BEFORE THE PUBLIC UTILITIES COMMISSION OF THE

STATE OF CALIFORNIA

Order Instituting Rulemaking Regarding Policies, Procedures and Incentives for Distributed Generation and Energy Resources)))))	Rulemaking 04-03-017 (Filed March 16, 2004) CEC Docket No. 04-DIST-GEN-1 and 03-IEP-1

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I.

INTRODUCTION

Pursuant to Article 19 of the Commission's Rules of Practice and Procedure, Southern California Edison Company (SCE) submits the following comments on ALJ Malcolm's Draft Decision Adopting Policies and Funding for the California Solar Initiative (Draft Decision). The Draft Decision proposes to increase the Self Generation Incentive Program (SGIP) budget by $300 Million for solar PV technologies and affirms the Commission's intent to adopt a long-term California Solar Initiative (CSI). The Draft Decision also proposes to reduce the solar SGIP incentive level to $2.80, consistent with the rebate level currently provided to projects participating in the CEC's Emerging Renewables Program.

SCE is supportive of both renewable energy and customer-based programs. SCE's renewable portfolio includes approximately 350 MW of solar generation – 90% of the solar generation in the United States. SCE also recently signed a contract with Stirling Energy Systems, Inc. for 500-850 MW of dish solar technology, further demonstrating SCE's commitment to developing cost-effective solar generation technologies. SCE is also recognized for its success in utilizing energy efficiency as a cost-effective customer-based resource.

Consistent with these principles, SCE is supportive of a solar initiative that will contribute to the diversity of energy resources and help the State meet its energy needs in a cost-effective and environmentally sustainable manner. Reducing the incentive level provided to PV solar SGIP projects is a positive step in the direction of ensuring the cost-effective use of ratepayer funds. However, the proposed SGIP budget increase should not be adopted by the Commission. Although a solar initiative that increases resource diversity and provides environmental benefits may be desirable on policy grounds, the Commission cannot and should not increase funding for such an initiative without first conducting a thorough inquiry into the cost effectiveness of the program, including a full consideration of the rate impacts. The Commission should not increase funding for the program unless demonstrable ratepayer benefits can be established conclusively.

The Draft Decision contains no such analysis. There is no discussion concerning the cost-effectiveness of solar SGIP projects – despite a recent Commission-sponsored report which shows that SGIP solar projects are not cost effective. Nor is there any discussion of the proposed budget increase's impact on rates – despite statutory mandates that the Commission evaluate the reasonableness of proposed rate increases and the economic development consequences of its decisions. The Draft Decision even fails to address funding sources for the proposed budget increase. SCE urges the Commission to reject the proposed SGIP budget increase and the expedited implementation of the CSI until these critical issues are addressed.

If the Commission determines that it should take any action at all, the Draft Decision should be revised to:

- Clearly state that the utilities may recover any solar SGIP budget increase through distribution rates, and utilize their existing SGIP ratemaking accounts, consistent with the current Commission-approved SGIP cost recovery;
- Retain existing SGIP funding allocations among the utilities; and

- Reduce the incentive level provided to SGIP PV solar projects to $2.60/W, consistent with the CEC's Emerging Renewables Program incentive structure for 2006.

II.

COMMENTS

A. A $300 Million Increase In Solar SGIP Funding Is Premature.

The Draft Decision acknowledges that neither the CSI Joint Staff Report nor the record in R.04-03-017 analyzes an appropriate level of CSI funding and thus defers any action on a long-term CSI budget. The Draft Decision nevertheless proposes to increase funding for solar technologies in the existing SGIP by $300 Million as a "stop gap" measure. The Draft Decision states that there is an "urgent need to increase funding for the solar element of the SGIP in recognition of the exhaustion of SGIP funds and [the Commission's] commitment to continue to promote solar development." However, there are no findings in the Draft Decision concerning the "urgency" of increased funding. The amount of money spent on a program is not a measure of its success. Increasing the solar SGIP budget without any record as to proper funding levels is premature in light of the efforts in R.04-03-017, and imprudent in light of recent analysis on the cost-effectiveness of solar SGIP projects.

For more than a year and a half, the Commission has been engaged in devising a comprehensive cost-benefit methodology to assess distributed generation technologies and subsidy programs and to compare resource options. The Commission has already held hearings on this topic, and has issued a Draft Decision which proposed to adopt a cost-benefit

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Draft Decision, p. 9.

