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Ausra, Inc.
BrightSource Energy
California Wind Energy Association

January 17, 2008

Steve Church
Research Division
California Air Resources Board
1001 I Street, PO Box 2815
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Via email: schurch@arb.ca.gov

Re: Comments on December 21, 2007, ETAAC Discussion Draft

Dear Mr. Church,

The California Wind Energy Association (CalWEA) and three central station solar development companies -- Ausra, Inc., Abengoa Solar, Inc., and BrightSource Energy -- have reviewed the December 21, 2007, Discussion Draft report of the ETAAC and find that it fails to identify the chief obstacles that are limiting the development of commercially ready and cost-competitive renewable energy technologies. Instead, it promotes “solutions” that could add development barriers.

A variety of existing and emerging renewable energy technologies could easily provide 33% of California’s electricity supply by 2020, making a significant contribution to achieving California’s AB 32 goals. To wit, 40,000 MW of proposed renewable energy projects have already applied for transmission interconnection at the California Independent System Operator (ISO) – approximately twice as much capacity as would be required to meet 33% of California’s electricity needs.

To realize this potential, it is critical that the ETAAC properly inform the ARB of the major actions that must be taken:

- **Establish a 33% Renewables Portfolio Standard (RPS) in law or through ARB regulation,**
- **Reform the CAISO generation interconnection process so that it leads to timely transmission upgrades,**
- **Facilitate the timely siting and construction of needed transmission upgrades, and**
- **Provide property tax parity for central station solar facilities and encourage federal action on long-term wind and solar tax incentives.**

These actions would address far greater barriers than those identified in the discussion draft (e.g., prioritized competitive renewable energy zones and RPS pricing reforms). Indeed, some of the actions recommended in the Discussion Draft could actually slow renewables' development. These issues are discussed below.

I. Major Actions Needed to Promote the Development of Renewables

A. Firmly establish a 33% Renewables Portfolio Standard (RPS) requirement

The Discussion Draft states that the barriers it identifies “will become even more critical if California codifies a 33 percent RPS by 2020” (emphasis added), noting that this goal is supported by the Governor, the CEC and CPUC. But the report fails to state that the lack of a codified 33% RPS is itself the largest barrier facing the development of renewables. Currently, California’s RPS law prohibits the PUC from raising the requirement above 20%,¹ and an effort to raise the requirement was unsuccessful in the legislature last year due to utility opposition. It is essential that the ETAAC call for a 33% -by-2020 RPS to be a central feature of the ARB’s scoping plan – either as an ARB regulation or a recommendation to the legislature to take immediate action.

The 20% RPS law has amply demonstrated that market pull is the most effective means of promoting renewable energy development and technology advancement. When the 20% RPS was passed in 2002, the state was virtually dead in terms of renewable energy activity. Today, as noted above, there are 40,000 MW of proposed renewable energy projects, using a variety of technologies, in the California ISO’s transmission interconnection queue.

Raising California’s RPS goal in statute is extremely important to keep this momentum going, once the state’s utilities sign enough contracts to achieve the 20% goal, which will happen very soon. Moreover, the RPS is designed such that it will produce renewables subject to a cost cap that, under present law, is equal to a conventional gas plant, including the fuel price risk, air quality impact abatement, and GHG costs associated with a gas plant.² This design ensures that a 33% RPS would be a “no additional cost” policy with a built-in linkage to actual GHG costs. Thus, there is little downside to adopting a 33% RPS.

Establishing a higher goal in law is critically important for at least three reasons:

1. A statutory requirement will give the California ISO a firm basis for planning the transmission system accordingly. Given the 5-7 years’ lead time that it takes to plan,

¹ Public Utilities Code Sec. 399.15(b)(1).

² The Discussion Draft contains an incorrect statement on this point, on p. 9-49 (“No other values are included in this proxy (MPR) calculation, such as avoidance of GHG emissions or other environmental attributes.”). Further, we disagree with the statement (p. 9-49) that, “The ETAAC energy subgroup recommends that the State revisit the structure of RPS pricing and determine how the structure could be simplified.” The RPS pricing structure is not “too complicated” and has been relatively non-controversial. We recommend that the ETAAC eliminate the Discussion Draft section beginning “Simplify Renewables Pricing.”

permit and construct transmission, the goal must be adopted very soon – preferably in 2008, 2009 at the latest.

2. Establishing a 33% requirement will deter commitments to additional fossil fuel resources, and will promote the use of the flexible operational capabilities of system resources (including hydro, pumped hydro storage, and fossil fuel resources as well as some large loads) as a complement to renewable resources, which are operationally constrained by nature. A 2007 report of the California Energy Commission suggests that accommodating up to 20% intermittent (wind and solar) resources would require no additional resources to be added to California’s electric system if existing assets were operated utilizing their inherently flexible characteristics.
3. Raising California’s RPS goal in statute will maintain the very substantial market activity that has developed as a result of the 20% RPS requirement. If the demand-pull stops once sufficient contracts to meet the 20% goal are signed (which will be soon), companies’ investments in California’s market will also stop. Those investments are needed in part to drive transmission development.

B. Reform the CAISO generation interconnection process

The primary reason that California is not meeting its 20% RPS goal on schedule is the lack of adequate transmission infrastructure and the CAISO’s dysfunctional generation interconnection process (which should lead to upgraded transmission infrastructure). Reform of the interconnection process is urgently needed, as recognized by the Federal Energy Regulatory Commission (FERC). We have developed a proposal for effective reform and recently submitted that proposal to FERC.³ We expect this proposal to be considered at the CAISO in an upcoming stakeholder process.

