Decision 08-01-029 January 31, 2008

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking Regarding Policies, Procedures and Rules for the California Solar Initiative, the Self-Generation Incentive Program and Other Distributed Generation Issues.	Rulemaking 06-03-004 (Filed March 2, 2006)

OPINION ADOPTING SELF GENERATION INCENTIVE PROGRAM BUDGET FOR 2008

Summary

This decision adopts a budget of $83 million for the Self Generation Incentive Program (SGIP) for 2008.

Background

In Decision (D.) 01-03-073, the Commission adopted an SGIP budget of $125 million per year, allocated across the four large energy investor-owned utilities (IOUs), with $42 million allocated to the solar portion of SGIP. With the establishment of the California Solar Initiative (CSI), the Commission essentially redirected the solar portion of the SGIP budget to the CSI program, and increased solar incentives beyond the $42 million historically budgeted in SGIP. (*See* D.06-01-024.) In D.06-12-033, the Commission reduced the SGIP budget for 2007 to $83 million to reflect that solar incentives were now funded through CSI. (D.06-12-033, pp. 32-33.)

Assembly Bill 2778[1] amended Pub. Util. Code § 379.6[2] relating to SGIP and limits program eligibility for SGIP incentives to qualifying wind and fuel cell distributed generation (DG) technologies, beginning January 1, 2008 through January 1, 2012.

In an October 26, 2007 ruling in this proceeding, the Administrative Law Judge (ALJ) requested comment on a proposed 2008 SGIP budget, which would conform the program to the new statutory guidelines that only wind and fuel cell DG technologies may receive incentives. The ruling generally proposed the following:

- A 2008 SGIP budget of $83 million per year, identical to the 2007 budget, including 10% for administrative expenses, and allocated between the four energy IOUs in the same percentages as in 2007.
- Unspent SGIP funds from prior budget years would carry over into the 2008 SGIP budget.
- SGIP funds would be equally available to wind and fuel cell projects.
- SGIP incentive levels would remain at the levels set forth in the SGIP Handbook, although internal combustion engines and microturbines would no longer be eligible for incentives pursuant to Section 379.6.

Comments on Proposed SGIP Budget

Comments and/or reply comments on the ALJ ruling were filed by California Center for Sustainable Energy (CCSE), Capstone Turbine Corporation (Capstone), ClearEdge Power Corporation (ClearEdge), Pacific Gas and Electric

---

[1] Chapter 617, Statutes of 2006.

[2] All statutory references are to the Public Utilities Code unless otherwise noted.

Company (PG&E), Southern California Edison Company (SCE), jointly by San Diego Gas & Electric Company and Southern California Gas Company (the Joint Utilities), and UTC Power Corporation (UTC).

CCSE, PG&E, SCE, and UTC support the proposal in the ruling, although several parties suggest refinements or corrections to the SGIP 2008 proposed budget. The Joint Utilities ask for correction of what they believe is a minor rounding error in the ruling's budget proposal. Two parties, namely Capstone and ClearEdge, suggest more significant budget changes, either a reduction in the total budget or a change in the incentive levels offered to specific qualifying technologies. We address all of these comments in the discussion below.

Discussion

For the most part, parties supported the proposal to adopt a 2008 SGIP budget at the same level and using the same allocations as in 2007. CCSE, Joint Utilities, and PG&E ask the Commission to make a minor correction to the proposed 2008 SGIP budget to reflect the same allocations that were used in 2007, and adopted in D.06-12-033. They suggest that a rounding error in the proposal leads to the budget levels for each utility differing slightly from what was adopted in D.06-12-033. We will make this adjustment so that the adopted 2008 SGIP budget matches the one adopted in our prior order.

Two parties asked for more significant adjustments to the 2008 SGIP budget. First, Capstone proposes the Commission revise the $83 million SGIP budget downward to an amount equal to the average actual SGIP funding during the past three years for the remaining qualifying technologies, *i.e.*, wind and fuel cell projects. Capstone contends wind and fuel cell technologies are not as cost effective as microturbines, which are no longer eligible for SGIP.[3] Therefore, Capstone suggests an SGIP budget reduction until a cost-benefit study is completed as mandated by Section 379.6(f). SCE opposes Capstone's suggestion to reduce the 2008 SGIP budget, arguing that the Commission should maintain the status quo until the cost-benefit study contemplated in Section 379.6 is completed. We will not make any findings on the cost-effectiveness of individual DG technologies in advance of the study mandated by Section 379.6. Thus, as SCE suggests, we will maintain the 2008 SGIP budget at the same level as 2007.

