



October 5, 2011
California Energy Commission
Dockets Office, MS-4

Re: Docket No. 11-IEP-1G

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Electronically submitted to: docket@energy.state.ca.us

RE: Draft Renewable Power in California: Status and Issues.

Commission Workshop: held September 14, 2011

Sierra Club California appreciates the opportunity to provide comments on this report, **Draft Renewable Power in California: Status and Issues.**

Chapter 7 - Investing and Financing Issues

Increased background and prominence of role of FITs in promoting state's DG goals

The Governor's plan calls for 12,000 MW of DG. According to this draft report, 3,278 MW of DG capacity is already installed and another 5,400 could be implemented under existing payment policy programs such as the RAM and CSI programs. This leaves about 3,500 MW of DG still to be installed to meet the 12,000 MW goal. The State will need to determine what policy mechanism / program type will be used to pay for this capacity. FITs can and should play a major role as a payment financing mechanism. As the state seeks to go beyond a 33% RPS and to grow DG beyond 12,000 MW, FITs could confidently spur the planned, rapid and cost effective growth of renewables.

This chapter does point out that FITs are "...the most widely implemented renewable policy ... worldwide" but stops far short of describing how successful FITs have been and the prominent role they could play in enabling California to reach its renewable energy targets – especially with respect to DG.

"Feed-in tariffs (FITs) are the most widely used policy in the world for accelerating renewable energy (RE) deployment, accounting for a greater share of RE development than either tax incentives or renewable portfolio standard (RPS) policies FITs are responsible for approximately 75% of global PV [solar photovoltaic] and 45% of global wind deployment," according to *A Policymakers Guide to Feed-in Tariff Policy Design* by Toby Couture *et. al.*, released in July, 2010 by the National Renewable Energy Laboratory.

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The largest economies of the world, with the exception of the US, now use FITs to promote their renewable energy goals. China recently implemented solar FITs and Japan just recently announced a new target of achieving 30,000 MW of renewable energy by 2020 paid for with FITs. Germany is generally recognized as the world's leader in the most well designed FIT program and among the most successful in its use. Germany (about twice the GDP size of California) installed 7,400 MW of solar PV in just one year, 2010, all paid for under their FIT program and the majority of which was DG-sized projects. Ontario, Canada launched a new FIT program over 18 months ago that has been highly successful. And just this past June, Rhode Island's governor signed into a law a new FIT program. All of these countries and jurisdictions are choosing FITs as their preferred policy mechanism over (or in conjunction with) RPS, tendering mechanisms, tax breaks, and other policy mechanisms because they are successful and because they are cost effective. California should use this proven mechanism to meet its RPS goals while containing costs for ratepayers.

A primary reason why FITs have been so successful is that they offer a stable, transparent and certain policy mechanism that is attractive to investors, developers and financiers. They offer, in the words of Deutsche Bank Climate Change Advisors, "TLC – transparency, longevity and certainty." Because FITs offer a long term contract – usually 20 years –; a fixed tariff for each KWh delivered; a simplified, standardized must-take contract and preferential expedited interconnections, they greatly reduce the uncertainty and risk of renewable energy projects. This enables project developers first and foremost to obtain financing and to obtain it at low rates. Since renewable energy projects are typically capital intensive, lower financing costs can have a very material effect on lowering the Levelized Cost of Energy (LCOE) to very competitive rates. Lower risk results in a much lower percentage of failed projects due to inability to obtain financing. Reducing the percentage of failed projects from its current level of 30% is one of the goals of the CEC and CPUC. FITs can significantly improve this since the greatest single reason for project failures / cancellation is in financing problems.

The implementation of a well-designed, best practices FIT program in California could help us meet our objectives and solve many of our problems in renewables implementation including:

- a. Managing the pace and cost of renewables implementation in a timely and predictable way.
- b. Promoting a diversified portfolio of renewables including a mix of baseload, peaking and as-available non-peaking resources to ease integration.
- c. Provide tariff incentives to preferred DG locations where circuits have available capacity.
- d. Providing a funding mechanism to support a broader diversity of parties interested in installing smaller scale local clean energy projects while promoting more local jobs.

The Draft Report states, "In the United States, investor-owned utilities and other utilities under the Federal Energy Regulatory Commission's jurisdiction face restrictions related to setting prices for wholesale electricity." There certainly are FERC regulatory restrictions, but the good news is that in response to IOU challenges and CPUC's request for clarification, FERC recently issued two favorable and definitive rulings in the last year that did clarify what flexibility was allowed to states under these regulations. These two rulings are Ruling 133 (October 21, 2010) and Ruling 134 (January 20, 2011).

The practical implications of these FERC rulings are that California (and all states) may construct a FIT structure that differentiates tariffs by technology and project size (and other differentiators as it may decide.) States may set avoided cost rates or tariffs within each of these categories of renewable generation if it so desires. It only needs to specify the quantity of generation within each category that must be procured. Rhode Island's new FIT program takes full advantage of

these rulings, has structured its FIT program this way and is the first state to take advantage of these rulings.

This structure actually helps address two preferences of utilities and state regulatory agencies which is knowing in advance how much new generation will be installed within a given time period and being able to plan rate impacts. For example, if an IOU knows that it will be required to procure say 150 MW of PV solar within the project size of 1 MW – 3 MW in a given year at the prescribed FIT price, it can know exactly how much generation to plan for, what the rate impact will be, etc. This takes the unknown out of the equation.

Therefore, we would recommend the following to staff in updating this report:

1. That the final report be modified to clarify that while California FITs must, of course, comply with FERC regulations, that recent FERC rulings give states more flexibility in design of FITs than has ever existed before and that FITs structured under these regulations could offer many benefits to the state including those we've outlined above.
2. That staff research the issue of the pros and cons of various policy mechanisms including FITs, RPS, tendering, tax incentives and others. One excellent source of information is "Powering the Green Economy: The Feed-in Tariff Handbook", 2010; Miguel Mendonca, David Jacobs and Benjamin Sovacool (Chapter 9 compares FITs to other policy mechanisms). This research will confirm why so many countries around the world are implementing FITs. They get the job done and are cost effective when compared with other policy mechanisms. The conclusions of this research should be included in the report.
3. That in both the body and the executive summary of this report, that the potential role of a best practices designed, cost-plus-profit-based FIT be more appropriately represented along with the many benefits that such a program could provide, especially as a program to support the implementation of the needed 3500 MW of DG.

Thank you for your consideration.



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