

Sunshine State Solar Power, LLC

December 8, 2008

Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399

RE: Docket 080503-EI, Establishment of Rule on Renewable Portfolio Standard

Chairman Carter and Commissioners:

As requested during the recent December 3 Public Service Commission Workshop, enclosed are comments from Sunshine State Solar Power, LLC that address (a) the current draft Rules for Renewable Portfolio Standard as proposed by Public Service Commission Staff, (b) the Navigant Consulting Florida Renewable Energy Potential Assessment Report dated November 28, 2008 and (b) the RPS Implementation Proposal presented by Commissioner Nathan Skop.

We appreciate the opportunity to comment on the proposed rules and look forward to continued involvement with the Public Service Commission and other stakeholders on the design and implementation of a successful Renewable Portfolio Standard for Florida.

Also, we respectfully request an opportunity to review and comment on rules that are drafted for any alternative Renewable Portfolio Standard proposals.

Sincerely,

s/ Raymond Hamilton
Principal

s/ Thomas J. Sutton
Principal

cc: M. Futrell, J. Harlow

Attachment: Comments to Draft Rules, Comments to Commissioner Skop Proposal

2 Princewood Lane, Palm Beach Gardens, Florida 33410

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**IN RE: Establishment of Rule on Renewable
Portfolio Standard.**

**DOCKET NO. 080503-EI
Filed: December 8, 2008**

**Sunshine State Solar Power, LLC
Comments on Navigant Consulting Study and PSC Staff RPS Rule Proposal**

Introduction

Sunshine State Solar Power (SSSP) is encouraged by the fact that the Navigant Consulting (Navigant) Study validated Florida's renewable technical potential and, more importantly, showed that we could meet aggressive RPS targets at a reasonable cost.

It is important to look at costs and impacts on Florida ratepayers as we design this RPS Program. It is also important to look at the other side of the equation, which is the benefit that we receive from a robust renewable energy generation portfolio within Florida. Many stakeholders have chosen to ignore these benefits and concentrate solely on costs, arguing that renewable energy projects are too expensive. This is unfortunate and incorrect. You must look at both sides of an investment to correctly determine its net all-in costs. (The following comments are focused on solar applications but other renewable technologies may be applicable as well)

I refer to the 2005 Study by Americans for Solar Power that was used to support design of the current California Solar Initiative. The study determined that solar power provides between \$78/MWh and \$224/MWh of value to California.

All of the value drivers apply to Florida as well and include but are not limited to:

- 1) Avoided fossil fuel costs and fuel price hedging
- 2) Avoided cost of new generation
- 3) Avoided CO2 and GHG emissions
- 4) Avoided cost of new transmission & distribution infrastructure
- 5) Avoided water use

Key Study points to note,

- 1) The value of solar power is much higher now given the price escalation of fuel, commodities, and other construction and operating costs.
- 2) The largest value driver related to avoided fuel costs and fuel price hedging and represented between \$32/MWh and \$97/MWh. More importantly, fuel prices (primarily natural gas) have increased over 30% since the 2005 Study was completed and an approximate calculation puts current value between \$42/MWh and \$143/MWh.
- 3) This fuel value driver is more important to Florida because its generation mix is over 70% fossil fuel-derived while California's is roughly 40%. Also, Florida relies on 2 major pipelines that are subject to weather disruption for 5-6 months of each year.
- 4) Water usage is a critical concern for Florida. Currently 24% of Florida's land is either abnormally dry or at moderate drought levels. Earlier this year, 90% of land was in some form of dryness or drought condition, including areas that were at exceptional (highest) drought levels (data per NIDIS at www.drought.gov). Continuing development of fossil-fuel and other combustion process electric generation projects will put exceptional strain on Florida's aquifer and municipal waste water infrastructure facilities.

Introduction Continued

Other Solar Value Drivers:

Job Creation

A Solar Energy Industries Association (SEIA) study reported that each 1MW of solar supports 32 jobs, with 8 being local.

A recent Navigant study showed the potential for up to 32,000 new jobs in Florida by 2016 due to the Federal Solar ITC extension and the build-out of a solar generation platform.