Second, ClearEdge requests that incentives for non-renewable fuel cell projects for residential and small commercial customers be increased from $2.50/watt to $4.50/watt. It contends that small DG projects, *i.e.,* projects no larger than 30 kilowatts (kW), are challenged to compete with the economies of scale of larger DG projects and therefore require a larger incentive. ClearEdge also requests that 25% of each utility's SGIP budget be set aside for Level 3 (non-renewable) fuel cell projects less than 30 kW. SCE opposes ClearEdge's requests, noting that the $4.50/watt incentive level should only be reserved for *renewable* fuel cells. Again, we will maintain the 2008 SGIP incentive levels at the same level as in 2007. ClearEdge provides no evidence or analysis to support incentives of $4.50/watt. Further, we reject set-asides based on project size at

---

[3] Capstone attaches to its comments its own "Microturbine White Paper" comparing the air pollution and energy efficiency benefits of different DG technologies. SCE opposes consideration of this white paper, noting that the paper was not prepared with input or direction from the state agencies named in Section 379.6 as responsible for a DG cost-benefit study. We will not make any findings on the white paper and do not consider it here.

this time, preferring to keep the program on a first-come, first-served basis, where projects compete equally regardless of size. Nothing in this order modifies the categories, i.e. "levels", of incentives based on fuel type adopted in D.01-03-073. The SGIP program administrators[4] should continue to implement the SGIP in accordance with the previous directions of this Commission regarding allocation of funds between renewable and non-renewable projects. In addition, we prefer to avoid changes in the program in advance of the cost-benefit study required under Section 379.6.

CCSE and PG&E request that the Commission clarify the proposal in the ALJ ruling to carryover unspent SGIP funds from withdrawn or cancelled projects. In D.06-12-033, the Commission directed the carryover of unspent 2006 SGIP solar funds, with specific direction on funds collected from gas ratepayers versus electric ratepayers. CCSE and PG&E ask for clarification whether the proposal in the ruling regarding carryover of unspent funds only applies to funds from withdrawn or cancelled non-Photovoltaic (PV) projects, and whether the direction in D.06-12-033 still applies for unspent solar funds. In response, we herein clarify that SGIP funds from solar PV projects that are withdrawn or cancelled prior to 2007 should carryover as set forth in D.06-12-033. Nothing in this order changes the direction given in D.06-12-033. The SGIP program administrators may carryover funds from withdrawn or cancelled non-PV projects to the 2008 SGIP budget, or future SGIP budgets, until further directed by this Commission.

---

[4] The SGIP program administrators are CCSE, PG&E, SCE, and SoCalGas.

CCSE requests confirmation that it will remain as the SGIP program administrator in the SDG&E service territory in 2008 and beyond. The Joint Utilities comment that this question is beyond the scope of this decision, and should be postponed until the Commission evaluates the success of CCSE's administration. They note that in D.04-12-045, the Commission discussed reevaluation of the SGIP administrative structure if funding continues past 2007. The decision discusses a comparative assessment report to be filed in September 2006 to aid in this evaluation. This comparative assessment report was filed on April 25, 2007, and indicates CCSE compares favorably to other SGIP administrators on most measures.[5] Nevertheless, an evaluation of CCSE as program administrator was not the intended subject of this order. Thus, we make no findings herein on CCSE's performance. Until such time as we are able to evaluate that report, we will direct SDG&E to extend its contract with CCSE for SGIP program administration through 2008.

In summary, this decision finds that the 2008 SGIP budget should be as follows:

- The total SGIP annual budget for 2008 and beyond should remain at $83 million per year as established in D.06-12-033 for 2007, allocated between the four IOUs in the same percentages as in 2007, until further modified by Commission order. The budget includes 10% for administrative expenses.
- The annual budget by utility will be as follows:

---

[5] The report is entitled "Program Administrator Comparative Assessment" prepared by Summit Blue Consulting and can be viewed at www.energycenter.org.

