



*Pacific Gas and
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January 9, 2006

HAND DELIVERY

DOCKET OFFICE
California Public Utilities Commission
505 Van Ness Avenue, Room 2001
San Francisco, CA 94102

Re: Order Instituting Rulemaking Regarding Policies, Procedures, and Incentives for
Distributed Generation and Distributed Energy Resources, R.04-03-017

Dear Docket Clerk:

Enclosed for filing is an original and (5) copies of Reply Comments of Pacific Gas and Electric Company on Draft Decision of President Peevey and ALJ Malcolm Adopting Policies and Funding for the California Solar Initiative in the above-referenced matter.

Please file the original and return the stamped copy in the envelope provided. Thank you for your assistance with this matter.

Very truly yours,

/s/

Randall J. Litteneker

RJL/pak

cc: ALJ Kim Malcolm
Michael R. Peevey, Commissioner
Valerie Beck, Energy Division
All Parties on Office Service List for R.04-03-017

**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

**REPLY COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY
ON DRAFT DECISION OF PRESIDENT PEEVEY AND ALJ MALCOLM
ADOPTING POLICIES AND FUNDING FOR THE CALIFORNIA SOLAR
INITIATIVE**

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Pacific Gas and Electric Company (PG&E) respectfully submits these reply comments on the Draft Decision issued on December 13, 2005 by President Peevey and Administrative Law Judge Malcolm, captioned “Interim Order Adopting Policies And Funding For The California Solar Initiative” (“Draft Decision”). PG&E appreciates this opportunity to address issues raised in the Opening Comments on the Draft Decision.

I. EXECUTIVE SUMMARY

As explained in Opening Comments, PG&E supports an expanded and extended solar program, and many of the design elements included in the Draft Decision. These Reply Comments address the following two topics related to the proposed California Solar Initiative (CSI):

- PG&E and The Other Current Administrators Of The Self-Generation Incentive Program Should Be Permitted To Continue That Role Under The CSI.
- The Commission Should Address CSI Cost Allocation Issues To Ensure Timely Cost Recovery.

II. PG&E AND THE OTHER CURRENT ADMINISTRATORS OF THE SELF GENERATION INCENTIVE PROGRAM SHOULD BE PERMITTED TO CONTINUE THAT ROLE UNDER THE CSI.

A number of parties commented on the issue of CSI program administration. Some of the Opening Comments supported continuation of the role played by the current Self Generation Incentive Program (SGIP) administrators for non-residential customers, but a few lobbied for administration by a non-profit organization. The most vitriolic comments were by Americans for Solar Power (ASPV), which stated “The IOUs are not appropriate as CSI program administrators

because they have constantly viewed PV as a threat and have consistently refused to acknowledge the benefits of distributed solar technology.” p. 10. This statement is completely unfounded, and the current administrators should be allowed to continue in that role.

PG&E’s continuing support for solar power has contributed to the installation of more solar units in its service area than any other utility in the country. Indeed, according to industry reports previously presented in this docket, **over half the solar projects installed in the entire United States in 2004 were installed in PG&E’s service area.** In addition, in 2004, PG&E created the Solar Schools Program, which provides funding (through PG&E’s shareholder-funded charitable contributions) for solar systems for schools, as well as educational materials and curriculum related to solar power for teachers. PG&E has consistently supported solar power, including supporting the increased 2006 SGIP solar budget and the CSI program budget. While PG&E takes its responsibility as a steward of ratepayer funds seriously,¹ this desire to spend ratepayer funds prudently should not be interpreted as a lack of support for solar power.²

Additionally, PG&E has already implemented an Integrated Demand Side Management (IDSM) approach to delivering energy efficiency, demand response, load management and distributed generation programs to its customers. In 2004, PG&E developed and began implementing an audit tool that evaluates customers’ facilities and offers information about IDSM measures, including information on the SGIP solar rebate. PG&E believes an integrated approach best meets individual and overall customers’ energy needs.

