CALIFORNIA ENERGY COMMISSION
1516 Ninth Street
Sacramento, California 95814

Main website: www.energy.ca.gov

STATE ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION*

Implementation of Renewables Investment Plan Legislation[i]	)	Docket No. 02-REN-1038 Renewable Energy Program NOTICE OF STAFF WORKSHOP RE: Guideline Revisions for Renewable Energy Program and RPS Implementation

Notice of Staff Workshop on Guideline Revisions for the Existing Renewable Facilities Program

The California Energy Commission (Energy Commission) developed guidelines to implement and administer its Renewable Energy Program and its responsibilities under California's Renewables Portfolio Standard (RPS) under Senate Bill 1038.[ii] These guidelines are set forth in the *Existing Renewable Facilities Program Guidebook: Fourth Edition* (*Guidebook)* and are being revised to address changes in law and refinements to the program.

The Energy Commission staff will conduct a public workshop to discuss various options that could be used in implementing the Existing Renewable Facilities Program (ERFP).

THURSDAY, JUNE 12, 2008
1 pm
CALIFORNIA ENERGY COMMISSION
1516 Ninth Street
First Floor, Hearing Room A
Sacramento, California
(Wheelchair Accessible)

Audio from this meeting will be broadcast over the Internet.
For details, please go to:
www.energy.ca.gov/webcast/

To participate in the meeting by phone,
please call **888-469-3052** by 1 pm
Passcode: Workshop
Call Leader: Jason Orta

If you are planning to attend this meeting, please be aware that drivers can expect traffic congestion and delays due to repair work on Interstate 5 in the downtown

Sacramento area. Information on road closures and alternate routes is available at [http://www.fixi5.com/,](http://www.fixi5.com/) or you can call 511 to get information in English and Spanish.

Purpose

This workshop provides an opportunity for the public to provide additional comments on various options and to provide their suggestions for implementing the ERFP.

Background

The ERFP provides funding in the form of production incentives to eligible renewable energy facilities for each kilowatt-hour (kWh) of eligible electricity generated. The facility must use an eligible renewable energy resource to generate electricity and be located either within the state or near the state's border with its first point of interconnection to the transmission systems within the state. Eligible renewable energy resources include biomass, solar thermal electric, and wind. Although existing wind facilities are technically eligible for funding, they currently do not require assistance. Therefore, all ERFP funds are available for eligible existing solid-fuel biomass facilities and solar thermal electric facilities.

The Energy Commission has provided this renewable funding since 2003 under SB 1038. This law, along with the Reliable Electric Service Investments Act,[iii] continues the collection of a non-bypassable system benefit charge initiated in 1998 under Assembly Bill (AB) 1890 (Brulte, Chapter 854, Statutes of 1996) and authorizes the Energy Commission to continue the expenditure of these funds to support existing, new, and emerging renewable resources.

Senate Bill 1250 (Perata, Chapter 512, Statutes of 2006) made significant changes to section 25740 et seq. of the Public Resources Code, including requirements related to the ERFP in Section 25742. These changes significantly modified how the Energy Commission must evaluate applications for ERFP funding in current and future funding cycles. The important program changes mandated by SB 1250 will continue to affect both the Energy Commission's basis and decision in determining the funding level for each facility.

Before the passage of SB 1250, the Energy Commission set uniform target prices and production incentive caps based on the facility's technology. Following the passage of SB 1250, "Each existing facility seeking an award pursuant to this section shall be evaluated by the commission to determine the amount of the funds being sought, the cumulative amount of funds the facility has received previously from the [Energy] commission and other state sources, the value of any past and current federal or state tax credits, the facility's contract price for energy and capacity, the prices received by similar facilities, the market value of the facility, and the likelihood that the award will make the facility competitive and self-sustaining within the 2007-2011 investment cycle.

The [Energy] commission shall use this evaluation to determine the value of an award to the public relative to other renewable energy investment alternatives. The [Energy] Commission shall compile its findings and report them to the Legislature in the reports prepared pursuant to Section 25748."