SGIP Budget for 2008

Investor Owned Utility	Percentage	2008 SGIP Budget (in millions)
PG&E	44%	$ 36
SCE	34%	$ 28
SDG&E	13%	$ 11
SoCalGas	9%	$ 8
Total	100%	$ 83

- Any unspent SGIP non-PV funds from prior budget years shall carry over into 2008 and beyond and be available for SGIP project funding until the end of the SGIP or until further Commission order. Unspent non-PV funds include funds from non-PV applications that have dropped out or withdrawn from the program. The program administrators should keep records of all carryover funds and the budget year from which those funds originated. Carryover of funds from PV projects that have dropped out or withdrawn should be handled in the manner described in D.06-12-033.
- SGIP funds should be equally available to all eligible technologies *(i.e.* wind and fuel cell projects), but in conformance with previous Commission guidance in D.01-03-073 regarding allocation of incentive funds between renewable and non-renewable incentive categories.[6]
- Funding for administrative expenses, which includes measurement and evaluation, marketing, outreach, and regulatory reporting, shall be limited to 10% of each utilities funds, as set forth in D.04-12-045. (*See* D.04-12-045 at p. 10.)
- The incentive levels will stay at the levels set forth in Section 3.1 of the SGIP Program Handbook, with the

[6] SGIP funds should be allocated equally between renewable (Level 2) and non-renewable (Level 3) incentive categories. As set forth in D.01-03-073, a program administrator may move funds from the non-renewable to the renewable category, but must seek approval from the Commission through an advice letter to shift funds from renewable to non-renewable budgets.

exception that internal combustion engines and microturbines shall no longer be eligible for incentives, pursuant to Pub. Util. Code § 379.6. The incentives table from Section 3.2 of the SGIP Handbook would be modified as follows:

Incentive Levels	Eligible Technologies	Incentive Offered ($/watt)	Minimum System Size	Maximum System Size	Maximum Incentive Size
Level 2 Renewable	Wind Turbines	$1.50/watt	30 kW	5 MW	1 MW
	Renewable Fuel Cells	$4.50/watt	30 kW		
Level 3 Non-Renewable	Non-Renewable Fuel Cells	$2.50/watt	None	5 MW	1 MW

- The Commission may reconsider the SGIP budget at anytime, particularly if legislation modifies the eligible technologies beyond wind and fuel cell projects.

Comments on Proposed Decision

The proposed decision of Commissioner Peevey in this matter was mailed to the parties in accordance with Pub. Util. Code § 311 and Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed by CCSE and SCE. There were no reply comments. Minor clarifications have been incorporated throughout the decision in response to comments.

Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Dorothy J. Duda is the assigned ALJ for this portion of this proceeding.

Findings of Fact

1. Section 379.6 limits SGIP incentives to qualifying wind and fuel cell distributed generation technologies, beginning January 1, 2008 through January 1, 2012.

2. In D.06-12-033, the Commission directed the carryover of unspent 2006 SGIP solar funds.

Conclusions of Law

1. The SGIP budget for 2008 should remain at $83 million, allocated between PG&E, SCE, SDG&E, and SoCalGas in the same percentages as in 2007, and including 10% for administrative expenses.

2. Funds from withdrawn or cancelled non-PV SGIP projects should carryover to the 2008 SGIP, or future SGIP budgets, until further directed by this Commission.

3. The SGIP administrators should keep records of all carryover funds and the budget year from which those funds originated.

4. Within the guidance previously adopted in D.01-03-073 with regard to renewable and non-renewable incentive categories, SGIP funds should be equally available to all eligible technologies and incentive levels should remain at the levels set forth in Section 3.1 of the SGIP Handbook.

5. SDG&E should extend CCSE's contract as SGIP program administrator for 2008, until further order of this Commission.

O R D E R

IT IS ORDERED that:

1. The Self Generation Incentive Program (SGIP) budget for 2008 of $83 million is adopted as set forth in this order.

2. San Diego Gas and Electric Company shall extend its contract with the California Center for Sustainable Energy for SGIP administration through 2008.

This order is effective today.

Dated January 31, 2008, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners