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January 3, 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 Opening 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

**OPENING 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

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INITIATIVE**

Pacific Gas and Electric Company (PG&E) respectfully submits these opening 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”).¹ PG&E appreciates this opportunity to address the issues raised by the Draft Decision.

I. EXECUTIVE SUMMARY

PG&E supports an expanded and extended solar program, and many of the design elements included in the Draft Decision. In addition to expressing PG&E’s support for an expanded solar program, these Opening Comments offer suggestions to clarify and shape the California Solar Initiative (“CSI”) to maximize the benefits to customers who are asked to support the program through their rates. In particular, these comments address the following topics:

- The Overall Budget Described by the Draft Decision -- \$3.1 Billion for the 11 Year Program -- Should Be A Firm Budget Cap, Not A Promise Of Whatever Funding Is Needed To Bring 3000 MW Of Solar Power On Line by 2016.
- The Figures In The Draft Decision Concerning Electric Rate Impacts Are Wrong And Also Do Not Include All Costs.
- Current Administration Of The Incentive Program Should Continue.
- The Rate Recovery Language Should Be Clarified to Ensure Timely Cost Recovery, Including Language Authorizing Recovery Annually Via The AET and AGT Advice Filings.
- PG&E Supports Coordination of Energy Efficiency and Solar Programs.

¹ PG&E is also a party to joint comments on the Draft Decision filed by the members of the Self-Generation Incentive Program ("SGIP") Working Group.

- Program Costs Should Be Paid by All Beneficiaries.
- Budgets And Programs For Research, Development and Demonstration (R, D & D) And For Low Income and Other Underserved Customers Should Be Developed In Workshops.
- The Output Of Solar Projects Receiving Substantial Utility Incentives Should Count Toward RPS Targets.
- Language Stating That Solar Projects Reduce Demand For Transmission and Distribution System Additions Should Be Deleted.
- The CPUC Should Support Legislation Increasing The Net Metering Cap With A Generation-Only Credit.

II. SPECIFIC SUGGESTIONS FOR CLARIFYING AND IMPROVING THE CSI.

PG&E supports an expanded and extended solar program, and supports many of the design elements in the CSI Draft Decision. The Draft Decision correctly recognizes that even though photovoltaic (PV) power is not now cost-effective, there is tremendous public support for a solar incentive program in California. In addition, some of the design elements, including funding for research and development, funding for solar water heating, better coordination with energy efficiency programs, and a schedule of steadily declining rebate levels, are program elements PG&E has long supported. Nonetheless, there are some specific areas where the Draft Decision would benefit from clarification or modification.

- A. The Overall Budget Should Be A Firm Budget Cap, Not A Promise Of Whatever Funding Is Needed To Bring 3000 MW Of Solar Power On Line. Furthermore, the Majority of the Program Dollars Should be Spent in the Latter Years, when Solar is Expected to Cost Less.

PG&E does not oppose the proposed 11 year solar incentive budget of \$3,100,000,000. This budget includes \$2.8 billion for years 2007 to 2016 plus \$300 million for 2006. However, this should be a firm cap on incentive costs, and not an estimated amount which will be augmented if either solar costs do not decline as hoped for, and/or the capacity of solar installed through the program does not achieve the 3,000 MW goal. The \$3.1 billion is itself approximately twice the \$1.1 to \$1.8 billion noted in the draft CEC/CPUC staff report issued in June 2005.

For many years, the solar lobby has stated that cost breakthroughs will follow if a 10-year declining rebate program is put in place. The resulting market transformation would mean incentives can be removed. The express premise of the Draft Decision is that “a cost-effective and sustainable solar market is unlikely to develop without a commitment for market support.”

Draft Decision p. 5. PG&E also hopes that a true market transformation will result from the CSI, and that solar PV will be cost-effective without the need for continued ratepayer subsidies.

However, the commitment of over half a billion dollars of incentives funded by California IOU ratepayers since 2001 has not produced a reduction in the installed cost of solar PV in California, and there is some concern that the \$3+ billion authorized by this decision may also fail to achieve significant price reductions. It is essential that the decision make clear that the CPUC has limited its commitment to solar energy. If the expected change does not occur, the budget will not be increased.

