

California Energy Commission

Re: Docket No. 12-IEP-1D

Clean Coalition Comments for the Workshop on Renewable Research and Development, American Recovery and Reinvestment Act, and Financing

June 13, 2012

The workshop held at the Energy Commission on June 6th was an excellent overview of the state of funding for renewable energy, both statewide and nationally. Given the significant funding programs that are either expiring or facing doubtful extension, creativity and exploring new methods of bundling small projects were called for. However, the Clean Coalition would like to emphasize another approach that is immediately available and proven to work, but requires policy support. Rather than create new programs or funding mechanisms, design policy focused on certainty, simplicity and transparency that reduces the risk shouldered by private capital sources. Decreasing the perceived risk of renewable projects has never been more important.

Certainty of Income

Clean Local Energy Accessible Now (CLEAN) programs (formerly known as feed-in tariffs), such as the one successfully adopted by SMUD, and pilot projects recently introduced by Palo Alto Utilities and LADWP, can create certainty in project income. CLEAN programs provide guaranteed rates in addition to fully vetted contract language familiar to sector investors. Such certainty can obviate the need for a high rate of investment return. For example, the SMUD program was fully subscribed quickly, even though the rate of payment did not provide a high rate of return. Developers were eager and able to immediately fill the need when offered a set interconnection review fee, quick turn-around, and a standard contract.

Sometimes, multiple income streams are sought to establish sufficient financing, in which case each source must be reliable. One such potential stream is the Resource Adequacy (RA) market which has historically been inaccessible to wholesale distributed generation. While new rules regarding RA are being discussed in active proceedings today, policy design should focus on providing certainty as early as possible so a project can count on this revenue stream. If assured, this revenue can allow a project to not only acquire favorable financing terms but also to accept lower energy contract prices, ultimately benefiting ratepayers.

Certainty of Costs

As well as a known income, projects need certainty in their costs to present a viable opportunity to an investor. Currently, uncertainties in interconnection costs and study timeframes have the potential to foil even experienced developers, as attested to by Pattern Energy at the workshop. While they did succeed in connecting and operating a wind farm in California, the experience clearly left questions about how any new developer could hope to solve the “mystery” of working through the CAISO process.

The challenge is even greater for projects deemed to have transmission impacts even when they are not seeking transmission services. True distributed generation (DG) projects serve only local load and should not be involved in any way with transmission network upgrades, but the unpredictable manner in which such costs are assigned adds significant risk to the entire endeavor. Because the California IOUs have refused to be transparent regarding such issues, developers and financiers have only anecdotal “horror stories” of wildly inflated or inappropriate transmission upgrade costs, which again simply reduces certainty in project financing.

A closely related issue is experienced by many DG projects that could interconnect today without delay but for the indeterminate status of an earlier project in the queue that itself is waiting for interconnection cost determination. Whether that previous project triggers and can afford to pay for a system upgrade, or not, can determine the future of numerous downstream projects.

In the recent Rule 21 interconnection settlement, parties agreed that early cost determination and cost certainty were of the highest priority and will address in that proceeding the issue of long waits for studies providing only indeterminate estimates. However, the options available for many effective solutions, such as assigning flat rate interconnection fees, are restricted by excessively risk-averse policies.

Low-risk Contract Language

The terms of the Power Purchase Agreement (PPA) ultimately determine whether a project will attract financing. Simple contract changes could allow many more projects to receive financing. An example of this is the changes made as a result of a Clean Coalition Motion in late 2011 to SCE's PPA for CREST projects. A few modifications to the termination clauses allowed dozens of contracts totaling in excess of 80 MW to go forward immediately; projects which were otherwise stalled and unfinanceable. The new terms came from an existing SCE contract, which was already in use for other projects.

As contracts associated with California's various procurement programs evolve, termination language is often proposed with the apparent intention of protecting ratepayers from extreme costs. However, such clauses can also add risk to an investment, requiring higher returns and resulting in higher bids and net costs to ratepayers that sometimes far exceed the potential avoided risk addressed by these clauses. The Clean Coalition has identified similar cases in various proceedings, such as the discussion regarding the SB 32 standard contract. Net costs and benefits must be assessed prior to the adoption of additional contractual complexity, but historically few such assessments are performed.

Certainty Increases Financing

Overall, when you reduce risk, you reduce financing rates, and therefore ratepayer costs. Additional and larger sources of capital also become available. This is not only theoretically true, but demonstrated by other regions, where successful financing has facilitated much higher levels of renewable development than in California. For example, readily available, ordinary bank loans are available in Germany at rates as low as 4% for renewable energy projects of all sizes due to the low risks involved.¹

Emerging Potential vs. Current Action

Another major topic of this workshop was emerging technologies. It was correctly pointed out that energy technologies such as offshore wind, tidal power, advanced fuel cells and thermal storage could provide exceptional resources to California in the future. However, the policy hurdles (and to some degree engineering challenges), mean that their contributions will largely be realized after 2020. Such

¹ Best of Both Worlds: What if German installation costs were combined with the best solar resources?
<https://financere.nrel.gov/finance/content/germany-solar-feed-in-tariff-FIT-insolation-resource-comparison>

technologies deserve attention and support while they are maturing, but are no substitute for tools available today. We must move ahead immediately with the systems we have to provide a clear path for clean energy deployment both now and tomorrow.

In summary, the financing solutions we can implement now include:

- provide long-term cost stability with CLEAN programs
- pre-set study fees and shared integration costs
- ensure PPA agreements are written in ways lenders will fund
- embrace the tools we have available, while establishing interoperability with future upgrades

We cannot emphasize strongly enough the importance of certainty in costs and income when seeking project financing. This clarity can only be obtained if best practices are established, kept simple, and adhered to.

Thank you for your careful consideration and the opportunity to comment.

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