It is unclear whether the Draft Decision proposes to increase the solar SGIP budget *by* $300 Million, or increase the budget *to* $300 Million. Conclusion of Law #3 states that "the Commission should increase SGIP funding for solar projects by $300 Million for 2006." However, Ordering Paragraph 1 states that the utilities "shall fund the CSI as set forth herein at a level of $300 Million."

Id.

methodology. Thus, the Commission is just now developing the tools to assess the cost effectiveness of distributed generation technologies and to refine incentive programs. It is premature to conclude that PV solar programs merit increased funding in lieu of other preferred resources or programs. If a thorough and robust cost-benefit analysis demonstrates a basis for preferring PV solar over other technologies and programs, then it may be appropriate to increase funding for PV solar incentives. However, no such analysis has been performed.

It is critical that the Commission approach this issue with greater analytic rigor. Itron, an independent consultant hired by the Commission, recently issued its report on the cost effectiveness of the SGIP program. According to this report, *the SGIP program is simply not cost-effective*: for every dollar per kW spent on PV solar SGIP projects, society receives a mere 27 cents in benefits. The Itron Report further reflects that PV solar SGIP projects have the lowest societal cost-effectiveness ratio of any eligible technology. The Draft Decision simply ignores these findings, and directs an additional $300 Million in ratepayer funds into a program which Commission-sponsored research has already shown to *not* be cost effective. Dramatically increasing funding under these circumstances would be imprudent.

Before committing any additional funds to the SGIP, the Commission must explore ways to increase its cost effectiveness. First, the Commission should investigate the reasons PV solar SGIP projects are not performing in a cost-effective manner so that the Commission may revise program requirements and improve ratepayer benefits. For instance, Itron's 4th Year Impacts Report indicates that insufficient system maintenance may be a factor influencing poor PV performance. The Commission should explore this and other factors related to PV solar technology or panel placement which might be contributing to poor capacity factors and low

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R.04-03-017, Interim Opinion Adopting Cost-Benefit Methodology For Distributed Generation, Agenda ID #4897 (Proposed Decision of ALJ Malcolm 9/6/05).

Itron, Inc., CPUC Self Generation Incentive Program Preliminary Cost-Effectiveness Evaluation Report, September 14, 2005.

Id., p. 1-6.

Id.

Itron, 4th Year Impacts Report (April 2005), pp. 2-7 and Appendix A.

cost-effectiveness results. The Commission can then instill additional installation standards to ensure that subsidies are provided to the most cost-effective installations. Second, the Commission should transition the SGIP to a performance-based incentive program. Third, the Commission should examine what impact higher rates have on participant investment in PV solar projects. For instance, increased rates will also increase the subsidy provided by programs such as Net Energy Metering, thereby reducing the need for incentives and increased funding. Lastly, the Commission should consider increasing ratepayer benefits by allowing the utilities to count the output from SGIP solar projects towards their renewable goals.

The Commission must also take a hard look at whether SGIP incentives for rooftop installations represent the best use of limited ratepayer funds when compared to other resource options and applications, and when considered along side other stated Commission goals, such as encouraging economic development and keeping rates affordable. The CEC's Energy Policy Report states that "the overall aim of the [PV] program should be the efficient administration of funding to achieve the state's solar goals at the least possible cost." The Commission should use the tools it is currently developing to explore least-cost options, including central station PV solar power -- a far more cost-effective application of PV technology than distributed applications – before committing an additional $300 Million in ratepayer funds to a program that has not yet proven to be cost effective.

B. <u>**A $300 Million Increase in Solar SGIP Funding Is Inappropriate in the Absence of a Supporting Record.**</u>

1. <u>**The Proposed Funding Level Is Not Supported by the Record in R.04-03-017.**</u>

Public Utilities Code section 1705 requires that Commission decisions contain findings of fact and conclusions of law on all issues material to the decision, including basic facts upon

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See id., p. 2-7.