It is unlikely that any other renewable technology will bring such robust economic development to Florida.

Green Operational Footprint and Other Favorable Characteristics

- 1) Zero emissions
- 2) No water usage
- 3) No waste water or solid waste streams
- 4) No transportation, handling or storage of fuel or chemicals
- 5) Safe operations (no moving parts with critical tolerance processes)
- 6) Noiseless operations
- 7) No visible pollution (large buildings, stacks, or structures dominating the landscape)

While solar technology currently is more costly to install, it is the same or lower than traditional fossil-fired technologies from a value-added perspective.

17.400 Florida Renewable Portfolio Standard – Rule Comments

17.400 (3) (a) – Renewable Portfolio Standard

Based on the Navigant Study findings, we recommend that the current Public Service Commission Staff proposed rule be revised to reflect the following annual targets:

January 1, 2010	5%
January 1, 2012	8%
January 1, 2014	12%
January 1, 2016	16%
January 1, 2020	20%

The RPS compliance targets should commence as soon as practicable once the final rules are approved. Successful development of renewable projects would be harmed significantly if compliance is delayed until 2017 as recommended by PSC Staff. The recently extended solar ITC period runs through 2016 and it is imperative that the Florida RPS framework provide the appropriate incentives to maximize the number of projects that move forward within this time frame. We cannot afford to waste this valuable federal tax benefit by pushing compliance into the future, otherwise we will see higher costs and find ourselves unable to attain our goals.

We suggest setting the initial starting point slightly below the existing renewable generation level to provide a cushion in case of plant retirements or operational changes prior to the RPS program commencement. Also, the Commission could choose to waive compliance in the early years to the extent that some significant change occurred to existing assets and caused IOUs to be out of compliance before adequate new generation is developed.

17.400 (1) Application and Scope and 17.400 (3) (c) Renewable Portfolio Standard

SSSP recommends that the RPS program and rules be revisited more frequently than 5 years, especially during the early stages of the program. We suggest that the first review occur within 2 years of program commencement and every 3 years thereafter until a determination is made that the program is working as intended and a longer review window is justified.

17.400 (5) (e) - Compliance Costs

The Navigant Study shows that we can meet aggressive RPS targets at a reasonable cost. In 2010, the expected first full year of the RPS, the projected cost to an average 1,000kWh customer ranged from approximately \$1.05 to \$2.25 per month depending on the scenario. These amounts are not significant and most ratepayers in Florida should be able to cover an increase of between \$13 and \$27 a year in 2010.

Florida newspapers have reported that certain IOUs are projected to recover over \$13 per month (\$156/year) and \$5 per month (\$60/year) respectively, for new generation and environmental projects (excluding fuel). Therefore, it is not unreasonable for the entire renewable energy industry to receive \$2.25 per month (\$27/year) as payment for the benefits it will provide to ratepayers. In fact, this is justification that the renewable industry deserves more.

Navigant's "Favorable for Renewable" Scenario resulted in maximum deployment of renewable generation while reaching an overall Revenue Cap expenditure of approximately 3.5% in 2020. SSSP continues to recommend a higher 5% Revenue Cap to ensure that we meet the required RPS targets while providing some cap flexibility for future changes. This will also eliminate the need to increase the cap over time if it is set at too low a level initially. The cap does not have to be spent in each year and can be reduced later if it is too high.

Florida Renewable Resource Participation – Class I & Class II sources

The Navigant Study highlighted the significant amount of REC payments that are going to existing Class II sources, especially in the early years of the RPS program. Per Slide 23 of their report, existing Class II assets are projected to receive approximately \$190 million per year for RECs.

Navigant also stated that given the 75%/25% cap allocation between Class I & Class II sources, these payments utilized nearly all of the Class II allocation and reduced the development of new Class II resources.