Additionally, Senate Bill 1036 (Perata, Chapter 685, Statutes of 2007) changes the ERFP's allocation of funds from the Renewable Resources Trust Fund from 10 percent to 20 percent of the funds collected for the Renewable Energy Program effective January 1, 2008.

The *Existing Renewable Facilities Program Guidebook: Fourth Edition* reflected the changes legislated by SB 1250. Due to certain questions and challenges encountered by participating facilities in applying for funding awards and by the Energy Commission in processing funding award applications for the 2007 calendar year, the Energy Commission's Renewables Committee held a workshop on December 13, 2007 to discuss proposed changes to the *Guidebook*. This workshop discussed staff's proposed changes to the *Guidebook,* which intended to better assist applicants in complying with program requirements, to clarify the process used by the Energy Commission to determine appropriate funding award decisions under SB 1250, and to incorporate the changes enacted in SB 1036.

Based on subsequent comments from the public and the necessity to have a continuing dialogue with the public, a staff workshop has been scheduled.

Attachment A is a table that describes allocation and methodology, outlines the pros and cons of implementation and generates estimated payouts, target prices and incentive caps. This table is being provided to the Renewables Committee and staff welcome comments from the facilities on it during the Workshop.

Attachment B is a list of changes that staff will recommend be incorporated into the Guidebook regardless of how the program is implemented.

Written Comments

Written comments on the workshop topics must be submitted by 5:00 p.m. on Monday, June 16, 2008. Please include the docket number **02-REN-1038** and indicate **Guideline Revisions for the Existing Renewable Facilities Program** in the subject line or first paragraph of your comments. Please hand deliver or mail an original plus 10 paper copies to:

California Energy Commission
Dockets Office, MS-4
Re: Docket No. 02-REN-1038
1516 Ninth Street
Sacramento, CA 95814-5512

The Energy Commission encourages comments by e-mail. Please include your name or organization's in the name of the file. Those submitting comments by electronic mail should provide them in either Microsoft Word format or as a Portable Document (PDF) to [docket@energy.state.ca.us]. **One paper copy** must also be sent to the Energy Commission's Docket Unit.

Participants may also provide an original and 10 copies at the beginning of the workshop. All written materials relating to this workshop will be filed with the Dockets Unit and become part of the public record in this proceeding.

Public Participation

The Energy Commission's Public Adviser's Office provides public assistance to anyone wishing to participate in Energy Commission activities. If you would like information on how to participate in this forum, please contact the Public Adviser's Office at (916) 654-4489 or toll free at (800) 822-6228, by FAX at (916) 654-4493, or by e-mail at [pao@energy.state.ca.us]. If you have a disability and require assistance to participate, please contact Lou Quiroz at (916) 654-5146 at least five days in advance.

Please direct all news media inquiries to the Media Office at (916) 654-4989, or by e-mail at [mediaoffice@energy.state.ca.us]. If you have questions on the technical subject matter of this forum, please contact Jason Orta, ERFP Lead at (916) 653-5851 or by email at [jorta@energy.state.ca.us].

Mail Lists: 5503

Date Mailed: May 30, 2008

* California Energy Commission's formal name is State Energy Resources Conservation and Development Commission.

[i] "Implementation of Renewables Portfolio Standard Legislation" shall going forward be known as "Implementation of Renewables Investment Plan Legislation" recognizing the fact that former Public Utilities Code Sections 381, 383.5 and 445 are no longer the applicable law and have been replaced with subsequent statutory authority.

[ii] Sher, SB 1038; Chapter 515, Statutes of 2002. The pertinent provisions of SB 1038 were formerly codified in Public Utilities Code Sections 383.5 and 445, but are now codified in Public Resources Code Sections 25740 through 25751 as a result of Senate Bill 183 (Chapter 666, Statutes of 2003).

[iii] Public Utilities Code Section 399, et seq., as enacted by Assembly Bill 995 (Wright, Chapter 1051, Statutes of 2000) and Senate Bill 1194 (Sher, Chapter 1050, Statutes of 2000).