California Energy Commission, 2005 Integrated Energy Policy Report, dated November 2005, p. 126.

which the ultimate finding is based. This requirement serves to "help the Commission avoid careless or arbitrary action." Here, the Draft Decision acknowledges that "neither the staff report nor the record in this proceeding analyzes an appropriate level of CSI funding." Thus, the Draft Decision proposes to increase the solar budget by $300 Million without any record findings supporting this funding level. Although unclear, the Draft Decision appears to derive this level of funding from the ten-year funding proposals mentioned in SB1 and comments filed by parties in response to the Staff Report. SCE notes that SB1 was not passed by the legislature, and thus the funding levels proposed therein do not provide an adequate basis to increase funding here. Moreover, as the Draft Decision states, SB1 would have funded solar project incentives at a level of $1.1 to $1.8 Billion over ten years. If the Commission were to divine annual funding levels from what was proposed in SB1, the increased "stop gap" funding for solar SGIP projects would be $110-$180 Million, not $300 Million.

Although parties filing comments on the Staff Report may have proposed CSI funding as high as $3 Billion, there is no reason for the Commission to adopt the absolute maximum funding level as a stop-gap measure. This is particularly true in light of the Itron Report's findings concerning the SGIP's lack of cost-effectiveness, and the admitted absence of any analysis or evidence supporting this funding level. Further, although the Draft Decision states that there are solar projects totaling approximately $200 Million in incentives on the SGIP waiting list, a high demand for incentives does not mean that there is a high demand for the

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See Public Utilities Code § 1705; *Cal. Motor Trans. Co. v. Pub. Utilities Com.*, 59 Cal. 2d 270, 273-74 (1963)

Id., p. 274.

Draft Decision, p. 9.

As the California Large Energy Consumers Association (CLECA) stated in its reply comments on the Staff Report, "Virtually all [solar] supporters assert that the projected level of incentives estimated by the CPUC and CEC staffs in their Report was too low and ask that the dollar amount of the incentives and thus of the CSI be significantly increased. Few of them express any concern about the cost-effectiveness of these incentives . . . . The solar proponents appear to be very comfortable with taking 'other people's money' and asking for significantly more." CLECA Reply Comments, pp. 2-3.

It does not appear that the Draft Decision has taken into account the drop-out rate of projects on the SGIP waiting list. Historically, in SCE's service territory, more than 45% of PV solar projects drop out of the program, and more than half of all solar projects that sought funding in 2004 dropped out of the program.

technology, or that the incentives are cost effective. The Commission should not adopt a dramatic funding increase in the absence of a record and findings supporting it.

2. **The Draft Decision Fails to Address the Funding Source for the Proposed Budget Increase.**

The Draft Decision fails to specify the source of funding for the proposed increase in the SGIP budget. The SGIP program is currently funded through distribution rates. However, to the extent that the policy basis for increasing funding for PV solar power is the perceived environmental benefits it provides, those benefits inure to all residents of the State and the cost associated with obtaining those benefits should not be borne exclusively by the distribution customers of Investor Owned Utilities. Any budget increase and new CSI program should be funded by all utility customers, including those served by local publicly-owned utilities. The Commission should find and recommend to the legislature a more equitable funding source, such as a state tax or nonbypassable charge which would apply to all utility customers. Further, if the Commission continues down the path of consolidating the SGIP and CEC Emerging Renewables program (ERP) into one CSI, the Commission should channel the Public Goods Charge funding that is earmarked for the ERP into the new CSI to minimize further rate increases.

Absent an equitable statewide mechanism for funding the proposed budget increase, the Commission must, at the very least, clearly state that the utilities may recover the cost associated with increasing the SGIP budget through distribution rates, consistent with current SGIP cost recovery. For SCE, this rate increase would take place concurrent with its next rate consolidation that is expected to be implemented on February 1, 2006. In addition, SCE should be authorized to utilize its existing Commission-adopted SGIP ratemaking accounts to facilitate cost recovery effective January 1, 2006.

3. **The Draft Decision Does Not Establish an Adequate Record to Justify a Rate Increase.**

At this time, SCE estimates that the Draft Decision's proposed $300 Million increase in solar SGIP funding will result in an approximate $82 Million direct increase in the revenue requirement in its service territory.[1] This figure does not represent the full rate increase that SCE ratepayers will shoulder, however. The Commission must also consider other factors which result in cost-shifting to nonparticipating ratepayers, such as the contribution to margin that is lost when customers choose to self-generate, and the bill credits and exemptions nonparticipating customers subsidize.

