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Mr. James McGarry
Renewable Energy Analyst
California Public Utilities Commission
James.McGarry@cpuc.ca.gov

Dear Mr. McGarry:

Re: Response to BioMAT Program Review and Staff Proposal

The Sierra Nevada Conservancy (SNC) appreciates the opportunity to comment on the BioMAT Program Review and Staff Proposal. The following comments relate only to SB 1122 Category 3 bioenergy technologies: bioenergy using byproducts of sustainable forest management (including fuels from high hazard zones.) Responses to the specific questions set forth in the Staff Proposal are below, however it is important to place these responses in context by discussing in general the importance and the challenges of the BioMAT program.

General Remarks

As noted in the Program Review, the BioMAT program is an important mechanism to implement statewide policies regarding climate, waste diversion, and public safety. It is likewise critical in meeting the state's forest health goals as identified in the Governor's Executive Order, the Forest Carbon Plan and legislation passed this year. In the 6 years since the passage of SB 1122, the need to restore forest health and protect against catastrophic wildfire has only become more urgent and climate change projections offer dire consequences if we fail to act appropriately. Increasing wood and biomass processing infrastructure is a critical component of restoring and protecting forest and watershed health.

The policies and procedures put in place to implement SB 1122 have paid serious attention to the PUC's goal of reducing costs to ratepayers. The current BioMAT program seeks to maximize economic efficiencies through a complicated reverse auction mechanism. However, in light of the increasing costs and impacts of catastrophic wildfires, this analysis of ratepayer benefits should be viewed in a more comprehensive manner. While we can all appreciate any

impact on the ratepayers' utility bill, this should be considered in the context of the overall threat to life, property, and the ecosystem services represented by healthy forests.

In the wake of California's 2018 fires season, the financial survival of the IOUs themselves has been questioned based on potential liability for wildfire damage. Given the acknowledged role that forest bioenergy energy infrastructure can play in reducing wildfire risks and improving watershed health, these projects must be encouraged and promoted. The excess costs that might result from more favorable pricing and procedures are dwarfed by the very real wildfire liability costs facing the IOUs.

The forest bioenergy industry needs help to develop to the point where it can have a real impact on forest restoration. SB 1122 was designed to assist community scale projects distributed across the forested region. This project scale is appropriate for the feedstock resource, which is expensive to transport long distances. The project scale also benefits communities which are seeking to replace some of the jobs and economic vitality which was lost with the collapse of the state's timber industry. But these small projects do not attract large developers, nor do they generate a large amount of revenue. For the most part they have been initiated by community organizations which appreciate the economic and environmental benefits they will bring.

These communities must overcome significant challenges in order to get their projects off the ground. Technology companies are interested in deploying their equipment in this state with its immense growth potential, however they are only attracted to potential development sites where feasibility studies have been done, entitlements are in place, and contamination from previous activities has been mitigated. While there have been grants and technical assistance made available through the CA Energy Commission, the SNC, the US Forest Service and other entities to fulfill these requirements, rural communities have had to stretch their capacity to move these projects into the development phase. Having prepared the sites and selected technology and development firms, the projects are then faced with the challenge of obtaining project financing. The fledgling status of the forest bioenergy industry makes this difficult enough, but on top of this the current BioMAT process (as well as the unfortunate lack of cooperation by certain IOUs), has created additional uncertainties of pricing and development timelines which exacerbate the challenge.

The staff proposal makes some excellent suggestions for modifying the BioMAT procedures which would reduce many of these challenges by increasing certainty and reducing the time required to obtain a Power Purchase Agreement. The SNC supports these outcomes as they will create a more favorable development climate which will support the deployment of the first-generation community-scale forest bioenergy facilities. This will lead to the comprehensive benefits to ratepayers, and to the state as a whole, resulting from a developed forest bioenergy industry.

Responses to specific questions:

1. Do you support the proposal to reduce the market depth requirement from five to three for unaffiliated applicants? Why or why not?