Attachment A

Existing Renewable Facilities Program (ERFP) Incentive Options

Below are four funding options for the ERFP that could be implemented annually or for multiple years for the duration of the program.

Categories	Option 1	Option 2	Option 3	Option 4
Name	Tiers by Contract Price	California Biomass Energy Alliance Proposal	ERFP Application Rating System (EARS) – Single Target Price	Technology-Specific Target Price
Description	The tier structure is designed to group facilities by relative need due to their contracted energy price. There are five tiers. The first tier is designed for the facilities with the lowest energy prices and the fifth tier is designed for facilities with the highest energy prices. **Tier 1**: Biomass and solar thermal electric facilities who receive an average annual energy price of 4.95 cents/kWh or less. **Tier 2**: Biomass facilities who have average annual energy prices between 4.96 cents/kWh to 5.60 cents/kWh. **Tier 3**: Biomass and solar thermal facilities who have fixed energy price contracts	The facilities would receive target prices and production incentive caps based on the energy prices offered in contracts with PG&E, SCE, and SDG&E.	Staff has proposed the use of a spreadsheet called the ERFP Application Rating System (EARS). A single target price will be set for all facilities. However, the EARS matrix is used to <u>only</u> determine the incentive cap for individual facilities.	This option would allocate ERFP funds utilizing a similar methodology used from 1998-2006. From 1998-2006, target prices and production incentive caps were assigned on a technology-specific basis. However, under this option, all biomass facilities would receive one target price with "orphan biomass facilities" receiving a higher production incentive cap and the rest of the industry another incentive cap. Orphan biomass facilities are biomass facilities that were restarted during the energy crisis that receive substantially lower energy prices. The solar thermal facilities would receive a lower target price with a similar split in incentive caps as

	with Southern California Edison. The average annual energy price for facilities that sell their generation to Southern California Edison 6.15 cents/kWh. **Tier 4**: Biomass facilities who have fixed energy price contracts with PG&E with an average annual energy price of 6.45 cents/kWh. **Tier 5**: Biomass facilities who receive an energy price equal to Short Run Avoided Cost (SRAC). In 2007, SRAC averaged above 6.45 cents/kWh.			the biomass industry. The difference in target price would be strictly to help pay for fuel costs in the biomass industry.
Methodology	Production incentive caps would be assigned based on contract type. Staff also recommends that information be collected from the facilities that would gauge their ability to become self-sustaining by 2011. This information could be in the form of inputs for the EARS matrix or narratives provided by the facilities.	Target prices and production incentive caps would be included in the *Guidebook*. Production incentive caps would be assigned based on contract type. Facilities applying for funding would have to submit the following, which is already required by the current edition of the *Guidebook*: • cumulative amount of funds the facility has received previously from the Energy Commission and other state sources • of any past and current federal or state tax credits • facility's contract price for	Facilities would be required to provide inputs for the EARS matrix. Additionally, facilities would provide narratives on how the funds would be used to aid them in becoming self-sustaining by 2011.	Target prices and production incentive caps would be included in the *Guidebook*. Staff also recommends that information be collected from the facilities that would gauge their ability to become self-sustaining by 2011. This information could be in the form of inputs for the EARS matrix or narratives provided by the facilities.

		energy and capacity, the prices received by similar facilities • market value of the facility (The CBEA is open to discussing other possible criteria for assessment.) The Energy Commission would conduct an analysis to determine whether the facility would benefit from additional funds. Benefits include remaining online, avoiding curtailment, increased generation and self-sustainability. If the Energy Commission determines that there would be benefits, then the facility is granted the target price and cap for the corresponding energy contract.		
Information Required for <u>ALL</u> Options	• The cumulative amount of funds the facility has previously received from the Energy Commission and other state sources. • The value of any past and current federal or state tax credits. • The facility's contract price for energy and capacity. • The market value of the facility. • An estimate of the incentive payment needed (in cents/kWh) above the energy payments the facility will receive during the calendar year the applicant is applying for. Also an explanation of why this incentive level is needed. • An explanation of how the incentive payments from the Existing Renewable Facilities Program will allow the facility to become cost-competitive by the end of the 2011.			
Additional Option-specific Information			1. Historical generation and projected increases in the coming year 2. Historical plant efficiency data 3. Proposed plant investments that increases efficiency, increases generation and/or reduces	