Some stakeholders at the December 3 Workshop commented that the 75%/25% allocation should be adjusted to provide Class II with more dollars; however, the more appropriate correction should be to eliminate certain existing resources from the RPS. The large majority of existing Class II resources have been in service for more than 20 years and have recovered their capital investments. Additionally, these assets have enjoyed the contractual "benefit of their bargain" under existing regulatory frameworks for qualifying facilities, exempt wholesale generators, and other non-utility generators.

As Commissioner Skop stated during the December 3 Workshop, the RPS is not meant to provide windfall payments to renewable generators. These assets would receive such a windfall if they are paid nearly \$190 million annually due to a regulatory policy change.

Accordingly, SSSP recommends that the RPS program does not make payments to any existing asset that has been operating longer than 5 years prior to the RPS commencement date. This will free up Class II revenue cap dollars for prospective assets and will reduce the near-term RPS costs to ratepayers significantly. It should be noted that these assets could qualify for RPS payments once their current contractual obligations are fulfilled.

17.400 (6) – Self Build Option

SSSP believes that the existing regulatory framework and the current RPS draft rules provide incentives for the IOU to select the self-build option.

An IOU doesn't receive a rate of return on a purchased power obligation like it does with a self build rate-based asset. A PPA transaction is a breakeven pass through of costs and doesn't provide any return to shareholders. The Commission should consider providing incentives to increase the attractiveness of the purchased power option to the IOUs.

With respect to the bid process itself, past solicitations have not resulted in any significant renewable or non-utility investments. Certainly, much of this was due to the avoided cost framework and the inability of renewable projects to meet this cost level. Other industry concerns are that the process is a "going through the motions" activity rather than a true desire for non-utility generation, the lack of transparency with the process, and the ability of an IOU to make a self-build determination after the bid prices and all the detailed information is received.

SSSP and other stakeholders provided earlier comments concerning the bid process and the need for equitable treatment across bidders. One adjustment that was mentioned required the IOU to submit a confidential bid at the same time as the other bidders if it wanted to choose a self-build option. SSSP supports this concept. The bid process must be legitimate and transparent and the Commission should ensure that the necessary procedures and controls are in place to make this happen.

The RPS program needs to extend to the broadest number of parties if it is to develop successfully and provide the maximum societal and ratepayer benefits. Accordingly, SSSP recommends that a minimum of 50% of an IOUs RPS compliance generation come from non-affiliated sources. This requirement has many benefits including a) sharing the risk of ownership across multiple players, b) reducing the IOUs upfront capital needs, c) increasing economic development and job creation, and d) a broader and more dynamic renewable energy industry.

17.410 Florida Renewable Energy Credit Market

SSSP remains concerned that a REC-based RPS program is not appropriate for the Florida electric energy market. Based on our existing regulatory framework, it is unlikely that a robust trading market will develop with only 5 entities mandated to participate. Also, we will not have a significant pool of tradable RECs unless participants voluntarily choose to exceed their required minimum RPS percentage. Given PSC and certain stakeholders' concerns that the proposed targets are too aggressive already, it is unlikely that participants will exceed compliance levels.

Stakeholder comments have indicated that REC-based programs have tended to be more costly and administratively burdensome than other forms of RPS compliance. These costs will be magnified in Florida if we cannot spread this burden over a large tradable base.

Another concern to SSSP is that a REC-based RPS program does very little for smaller applications such as solar hot water and residential PV systems. These systems are necessary and extremely valuable to the RPS but individually they will not generate sufficient MWh to receive full reimbursement for their contribution. Also, these systems will be hurt to the extent that the existing state rebates go away and investors must rely solely on the solar ITC and REC sales to recover their investment.

For these reasons, SSSP prefers that the RPS program be based on a contract-path mechanism, like long-term Standard Offer Contracts, Renewable Energy Payments or Feed-In Tariffs. These mechanisms are a much simpler and cost efficient way to meet the RPS requirements and they may eliminate some of the bid process concerns discussed above. (Also see SSSP comments to the proposal by Commissioner Skop)

A consistent message that has been put forth by nearly all stakeholders is that revenue certainty is necessary regardless of which compliance mechanism is used. A long-term contracted revenue stream is required to raise the appropriate capital funding and stimulate renewable development. A tradable REC program typically reflects short-term and spot contracts and financing parties will not ascribe much value to these uncertain revenues.