A commitment to pay “whatever it takes” to bring 3000 MW of solar power on line could cost many multiples of the proposed \$3 billion incentive budget. Despite a significant commitment by California as represented by this program, solar PV costs are driven by global supply and demand, and may not see the downward price trajectory contemplated by the Draft Decision. Even with the best intentions in the world, California still may fall short of its 3000 MW solar ambition, without significant additional funds.² In fact, it may not be possible to transform the solar industry at this time – due to circumstances beyond the control of the CPUC, the investor owned utilities, all solar-minded customers, and even the solar industry.³ The CPUC must make it very clear that the CSI is a commitment to invest \$3.1 billion in incentives in solar generation in California. The CSI is not -- and the CPUC must make it clear that it is not -- a commitment to reach 3000 MW whatever the cost.

Furthermore, in order to provide the greatest likelihood that the 3,000 MW goal will be achieved, most of the financial incentives made available through this program should be provided during the latter program years, when solar costs are expected to be much lower, and the incentive levels per MW are correspondingly smaller. The Draft Decision proposes to allocate 42% of the \$3.1 billion budget during the first three years, 2007-2009. According to the specified incentive levels (\$/MW) on Appendix A, page 15, this would produce only 220 MW, or less than 10% of the 2640 MW on that chart. PG&E instead proposes that this schedule be reversed, so the bulk of the dollars be made available when solar costs are lower – in order to

² In 1997, the United State Department of Energy adopted a goal of a million solar roofs by 2010. That objective is not likely to be achieved by that date. See <http://www.millionsolarroofs.org/>.

³ Solar energy is a global phenomenon, many other entities (states and nations) are committing to solar at this time, there is currently a shortage of silicon, and the expected massive increase in demand will make it very difficult to achieve drops in price – leaving solar available only to the wealthiest customers.

achieve the greatest value to the customers funding the program. Unless it can be credibly demonstrated that the funds need to be spent as defined in the Draft Decision in order to achieve the hoped for reductions in solar cost (something which PG&E doubts), there is no reason to invest most of the available funds when the price is the highest and benefits are the lowest.

B. The Figures In The Draft Decision Concerning Electric Rate Impacts Are Wrong And Also Do Not Include All Costs.

The figures for PG&E on estimated electric and gas rate increases (Appendix A, Table 3, page 13) are not correctly stated, and are off by a factor of 100 for electric and 10 for gas. In particular, the resulting electric rate increase for a \$132 million rate increase will be approximately 0.2 cents per kWh, not the 0.002-0.003 figures on page 13. The rate increase for gas is 0.3 cents, or \$0.003 per therm. In addition, there is no 2007 “headroom” available, as claimed on Appendix A, page 12, since a variety of other rate increases will more than offset the scheduled expiration of Rate Reduction Bonds in 2007.

Of course, the rate impact on non-participating customers will be much higher than just the cost of the incentives. PG&E estimates that the total costs of the CSI could approach \$10 billion, not the \$3.1 billion figure discussed on page 1 of the Draft Decision. A customer installing a PV generator on his or her roof receives several other subsidies in addition to the up-front incentive investment. Many of the costs of the electric infrastructure used by solar customers are borne by other ratepayers, not the customer with the solar panel.

PG&E performed some very simple calculations⁴ to estimate the total costs of the CSI for customers who do not participate in the program, but who pick up the subsidies for program participants. PG&E estimates ten year program costs of \$2.85 billion, lost revenues of \$7.98 billion (which would be offset by avoided costs of \$5.34 billion) and net metering costs (if participants enjoy retail net metering) of \$4.05 billion. This means total program costs could be \$9.54 billion -- over three times the costs included in the Draft Decision and Appendix A. While the CPUC has not completed the cost-benefit stage of this proceeding, it is important that the decision adopting the CSI recognize that there will be additional impacts on nonparticipating customers beyond those in Appendix A table 3, which by itself is inaccurate.

⁴ PG&E used the budget figures in Table 2 and the installation rate in Table 5 in Appendix A. CEC MW additions were based on dividing the CEC budget by the \$/Watt figures in Table 5. Average rates were assumed to be \$0.13, avoided costs were assumed to be \$0.087, solar installations were assumed to produce 1577 kWh/year/kW for a 20 year life and to export 30% of their production to the utility grid. The average rate at the time of exports is assumed to be \$0.2409.

Finally, to the extent that the final decision provides the ALJ, in consultation with the Assigned Commissioner, to fund the CSI in the current period with up to 15% of the budget allocated to the next funding period (as is provided in Conclusion of Law 8), any incentives paid out of funds borrowed forward should be at the reduced incentive levels proposed for the next year or funding period, rather than the higher levels in place. Otherwise, there could be a gold rush each year to exhaust that year's funding (along with a share of the next year's budget as well) before the incentive level drops.

