

Global Project Finance

Los Angeles on the Verge of Adopting Solar Feed-in-Tariff Program

April 13, 2012

Los Angeles is poised to become the largest city in the United States to adopt a feed-in tariff (FiT) program. On April 3, 2012, the Los Angeles City Council unanimously approved a measure to allow the Los Angeles Department of Water and Power (LADWP) to move forward with a FiT demonstration program to purchase solar power from small projects (30 kW to 999 kW), with the ultimate goal of establishing a FiT program for up to 150 MW of solar power projects by 2016. The ordinance for the FiT program was signed by Mayor Villaraigosa on April 12, 2012. LADWP's board of directors will consider the 10 MW demonstration FiT project (the Pilot Program) on April 17, 2012.

The FiT program is one of the measures Los Angeles is using to meet its stated goal of procuring 33 percent of its power from renewable energy by 2020 (LADWP reached its goal of 20 percent in 2010, ahead of the 2013 target). According to proponents, Los Angeles has the largest underutilized rooftop capacity in California (where it is anticipated that many of the FiT projects will be located), and the "CLEAN LA" FiT program has the potential to create up to 4,500 jobs and \$500 million in economic activity by 2016.

Upon approval from LADWP's board of directors, LADWP will immediately move forward with the Pilot Program with an application process to purchase energy from up to 60 property owners. Following closely on the heels of the Pilot Program, LADWP expects the solicitation for an additional 75 megawatts of CLEAN LA solar power to occur in the first quarter of 2013 with an additional 75 megawatts expected to be interconnected by 2016 (to take advantage of the federal tax credits set expire). A full 150-megawatt FiT program would power the equivalent of 34,000 Los Angeles homes. However, implementation of the program beyond the initial 10 MW Pilot Program requires further approval from the LADWP board of directors and identification of funding sources.

Below is a summary of the Pilot Program's (A) solicitation structure, (B) bidding and contracting schedule and application process, (C) project selection criteria and contracting process, and (D) rate structure.

(A) Pilot Program Solicitation Structure

The Pilot Program will solicit participants through a competitive "reverse auction" bidding process similar to the California state wide Renewable Auction Mechanism being conducted by the California investor owned utilities. Only solar photovoltaic systems between 30 kW and 999 kW will be eligible.

Sponsors will apply through LADWP's competitive solicitation for the award of a Standard Offer Power Purchase Agreement (SOPPA). Because system size and location have an impact on price and LADWP is seeking a diverse portfolio of system profiles, bids will be categorized based on system size and location. The bid awards under the Pilot Program will be allocated as follows:



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<u>Category Allocation</u>	<u>Project Size</u>	<u>Service Territory</u>
0.3 MW	30 – 150 kW	Owens Valley
1.7 MW	30 – 150 kW	LA Basin
8 MW	151 – 999 kW	LA Basin

(B) Bidding and Contracting Schedule & Application Process

Interested sponsors must submit an application and pay certain fees during the bidding process. According to the proposed schedule, awards will be announced approximately 5 months after the application process is opened, consistent with the following:

<u>Event</u>	<u>Timing</u>	<u>Fees and Deposits</u>
Application process opens	Approximately May 14, 2012	N/A
Application due date	Approximately June 29, 2012	Non-refundable application fee: 30 – 150 kW projects: \$500 151 – 999 kW projects: \$1,000
Announcement of short-listed applicants	20 business days after application deadline	N/A
Interconnection agreement execution	20 business days after short-list announcement	Non-refundable study fee: 30 – 150 kW projects: \$750 151 – 999 kW projects: \$1,500
Completion of interconnection study and notification of interconnection costs	20 business days after execution of interconnection agreement and payment of fee	N/A
Announcement of awarded applications; execution of SOPPA and Interconnection Agreement	20 business days after notification of interconnection cost estimate	Development Deposit: \$50/kW 10% of Estimated Interconnection Costs: TBD based on study results

Given the competitive bidding process, applicants are expected to bid their lowest price based on expected costs, financials and rate of return. The average price of all SOPPA's may not exceed \$300 per megawatt-hour, or \$0.30 per kilowatt-hour. Each application must include (i) a single-line electrical diagram of the project, (ii) a preliminary plot plan or site diagram showing equipment layout and the proposed point of interconnection and (iii) a 24 hour by 12 months expected power production profile.

