Center for Sustainable Energy CALIFORNIA

November 17, 2011

Mr. Paul Clanon
Executive Director
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

RE: San Diego Gas & Electric Application A.11-10-002: 2012 General Rate Case Phase 2

Dear Mr. Clanon,

San Diego is a national leader in residential and commercial solar power. The region has more than 12,000 solar systems, amounting to over 120 megawatts of installed capacity. Growth in the San Diego solar industry has averaged 40% per year since 2005 and has remained strong, directly employing over 1,000 people and indirectly many times more. Solar accounts for 25,000 jobs in California – one of every four solar jobs in the nation.

In the rate design phase of its current general rate case (GRC), San Diego Gas & Electric (SDG&E) proposes a suite of rates that would have significant impacts on the customer-side solar market. As to be expected with any rate case, the proposal is receiving vigorous coverage from the local media. One topic being actively discussed is a proposed "network use charge" – a new billing component that would charge for power that flows through a customer's meter regardless of its direction. We understand SDG&E's rationale for proposing this new billing component, and interpret it in part as an effort to navigate the legal constraints around the rate design process. At the same time, it is very clear that the rates proposed would reduce the customer benefits of net energy metering (NEM), which allows solar customers to receive a full retail credit for the electricity they supply to the utility's grid.

As the San Diego region's program administrator for the California Solar Initiative (CSI), we are concerned about the chilling impact these changes may have on the regional solar marketplace, and specifically the ability of the CSI program to meet its installation goals. While overall patterns of adoption are difficult to gauge in real time given the many factors that influence the ebb and flow of CSI applications, we believe that active contractor leads are already being adversely affected due to uncertainty generated by the rate case, a trend that has been confirmed in conversations with solar photovoltaic (PV) sellers and integrators in the region. Concretely, CCSE has undertaken customer- and sector-specific analyses to determine the likely impacts of the proposed rates.[1] Typical residential solar owners generating enough energy to cover half or more of their consumption would see their SDG&E bills increase by $10 to $40 per month. Schools, local governments and businesses currently on the most "solar-friendly" commercial rates would see their bills increase by thousands of dollars annually. A few specific points:

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[1] CCSE is providing public-facing information and results of sector-specific analysis on our web site: http://energycenter.org/SDG&E_GRC2. We plan to refresh this resource as often as needed.

- The new rates would change the rules for existing solar adopters who have done exactly what state policy has been promoting for more than a decade by responding directly to clear price signals under NEM. In form as well as spirit, the proposed rates for most NEM customers are new structures rather than modifications of existing ones. If the proposed rates become reality, we suggest that existing solar customers be permitted to remain on current rates.

- Beyond existing solar customers, we are concerned about maintaining consistent messaging to the solar marketplace. The prospect that benefits could decrease significantly in the near term, undermining what is a long-term investment for the adopter, would weaken the foundation of the small-scale solar marketplace, which is the product of years of coordinated entrepreneurship and policy support. If the underlying value of a solar PV investment is subject to the uncertainty of the three-year rate cycle, solar becomes a more difficult sell.

- Residents who are now considering solar PV will see their payback times lengthen and internal rates of return decline, though the return would often still be greater than zero. Non-residential customers will not generally be so lucky, particularly if the 30% federal investment tax credit (ITC) is terminated, as seems at least possible.

- The proposed rates are more complex than existing ones, which are already difficult for customers to understand. Customer-specific interval data would be required to model billing impacts under the proposed rates. The network use charge thus introduces a greater level of complexity to understanding the value of solar and inhibits the contractors' sales process.

- The primary source of current rate discontinuities is not NEM, but rather Assembly Bill (AB) 1X, the 2001 law that hammered out a solution for power supply and utility solvency in the wake of the 2000-2001 California energy crisis. This legislation has caused high-tier customers to absorb recent rate increases, hampering SDG&E's ability to distribute collections equitably across the residential rate base. Singling out solar customers misses this larger point.[2]

- This proposal comes in the midst of considerable uncertainty about other procurement mechanisms that may or may not result in increased small-scale solar installations: the feed-in tariff (FIT), which is currently under development at the Commission, and a Community Solar program being developed by SDG&E. We welcome both initiatives—particularly for customers not able to participate in NEM—and stand ready to promote and facilitate them. At the same time, NEM has been the most successful strategy for making rooftop solar happen, while the pricing and impact of potential alternatives is unknown.

- Small-scale solar's benefits can be substantial, depending on location, time of day and other factors, and include not only generation and distribution system benefits, but also positive impacts on the environment, public health and local economies. The rate design proposal filed by SDG&E does not seem to take all benefits into account. Quantifying both the costs and true benefits is critically important and depends upon detailed technical and economic assessments. It is then a matter of policy to establish the proper roles of various ratepayer classes in supporting small-scale solar.

We recognize that there is no silver bullet for achieving a sustainable energy future for California, but rather a panoply of "silver buckshot." Along with solar and other renewable energy generation, there

[2] We recognize that modifying AB 1X and/or NEM would likely require legislation but consider these issues to be central to forging a reasoned long-term solution.

are many other useful small-scale grid-supporting technologies, such as aggressive energy efficiency, strategically located energy storage and interactive area networks to name a few. We certainly support energy policy that promotes and integrates these advancements. But small-scale solar still remains an essential component of California's strategy for low-energy buildings, both new and retrofit, and should continue to remain so. As the Commission considers options to keep our state on its innovative path while minding the impacts on ratepayers, we make the following recommendations:

- Consider gradual, continuous pathways for reducing the distortions that are built into current rates. Grandfathering existing NEM customers is part of that; moving beyond the constraints of AB 1X is more important. Working with the state legislature may be necessary to break from the tenuous status quo.

- Quantify all of NEM solar's benefits when comparing to other options. Utility analysis is difficult to confirm independently. The clean energy community, including both trade groups and non-profits, has invested significant resources into a complementary effort. Ensuring that a broad range of voices is heard within the proceeding, and in any settlement discussions if they take place, would be very beneficial.

CCSE will continue to support the Commission in its effort to make informed decisions that consider the varied impacts to our energy future and economy. We are committed not only to the success of the CSI, but also to maintaining and enhancing the viability of small-scale solar in San Diego and beyond, as a vital component of our state's long-term clean energy development enterprise. At the same time, we understand and support the need to respond to the interests of all ratepayers, through consistent, measured and complementary policies that, together, direct the sector's evolution down the sustainable path we all desire.

Thank you for your attention, and please feel free to contact me with any questions you may have.

Sincerely,

Irene M. Stillings

Irene M. Stillings
Executive Director

Cc: Commission President Michael R. Peevey
Commissioner Mark J. Ferron
Commissioner Michel Peter Florio
Commissioner Catherine J.K. Sandoval
Commissioner Timothy Alan Simon
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