   The SNC supports this proposal. The process of developing these projects is slow. The SNC and other agencies are providing funding and technical assistance to promote the development of the projects, but it is unlikely that there will be 5 unaffiliated applicants within the forest bioenergy category for more than rare instances. The reduction to 3 applicants will not substantially impact the objectives of the program. It should be noted that the SNC supports the transition to a fixed-price feed-in-tariff, and if this is implemented the issue of the market depth requirement will no longer be relevant.

2. Do you support proposal 2 to revise when the BioMAT offer price moves up, moves down, and stays the same? Why or why not?

   The SNC does not support this iteration of proposal 2. While this revision would be an improvement, it would still result in delays and uncertainties. The SNC supports the fixed price feed-in-tariff as the better option for forest bioenergy projects.

3. Should the Commission transition to a fixed price feed-in-tariff instead of the price adjusting mechanism? Why or why not? a. If so, how should the market price(s) be determined? b. If so, should the price(s) be periodically reviewed and revised? If yes, how should it be reviewed and how often should it be reviewed?

   Yes. The SNC supports the transition to a fixed-price feed-in-tariff. This pricing mechanism will simplify the procurement process and reduce the time for projects to obtain PPAs. It will allow project developers to better plan their projects and will facilitate the earlier financing of projects, allowing additional resources for pre-development costs. This will speed up and facilitate the overall development of the industry.

   The price should be set at the offer price which has been accepted by all three forest bioenergy projects with executed contracts. This price is a good indication of the feed-in-tariff needed for community-scale projects to be viable. The price could be reviewed every two years and re-set based on any significant increase or decrease of expenses associated either

with the development of forest bioenergy projects or with the cost of obtaining and transporting biomass feedstock.

4. Should the Commission transition to a renewable auction mechanism (RAM) instead of the price adjusting mechanism? Why or why not?

   a. If so, how much capacity should be offered in each RAM solicitation? Do you think there should be specific capacity targets for each BioMAT category? Please explain.
   b. If so, do you agree that RAM solicitations should be held annually? If not annually, how often should RAM solicitations be held? Please explain.
   c. If so, how should bids be evaluated?
   d. If so, how should ratepayers be protected from high prices that could result from uncompetitive solicitations?

   No. The SNC supports the fixed price feed-in-tariff as the better option for forest bioenergy projects, see above.

5. Should the Commission consider changes to the BioMAT definition of "unaffiliated applicants" to better ensure that projects with common developers count as affiliated for the purpose of determining market depth? Why or why not? a. If so, please explain what the changes should be.

   No. If a fixed feed-in-tariff is put in place, the issue of affiliated applicants affecting price will become irrelevant.

6. As noted in Staff's observations on page 7, BioMAT offer prices are now sufficiently high to encourage price acceptance and project development within each category. This raises a concern that even small price adjustments in the future could lead to ratepayer overpayment for projects willing to execute contracts at lower PPA prices and offer prices that are too low for other projects that need higher PPA prices. For example, a project developer willing to execute a contract for an additional $4/MWh would receive an $8/MWh windfall if the offer price increases by $12/MWh. Should the Commission consider changes to simplify the price adjustment mechanism and allow for more granular pricing (e.g. revise the price adjustment amount to $4 per MWh, rather than the current system of $4, $8, and $12)? Please explain.

   No. As previously noted, the most efficient mechanism for promoting forest bioenergy would be to adopt a fixed feed-in-tariff for the purposes of the SB 1122 program. Given the current wildfire crisis in the state and

the IOU liabilities associated with them, the overall benefits to ratepayers in promoting forest and watershed health will exceed the miniscule excess costs for power due to the slightly higher feed-in-tariff rates.

7. Are there any other program *pricing* proposals that the Commission should consider? If so, explain the proposal and how it would be consistent with Public Utilities Code section 399.20.

   The SNC does not have a response to this question.