C. Current Administration Of The Incentive Program Should Continue.

The Draft Decision states that “third party administration of the program by one or more nonprofit organizations, initially for the residential retrofit market, is most likely to accomplish our objectives and will not compromise utility administration.” Draft Decision p. 5. While PG&E is open to different types of administrative structures for the residential program, PG&E believes that any recommendations for a changed structure for the nonresidential program have been reached without any demonstration that the current program administrative structure is not well suited for the expanded program. Furthermore, elements of the expanded program described by the Draft Decision suggest that the current Self-Generation Incentive Program (SGIP) program administrators are better suited to continue, and possibly expand their current roles to include the residential program as well. If the residential programs are to be put out to bid, PG&E proposes that the current administrators of the SGIP program be given an opportunity to participate in the process.

There are several reasons why utility administration of the CSI is preferable to third party administration:

Demonstrated Performance By Existing Administrators. The current SGIP administrators have done an excellent job, as verified by Itron's survey of customers, and by the low administrative costs of the program.⁵

Integrated Demand Side Management. As the Draft Decision recognizes, the CSI should be aligned with utility energy efficiency programs. While the Draft Decision requires an audit, an integrated DSM approach would enable ratepayer funding to accomplish much more. As described in testimony in the Energy Efficiency docket,⁶ PG&E is coordinating overall energy efficiency, demand response, and distributed generation planning across market segments. PG&E's integrated DSM approach is tailored to individual customer financial goals, resources, needs and limitations. This approach will

⁵ Itron Report dated September 2, 2003, page 5-5.

⁶ See A.05-06-004, Pacific Gas and Electric Company 2006-2008 Energy Efficiency Program Portfolio, Volume I, Testimony of Duane F. Larson, pages 3-14 and 3-15.

deliver all DSM resources in the most effective and efficient manner through higher customer acceptance, reduced “gaps” in service and more streamlined and cost-effective program delivery.

Administrative simplicity. Irrespective of who administers the rebate portion of the CSI, some aspects of administration cannot be severed from the customer’s relationship with the utility. The interconnection process, including any necessary engineering studies, system upgrades, etc. will always have to be done by the electric utility. If the utility is also the CSI program administrator, the customers will have the advantages and efficiencies of one-stop shopping.

CPUC control of program implementation and delivery. The CPUC heard extensive debate, hearings, and briefing concerning whether utilities should administer energy efficiency programs. Eventually, the CPUC concluded that these are properly administered by utilities. See D.05-01-055 (Jan. 2005). As the Commission recognized, “The Commission has broad regulatory authority to ensure and enforce the IOUs’ compliance with our policy rules and requirements based on current statute and Constitutional authority. In contrast,” [under the contractual authority the CPUC would exercise over an independent administrator] “we would have limited recourse in the event that the programs do not deliver the requisite energy savings or the program administrator fails to perform in other ways.”⁷ The CPUC has been implementing energy efficiency programs in California for over 25 years. The CSI program is comparatively new, and even more in need of CPUC oversight. Finally, the substantial funding of the CSI, and its impact on ratepayers, means that the CPUC would be better able to fulfill its responsibility to those ratepayers if administration were to continue as it is today under the SGIP.

D. The Rate Recovery Language Should Be Clarified.

The rate recovery language in the Draft Decision should be revised to clarify that the program budget can be recovered in rates without the need for new rate proceedings. PG&E supports the effort by the Commission to assure ongoing recovery of CSI program costs, and supports the Commission prerogative to audit or otherwise review the related accounts as appropriate. Although PG&E has had substantial delays in its recovery of SGIP costs, the Commission’s more recent intention to move towards concurrent cost recovery is demonstrated by D.05-12-044, where the Commission said, “We agree that the utilities should not have to wait long periods to recover program costs.” (D.05-12-044, pg. 9). The Draft Decision has similar language, including statements on page 8 directing the utilities to “collect the revenue requirement established in this order according to the schedule we adopt for each of the program years....” To avoid confusion, and assure that the recovery of program costs do not substantially lag behind program spending, PG&E asks that the Commission clarify a few points.

⁷ D.05-01-055, page 63.

First, the Commission should clarify that the recovery of CSI program costs should not be delayed until cost allocation issues are resolved in some future ratemaking proceedings. The Commission should order that cost allocation for the new CSI program is the same as the existing SGIP cost allocation, unless and until the Commission issues an order changing it.

