SOUTHERN CALIFORNIA
EDISON
An *EDISON INTERNATIONAL* Company

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January 9, 2006

Docket Clerk
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

RE: R.04-03-017

Dear Docket Clerk:

Enclosed for filing with the Commission are the original and five copies of the **SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) REPLY COMMENTS ON THE INTERIM ORDER ADOPTING POLICIES AND FUNDING FOR THE CALIFORNIA SOLAR INITIATIVE** in the above-referenced proceeding.

We request that a copy of this document be file-stamped and returned for our records. A self-addressed, stamped envelope is enclosed for your convenience.

Your courtesy in this matter is appreciated.

Very truly yours,

Amber Dean

AD:as:LAW-#1264757.doc
Enclosures

cc: All Parties of Record
(U 338-E)

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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE

STATE OF CALIFORNIA

Order Instituting Rulemaking Regarding Policies, Procedures and Incentives for Distributed Generation and Distributed Energy Resources.	))))	Rulemaking 04-03-017 (Filed March 16, 2004)

SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) REPLY COMMENTS ON THE INTERIM ORDER ADOPTING POLICIES AND FUNDING FOR THE CALIFORNIA SOLAR INITIATIVE

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Dated: **January 09, 2006**

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Pursuant to Article 19 of the Commission's Rules of Practice and Procedure, Southern California Edison Company (SCE) submits the following Reply to comments on the Draft Decision of ALJ Malcolm and Commissioner Peevey Adopting Policies and Funding for the California Solar Initiative dated December 13, 2005 (Draft Decision). Parties echoed comments made by SCE concerning the Draft Decision and attached Revised Staff Proposal, including concerns regarding cost-effectiveness, rate impacts, the potential for program success, and thoughtful program design. SCE agrees with these parties, and continues to maintain that the Commission should take steps and adopt measures to enhance the probability of program success and ensure ratepayer benefit. In this Reply, SCE addresses some of commenting parties' specific proposals concerning program design and funding.[1]

A. There is Widespread Support for Performance-Based Incentives.

SCE is encouraged by the number of parties – including those who represent the solar industry – supporting a transition to performance-based incentives (PBI).[2] As SCE has pointed out, the size of a PV unit is not an accurate predictor of system output sufficient to assure ratepayers that they will receive an adequate return on their incentive investment. Moreover, paying for actual output will enhance the

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1 Due to page limitations, SCE responds to only certain arguments made by commenting parties. SCE's silence on a particular position should not be construed as support for that position.

2 *See, e.g.,* ASPv Comments, p. 9 (stating that ASPv "has strongly supported performance-based incentives to ensure industry accountability" and that "PBI is essential because it forces customers, installers and manufacturers to pay close attention to the output of the installed solar technology, which in turn will lead to innovation, more efficient operations, and cost-effective technologies."); CMTA & CLECA Joint Comments, p. 10 (strongly supporting the transition to PBI stating, "under the current approach in the SGIP, there really is no incentive for the vendor to employ good construction practices or for the customer to assure proper maintenance. As such, there is little confidence that projects that have been funded are actually producing as expected."); *see also* Environment California Comments, p. 3; SCE Comments, p. 4; PV Now Comments, p. 5; SDG&E Comments, p. 6.

Program's chances of achieving the purported benefits of investing in solar rooftop installations, including resource diversity, power production, and GHG emissions reductions. SCE reiterates its recommendation that implementing PBI should be the Commission's first priority in establishing the CSI.

SCE further concurs with ASPv that if a capacity-based incentive structure is continued, or a hybrid PBI structure is adopted, then any upfront capacity payment must be based on expected performance rather than nameplate capacity ratings. As both SCE and ASPv stated in opening comments, a solar project's actual output is highly dependent on a number of critical factors (including installation, shading, maintenance, orientation of panels, etc.). Tying capacity-based incentive payments to expected performance rather than nameplate ratings will help to encourage the most productive and cost-effective installations.