8. Do you support proposal 3 to adopt BioMAT queue management procedures for the BioMAT program? Why or why not?

   The SNC supports this proposal as it will assure fairness in queue management between bioenergy projects. However, this issue will become less relevant if the fixed feed-in-tariff price mechanism is adopted.

9. Do you support the proposal to set a 30-day deadline to execute contracts after the program participant accepts the offered price and provides all necessary information to the IOU? Why or why not?

   The SNC supports this proposal, as it will reduce development time and increase certainty for developing projects.

10. Do you support the proposal to extend the current program end date for an additional five years, from February 2021 to February 2026? Why or why not?

    The SNC prefers that there be no end date to the program. It should be maintained until all of the MW have been allocated. If this is not adopted, then the SNC would support the proposal to extend the end date for five years. Both proposals will increase time for the full complement of bioenergy projects to take advantage of the program. The BioMAT program implementation has been delayed for a number reasons, and the policy should be given an opportunity to provide the benefits which were contemplated by the legislature and which have become so much more important over the years since its passage.

11. Do you support the proposal to extend a project's Guaranteed Commercial Operation Date by 12 months if it fails to interconnect by the PPA's Guaranteed

Commercial Operation Date due to delays beyond the Seller's reasonable control? Why or why not?

The SNC supports this proposal. As noted by the staff, this extension would to assure facility owners/developers that they will not be penalized for delays beyond their reasonable control.

12. Do you support the proposal to remove the three MW cap on payments via BioMAT PPAs for facilities larger than three MW? Why or why not? a. Do you believe that the Commission can implement this change under existing statutory authority, or would legislation be required to enable BioMAT PPAs for capacities greater than three MW?

    The SNC supports this proposal for the reasons cited by the staff: Removing the current three MW cap on capacity that can sell electricity into BioMAT will enable the utilization of more feedstock at facilities that advance state goals. It may also bring more entrants into the California bioenergy market and result in lower cost projects due to economies of scale. However, the SNC suggests that a limit of five MW be retained in order to assure that the benefits of this program remain focused on community-scale projects.

13. Do you support the proposal to allow incremental generation from existing units to be eligible for the BioMAT program? Why or why not?

    The SNC supports this proposal. Allowing incremental generation will increase the flexibility of the program and encourage continued investment in existing infrastructure.

14. Do you support the proposal to temporarily set an 80% HHZ fuel requirement for Category 3? Why or why not? a. If not, how should the Commission ensure that the goals of the Governor's May 2018 Executive Order are met?
    b. If not, would you support lowering the offer price for projects that do not commit to using at least 80% HHZ fuel? Please explain.

    The SNC does not support this proposal for several reasons. The first is the very real possibility that this proposal would make it even more difficult for projects to obtain financing because of the uncertainties of HHZ feedstock availability over time. The BioMAT facilities are being developed by communities with the goal of utilizing hazardous fuel and decreasing the risk of catastrophic wildfire. However, the availability of

'HHZ fuel' feedstock depends on many factors, including weather, federal budgets, grant funds and timing, etc. It is important to promote the use of HHZ fuel, but it is also important to build in flexibility for fuel requirements based on availability. Feedstock contracts are required by most financing entities and they are already difficult to procure; if they were limited to HHZ fuel (or even a higher percentage of HHZ fuel) they would be almost impossible to obtain. This would significantly reduce the industrial development of forest bioenergy.

In addition, it should be noted that the reduction of excess forest fuel in general is a conducive to the promotion of healthy forests. Forest thinning projects are needed throughout the forested areas and may be planned for areas which are not currently High Hazard Zones, but which could become High Hazard if preventive forest health measures are not taken. It is in the interests of the state that such fuel be usable in bioenergy facilities in order to prevent the hazards of piling and burning.