Several parties also commented on the need for education and outreach. Since the fall of 2003, PG&E has hosted many solar (as well as co-generation and fuel cell) classes, held in multiple locations. The Pacific Energy Policy Center correctly noted that the IOUs already have Low Income Energy Efficiency (LIEE) programs. Having PG&E also administer the CSI program would thus ensure that coordination with the LIEE is as seamless as possible. PG&E supports further coordination of energy efficiency within the CSI program, and believes the work done to date puts PG&E in a prime position to implement the final recommendations from the Commission and subsequent workshops quickly and efficiently.

¹ PG&E believes that the Commission should understand the cost of the programs it is adopting, and consciously determine that the benefits of its policies encouraging solar power are worth these costs. The Draft Decision correctly recognizes that the CSI will impose costs on non-participating customers, rejecting claims by a handful of solar advocates who claimed that spending billions of dollars on solar incentives plus retail net metering and other exemptions will somehow *reduce* rates for non-participating customers in the near term.

² Nor has PG&E refused to recognize that solar power can have benefits to other ratepayers. In proceedings in this docket, PG&E estimated the benefits of solar power with a method that mirrored closely that used by Itron in research directed by the Energy Division.

Lastly, each of the projects that participate in the CSI program in PG&E's service territory will need to work with PG&E to ensure safe interconnections that do not adversely affect the reliability of service to other customers. PG&E administration of the CSI program will promote coordination and avoid delays. In addition, PG&E already has access to billing records and can verify customer information (such as historical energy usage used in the energy audits) quickly and efficiently. This will eliminate requiring the customer to provide billing records, and create a "one-stop shop."

PG&E has demonstrated that an excellent track record in administering the SGIP,³ and that it can perform additional functions such as energy efficiency coordination, education and outreach -- because it is *already doing so*. It does not make any sense to hand over a program of this magnitude and this importance to a third-party organization that lacks experience and a proven track record. As the Commission recognized in D.05-01-055, turning utility dollars over to third-party administrators can weaken its control of program implementation and delivery.

The current administrators of the nonresidential program are well suited to handle administration of the expanded program, and if the CEC wishes to give up administration of residential programs, the current SGIP administrators can assume that work as well.

III. THE COMMISSION SHOULD ADDRESS CSI COST ALLOCATION ISSUES TO ENSURE TIMELY COST RECOVERY.

A variety of parties sought to avoid payment of some or all of the costs of the CSI. These include requests to revise current cost allocations and for exemptions of certain classes of customers from responsibility of funding the CSI.

TURN argued that the Commission should allocate CSI costs consistent with the methodology used for other environmental initiatives, specifically advocating an equal cents per kWh allocation, similar to that adopted for SGIP gas rate recovery, instead of the currently-adopted method for electric cost recovery that recovers these costs in the same manner as other distribution revenue. pp. 2-3.

TURN has erred in its analysis. Electric energy efficiency costs, RD&D and renewable costs are recovered in the public purpose program charges in PG&E's electric rates. None of these costs, however, are allocated on an equal cents per kWh basis. Moreover, some demand

³ CalSEIA stated that: "Payment of invoices for system installations with correct paperwork is now reaching 90 days... [A] Program payables benchmark of 30 days should be established." p. 4. PG&E has consistently met this 30 day milestone. The average payment time from final approval of the incentive claim form documentation and completed field verification visit for PG&E is 11 days.

response program costs, which arguably have goals similar to the demand reduction sought by the CSI program, are currently recovered in electric distribution rates in the same manner as other electric distribution revenue. The Commission historically has pursued gas and electric revenue allocation issues separately based on the needs and issues specific to each, and there is no basis to now seek consistency in approach purely for its own sake. Since there is no basis for a change to electric allocation methods other than TURN's perceived need for consistency between gas and electric rates, PG&E urges the Commission to retain the currently adopted methodology for recovery of CSI costs in electric rates. To address these revenue allocation issues, the Commission should include the proposed finding of fact attached below as Appendix A.

While PG&E does not advocate changing the current cost allocation and recovery methodology, PG&E does urge the Commission to ensure that costs of the CSI are nonbypassable. PG&E would welcome an opportunity to develop rates for departing load customers that address this issue.

