



March 25th, 2010

California Environmental Protection Agency
Air Resources Board

Re: RES Preliminary Draft Regulation

Dear CARB Staff:

The FIT Coalition applauds the CARB's efforts to craft a complex regulation in challenging circumstances and would like to offer updated analysis and a series of key suggestions to help the RES truly achieve the vision of AB32, the goals of the Governor's executive order, and the best outcomes for California citizens.

With the RES, CARB has the opportunity to succeed where the RPS program has failed and actually reach our renewable energy targets at lower cost and greater economic benefit to the state. Based on the Preliminary Draft, there are two major areas where targeted changes will produce the greatest improvement in results: limiting the use of unbundled RECs and expanding timely in-State deployments of renewable energy by focusing on the immediately available Wholesale Distributed Generation (WDG) market segment, which is comprised of 20MW-and-under projects that are interconnected to the distribution grid.

Our latest preliminary analysis shows that without these changes, *the Draft RES could cost Californians \$12 Billion too much, including the loss of 40,000 potential jobs and \$20 Billion in tax revenues by 2020.*

Unbundled RECs

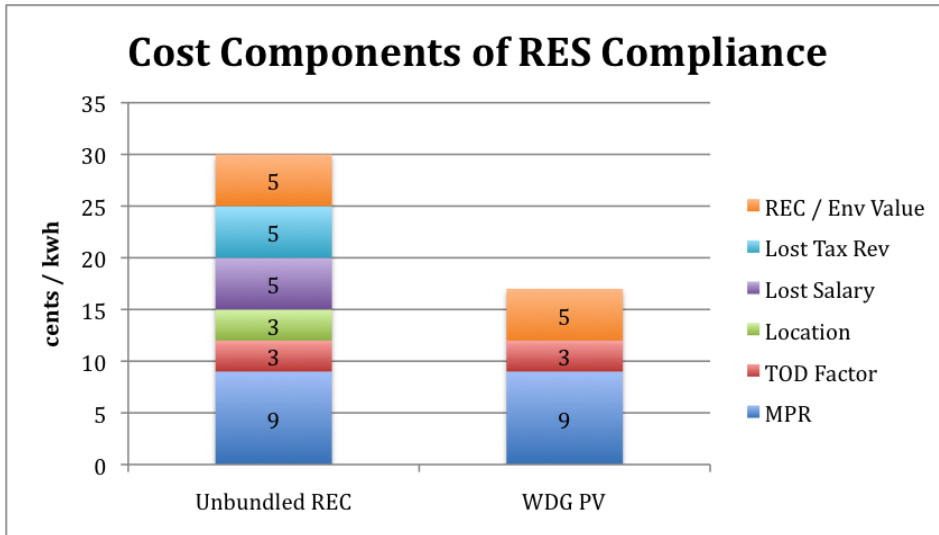
The Preliminary Draft Regulation is considering allowing the unlimited use of unbundled RECs to satisfy RES Compliance targets or tradable RECs as defined in the recent CPUC decision.

The FIT Coalition acknowledges that CARB appears to have an implicit directive from the Governor's office to procure out-of-state RECs to meet the RES targets, based on the belief that out-of-state RECs will cost less than in-state renewable generation and provide greater compliance flexibility.

However, in previous documents submitted by the Sierra Club, it was made glaringly clear that the cost argument was based on outdated and erroneous information. The most current, updated analyses show that, based on current technology prices and complete accounting methods, every MWh of out-of-state energy costs more

than a MWh of renewable energy generated in-State and close to load. For unbundled RECs, this gap is even larger.

The following chart shows that for every unbundled REC, California citizens are overpaying \$130 every year when compared to even the most expensive form of Wholesale Distributed Generation (WDG).