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**Sunshine State Solar Power, LLC
Comments on Commissioner Skop's RPS Implementation Proposal**

Introduction

From an overall perspective, Sunshine State Solar Power (SSSP) supports an RPS program that utilizes a contract path mechanism, such as Commissioner Skop's Standard Offer Contract Approach. SSSP believes that the proposed framework is feasible; however, many of the details need to be vetted by all stakeholders. We also suggest that we use as much of the structure and concepts of the current PSC Staff draft rules as possible.

Our initial comments are provided below and we are available to discuss these with the Public Service Commission (PSC) and PSC Staff at your convenience. Also, we respectfully request that we have an opportunity to review and comment on any RPS rules that are drafted for this revised approach.

Standard Offer Framework

Solar Rebates

SSSP supports the concept of allocating funds to both Standard Offer Contracts and Solar Rebates. The Solar Rebate allocation needs to be a meaningful amount given the current experience with the oversubscribed \$5 million general fund rebate program. We suggest that a set dollar amount be used rather than a percentage of the overall Revenue Cap. The initial allocation should be at least \$10 million and can be revisited periodically to ensure that the level is appropriately set. Unutilized funds may be rolled over to subsequent years. The Solar Rebate should be set at \$4/watt for residential systems and \$2.75/watt for commercial systems, with no cap on the total rebate amount. The residential rebate needs to be higher given that a homeowner is unable to depreciate the system and receive the related Federal income tax benefits. The Solar Rebate would only apply to systems that are below 2 MW and that are operating under the Florida Net Metering Rules.

Standard Offer Contracts

With respect to the Standard Offer Contracts, we support having allocations by renewable type and suggest using the Class I and Class II renewable energy sources currently identified in the PSC draft RPS rules. The RPS rules would require a minimum of 25% of the generation to come from Class I resources and the available Revenue Cap pool of funds should be allocated at the previously determined 75%/25% split for Class I and Class II resources, respectively. The 75% allocation to Class I assets includes amounts set aside for the Solar Rebates.

The PSC would engage a 3rd-party consultant to determine the appropriate Standard Offer Contract pricing. This process would involve appropriate review and comment from all stakeholders. We expect that the pricing study would involve determination of a levelized cost of energy (LCOE) for each applicable Class I and Class II renewable energy source, with sufficient price differentiation by type of technology (i.e., solar hot water, solar PV, solar CSP) and application (i.e., residential, commercial, ground-mounted solar).

We accept utilization of an “Avoided-cost Plus Model”; however, as identified by Navigant Consulting (Navigant), each technology should be compared to its most appropriate generation proxy rather than all technologies being compared to an avoided baseload unit.

Bid Process / Self Build

The existing bid process would remain in place; however, given that a standard-offer price is set, the bid process will be used solely by the IOU to screen and rank 3rd-party projects by specific characteristics (e.g., location, developer experience, credit issues, transmission & distribution impacts, etc.).

Accepted projects will be awarded the applicable 25-year Standard Offer Contract with its fixed terms and pricing. The PPA will provide that the IOU offtaker receives all energy, capacity and green attributes in return for payment of the Standard Offer price.

An IOU is entitled to self build generation; however, rate recovery will not exceed the applicable amounts that would have been paid under a Standard Offer Contract. Additionally, a minimum of 50% of RPS compliance generation must come from non-affiliated sources. This requirement has many benefits including a) sharing the risk of ownership across multiple players, b) reducing the IOUs upfront capital needs, c) increasing economic development and job creation, and d) a broader and more dynamic renewable energy industry.

Revenue Cap

The Navigant Study shows that we can meet aggressive RPS targets at a reasonable cost. In 2010, the expected first full year of the RPS, the projected cost to an average 1,000kWh customer ranged from approximately \$1.05 to \$2.25 per month depending on the scenario. These amounts are not significant and most ratepayers in Florida should be able to cover an increase of between \$13 and \$27 a year in 2010.

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