Finally, there is no sound policy or technical reason for limiting the application of performance-based incentives to only larger projects as suggested by CalSEIA and Environment California. Non-participants should not be required to subsidize certain customers without some assurance that the subsidy is actually producing the resource diversity and greenhouse gas benefits alleged.

B. The Commission Must Correctly Examine the Impact on Rates Due to CSI Costs.

Numerous parties commented on the gross errors in the Revised Staff Proposal's analysis concerning rate impacts. For example, TURN points out that the figures in the Revised Staff Proposal "are not consistent with any conceivable method of applying the stated revenue requirements to actual ratemaking. The actual rate impacts of the CSI program are likely to be 100 times higher than projected by the Draft Decision."[3] CMTA and CLECA likewise question the validity of the rate impact estimates, noting that large commercial customers will see a straight rate increase to cover the costs of the CSI that is not reflected in the Staff's analysis.[4] PG&E also notes that the Staff's estimated rate impacts are just plain wrong, and estimates that the total costs of the CSI could approach **$10 Billion** when other subsidies such as net metering credits and the loss of contribution to margin are factored into the analysis.[5] These errors in the Staff's analysis highlight the need for a fulsome, thorough analysis of rate impacts. SCE concurs with CMTA and CLECA's recommendation that "at a minimum, before adopting the CSI, the cost impacts on ratepayers need to be accurately determined and ratepayers should have further opportunities to assess these impacts and comment upon them."[6]

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3 TURN Comments, p. 3 (emphasis in original).

4 CMTA & CLECA Joint Comments, p. 8.

5 PG&E Comments, p. 4.

6 CMTA & CLECA Joint Comments, p. 8.

C. As Proposed in the Draft Decision, the CSI Should Be Funded by Both Gas and Electric Ratepayers.

Southern California Generation Coalition (SCGC) argues that the CSI should be funded solely by electric ratepayers, not gas ratepayers.[7] SCGC argues that, based on the findings by Itron, Inc., a PV program is not cost-effective for gas ratepayers. As SCE and other parties discussed in their opening comments, Itron's findings indicate that the SGIP is not cost-effective for *any* ratepayers. Nevertheless, policymakers appear to have embraced the notion that the benefits of a solar PV program will accrue to society as a whole, including gas utilities and their ratepayers. If the Commission is establishing an expanded solar program based on the claimed benefits, then fairness requires that gas ratepayers should be included in funding the program. Moreover, if the belief is that there are broad societal benefits related to solar PV power, the Commission should fund the subsidies for solar PV power from the broadest possible base. For these reasons, SCE urges the Commission to reject SCGC's request to fund the CSI costs through electric distribution rates only.

SCE, like PG&E, is concerned that customers of Publicly-Owned Utilities (POU) will be contributing to the CSI through gas distribution rates alone, and thus contributing by a much smaller percentage than customers in IOU service territories. As such, POU customers should not be permitted to take full advantage of incentives offered through the CSI until the Legislature equitably extends funding of the CSI program to POU customers. The Commission should devise program parameters to prevent POU customers from taking advantage of a solar program to which they are only minimally contributing. SCE concurs with PG&E that one way to accomplish this result would be to limit POU customers' participation to the solar water heating component of the CSI.[8]

D. The Current Net Metering Cap Should Remain in Place.

A few parties suggest that the Commission should recommend to the Legislature that the current net metering cap be removed or substantially raised. SCE respectfully submits that the Commission is not yet sufficiently informed to make such a recommendation. The Commission has not yet reviewed the "costs and benefits of net metering to customer-generators, ratepayers, and the utilities, including any beneficial and adverse effects on public benefit programs and special purpose surcharges" as required by Public Utilities Code Section 2827(n). Until the Commission has reported to the Governor and the Legislature on these costs and benefits as the statute requires, the Commission should not take any action concerning the current net metering cap.

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[7] SCGC Comments, p. 6.

[8] PG&E Comments, p. 9.

