

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Continue
Implementation and Administration of California
Renewables Portfolio Standard Program.

Rulemaking 11-05-005
(Filed May 5, 2011)

**REPLY COMMENTS OF THE INDEPENDENT ENERGY
PRODUCERS ASSOCIATION ON THE PROPOSED DECISION
REVISING THE FEED-IN TARIFF PROGRAM**

**INDEPENDENT ENERGY PRODUCERS
ASSOCIATION**

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Dated: April 16, 2012

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After reviewing the comments filed on the proposed decision (PD) revising the feed-in tariff (FIT) program issued on March 20, 2012, the Independent Energy Producers Association (IEP) offers the following reply comments on some of the principles that should guide the Commission as it deliberates on the feed-in tariff component of the state's efforts to meet the 33% Renewables Portfolio Standard (RPS).

I. PRICING FOR THE FIT SHOULD BE SET THROUGH COMPETITIVE MECHANISMS

The PD proposed a type of competitive pricing mechanism that initially set the FIT price based on a competitively determined Renewables Auction Mechanism (RAM) price, then ratchets the monthly price up or down depending on how FIT participants react to the previous month's prices. From IEP's perspective, the specific details of the pricing mechanism are less important than the recognition of the importance of using competitive forces to determine the price paid to suppliers under the FIT. Except for avoided cost-based prices paid to Qualifying Facilities under the Public Utility Regulatory Policies Act, the Federal Power Act

requires prices paid to electric generators for wholesale sales to be set through market mechanisms, rather than through administratively determined mechanisms (in the absence of cost-based pricing more suited for regulated utilities). The experience of FIT programs in other countries demonstrates that relying on administratively set prices that ignore competitive forces often lead to a boom-and-bust cycle for power provide, which ultimately undermines the development of a stable, sustainable market for renewable power. Competitive mechanisms are also the best way to ensure that California's consumers will pay the lowest possible price to achieve the goals of the RPS.

The PD's pricing proposal introduces some elements of competitive pricing to the FIT and provides an initial pricing framework that can be refined as California gains more experience with the FIT program over time. Any further refinements should aim to increase the competitive elements and decrease the administrative role in setting prices for the FIT.

II. ANY DIFFERENTIATION SHOULD BE BY PRODUCT, NOT BY TECHNOLOGY

Several parties advocated for a differentiation of the pricing and other provisions of the FIT program according to the requirements of specific technologies. This type of "siloeing" by technology is unnecessarily rigid and will be unable to keep up with rapidly changing generation technologies. Differentiation by technology will ultimately undermine the purpose of the FIT program.

Rather than trying to pick winners and losers among specific renewable technologies, the FIT program should identify specific products for procurement through the FIT mechanism. The products should reflect the operational needs of the purchasing utility (the "best fit" component of the least-cost/best-fit principle) and should be defined in terms of the operational attributes of the desired generation. All generators who can provide the defined

operational characteristics--the product--should then be allowed to compete to provide the product, without regard to the specific technology used to provide the product.

III. THE COMMISSION SHOULD MOVE CAUTIOUSLY UNTIL IT UNDERSTANDS THE FULL COSTS OF THE FIT PROGRAM

Some parties advocated a rapid expansion of the FIT program, tying this program to the Governor's goal of procuring 12,000 MW from distributed generation sources. Apart from the fact that there are other programs to procure distributed generation, this argument fails to recognize that the full costs of the FIT program are not yet fully understood. Some parties assume that generators that can interconnect at the distribution level or relatively small generators like the 3 MW or smaller FIT units will have no operational impacts on the distribution system, but that assumption is not warranted. Until the full effects of the FIT program on the distribution system and on the operation of the statewide grid are well understood, the Commission should move cautiously and resist calls for rapid expansion of the FIT program.

IV. THE SCOPE AND SCALE OF THE FIT PROGRAM SHOULD SUSTAIN LONG-TERM GROWTH IN RENEWABLE DEVELOPMENT CONSISTENT WITH LEAST-COST, BEST-FIT CRITERIA

A key goal of the Commission's FIT program design ought to be to sustain renewable development over the long term. The FIT program must provide a pricing structure that will result in a steady stream of new development that meets the least-cost/best-fit criteria of the RPS program, but it must also be perceived as fundamentally sound to avoid the boom and bust cycles that seem to prevail when governments implement FIT programs without due regard to the important role of long-term sustainability. Long-term sustainability calls for a price structure that leads to renewable facilities capable of supplying the types of RPS products the state and consumers demand but also minimizes the risk of a boom and bust cycle in renewable

development. This sustainability objective argues for steady, measured growth in the FIT program over time, consistent with least-cost/best-fit principles.

Respectfully submitted this 16th day of April, 2012 at San Francisco, California.

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By /s/ Brian T. Cragg

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VERIFICATION

I am the attorney for the Independent Energy Producers Association in this matter. IEP is absent from the City and County of San Francisco, where my office is located, and under Rule 1.11(d) of the Commission's Rules of Practice and Procedure, I am submitting this verification on behalf of IEP for that reason. I have read the attached "Reply Comments of the Independent Energy Producers Association on the Proposed Decision Revising the Feed-In Tariff Program," dated April 16, 2012. I am informed and believe, and on that ground allege, that the matters stated in this document are true.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on this 16th day of April, 2012, at San Francisco, California.

/s/ Brian T. Cragg

Brian T. Cragg