Public Utilities Code section 451 requires the rates charged by utilities to be just and reasonable. Public Utilities Code section 454 states that no utility may change a rate without a Commission finding that the new rate is justified. However, the Draft Decision fails to contain any findings justifying a rate increase; indeed, the Draft Decision does not even recognize that a $300 Million SGIP solar budge increase will increase rates. Because the SGIP solar budget increase will necessarily increase rates, the budget increase should be specifically evaluated against other programs and goals which put upward pressure on rates. In particular, when evaluating the reasonableness of any rate impact due to an expanded solar program, the Commission should consider the SGIP program in the context of other programs which may amount to renewable subsidies, such as the Renewable Portfolio Standard program. The Draft Decision is devoid of any such analysis, and adoption of the Draft Decision in the absence of a record establishing that the proposed rate increase is justified and reasonable is inappropriate.

The Draft Decision also fails to offer any analysis concerning the economic development impacts of the decision as required by Public Utilities Code section 321.1. The rate levels to

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[1] As discussed below, the Draft Decision requires the utilities to fund the solar SGIP budget increase in proportion to their annual revenues. Assuming the Draft Decision intends to use annual revenue figures as reflected in the utilities' FERC Form 1 filings, SCE's ratepayers would shoulder approximately $82 Million of the $300 Million budget increase.

become effective in SCE's service territory in early 2006 represent roughly a 30% increase in tier 3 residential rates, and a 50% increase in tier 4 residential rates. As discussed above, the Draft Decision does not even acknowledge that the $300 Million increase in funding will result in a further rate increase, let alone assess how such an increase will affect economic development in an environment with already high rates. In the absence of such analysis, the proposed SGIP budget increase should not be adopted.

C. If the Commission Determines that it Should Take Action Notwithstanding the Lack of Record, Funding Allocations Should Be Consistent with the Current SGIP Program.

If the Commission determines that it should take action notwithstanding the lack of a supporting record, the Commission should revise the Draft Decision to provide clarity concerning funding allocation and sources. Funding for the SGIP program is currently allocated among the utilities based on the following percentages: PG&E – 48%; SCE – 26%; SDG&E – 12.4%; and SoCalGas – 13.6%. The Draft Decision appears to change the funding allocation for the solar SGIP budget increase, stating that the utilities "shall fund the California Solar Initiative (CSI) . . . and assume program costs in proportion to their respective annual revenues." The Draft Decision contains no guidance on what annual revenues are to be used to derive the utilities' funding allocation. Nor does the Draft Decision explain why the utilities should shoulder the burden for one portion of funds for one technology in the SGIP program differently than the rest of the technologies in the program. For simplicity and consistency within the SGIP program, the Draft Decision should retain existing SGIP funding allocations.

D.01-03-073, Ordering Paragraph 2.
Draft Decision, Ordering Paragraph 1.

D. SCE Supports a Reduction in the Incentive for Solar Projects.

The Draft Decision proposes to reduce the solar SGIP incentive level to \$2.80, consistent with the rebate level currently provided to projects participating in the ERP. SCE agrees that funding shortfalls suggest that current rebates are higher than they need to be to motivate investment. Lowering the SGIP incentive level will promote a more cost-effective use of ratepayer funds. Further, SCE maintains that there should be consistency in the incentives provided in California's solar programs. However, the incentive level proposed in the Draft Decision is still inconsistent with the incentive that will be available in the ERP on January 1, 2006. As the Draft Decision notes, ERP solar incentives are currently set at \$2.80, but are set to fall to \$2.60 in January 2006. The Commission should lower the SGIP PV solar rebate commensurate with incentive levels provided in the ERP to maximize the use of ratepayer funds.

III.

CONCLUSION

SCE respectfully requests that the Commission reject the Draft Decision's proposed SGIP budget increase. If the Commission determines it should take action notwithstanding the lack of record, the Commission should (1) clarify that the utilities may recover the cost associated with increasing the SGIP budget through distribution rates, (2) retain existing SGIP funding allocations; and (3) lower the proposed incentive level consistent with the incentive provided under the ERP for January 2006.

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August 15, 2005

CERTIFICATE OF SERVICE

I hereby certify that, pursuant to the Commission's Rules of Practice and Procedure, I have this day served a true copy of **COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) ON DRAFT DECISION ADOPTING POLICIES AND FUNDING FOR THE CALIFORNIA SOLAR INITIATIVE** on all parties identified on the attached service list(s). Service was effected by one or more means indicated below:

☑ Transmitting the copies via e-mail to all parties who have provided an e-mail address. First class mail will be used if electronic service cannot be effectuated.

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Executed this 5th day of December, 2005, at Rosemead, California.

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