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California Energy Commission
Docket Unit, 1516 Ninth Street
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RE: Docket 04-DIST-GEN-1 - Order Instituting Rulemaking Regarding Policies, Procedures, and Incentives for Distributed Generation and Distributed Energy Resources ("OIR")

Dear Commissioners:

The Sempra Energy Utilities (SEU) companies, San Diego Gas & Electric (SDG&E) and the Southern California Gas Company (SoCalGas), appreciated the opportunity to hear the presentations at the Energy Commission (CEC) workshop on renewable distributed generation (DG) in Sacramento on June 8, 2004, and are also pleased to respond to the commission's questions presented. SDG&E and SoCalGas continue to support the CEC and the CPUC's joint efforts to quantify the costs and benefits of DG so that effective and efficient DG can quickly be delivered to California. In supporting the commission in these efforts, SDG&E and SoCalGas have offered comments to enhance the process, strengthen the quality of the data the commission is gathering, and provide other important insights.

Consistent with our prior comments to the commission, SDG&E and SoCalGas once again urge the CEC to incorporate the active, ongoing participation in the cost benefit work contemplated by this proceeding, of interested parties who wish to participate. Such participation is critical to the integrity of the data. Further, SDG&E and SoCalGas repeat their suggestion that the commission clarify and publish the steps it will use in this OIR to produce accurate, quantifiable cost benefit DG data. SDG&E and SoCalGas also reiterate their suggestion that you leave unchanged the existing distribution planning process. Currently, it is the exclusive right and duty of the utilities under CPUC jurisdiction to plan, design, and operate their distribution systems based on safety and reliability concerns. This OIR should not change that. Finally, the commission should examine the potential of integrating PV into future changes to Title 24. For example, builders may well find it useful to have as a tool the installation of PV in meeting Title 24 requirements. This may be a creative way to gain greater penetration of PV without mandates or direct financial incentives.

The commission asked the participants to respond to questions concerning possible incentives related to DG. SDG&E and SoCalGas offer the following responses.

Q1. How should state and local programs be coordinated in terms of incentives? How formal or informal should this coordination be?

A1. To the extent that incentive programs are cost effective, state and local programs should strive to be structurally similar to make them user-friendly for customers and vendors. There may be legitimate reasons to allow some local program differences, however, such instances should be limited.

Q2. The Emerging Renewables Program offers incentives to help commercialize emerging renewable technologies, create economies of scale, and support the development of a competitive market

environment to help bring down the cost of emerging renewable technologies. Over time, it is expected

that incentives will no longer be necessary to support further development, as the technology becomes competitive in its own right. This strategy appears to have been successful in establishing the largest market in the world for renewable DG, which is in Japan, where declining incentives for PV installations have nearly been phased out. Is this an effective long-term strategy for California, or should it be altered? In particular, please comment on the following:

a. In California, are we achieving program goals of bringing about cost reductions so that we are close to reaching the point in time where incentives are no longer necessary?

b. What is the expected outlook in cost reductions for retail purchase of these DG systems?

c. What could be done to accelerate reduction in costs of renewable DG technologies? If additional funding is necessary to support renewable DG technologies as costs are declining, how much support should be provided and for how long? What would be the source of funding?

d. ***What is the strategy of the PV and small wind industry if support from state incentive programs for their technologies is phased out?***

A2. We have no comments at this time.

Q3. Should the state pursue a strategy similar to the German model of providing incentives to produce renewable DG, rather than incentives to install renewable generating systems? If so, how should such a performance-based incentive program be structured and funded? How would the state transition from the current incentive model, which is similar to the Japanese model, to a performance-based model similar to the German model?