E. Other Recommendations.

The Commission Should Reject Proposals that Will Weaken the Goals of the Program. The Commission should reject CalSEIA's proposals to (1) eliminate the requirement of an energy efficiency audit and instead allow a customer to review a "checklist" of potential areas of improvement; (2) limit PBI to larger systems and retain a significant up-front rebate; and (3) eliminate the maximum qualifying system size limit.[9] Each of these design modifications would weaken the value and stated goals of the program: adding clean energy resources, reducing risk by diversifying the state's energy portfolio, and reducing the demand for transmission and distribution system additions. Requiring energy efficiency audits and minimum standards will improve the overall cost-effectiveness of the program and allow for smaller PV installations. PBI will help to ensure that the ratepayers and the State are receiving the benefits on which the CSI is based. And limiting system size will ensure that systems are designed to serve onsite load, and that ratepayers will not be subsidizing merchant sales to the grid.

The Commission Should Not Assign Different Incentive Levels Based on Individual Customer Characteristics. Various parties ask that municipal projects and non-profit entities receive a higher incentive than other private or tax paying customers.[10] These parties argue that such entities may not be able to take advantage of tax credit benefits. It seems illogical that an entity which already receives financial benefit from its tax-exempt status should receive a higher subsidy for its solar PV project. More importantly, it is a slippery slope to begin assigning incentives based on an individual customer's ownership characteristics and tax status. SCE urges the Commission to reject parties' proposals to apply different incentives to customers based on their individual ownership characteristics and tax status, including whether or not a customer qualifies for federal or state tax credits.

The CERB Should Be Administered by the Utilities. The CSI should be administered by the current program administrators of the SGIP. Contrary to comments by ASPv, the utilities are not "threatened" by PV – the entire focus of SCE's comments has been on ensuring a well-designed and well-conceived program that will result in benefits to ratepayers and the State of California. Further, SCE has successfully administered the SGIP program in its territory, and is in the best position to coordinate the CSI with required energy efficiency programs. The Commission should thus reject certain parties' requests for an unknown third party to administer the CSI.

The Commission Should Implement Mid-Term Assessments. Several parties, including Environment California, have correctly suggested that the Commission provide for mid-term assessments and evaluations of the CSI. SCE concurs with the comments by CMTA and CLECA: "The CSI should not

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9 CalSEIA Comments, pp. 12 and 5.

10 TURN Comments, p. 8; Environment California Comments, p. 3.

just be adopted and then placed on auto-pilot. In short, the adoption of the CSI should not be a completely blind leap of faith.

Research and Development. The Draft Decision states that the Commission intends to allocate up to 5% of the annual budget to research, development and demonstration (RD&D) efforts on promising solar technologies. SCE desires to manage a portion of this RD&D and seeks clarification on the utilities' role in such activities.

CONCLUSION

For the reasons stated above and the points made in its opening comments, SCE respectfully requests that the Commission take steps now to enhance the prospects for ratepayer benefit and CSI program success, including (1) implementing performance-based incentives; (2) requiring strict installation and eligibility standards; and (3) instituting mid-term assessments of program value. SCE further requests that the Commission work with the Legislature to ensure equitable funding of the CSI, and fully assess the costs and benefits of the program, including the impacts of the CSI on customer rates before adopting a firm funding level.

Respectfully submitted,

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January 09, 2006

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 SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) REPLY COMMENTS ON THE INTERIM ORDER 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.
- ☐ Placing the copies in sealed envelopes and causing such envelopes to be delivered by hand or by overnight courier to the offices of the Commission or other addressee(s).
- ☐ Placing copies in properly addressed sealed envelopes and depositing such copies in the United States mail with first-class postage prepaid to all parties.
- ☐ Directing Prographics to place the copies in properly addressed sealed envelopes and to deposit such envelopes in the United States mail with first-class postage prepaid to all parties.

Executed this **9th day of January, 2006**, at Rosemead, California.

Myrna Martinez
Project Analyst
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