			operational costs.	
Pros	1. Facilities that receive lower energy prices would receive the most funding. 2. The application process would be less time-consuming for facilities and for staff. 3. This option would provide additional certainty for biomass facilities in their planning for their fuel procurement and repairs because they would have a better idea on the incentive level that they would receive.	1. The application process would be less time-consuming for facilities and for staff. 2. This option would provide additional certainty for biomass facilities in their planning for their fuel procurement and repairs because they would have a better idea on the incentive level that they would receive.	1. Focuses on an individual evaluation of facilities envisioned in the law. 2. Simplified version of the EARS matrix. 3. Limits target price to what the industry requested in 2007.	1. The application process would be less time-consuming for facilities and for staff. 2. Facilities that receive lower energy prices would receive the most funding. 3. This option would provide additional certainty for biomass facilities in their planning for their fuel procurement and repairs because they would have a better idea on the incentive level that they would receive.
Cons	1. With less information collected from the facilities, it wouldn't be as clear to staff if the facilities are using the funds to become self-sustaining. 2. Does not tie funding to making capital improvements or investments that would help make the facilities self-sustaining in the long run. 3. In 2007, 3 facilities, Sierra Pacific Industries-Quincy, Sierra Pacific Industries-Lincoln, and Sierra Pacific Industries-Burney operated without ERFP funding because they did not want to submit additional information but those facilities could receive funding in 2008 under this	1. With less information collected from the facilities, it wouldn't be as clear to staff if the facilities are using the funds to get the benefits discussed in the Methodology Section. 2. Estimated payout exceeds annual account allocation and will significantly consume available rollover funds. 3. Does not tie funding to investments that would help make the facilities self-sustaining in the long run. 4. In 2007, 3 facilities, Sierra Pacific Industries-Quincy, Sierra Pacific Industries-Lincoln, and Sierra Pacific Industries-Burney operated	1. May appear to be complex due to the formula 2. High payout using a quarter of roll over funds. 3. Requires more information to be submitted by applicants and correspondingly require more analysis by staff to determine funding award.	1. May not comport with the statute due to the facility-by-facility analysis required in the statute. 2. Estimated payout exceeds annual account allocation and will significantly consume available rollover funds. 3. In 2007, 3 facilities, Sierra Pacific Industries-Quincy, Sierra Pacific Industries-Lincoln, and Sierra Pacific Industries-Burney operated without ERFP funding because they did not want to submit additional information but those facilities could receive funding in 2008 under this proposal without providing additional information. Another facility, Big Valley Power, who

	proposal without providing additional information.	without ERFP funding because they did not want to submit additional information but those facilities could receive funding in 2008 under this proposal without providing additional information. Another facility, Big Valley Power, who had informed staff that they will be self-sustaining by 2007, could return to the program and receive funding. 5. This does not take into consideration those facilities that receive contracted energy prices that are much lower than the majority of industry. 6. Does not distinguish between biomass and solar thermal electric facilities. Biomass facilities incur the costs of procuring fuel. 7. Since the target prices are based on contracts with PG&E, SCE, and SDG&E, facilities with contract with other retail providers would not be eligible to participate in the program.		had informed staff that they will be self-sustaining by 2007, could return to the program and receive funding. 4. Does not have a method of rejecting facilities because every facility would be eligible for funding.
Estimated Payout	$17 million depending on whether the 2 restarts and 3 facilities that chose not to participate in 2007 apply for funding.	$22 – $24.5 Million depending on whether the 2 restarts and 3 facilities that chose not to participate in 2007 apply for funding.	$20 million.	$26 million depending on whether the 2 restarts and 3 facilities that chose not to participate in 2007 apply for funding.