Rather than reference this urgent issue in passing at the end of the section that discusses CREZs, the ETAAC should highlight this issue as a critical barrier facing renewables. While this needed reform of the CAISO process is FERC-jurisdictional, the state can and should participate in the process and encourage immediate and effective reforms.

C. Facilitate the siting and construction of transmission upgrades

The ETAAC should recommend concrete actions that would expedite transmission planning and permitting. For example, the CPUC could participate in the ISO’s regional transmission planning process and then defer to the decisions produced in that process regarding necessary upgrades, rather than revisiting the ISO’s need determination in the CPUC’s CPCN process. Specific reforms such as this, and the other two actions discussed above, hold the most promise for promoting the timely

³ See “Post-Technical Conference Comments of the California Wind Energy Association, Ausra, Inc., Abengoa Solar, Inc. And Brightsource Energy on Interconnection Queuing Practices,” in FERC Docket No. AD08-2-000 et al., January 10, 2008. Available at:

[http://www.calwea.org/pdfs/publicFilings2008/FERC_Comments_Wind_Solar_\(1-10-08\).pdf](http://www.calwea.org/pdfs/publicFilings2008/FERC_Comments_Wind_Solar_(1-10-08).pdf).

development of transmission infrastructure, compared with those that might be achieved through a new multi-agency, multi-stakeholder process aimed at facilitating transmission development (see II.A, below).

D. Extend solar property tax relief and continue federal tax incentives.

Continuation of California’s property tax exemption for central station solar facilities is critically important for the development of these capital-intensive projects, and would provide tax equity compared with the property taxes paid by natural gas power plants. In recent years, spurred in large part by California’s RPS, concentrated solar companies have risked hundreds of millions of dollars to bring this industry and its technologies to a position of commercial readiness, and the financial markets have indicated their support for these technologies. But this support is contingent on a long-term renewal of the state’s property tax exemption for solar energy equipment.⁴ The importance of this issue is such that it merits placement in the ETAAC’s main chapter on renewable energy, rather than being relegated to a laundry list of issues in the appendix.

The chapter should also note the importance of a long-term extension of the federal Wind Production Tax Credit and the Investment Tax Credit for solar resources. As indicated in the ETAAC report appendix, a long-term, stable PTC and ITC would provide developers and manufacturers the certainty needed to make long-term investments in project development and manufacturing facilities. California officials should strongly and actively encourage our Congressional delegation to make these items a priority.⁵

II. Concerns with Recommended Actions

A. Prioritizing “Competitive Renewable Energy Zones” will be counter-productive

The existing Renewable Energy Transmission Initiative could play a useful role in facilitating the ISO’s planning of the major network facilities that will be needed to accommodate large-scale development of renewables, particularly backbone and interstate transmission paths. However, any attempts to “prioritize” renewable energy projects through “Competitive Renewable Energy Zones” (p. 5-7) will be counter-productive at best.

Attempts to prioritize CREZs are likely to be much less successful than (a) relying on the market to identify and develop the most promising renewable energy projects in any number of areas, and (b) implementing badly needed reforms of the CAISO generator interconnection process. Moreover, a process of “prioritizing” renewable energy zones would be directly at odds with FERC’s “open access” transmission rules and the RPS statute and its implementing regulations, all of which

⁴ AB 1451, pending now in the legislature, would accomplish this goal.

⁵ Federal tax incentives for other forms of renewable energy are likely also important, but we are speaking here for our own industries.

rest on market principles rather than on administratively determined outcomes. Further, it may be that more dispersed development, rather than concentrated “zones” are more practical and efficient.

Finally, this type of central planning effort would very likely get bogged down in excessive “process” and controversy. The controversy would stem from the fact that the results of an administrative process would compete with the competitive market process in determining which projects and project areas should be developed first.

B. RETI will not be an effective venue for project permitting

The Discussion Draft effectively proposes a multi-agency permitting process involving the CPUC, CEC, California Department of Fish and Game, Regional Water Quality Control Board, Bureau of Land Management, Fish & Wildlife Service, National Park Service, Army Corps of Engineers, and Department of Defense land managers. It envisions that “this new siting process will create common environmental documents and consolidated state and federal permits within one year” (p. 5-7).

It could be very helpful to hold roundtable discussions with these various agencies to underscore the importance of opening up federal multi-use lands and airspace in California for renewable energy development and transmission corridors, and of accelerating the federal lands permitting process. However, it will not be productive to try to involve all or even a portion of these agencies in making joint decisions regarding permitting.⁶ Such a process would in fact add a very slow additional process layer to what is already a very difficult and lengthy permitting process.

If the idea advances, it should be with the goal of reducing the total number of permitting layers. It must be recognized, however, that accomplishing that goal would require extensive and controversial changes to state and federal law.

Thanks to you and the committee for considering our views as you finalize this report.

Sincerely,



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⁶ In support of the proposed multi-agency permitting, the Discussion Draft references the CEC-BLM joint permitting initiative. However, both the CEC and BLM have authority over land use for thermal renewable energy projects; the other referenced agencies have no such jurisdiction, nor would any coordinating entity.

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