

**BEFORE THE CALIFORNIA ENERGY RESOURCES CONSERVATION AND
DEVELOPMENT COMMISSION**

In the matter of Informational Proceedings
and Preparation of the 2004 Integrated,
Energy Policy Report update (2004 Energy
Report Update

Docket No. 03-IEP-01, 02-REN-1038, 04-
DIST-GEN-1

**Comments of Capstone Turbine Corporation on the Accelerated Renewable Energy
Development Draft Staff White Paper**

Capstone Turbine Corporation submits these comments on the issues raised by the Draft Staff White Paper entitled “Accelerated Renewable Energy Development”.

Capstone is involved in the development of small-scale projects that convert landfill and digester gases into electricity and thermal energy. Our comments are focused on issues that impact the potential for these small-scale renewable projects to participate in the Renewable Portfolio Standards. We would like the White Paper to add discussion of 3 particular issues.

1. The need for a standard offer tariff as an alternative to an RFP process for small-scale renewable projects.
2. The need to enable the California Independent System Operator (CAISO) to dispatch generation less than 1 MW.

3. The need to address the condition of the Self-Generation Incentive Program that would make generators ineligible for funding if they entered into an agreement for the export and sale of electricity.

Standard Tariff for Small Scale Renewable Projects

Generator participation in the renewable portfolio standard currently requires participation in an RFP process. While such a transaction process may be appropriate for the acquisition of large amounts of power, it is not necessarily the most efficient or effective means of transacting smaller amounts of capacity. The Commission's report entitled "Renewable Resources Development Report" notes that both landfill and digester gas projects tend to be relatively small and provides data that illustrates this point.

An RFP process is not typically an efficient method of transacting small projects of the type that are typical of landfill and digester gas applications. We would encourage the Commission to investigate alternative transaction processes that would be more effective in attracting small projects into the RPS than is likely with an RFP process.

The preferred alternative to the RFP process is one whereby the utility would make an open offer by way of a tariff, which would state standard terms and conditions plus the price that would be paid for renewable resources. The terms and conditions including the price offered through this tariff should be derived from the results of the solicitation process and these terms and conditions and price should be altered whenever results of a new solicitation are issued.

The tariff could be opened continuously or open only until a certain MW subscription level is achieved.

The benefit of such a tariff is that:

1. It enables small-scale renewable projects to participate in the RPS by removing the expense of an RFP on both the project sponsor and the utility.
2. The price of the renewable resource is established consistent with the competitive RFP process.
3. It allows small renewable projects to be developed continuously over the year rather than forcing the development cycle into a timeline consistent with the annual RFP calendar.
4. By facilitating continuous development of small renewable projects it helps enable new generation to grow in smaller gradual increments that are more consistent with load growth.

California ISO 1 MW Schedule limitation

Currently, the CAISO rules do not allow capacity less than 1MW to be scheduled. This adds another obstacle to the ability of small-scale renewable energy projects such as landfill and digester gas to participate in the renewable portfolio standard.

The CAISO should be encouraged to reduce this scheduling limitation to 100kW. This lower limit would increase the ability of many small-scale renewable projects to contribute to the State's renewable energy needs.

Self-Generation Incentive Program

Capstone's experience with landfills in particular indicates that these facilities can produce substantially more electricity from the gas they produce than they can consume on site. In the absence of a market for the surplus electricity, landfills are likely to produce only enough electricity to meet their onsite needs and to flare the rest of the gas available. Establishing a standard offer tariff and allowing the CAISO to schedule smaller capacities would help establish a market for this surplus generating potential. However, the Self-Generation Incentive Program Handbook Section 2.3 includes among host customers and loads that are ineligible for incentives "Customers who have entered

into agreements that entail the export and sale of electricity from the Host Customer site.” This rule of the Self-Generation Incentive Program (SGIP) would mean that renewable projects could lose eligible for an incentive payment from that program if they sell and export surplus power.

If, as appears to be the case, participation in the RPS would make the landfill or digester generator ineligible for an incentive payment from the SGIP, then it remains unlikely that these generators would seek to participate in the RPS.

This problem should be addressed by modifying the requirements of the self-generation incentive program so that small renewable facilities do not lose their eligibility to participate in the Self-Generation incentive program when they also contribute to the RPS.

Recommendations

We believe that it is important to address the obstacles to small renewable energy project participation in the renewable energy development of California. We encourage the Commission and its staff to:

1. Develop a standard offer tariff that will provide an efficient means whereby small renewable energy projects may participate in the renewable portfolio standard,
2. Encourage the CAISO to reduce its scheduling limit to generation above 100kW, and
3. Seek to remove the barrier to participation in the Self-Generation Incentive Program that would result from participation in the renewable portfolio standard.

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