Target Price	All Biomass: 6.45 cents/kWh All Solar Thermal Electric: 6.15 cents/kWh	PG&E biomass and solar thermal electric facilities: 6.50 cents/kWh SDG&E/SCE biomass and solar thermal electric facilities: 6.20 cents/kWh	Biomass and Solar Thermal Electric: 6.45 cents/kWh Target price increases by 0.01 cents/kWh for subsequent years	All Biomass: 6.45 cents/kWh All Solar Thermal Electric: 6.15 cents/kWh
Incentive Cap	**Tier 1**: Biomass and Solar Thermal Electric: 2 cents/kWh **Tier 2**: Biomass: 1.5 cents/kWh **Tier 3**: Biomass: 0.75 cents/kWh; Solar Thermal Electric: 0.5 cents/kWh **Tier 4**: Biomass: 0.25 cents/kWh **Tier 5**: Biomass: 0.00 cents/kWh	All biomass and solar thermal electric facilities: 1.5 cents/kWh	Incentive Caps may fluctuate anywhere between 0.00 cents/kWh and 2.00 cents/kWh	Biomass and solar thermal electric facilities who receive an average annual energy price of 4.95 cents/kWh or less receive 2 cents/kWh All other facilities receive 1.5 cents/kWh

Attachment B

The following are changes that staff will recommend be incorporated into the revised *Guidebook* regardless of how the ERFP is implemented.

1. **Page 5 of the *Guidebook* will be revised to include the following language regarding fossil fuel use by biomass facilities:**

   For facilities that use more than 5 percent fossil fuel, eligible generation is defined as electricity generated strictly by eligible solid-fuel biomass means. In this case, no electricity generated by fossil fuel will be eligible. For example, if a biomass facility uses 15 percent fossil fuel, only 85 percent of the facility's total net-metered generation will be eligible for payment.

2. **Page 6 of the *Guidebook* will be revised to include the following language regarding fossil fuel use by biomass facilities:**

   Facilities must have commenced commercial operations as a renewable energy facility, consistent with the requirements of the federal Public Utility Regulatory Policies Act of 1978 and Section 292.204, Subdivision (b), of Title 18 of the Code of Federal Regulations, on or before September 26, 1996.

3. **Page 7 of the *Guidebook* will be revised to include the following language regarding fossil fuel use by biomass facilities:**

   d. Eligible generation is net-metered generation. For the ERFP, "net metered generation" is generation that is sold to the grid and not used on site for the facility's own electrical demand.

4. **Page 16 of the *Guidebook* will be revised to include the following language regarding fossil fuel use by biomass facilities:**

The Energy Commission requires that facilities funding applications be accurate, complete, and submitted on or before the due date. If the application is incomplete or inaccurate, the Energy Commission may reduce or deny the funding award request or issue a funding award decision based on any other information it may have on file for the facility. A complete application consists of the following completed forms:

- Application for ERFP Funding Eligibility form (CEC-1250E-1).
- CEC-1250E-3 form, Authorized Signature Form.
- Biomass facilities must also submit the Biomass and Fossil Fuel Usage Report for Biomass Facilities (CEC-1250E-4) for the previous calendar year.
- A State of California Vendor Data Record (STD-204) form.

5. **Page 19 of the *Guidebook* will be revised to include the following language regarding fossil fuel use by biomass facilities:**

To receive funding, an authorized representative of the eligible facility must submit monthly invoices for each month in the calendar year to document the facility's eligible generation along with a written third-party verification of the eligible electricity generated. That documentation must be submitted even for months in which the applicant is not paid.

6. **Page 19 of the *Guidebook* will be revised to include the following language regarding fossil fuel use by biomass facilities:**

For example, if the facility uses 15 percent fossil fuel, eligible generation for payment will be 85 percent of facility total energy input.

7. **Page 20 of the *Guidebook* will be revised to include the following language regarding fossil fuel use by biomass facilities:**

The Energy Commission reserves the right to request that applicants submit an attestation from the facility's fuel supplier(s) stating that the biomass fuel delivered to the facility for the previous year meets the applicable statutory requirements.