

June 11, 2009

California Energy Commission
Dockets Office, MS-4
Re: Docket Nos. 09-IEP-1G/03-RPS-1078
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09-IEP-1G

DOCKET

03-RPS-1078

DATE JUN 11 2009

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Re: 2009 Integrated Energy Policy Report (IEPR) – Docket
Nos. 09-IEP-1G and 03-RPS-1078: Feed-in Tariffs

To Whom It May Concern:

Southern California Edison Company (SCE) has been actively involved in the California Energy Commission's (CEC) feed-in tariff workshops over the past two years and appreciates the opportunity to submit these additional comments following the "Joint Integrated Energy Policy Report and Renewables Committee Workshop Exploring Feed-in Tariffs for Renewable Energy Projects over 20 Megawatts" (Workshop) held on May 28, 2009.

SCE reiterates its support for the development of voluntary programs to provide standard contracts for smaller projects (less than 20 megawatts (MW)) as a supplement to the competitive solicitations for renewable power. Feed-in tariffs work best for smaller projects because they can interconnect at the distribution level and do not depend on new transmission systems for delivery. SCE already offers a more streamlined program for these smaller generators through its Renewables Standard Contracts (RSC) program. SCE has received significant interest from renewable developers in the short time its RSC program has been available and has executed five contracts since the beginning of the year.

SCE provides responses to the following questions posed in Attachment A to the Workshop Notice:

- **Are renewable energy projects over 20 MW having difficulty getting financing?**

The ability to secure financing is affected by the timing and certainty of all elements of a project. Challenges with site control, transmission delays, permitting,¹ location, and even developer inexperience all contribute to a project's ability to secure financing. Regulatory and policy uncertainties also play a major role in a project's financing efforts. There is little doubt that financing is more challenging in today's market. Counterparties have indicated that lenders are

¹ Currently there is an Air Quality Management District (AQMD) moratorium on the issuing of new permits. The situation will exist until AQMD adopts a rule or new program that addresses the moratorium.

financing less debt, requiring more capital upfront to protect their interests, and generally taking less risk. Despite the strains in the financial markets, however, the industry is restructuring and capital funds are still available.

- **Would feed-in tariffs help? If not, what other options would help renewable energy obtain low-cost financing?**

Feed-in tariffs offer certainty through a long-term agreement which, as discussed above, aids in financing a project. SCE's experience, however, indicates that any long-term power purchase agreement provides the same level of certainty and feed-in tariffs provide no greater certainty than any other form of contract. Feed-in tariffs alone will not fix the challenges associated with financing, and creating a "one size fits all scenario" is not practical given the range of technologies, locations, transmission requirements, and other requirements of different projects. The capital costs to build a project starting at 20 MW can range from \$50 to \$200 million. At this level, contracts benefit from customization. Sellers, financiers, and buyers of these larger projects appreciate the ability to have open communication about project requirements and negotiate conditions that are reasonable and beneficial for the specific project and the buyer of the output. Unfortunately, due to the standardization of feed-in-tariffs, they cannot offer the flexibility to tailor contract terms as necessary for different project needs and do not allow for the viability assessment that should be taken into consideration for larger projects.

Better options to broaden the renewables market and create opportunities for generators may include: creating a market for Renewable Energy Credits (RECs), authorizing the use of an efficient fast-track approval process for short-term contracts, modifying in-state delivery requirements, and expediting transmission approvals. All these options provide additional mechanisms for market players to participate and contribute to California's Renewables Portfolio Standard (RPS) program.

- **How should feed-in-tariffs be structured to best help projects obtain financing?**

The best way to help smaller renewable projects obtain financing is to design programs that function successfully by fairly balancing the needs of the buyer and the seller. Successful programs, whether voluntary or feed-in tariff, will foster confidence in the projects and thereby help enable them to secure financing.

Size is an important consideration in establishing a successful feed-in tariff program. An increase in the size of eligible projects will not address the significant problems regarding grid infrastructure or existing transmission constraints within the state that are the primary barriers reducing access to renewable generation resources. An expanded program will also not accelerate the interconnection process or reduce the lengthy procedures for siting, permitting and building new transmission.

Additionally, while a feed-in tariff for smaller projects reaches out to generators that may lack the resources to participate in competitive solicitations, generators for larger projects do not require this same assistance in order to participate in competitive solicitations. A limitation on project eligibility to smaller projects is appropriate because it provides small generators with an

opportunity to contribute to RPS goals but does not interfere or compete with the RPS solicitation process, which is California's preferred means for contracting with renewable resources.

To the extent a feed-in-tariff is perceived as necessary for California, the goal of the tariff should be clearly defined and the program must include the following:

- Delivery and performance standards to ensure consistency and stability in terms of planning and scheduling energy;
- Program limits to manage the subscription of projects and control customer costs; and
- A cost allocation mechanism that broadly allocates the cost responsibility across all users of the distribution grid.

If you have any questions or need additional information about SCE's comments, please do not hesitate to contact me at (626) 302-6210.

Very truly yours,

Joni A. Templeton