in Germany receive the same tariff. (In France it is now the first ten years.) After the initial period, the productivity of the site is determined and a revised tariff is posted for the remaining period of the contract. At windy sites, such as that in the Tehachapi or the San Gorgonio Pass, the annualized tariff is significantly less than the initial tariff.

In successful feed-in tariff programs, there is no relationship between the MPR and the tariff schedule.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Gipe". The signature is written in a cursive style with a large initial "P".

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