Second, the Commission should order PG&E to file a new gas and electric balancing account 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).⁸ This is consistent with the draft decision establishing a schedule for the collection of revenue requirements (at p. 6) and making the CSI program separate from the SGIP (Conclusion of Law 2). Recovery of the gas and electric portion of the CSI annual revenue requirement in the CSI balancing accounts will assure that the authorized program costs are recovered in a timely manner and recognize that actual expenditures may be higher or lower in any given year but that only if the difference between program expenditures and the amounts the utilities collect in rates is substantial would the Commission consider adjusting the collection of the revenue requirement.

Third, PG&E asks that in the final CSI Decision, the Commission order PG&E to recover the annual CSI revenue requirements and CSI account balances in the Annual Electric True-up (AET) and the Annual Gas True-up (AGT). The AET and AGT advice filings provide the annual vehicle to update balances for accounts already approved for recovery in electric and gas rates and to consolidate other authorized changes to in revenue requirements for rates effective January 1st of each year. In accordance with D. 05-12-044, PG&E included recovery of the approved 2006 CSI revenue requirements in AET Advice 2706-G-A and AGT Advice 2678-G-A. PG&E requests that the Commission continue this treatment for 2007 and beyond.

E. Coordination of Energy Efficiency Programs and Solar Programs.

PG&E supports the proposal to improve coordination of the CSI with energy efficiency programs. This would help build a consistent and effective signal supporting the efficient and environmentally responsible use of electricity, and should lead to installation of appropriately sized solar units and increasing benefits for nonparticipating customers. As a result, a larger number of customers would have access to CSI funds and overall load reduction would be greater.

⁸ PG&E would track its actual expenditures outside of the CSI balancing accounts.

In particular, PG&E supports the proposed requirement that residential and commercial retrofit customers undergo an energy audit as a prerequisite for receiving a CSI rebate. (Draft Decision, Finding of Fact 17). An audit would provide customers a good opportunity to identify areas of energy savings they may not have otherwise considered. It would also be a good starting point for establishing minimum energy efficiency standards for retrofit customers receiving a CSI rebate. To maximize the opportunities in this area, PG&E recommends that upcoming CSI workshops address specific auditing standards and the potential for cost effective energy efficiency standards that can be feasibly reached before a retrofit customer becomes eligible to receive a CSI rebate.

PG&E believes that new construction should include an energy efficiency requirement before the building will be eligible for a CSI rebate and supports the proposal to provide higher incentives for solar installations in new buildings with efficiency measures that exceed Title 24 building standards. (Draft Decision, Conclusion of Law 10). The threshold percentage over Title 24 standards should be coordinated with existing IOU new construction programs and avoid creating a situation in which customers can double-dip and receive rebates both for the solar installation and for exceeding Title 24 standards, in effect becoming free-riders.

F. Program Costs Should be Paid by All Beneficiaries

For PG&E, SGIP cost allocation among gas and electric customers has been established by Commission order. On the electric side in the decisions that mandated the SGIP program, the Commission directed the utilities to increase their distribution revenue requirement to reflect the authorized budgets. (See D.01-03-073 pg. 12-13 and D.04-12-045 pg. 2). This means that SGIP costs are allocated among electric customer classes in the same manner as other distribution revenues. This cost allocation is consistent with CSI Draft Decision ordering paragraph 4. Similarly, as to gas customers, in the last BCAP (D.05-06-029), the Commission resolved that SGIP costs should be allocated on an equal cents per them basis.

However, now that the Commission is defining a specific – and expanded – program focused on solar technologies (including solar PV and solar water heating), it should ensure that the costs that support CSI should be collected through rates paid for by all gas and electric customers eligible for the program.

IOUs should no longer provide incentive payments for solar PV to electric customers of publicly owned utilities, even if they take gas service from IOUs.^{2/} Participation in any electric related solar program should be limited to customers that take electric service from the utility that serves as the source of the funds. Specifically, where a customer receives electricity from a publicly owned utility (POU), but gas from an IOU (as is the case for PG&E's gas customers in, for example, Sacramento), they would be contributing to the costs of CSI only through their gas rates. Accordingly, they should only qualify for participation in that portion of the CSI that is designed to avoid customer gas costs – the solar water heating portion. Participation in the electric portion of the CSI would be restricted to electric customers of the IOU. Customers who purchase their electricity from a publicly owned utility would participate in the publicly owned utility's program, to the extent that they have one.