15. Should the Commission also consider a geographic component to the requirement that facilities be "strategically located" to better ensure that BioMAT projects are optimized to meet the state's wildfire and greenhouse gas reduction goals (e.g. require Category 3 projects to be located in areas of the state most in need of hazardous fuels treatment, with the highest levels of tree mortality, or located in areas of state that do not already have other nearby facilities that could utilize the wood)? Please explain.

    The SNC supports the redefinition of 'strategically located' from the previous preference related to utility company infrastructure instead of areas in need of hazardous fuel treatment. However, the requirement of strategic location itself is questionable. As noted in the general comments, bioenergy projects are usually initiated by communities who understand and desire their benefits. The community self-selection is already based on the surrounding need for hazardous fuel treatments. The existence of other wood utilization facilities nearby is already a factor in this self-selection. If an area in need of a project does not have a community with the capacity or commitment to initiate one, adopting a new requirement will not help. A better approach is to provide technical and financial assistance to encourage areas where projects would be beneficial.

16. Do you support the proposal to allocate BioMAT procurement costs through a non-bypassable charge to all California ratepayers? Justify your response with

statutory or other legal reasoning. a. If yes, how should BioMAT procurement costs be allocated? Provide explanation and justification for your proposal.
b. If no, please explain why not.
c. If no, do you have an alternative proposal to ensure that all California ratepayers pay for the benefits provided by the BioMAT program?

The SNC does not have an opinion on this proposal.

17. As noted in Staff's observations on pages 11-12, BioMAT is connected to the policy efforts of other State and Federal agencies. How could the Commission coordinate more closely with other agencies to streamline bioenergy development, increase consistency across related programs, and reduce costs for market participants and ratepayers? a. What actions should the Commission take to better coordinate/maximize funding from federal agencies to support BioMAT program goals?

    There are various existing efforts in which the Commission could engage to achieve the desired outcome. The Forest Management Task Force and its Wood Utilization Working Group provides one such opportunity. The SNC's Sierra Nevada Watershed Improvement Program is another effort addressing the issue of biomass utilization and forest health that includes the relevant state and federal agencies.

18. Achieving pollution and GHGs reductions was an original goal of BioMAT. However, whether or not individual projects reduce net lifecycle emissions depends on project-specific factors. Do you think that the Commission should establish a requirement that facilities reduce emissions as a condition for BioMAT eligibility? In your response, please explain how such a program requirement would complement or not complement the work of other state or local agencies that regulate or provide grants to BioMAT-eligible facilities.

    The SNC does not support this additional requirement, since bioenergy facilities utilizing waste biomass from the forest do generally reduce emissions relative to pile burning and wildfire and this additional eligibility requirement would unnecessarily increase bureaucracy. If other state or local agencies have funding opportunities related to achieving specific emission reduction goals, they may include such requirements into their program guidelines as appropriate.

    a. Would you support a proposal requiring that in order to be eligible for BioMAT, a project must demonstrate that it will result in net GHG emissions

reductions based on the GHG quantification methodologies and accompanying calculator tools developed by CARB that are discussed on pages 12-13, or a customized calculator tool developed by the CPUC? Please explain.
b. Are there other established emissions quantification tools or methodologies that the Commission should consider to establish that BioMAT projects will result in net emission reductions? Please explain.

The SNC believes that the utilization of the CARB quantification methodology to demonstrate GHG emissions reduction is unnecessary for forest bioenergy projects and would needlessly increase bureaucratic requirements.

19. Are there additional actions the Commission should take to address program barriers and expand program participation? Please explain your proposal(s) and provide rationale.

    No.

20. Do you anticipate any challenges transitioning from the existing BioMAT program to a program that incorporates any of the changes under consideration? Explain the challenge(s) and provide a proposal to address the challenge(s).

    The SNC believes that the changes we have recommended will result in significantly addressing a number of existing challenges.

If you would have comments or would like to reply to these comments please email Elissa Brown at elissa.brown@sierranevada.ca.gov.

Sincerely,

Jim Branham
Executive Officer

cc: RPS Service List