A3. Incentives should be aligned with what the State of California wants to happen. From the state's actions regarding RPS goals, it is clear that utilities need to gain a certain level of performance from renewables. It seems inconsistent to expect performance from renewables in one program and only expect installation in another. If the state actually wants cleaner power production, then the state should provide incentives that are consistent with one another and based on performance. From the presentations made on June 8, it is clear that according to Black & Veatch, concerns exist over the long-term about continued performance from photovoltaic systems. Only a performance-based incentive will mitigate against the loss of production from photovoltaic systems in the future, provided Black & Veatch's observations are correct.

Q4. Germany and Japan are the world leaders in installing distributed PV generation systems, followed by California. What lessons can California learn from these successes?

A4. We have no comments at this time.

Q5. Many distributed renewable generation systems are also supported by allowing net metering for the installed site, exemption from cost responsibility surcharges for on-site generation, and state tax credits or tax exemptions. Generally, these policies are capped or scheduled to expire at some date. Keeping in mind the expectation for declining costs and funding challenges, should the state revisit these support policies? In particular:

a. ***Should the caps or expectations on these policies be reexamined in light of the strong recent demand? What opportunities and problems would this be likely to create?***

b. ***What is the status of net metering in California? Which utilities are coming close to the cap? When do they expect to reach it? What policies are they planning to adopt once the cap is reached?***

c. ***Should incentives be adopted to encourage utilities to allow additional net metering beyond the cap set in AB 58? What type/level of incentives would you recommend?***

d. ***Should the state's solar tax credit be extended beyond 2005? If so, how should this credit be structured? Would passage of a federal tax credit affect continuation of a state tax credit?***

e. ***Is there any near-term necessity to examine the exemption from CRS of some distributed renewable generation installations in light of the CRS caps?***

A5.a. SDG&E anticipates that it will reach its 0.5% cap sometime in the next few years. SDG&E has recommended to the CPUC that it should work through its cost benefit analysis proceedings and determine as quickly as practical what is in the best interests of SDG&E's customers and adjust the net metering program accordingly

See pages 28-33, 39-40, of the May 17 comments filed with the CPUC and provided to the commission.

A5.b. Same response as A5.a. above.

A5.c. We have no comments at this time.

A5.d. We have no comments at this time.

A5.e. SDG&E does not see a need for the commission to examine the exemption from CRS of renewable generation installations at this time.

Q6. How should the state establish a program to foster installation of solar systems on new homes built in California? In particular:

a. What should the near-term and long-term goals be for solar on new homes? Should the state establish numerical targets for these goals?

b. Should mandates, incentives, or some other strategy be used to foster solar on new homes?

c. What are the opportunities and barriers to increasing the market penetration of solar systems on new homes in California?

d. To what extent would it be appropriate to modify California building codes to require new buildings to be solar ready? Should solar on new homes be mandated; if so, at what level, size, or percentage? What are the consequences of having a mandate for solar on new homes? Under what circumstances should a PV system qualify for compliance credits in meeting the building energy efficiency standards? What are the consequences of such a credit?

e. What role can investor-owned utilities and municipal utilities play in delivering solar on new homes in their service areas?

f. What role can builders play in delivering solar on new homes to their customers?

g. ***How should a program for solar on new homes be coordinated with existing incentive programs, if at all?***

A6. SDG&E and SoCalGas are very concerned that the commission pursue goals that are consistent with the best interests of its customers and reflect a solid basis of support for robust avoided costs. The commission should give careful consideration to the concerns that we heard from GE regarding the implications of mandates. In addition, the commission should be careful to consider the utilities' system operations in any decision on mandates. The commission is appropriately giving consideration to the role that a utility should play in the future. All of these issues are contained within the CPUC's current Rulemaking 04-03-017 in which SDG&E and SoCalGas anticipate full participation.

Again, SDG&E and SoCalGas appreciate the opportunity to comment on the commission's efforts to determine the quantifiable costs and benefits DG may hold for California, and we look forward to working with both commissions and others to bring effective and efficient DG to California as soon as possible.

Respectfully submitted,

Bernie Orozco

Attachment: SEU Comment Letter dated 5/17/2004