



Republic Solar Highways

May 23, 2011

DOCKET

11-IEP-1G

DATE May 23 2011

RECD. May 23 2011

California Energy Commission
Dockets Office,
MS-4 Re: Docket No. 11-IEP-1G 1516
Ninth Street Sacramento, CA 95814-5512

RE: State Owned Renewable Generation

Dear Members of the CA Energy Commission:

Background

As referenced on page 20 of the April 2011 report: *Developing Renewable Generation on State Property*; Republic Cloverleaf Solar LLC is the private full service real estate and solar development company currently in negotiations with Caltrans to develop California's first "Solar Highway". The Republic Family of Companies has developed award-winning real estate projects ranging from land development to historic adaptive reuse to shopping malls. We have developed and invested in real property transactions totaling over 17 million square feet with a value in excess of \$4 billion. The Cloverleaf Solar Highways Project continues our long legacy of successful partnership with government in the form of public-private-partnerships (P-3).

The Republic Cloverleaf Solar Highways Pilot Project is a proposed P-3 with Caltrans D-4 where Republic will develop, finance, own and maintains ground mounted solar arrays along a 20-mile stretch of US Route 101 on seven separate Caltrans right-of-way intersections in Santa Clara County. The pilot project will produce up to 15 MW of solar power, enough renewable energy to power 3,000 single family homes. In May 2010, Republic was chosen to advance the solar highways concept, and as of the date of this letter, Republic and Caltrans District 4 are finishing the CEQA environmental review requirements as well as working to secure a 20-year Power Purchase Agreement (PPA) from an Investor Owned Utility (IOU).

To assist the Commission with additional detail on the proposed project, we have attached our information brochure which outlines the overall process, operation and benefits of the proposed project as well as our partner, Caithness Energy and General Electric the solar panel provider.

The purpose of this correspondence is to provide the California Energy Commission and Staff with comments on the P-3 model through Caltrans, as well as Republic's overall observations of the current IOU PPA procurement processes and how they are challenging for a P-3 to work with.

The Public-Private-Partnership Model to develop solar on State Owned Properties

The April 29, 2011 KEMA Report, mentioned in the Staff Report, discusses the overall business climate for renewable energy development in Europe; specifically, Germany, Spain, Austria and Switzerland. In each of these countries, the KEMA report alludes to several different financing structures which include the P-3 model where local, state or the federal government “partners” with a private renewable energy developer to privately own, finance and maintain renewable energy (solar/wind). The Republic Solar Highways is being proposed as a P-3 model. Republic has a great deal of experience and success throughout the country on various real estate projects using this model.

Entitlements and Processing

State permitting and overall processing is a critical component of any private development process, and the P-3 model provides the State and the developer specific roles to insure timely processing of what are complicated and expensive entitlements. As the case with our project, we are happy to report that our P-3 with Caltrans has been very productive:

- The Department Airspace Review Committee (DARC) process that has established milestones and timelines for CEQA review and project design.
- The development of project design criteria including: the suitable location and citing for the placement of solar arrays to insure driver safety and overall operation of the systems.
- Developer and Caltrans coordination with local cities, counties and regional agencies to insure outreach, education and facilitation of any local policies procedures.
- Caltrans D-4 and headquarters coordination with Federal Highways Administration.
- Caltrans D-4 Staff time reimbursed by Developer to insure adequate resources are provided for the D-4 staff.

Power Purchase Agreement (PPA) and Financing

The P-3 model also places the responsibility and requirement on the private developer to secure the PPA and tax credit financing renewable projects. As the case with the Caltrans permitting process, the financing of renewable projects is equally complicated. The P-3 model assists both the State and the developer:

- A majority of the Government incentives that make commercial solar projects financeable come in the form of tax credits. In a P-3, private developers can utilize these incentives whereas government entities (who don't pay taxes) cannot. P-3's for solar development make financial sense.

- Allow State to partner with an experienced energy developers and operators to own and maintain the renewable energy.
- To place the risk on the private developer related to overall safety and operation of the renewable system.
- Gives the State the ability to let a private developer apply to the IOU, a very costly process, to solicit a bilateral or reverse auction PPA's for long term power purchase.
- Allows State to enter into long-term ground lease contracts with private developer to insure ground rent payments and potential profit sharing.

Power Purchase Agreements for State Owned Properties

The April CEC Report does an excellent job of providing an overall “overview” of the potential for renewable development on State Properties, but it does stop short of identifying one of the major challenges of future development of renewable energy on state owned property: The procurement of a PPA from the IOU.

Currently, the California IOU's are acquiring the lion share of renewable power through several procurement programs that utilize a “reverse auction” process. Examples of these reverse auction programs include PG&E's 1-20 MW Solar Photovoltaic (PV) Program, PG&E's Renewable Auction Mechanism (RAM). We would like to specifically point at the 1-20 Solar PV Program because in March 2011, Republic responded to the Request For Offers for this program for the Solar Highway's project and was subsequently denied. Although there was not a detailed explanation of why we were not selected, it is clear that PG&E selected only those project's that they considered “cost effective”, or those projects that requested the lowest per kilowatt hour rate.

We believe the reverse auction process to be inadequate for future P-3 applications on state owned properties. In short, P-3's cannot compete with a “private” developments that do not have the same processing conditions and overall design hurdles that are associated with projects that are partnered with state agencies like Caltrans. For example, our project cannot compete, on costs, with a 15 MW solar project being developed in Dixon, CA, on a single parcel; by a private solar developer who can get a site development permit from the City Planning Department because it has a Category Exemption from CEQA. The P-3 renewable project will always cost more than the private project, and therefore cannot compete within the current IOU reverse auction programs and this will be a major obstacle when the State attempts to develop commercial solar projects on state owned property.

In addition to the price/costs issues associated with a P-3 competing in an IOU reverse auction process, there is also the issue of the “standardized” PPA. Taking the Solar Highways project as an example, Caltrans will be unable to agree to standardized legal contract language found in these standardized PPAs as there are many risk factors associated with the Highway System that must be vetted both within approved PPA and

Ground Lease, and under the current IOU reverse auction programs, there are no processes to address these issues.

Due to the constraints mentioned above, currently the only program that exists for P-3's to acquire a PPA is through the "bilateral" process where the developer and IOU negotiate directly on price/terms and go to the California Public Utility Commission for approval. This is the route that Republic is pursuing for its Solar Highways Project; however, this process is both long and cumbersome and cannot be counted on for the long term application of the development of renewable energy on state owned properties.

Republic Recommendations for Final Report

- 1) We endorse P-3 process as a best practice to developing State owned properties as it allows the project to take full advantage of government tax credit incentives, it generates new private sector jobs and long-term revenue for the state agency.
- 2) The current IOU process to procure renewable energy will not work for future P-3 projects as the system is too weighted on "costs". P-3's cannot compete in a reverse auction with 100% private renewable projects which have less regulatory requirements and contiguous parcels. P-3's also require more extensive legal framework within both the PPA and ground lease.
- 3) The CEC should consider future recommendations to the Governor, the Legislature and the CPUC for programs or new legislation specifically designed for the development of state owned properties within P-3 models.

Finally, Republic respectfully requests the opportunity to testify to the CEC through future workshops and working groups such as the "Picker Working Group".

We thank you for the opportunity comment, and we would again commend the CEC Staff and Commission for this excellent report.

Regards,



Michael R. Van Every
President

CC: Caithness Energy
California Transportation Commission
California Public Utility Commission