Thus, the Commission should establish a non-bypassable charge that ensures that these costs cannot be avoided inappropriately. Absent such a mechanism, customers will be motivated to seek means by which they can take service from POUs choosing to serve within IOU service areas in order to avoid paying the costs of various CPUC programs such as the CSI, but then nonetheless derive benefit from the program (these customers receive indirect benefits that they are not paying for, such as any lower costs for solar enabled by the CSI, as well as environmental benefits). Many POUs do not offer similar programs or participate in the ISO controlled grid, are not required to meet existing renewable standards, and advertise themselves as offering discounts off of IOU rates. As publicly owned utilities seek to avoid CPUC policies and programs, and as the CPUC continues to adopt such programs, these rate pressures will continue to increase. One solution, in addition to legislation that extends the solar program to POUs, is for the CPUC to make clear that the costs of the CSI are not bypassable by customers seeking to take service from another utility, whether gas or electric. The CPUC should make clear that all the costs of this program, not just the costs of direct financial incentives, are a nonbypassable element of rates.

² This would change the current SGIP rules, which now permit municipal utility customers to receive SGIP incentives as long as they take gas service from a CPUC-regulated utility.

G. Budgets And Programs For R, D & D And For Low Income and Other Underserved Customers Should Be Developed In Workshops.

PG&E supports the proposal in the draft decision of using some portion of the CSI budget for research, development, and demonstration and low income residential and affordable housing projects. However, rather than allocating a fixed 15% of program budget to these items, the Commission may want to explore in workshops both how this money should be spent, and what the specific budgets for each element should be. In addition, the Commission may wish to allocate some portion of these budget dollars to other underserved customers like public schools.

H. The Output Of Solar Projects Receiving Substantial Utility Incentives Should Count Toward RPS Targets.

The utilities should be able to count the output of solar projects that have received substantial incentives toward their renewable target. If the CPUC is not going to resolve this issue in its decision adopting the CSI, it needs to set a schedule to have this issue addressed in 2006.

There are several reasons that output should be counted toward the utilities' renewable goals. The rationales offered in the Draft Decision for singling out solar power for incentives, adding clean energy and reducing risk by diversifying the state's energy portfolio (Draft Decision page 4) are the same reasons the state has relied on to encourage all renewable power. One of several decisions addressing the issue is Decision 05-05-011, which recognized that the SGIP incentives are based in part on the "renewableness" of the customers' generation, and that other ratepayers are paying for a major portion of the installations. Ultimately, D.05-05-011 concluded that possible changes and issues relating to subsidies and measurement will be addressed in this docket. Those issues have not yet been resolved, and should be addressed. The CPUC should clarify now that a condition of receiving the CSI incentive is to convey the renewable attributes of generation to the utility paying for the incentive.

Ratepayers should not have to pay twice for the same benefit. It is clear that the utilities effectively buy the output of the CSI PV installations by virtue of the reduced customer load they experience. Also, it is clear that the utility's customers are paying well above market prices for the PV output. For example, the September 2005 Itron report CPUC Self-Generation Incentive Program Preliminary Cost-Effectiveness Evaluation Report showed that non-participant customers have a benefit/cost ratio of 0.25 and that the society test shows a benefit/cost ratio of

0.27 (Table 1-2).¹⁰ In other words, customers pay four times the value of the PV generation, and even then, today, are not able to count the CRS credit of the resource toward meeting RPS goals.

The Commission, therefore, should find at this time that the renewable attributes from solar generation funded through these rebates belong to ratepayers and that any related implementation issues should be resolved in workshops. If the Commission does not include this finding in its final decision, the Commission should, at a minimum, address this issue in the upcoming CSI phase. D.05-05-011 deferred this issue to this docket and this phase presents a perfect opportunity to address the issue.

I. Language Stating That Solar Projects Decrease The Demand For Transmission and Distribution System Additions Should Be Deleted.