With regard to CARE exemptions, several parties (e.g., ASPv p. 11; TURN p. 7) urge the Commission to exempt CARE and FERA electric customers from paying for the CSI program. While PG&E acknowledges the desire of the Commission to keep low income rates low, PG&E does not believe a separate exemption for these costs needs to be specified. The Commission has carefully monitored the level of total rates for CARE customers and has not increased rates for CARE customers in PG&E's service territory since 1993. PG&E believes that the Commission can continue to be relied upon to address CARE rates on a total basis without regard to specific functional components. Furthermore, the Staff report suggests that CARE customers should not pay since they are least likely to be beneficiaries. However, the DD (p.14) would clearly set aside funds for low income customers. Since CARE customers are indeed likely to benefit, PG&E urges the Commission not to exempt CARE customers from funding this program

Nor should FERA customers be exempt from CSI costs. FERA is a generation discount to Tier 3 usage. To extend the FERA discount to distribution rates is beyond the scope of this proceeding and would inappropriately expand the FERA discount.

The Southern California Generation Coalition argues that all gas customers should be exempt from the cost of the solar program, arguing that gas customers do not benefit from the program. PG&E does not agree with this reasoning, but agrees that cost responsibility should match program eligibility. In Opening Comments, PG&E proposed that under the CSI, gas-only

customers who take service from municipal electric utilities not be eligible for incentives for PV projects from IOUs, and should instead receive incentives from their own electric provider. Gas-only customers would remain eligible for solar water heating incentives. If this eligibility approach is adopted by the CPUC, then gas customers should only be responsible for the revenue requirement associated with the solar water heating program, and not the PV program.

TURN raises the issue of a potential mismatch between revenue collection and expected incentive payments. PG&E appreciates this concern, but points out that the Draft Decision already addressed it when it stated: "If the difference between program expenditures and the amounts the utilities collect in rates is substantial, we will consider adjusting the collection of the revenue requirement." (Draft Decision page 7). PG&E agrees with this approach, but cautions the Commission to also include program commitments as well as payments in its assessment of whether the revenue requirement needs to be adjusted.

IV. CONCLUSION.

PG&E supports the goal of having an expanded solar program. It does not oppose the total budget proposed for the CSI, but does seek specific changes to improve and clarify the program, and to continue the current administrative structure for the larger program.

Respectfully submitted,

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By: _____ /s/
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Dated: January 9, 2006

Appendix A

Proposed New Finding of Fact Addressing Rate Allocation and Recovery Issues

Cost allocation for the new CSI program will be the same as the existing SGIP cost allocation, unless and until the Commission issues an order changing it. The utilities should file new gas and electric balancing accounts to recover CSI annual revenue requirements from gas and electric customers starting in 2007, separate from SGIP costs that are tracked in the existing Self Generation Program Memorandum Account (SGPMA). The utilities may recover the annual CSI revenue requirements and CSI account balances in the Annual Electric True-up (AET) and/or the Annual Gas True-up (AGT).

CERTIFICATE OF ELECTRONIC SERVICE

I, the undersigned, state that I am a citizen of the United States and am employed in the City and County of San Francisco; that I am over the age of eighteen (18) years and not a party to the within cause; and that my business address is Pacific Gas and Electric Company, Law Department B30A, 77 Beale Street, San Francisco, California 94105.

On the 9th day of January, 2006, I served a true copy of:

**REPLY COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY
ON DRAFT DECISION OF PRESIDENT PEEVEY AND ALJ MALCOLM
ADOPTING POLICIES AND FUNDING FOR THE CALIFORNIA SOLAR INITIATIVE**

[XX] By Electronic Mail – serving the enclosed via e-mail transmission to all parties on the official service list for CPUC Docket R.04-03-017 that have provided e-mail addresses.

First class mail will be the preferred choice if electronic service cannot be effectuated.

I certify and declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on the 9th day of January, 2006 at San Francisco, California.

/s/
Pat Kokason