(C) Project Selection Criteria and Contracting Process

LADWP will award contracts based primarily on price. Applicants in each category will be compared against each other, with the lowest energy prices receiving the highest scores. Local businesses will enjoy a 10% preference (more information on the requirements for qualifying as a local business can be found at <http://www.labavn.org/>). When projects are scored equivalently, smaller projects will be ranked higher. If projects with the same price and system size have the same ranking, projects with strategically superior interconnection locations will be ranked higher.

Prevailing projects will be placed onto a short-list for contract execution. Short-listed applicants must execute a non-negotiable Standard Offer for Customer Generation Interconnection Agreement (Interconnection Agreement). Following execution of the Interconnection Agreement, LADWP will complete an interconnection study for the short-listed project and supply a cost to interconnect to the applicant. If the required interconnection cost is unacceptable to the applicant, the project may be withdrawn from the solicitation.

Short-listed applicants that accept LADWP's interconnection cost must sign a SOPPA. The form SOPPA and Interconnection Agreement are available on LADWP's FiT website at www.ladwp.com/fit.

Within 6 months after the SOPPA is entered into, sponsors must demonstrate that they have purchased equipment or received a building permit for the project. If this milestone is not satisfied, the SOPPA will be terminated.

To be eligible for the Pilot Program, projects must meet the following requirements:

- (1) the project must be within the boundaries of a single parcel that is within LADWP's service territory (only 1 project is permitted per parcel);
- (2) applicant must have firm site control for the land on which the project will be located (own, lease or have an unconditional option to purchase or lease);
- (3) project must achieve commercial operations after January 1, 2012 and no more than 18 months after the SOPPA is signed (a 6 month extension may be granted in LADWP's discretion);
- (4) PV modules must be certified and meet certain technical requirements; and
- (5) at least one member of the project team must have developed at least one other similar solar project.

Net-metered projects are not eligible for the Pilot Program. Additionally, Pilot Program projects are ineligible for LADWP incentives (such as the Solar Initiative Program rebate). Projects that will require network upgrades will not be selected for the short-list in the Pilot Program. No applicant may be awarded more than 2 MW of projects.

(D) SOPPA Rate Structure

Unlike fixed rate European style FiT programs, SOPPA pricing will be determined through the reverse auction mechanism. A city report projects the average power price for the program will be approximately \$0.18 per kilowatt-hour. The Pilot Program may be used to set prices for the later stages of the FiT program.

Each FiT seller will receive monthly energy payments based on its bid price and actual energy deliveries, adjusted by the following Time-of-Delivery multiplier:

	<u>High Peak</u>	<u>Low Peak</u>	<u>Base</u>
<u>Period</u>	M-F (1:00 pm - 5:00 pm)	M-F (10:00 am - 1:00 pm) M-F (5:00 pm - 8:00 pm)	M-F (8:00 pm - 10:00 am) All Day Saturday and Sunday
<u>High Season</u> (June - September)	2.25	1.10	0.50
<u>Low Season</u> (October - May)	1.30	0.90	0.50

LADWP is hosting information workshops on the Pilot Program. Seating is limited to 200 guests and 100 guests, respectively, and reservations may be made clicking on the hyperlink below.

April 17, 2012, 6:30 p.m.

LADWP's headquarters

111 North Hope Street

A-Level Auditorium

Los Angeles, CA 90012

<http://www.ladwpneighborhoodnews.com/go/survey/1643/10027/April-17-2012-Downtown-Feed-in-Tariff-Workshop>

April 19, 2012, 2:00 p.m.

Century Plaza Towers

2049 Century Park East

Concourse Level, Conference Room A/B

Los Angeles, CA 90067

<http://www.ladwpneighborhoodnews.com/go/survey/1643/10031/April-19-2012-Century-City-Feed-in-Tariff-Workshop>

More information on the FiT Pilot Program, including the draft guidelines (which provides a draft application) and when available, the application, is available on LADWP's FiT website: <http://www.ladwp.com/fit>.

CONTACT INFORMATION

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