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August 1, 2017

The Honorable Kevin de León
Senate President Pro Tempore
State Capitol, Room 205
Sacramento, CA 95814

RE: Renewable Energy Procurement

Dear Senator de León:

Thank you for your letter regarding to the need for California to take advantage of the solar investment tax credit (ITC) and wind production tax credit (PTC) while these incentives are available. Over the last ten years, California has benefitted greatly from the ITC and PTC, with over 14,200 megawatts (MWs) of utility-scale wind and solar deployment operating and under contract with California investor-owned utilities (IOUs) and many more with publicly owned utilities (POUs) that directly benefitted from federal tax credits. As part of the American Recovery and Reinvestment Act of 2009, the ITC was temporarily modified to be a cash-grant which created a unique opportunity to increase the value of the ITC. In response, the California Public Utilities Commission (CPUC) and the California Energy Commission (Energy Commission) worked closely together to support to construction of 7,800 MWs of wind and solar projects, leveraging $6.4 billion in cash-grant awards. Currently, each of the IOUs that the CPUC regulates holds enough renewable energy contracts to significantly exceed their 2020 and 2024 Renewable Portfolio Standard (RPS) obligations.[1] As your letter suggests, it may be economical for these utilities to continue to procure renewable resources and meet the 2030 goals well ahead of time. However, as Community Choice Aggregators (CCAs) continue to expand and behind-the-meter solar generation grows, there is increasing uncertainty as to the scale of the IOUs RPS obligations. Current CPUC estimates suggest that over 1million IOU ratepayers will be served by CCA for their generation needs by the end of 2017.[2] This number is expected to grow quickly as CCAs are established in Los Angeles County, Alameda County, and Santa Clara County, and are considered in Orange County and San Diego County. Given this expansion, it is not unreasonable to forecast that some of the CPUC regulated utilities could lose 60 to 90 percent of their current demand in the next 8 to 10 years. With this uncertainty in utility load forecasts, it is challenging to order new procurement without the risk of dramatic over procurement. The current mechanisms in place to prevent IOU ratepayers from paying for stranded assets are being challenged. The CPUC has an open proceeding to developing more workable solutions to these challenges.

1 Reference to each IOUs current contracted 2020 RPS positions
2 Source

The CPUC is also developing forecast models for the Integrated Resource Planning (IRP) process which will be used to develop optimum portfolios to meet California's greenhouse gas goals. This process will ultimately lead to procurement authorizations for the IOUs and IRP plans for CCAs and Energy Service Providers (ESPs). One set of models specifically assesses the economic implications of changes to the ITC and PTC on the renewable energy resource portfolios that load-serving entities will procure. Initial results of these models were publicly released on July 19, 2017. Given the impacts, the ITC and PTC can have on the cost of building new renewable resources, some reasonable models results favor early procurement of more renewable resources. If the final models results indicate these economic advantages to ratepayers are likely, the CPUC could authorize more procurement in the 2018 renewable procurement plans with accelerated time lines to allow for new procurement before the tax credits fully expire. Outside the IRP process for the IOUs, the Energy Commission staff develops the guidelines for the POUs to follow the IRPs and plan to take the guidelines to the August 9 Business Meeting for possible approval.

In addition to receiving federal support for large-scale renewable energy development, Californians have also benefited from receiving federal tax incentives for the installation of commercial and residential rooftop solar. Residential solar systems incented through California Solar Initiative, which provided over $2 billion between 2007 and 2016 to IOU customers – have and continue to be eligible to leverage the ITC. To ensure California's ability to draw on these federal incentives is further maximized, the Energy Commission recently altered eligibility requirements for the New Solar Homes Partnership program, which provides incentives for the installation of solar on new construction in IOU territories, to expand eligibility for affordable housing incentives to entities without tax-exempt status. This expands the ability of affordable housing developers to couple California's financial support of solar with federal incentives.

At the May 25, 2017 Integrated Energy Policy Report Commissioner Workshop on Draft Guidelines for POU IRPs, Chair Weisenmiller informed the POUs about this request and made sure to docket the letter into the public record for POU IRPs.

In summary, the CPUC's new proceeding to address issues with sharing costs of new procurement between IOUs and CCAs and the CPUC and Energy Commission activities to develop IRP guidelines provide the forum for the evaluation of the need for and benefits of early renewable energy procurement.

Sincerely,

Michael Picker
President
California Public Utilities Commission

Robert B. Weisenmiller
Chair
California Energy Commission