



FPL Energy Project Management, Inc.

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January 18, 2007

Mr. Steve Church
California Air Resources Board
1001 "I" Street, PO Box 2815
Sacramento, CA 95812

**Re: Comments of FPL Energy Project Management, Inc. on December 21,
2007 Draft ETAAC Report**

Dear Mr. Church:

FPL Energy Project Management, Inc. ("FPL Energy") submits these comments addressing the December 21, 2007 Draft *Economic And Technology Advancements for California Climate Change Solutions Report* ("Draft Report") prepared by the Economic and Technology Advancement Advisory Committee ("ETAAC") for submittal to the California Air Resources Board ("CARB") as part of AB 32 implementation. FPLE applauds ETAAC's extensive efforts and supports the recommendations in current Draft Report relating to the energy sector. FPL Energy offers the following specific recommendations for inclusion in the Final Report:

- The proper value for carbon must be established in a specific time period to inform the policy choices being made to implement AB 32;
- The role of the Carbon Trust must be carefully defined to allow the market to determine the price of carbon; and
- ETAAC should add a recommendation that CARB formalize coordination among the respective responsible agencies and administrative bodies during the implementation of AB 32 to ensure that climate change objectives are including in all decisions of those bodies.

FPLE¹ is a leading clean energy provider with over 13,000 MW of natural gas, wind, solar, hydroelectric and nuclear power plants in operation in 25 states. More than 90% of FPL

¹ FPL Energy, LLC and its affiliates FPL Group, Inc., Florida Power & Light Company, FPL Group Capital, Inc., each have subsidiaries and other affiliates with names that include FPL, FPL Energy, FPLE, FPL Energy Project Management, Inc. and similar references. For convenience and simplicity, FPL Energy, FPL Group, FPL and FPL Group Capital, as well as terms like Corporation, Company, our, we and its, are sometimes used as abbreviated references to specific subsidiaries, affiliates or groups of subsidiaries or affiliates. The precise meaning depends on the context.

Energy's electricity is generated by clean fuels. In addition, FPL Energy is the nation's leader in wind energy generation and operates the two largest solar fields in the world.

Furthermore, FPLE is an affiliate of a regulated utility, Florida Power & Light Company. In California, FPLE affiliates own and operate 700 MWs of wind in Altamont, Palm Springs and Tehachapi, 310 MWs of concentrated solar thermal in the Mojave Desert, 500 MW of combined cycle natural gas at Blythe and 44 MWs of coal in Stockton. Our company brings a unique perspective to this discussion: (1) We have looked at this issue from both regulated and unregulated interests; (2) We operate in all regions of the country; and (3) We own and operate a diverse portfolio of generation technologies: wind, solar, nuclear, hydro, natural gas and coal. Our corporation was an early advocate for electric generation climate change protocols nationally. FPL Group is committed to advancing climate change policies. Our company has actively participated in the development of RGGI protocols in the Northeast as well as federal efforts. We endorse and support California's efforts to achieve the goals of AB 32.

ETAAC has done an excellent job, in its advisory capacity to CARB, of identifying the major strategies and opportunities to advance cost-effective greenhouse gas emission reduction technologies, including the challenges facing the financial sector. The Draft Report contains solutions to the current barriers to California's climate reduction for all critical policy areas, including those of particular interest to FPL Energy – renewable energy development. FPL Energy is investing over a billion dollars a year into renewable energy sources (both wind and concentrated solar) and would like to bring its capital to California.

In reading the Draft Report, we appreciate the breadth of opportunities that have been identified and support California developing policies to act now and advance carbon reduction technologies and strategies. If California is to achieve its carbon reduction goals, then these actions must be taken today that move beyond today's "business as usual". Recognizing that there is not a silver bullet (Draft Report, p. 9-71), we urge ETAAC to emphasize the following points in its recommendations that relate to implementation of selected key proposals such as: (1) establishing a value of carbon in the purchase price of renewables by a specific time (Regulatory "To Do" List, p. 5-22); (2) appropriate use of the Carbon Trust to advance rather than impede carbon reduction (Chapter 2.II.A); and (3) emphasizing that coordination of California statewide agencies is essential to advancing carbon reduction measures, especially increased penetration of renewable technologies.

Critical to this effort, is the establishment of a clear market price for carbon by a specific time as a prerequisite for evaluating the cost-effectiveness of any program or policy. Determining a market price for carbon will allow carbon free or neutral technologies to receive the proper value in relation to fossil fuel generation of renewables in the California supply mix.

The central area of focus in our comments is the recommended role for a Carbon Trust set forth in Chapter 2.II.A. FPL Energy supports the utilization of auctions for the allocation of allowances in a carbon program and endorses the concept of an early auction to “help set an early price signal” and “remove some of the uncertainty about rule-making” by “jumpstarting the market for carbon in advance of 2012. However, we do not support the role of the Carbon Trust as the principal “market maker” for the price of carbon. In the event that there is a need for a “shock absorber” (Draft Report, p. 2-6), such elements can be built into the auction protocols rather than through the Carbon Trust. The Carbon Trust should only be used for the other specifically defined outlined the Draft Report, Chapter II.2.A. As stated in the Draft Report, it is critical that the revenues generated by allowances be reinvested in new renewable projects that might otherwise not be built, research and development for innovative technology and consumer programs, such as energy efficiency and defraying the cost of carbon reduction to low income consumers (Draft Report, Section 2.II.A, pp. 2-3 to 2-9.) It is essential that the auction revenues pass the Sinclair Paint test are “reasonable” and create a “nexus between the purpose of the fee and the use of its revenues.” (Draft Report, p. 2-8).

FPL Energy supports the electric sector recommendations pertaining to renewable generation as set forth in Chapter 5. We particularly endorse transmission line construction to renewable resource zones, pricing reform, property tax abatement and allowance of tradeable credits for compliance with California’s carbon program, such as “unbundled” renewable energy credits (“RECs”). These will expand the products available to incentivize the development of new renewables in California. We also recommend consideration of other mechanisms such as revenue-neutral tax incentives and renewable energy “banks” as additional means of expanding renewable production in relation to the revenues raised through auctions and distributed by the Carbon Trust. Properly designed incentives for renewables will yield great returns for California. If more money is invested as a result of such incentives, then greater carbon reductions will be achieved, spending on carbon impacts will be lowered and, ultimately, more revenues will accrue to the state.

Finally, FPL Energy encourages ETAAC to add language emphasizing the critical importance of statewide governmental coordination in AB 32 policy implementation. CARB can continue to take a leadership role in this endeavor. We are aware that the pertinent agencies are currently working hard to ensure that the statutory objectives and timelines are met. Nonetheless, there may be unintended consequences when an agency makes decisions in areas not apparently within the scope of AB 32 yet have a direct impact on effectuating its policies. For example, the current efforts to reform the transmission queue at the California Independent System Operator and the Federal Energy Regulatory Commission directly affect the ability to construct new renewables. Additionally, permitting or other electricity planning elements, such as the California Public Utilities Commission’s (CPUC)

procurement policies should include AB 32 assessments. Agencies can assign then a priority to climate change solutions in decision making, including permitting, and set a platform for investment. The CPUC has done this in its recently adopted Long-Term Procurement Plan Decision (D.07-12-052),

Thank you for the opportunity to provide these comments and FPL Energy looks forward to working with ETAAC to implement its recommendations.

Please feel free to contact FPL Energy at if you have any questions.

Sincerely,

Diane I. Fellman
Director, Regulatory Affairs
West Region