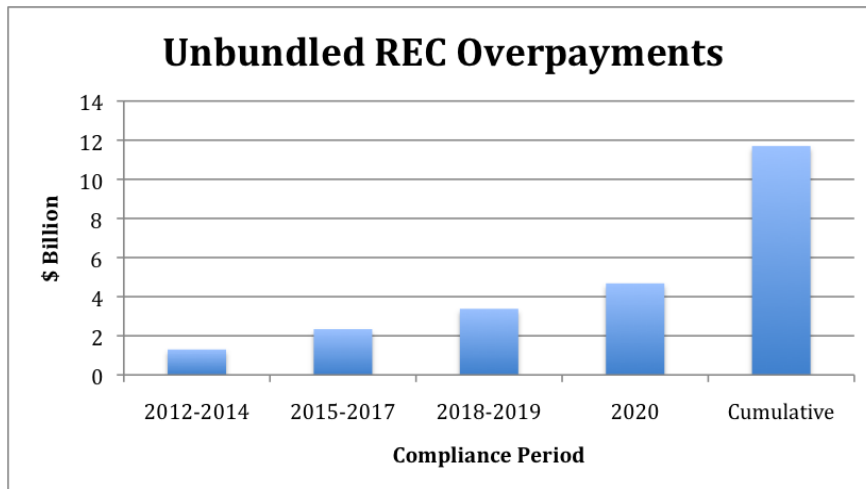
Sources: CPUC MPR, FIT Coalition Locational Benefits, CPUC Tradable RECs decision, Navigant Consulting Report

Bottom line: Every 1% of the 33% RES satisfied by unbundled RECs costs Californians *\$260 Million too much every year*

This analysis includes key factors that are often ignored when calculating the cost of energy. The true cost of an unbundled REC includes the costs associated with the inefficiencies of transmission-interconnected generation (locational considerations), the loss of potential California jobs (Lost Salary), and the loss of potential California tax revenue from private investment.

Rather than perpetuate a mistaken belief founded on poor data and incomplete analysis, CARB has the opportunity to educate all stakeholders and correct this mistake. Perpetuating the mistake could cost Californians \$12 Billion more than they could otherwise invest to hit 33%.

The following chart illustrates the overpayments in each compliance period if the full REC obligation is satisfied with unbundled RECs.



The FIT Coalition acknowledges that although unbundled RECs are costly, the costs may be partially justified as a form of alternative compliance mechanism in the regulation. That said, the RES should only *allow limited use of unbundled RECs*. Without more extensive research, the FIT Coalition recommends that this limit be set no higher than the limit set by the recent CPUC decision: 25% of the annual requirement.

Renewable Resource Portfolio

As described in previous FIT Coalition comments, the current RPS program design has failed by not only its own metrics but by the broader metrics of AB32 and the California economy. The program has encouraged the IOUs to develop a resource portfolio that is high-risk (transmission dependent), needlessly expensive, and lacking in economic benefits to the State of California (investments made and jobs created out-of-State).

By following the RPS design with no major changes, the Preliminary Draft RES is designed to suffer the same failures as the 20% RPS program.

Instead, the RES should align compliance mechanisms with the true value of each type of resource to achieve the best *portfolio mix*. By encouraging a mix that is informed by comprehensive economic analysis, the RES can significantly improve its chances of success, save money for California and deliver real, near-term economic benefits. Simply put, this portfolio would acknowledge the higher value of Wholesale Distributed Generation.

With the lower costs described above, *every 1% of the 33% RES satisfied by distributed solar PV results in 2,000 more jobs and \$1 Billion in additional annual tax revenue* compared to imported energy or unbundled RECs.

Recommendations

The FIT Coalition recommends that the RES explicitly account for the higher value of WDG within the compliance metrics and rules. To accomplish this, the RES should first establish a key distinction:

- Each regulated entity must identify which RECs qualify as WDG RECs based on the following criteria for the REC generating facility:
 - Facility is certified by the CEC as an RPS eligible resource
 - Facility is connected to the distribution grid
 - Facility delivers energy directly to the regulated entity through a power purchase agreement, including potentially a Feed-In Tariff (FIT)

Then there are several methods by which the compliance rules can appropriately value WDG RECs.

- Method 1: Increased penalties for failing to meet minimum WDG levels
 - If a regulated entity fails to meet its obligation in any compliance period, for every WDG REC that that it fails to retire below the minimum WDG threshold of 33% of its obligation, the entity pays 150% of the standard penalty
- Method 2: Decreased compliance value of out-of-State RECs
 - Every retired out-of-State REC is counted as 0.75 standard RECs for the purpose of compliance at the end of the period.

Conclusion

With the RES, CARB can choose whether to continue the failures of California's RPS program or fulfill the vision of AB32 and create a better future for California. The FIT Coalition strongly urges CARB to take the opportunity to design the RES based on lessons learned and the most current information.

By limiting the use of unbundled RECs to 25% and adjusting the compliance rules to correctly reflect the true value of different types of renewable resources, the RES can build California's clean energy future along the most reliable, cost-effective path.



The FIT Coalition welcomes any questions regarding REC costs or compliance design and looks forward to working with CARB further on this critically important regulation.

Best Regards,

/s/ TED KO _____

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