The Draft Decision states that solar projects “reduce the demand for transmission and distribution system additions.” (Draft Decision page 4). This text is at odds with prior CPUC decisions and practical reality, and should be deleted. In particular, most owners of solar projects do not wish to operate islanded from the utility grid. Instead, they wish to have standby power, whenever needed, whether that need is due to rain and clouds, night-time, or reduced output of the solar system for some other reason. As a result, the utilities need to have enough capacity available to meet the loads installed by customers, whether or not those loads are also served by solar units. As noted correctly by ALJ Malcolm in her draft decision addressing cost benefit methodology for distributed generation, the Commission previously addressed these issues in D.03-02-068. Judge Malcolm’s draft decision correctly concluded that the prior decision held that “transmission and distribution investment deferrals are currently site-specific. There is no recognition of T&D deferral benefits for DG projects overall.” Malcolm draft decision page 20, Escutia draft for Commission Meeting of Nov. 18, 2005. This text on page 4 should be deleted from the CSI Draft Decision.

J. The CPUC Should Support Legislation Increasing The Net Metering Cap With A Generation-Only Credit.

PG&E is close to reaching the net metering cap of 0.5% of system demand established by the Legislature. In 2002, the Legislature passed AB 58, which extended the ability of investor-owned utility customers to participate in retail net metering for solar self-generation up to 1 MW. This bill continued to provide participating IOU customers with a credit for deliveries to the grid

¹⁰ http://www.cpuc.ca.gov/static/energy/electric/050914_self-generationincentiveprogram_cost-effectiveness+evalreport.pdf

for the full retail rate, known as retail net metering. Retail net metering compensates the owner of the solar generation at the utility's retail rates, which are generally far above market prices for those exports to the utility grid. For this reason, the Legislature included two important ratepayer protections in the legislation. First, the availability of retail net metering was capped at 0.5% of each utility's peak load. Once this cap is reached, customers installing solar will not receive credit for any production of solar energy that might exceed on-site use from time to time. Second, the Legislature required the CPUC to examine the impact of retail net metering on nonparticipating customers and report the results of this examination by January 1, 2005.¹¹ To date, the CPUC has not reported to the Legislature on the impact of retail net metering on nonparticipating customers. An examination of the 2004 SGIP program, conducted by Itron under the direction of the Energy Division, found that the impact is negative – costs of the SGIP solar program exceeded benefits, yielding a benefit cost ratio for nonparticipating customers of 0.25.

PG&E's understands that its current retail net metering cap is 91.245 MW¹² and it estimates it will reach this cap in early to mid 2006. If the cap is reached without further legislative action, PG&E's customers who install PV will not have net metering available for any exports. PG&E is currently seeking an author for legislation that would allow net metering beyond the 0.5% cap and provide a credit that values exports at the generation component of the energy charge on the customer's otherwise applicable tariff. This form of net metering, called generation net metering, will be a subsidy for customers whenever the generation component is above the market value of the exports, as is the case today, but will more closely approximate the value of the electricity delivered to the grid.

PG&E has long been an advocate of generation net metering. The Legislature has also shown a strong inclination for generation net metering. Since the passage of AB 58, every piece of legislation that established net metering for a customer or customer class has provided generation net metering. In addition to generation net metering provisions included in AB 58 (for wind installations over 50 kW and for all net metering by publicly owned utilities), the Legislature has also instituted generation net metering for the City of Davis and California State

¹¹ See Public Utilities Code, Section 2827(n).

¹² PG&E reached its peak of 18,249 MW at 5 PM on September 8, 2004. The CEC assumes a different higher number applies, but says that number is based on estimates, not actual data. See CEC chart at http://www.energy.ca.gov/renewables/emerging_renewables/2005-01-18_GRID_PV.XLS.

University, Fresno (AB 1038/PUC Section 2826.5 and 2826.6 respectively), biogas digesters (AB 2228 and AB 728/PUC Section 2827.9), fuel cells (AB 1214/PUC Section 2827.10), and the City and County of San Francisco (AB 594/PUC Section 2828).

The load at a customer's site does not always match the output of a solar installation. A typical residential customer may not even be home during the week when most of the generation occurs. In order to size the generation to the customer's annual (as opposed to instantaneous) load, some form of net metering would be needed, at least for residential customers. The CPUC should support legislation that extends generation net metering to customers who install solar generation beyond the current 0.5% cap.

III. 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 listed above to improve and clarify the program, to make clear that the budget is firm, and to continue the current administrative structure for the larger program.

Respectfully submitted,

RANDALL J. LITTENEKER
STACY WALTER

By: _____ /s/
RANDALL J. LITTENEKER

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Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

Dated: January 3, 2006

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 3rd day of January, 2006, I served a true copy of:

**OPENING 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 3rd day of January, 2006 at San Francisco, California.

/s/
Pat Kokason