

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Order Instituting Rulemaking Regarding
Policies, Procedures and Rules for the
California Solar Initiative, the
Self-Generation Incentive Program and
Other Distributed Generation Issues.

Rulemaking 10-05-004

Filed May 6, 2010

**COMMENTS OF THE CITY OF SAN JOSÉ ON THE ORDER INSTITUTING
RULEMAKING REGARDING POLICIES, PROCEDURES, AND RULES FOR THE
CALIFORNIA SOLAR INITIATIVE, THE SELF-GENERATION INCENTIVE
PROGRAM AND OTHER DISTRIBUTED GENERATION ISSUES.**

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July 22, 2010

SERVICE LIST FOR R.10-05-004

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In response to Administrative Law Judge Peevey’s Ruling of July 9, 2010, the City of San José’s Environmental Services Department provides these comments on the above-referenced Rulemaking of the California Public Utilities Commission (CPUC). Through its Rulemaking, the CPUC seeks to modify the California Solar Initiative (CSI) incentive structure in several ways that significantly undercut governments and non-profits that are pursuing renewable solar energy.

While San José recognizes that the changes proposed are intended to forestall the depletion of the CSI incentive pool and ensure achievement of the program’s installed megawatt goals, the suggested actions are likely to severely curtail the installation of solar projects by local governments across the state. San José believes that the proposed cuts are deep enough to threaten the completion of its upcoming slate of solar projects, and expects that many local governments will face similarly dire outcomes. Our specific concerns regarding each of the proposed actions follow:

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Removal of the 8% Discount Rate embedded in the PBI payment calculation

As noted in the Rulemaking, significant numbers of local governments are financing their solar installations through third-parties – both to take advantage of federal tax credits, and due to the severe budget situations facing them today that make large capital expenditures infeasible. Nonetheless, the financial decision to undertake a solar installation project, even with third-party financing, requires these governments to prudently analyze the costs and benefits of those projects. By removing the embedded discount rate from the PBI payment calculations and slashing the incentives to solar installation projects, the proposed action could significantly raise PPA power prices and cripple the ability of local governments to install cost-effective solar capacity in this challenging financial environment.

To ensure fiscal sustainability and environmental stewardship, San José is working towards procuring 100% of its municipal electricity from clean renewable energy sources. To that end, the City is currently engaged in an RFP process to select installation partners for up to 15MW of solar capacity across nearly 40 city facilities. However, given nine consecutive years of budget shortfalls and record deficits, financial feasibility of solar installations is critical to the success of this goal. The removal of the discount rate will impact competitive pricing for solar installations and effectively bring work on this goal to a grinding halt.

Reduction of the Incentive Differential for Government / Non-profit Applicants

The proposed reductions in the non-profit / government incentive levels pose an even greater obstacle to local governments seeking to install solar projects. Despite the challenging climate in current public finance, many jurisdictions have access to Recovery Act tax-exempt bond financing as a one-time source of capital for the construction of renewable energy projects. The stark reduction in non-profit / government incentive rates, more than twice as large as the commercial rate reduction, would seriously jeopardize the use of bond funding for solar projects and their hoped-for stimulus effects. This precipitous drop in the incentive level jeopardizes the very purpose of these bonds.

San José has allocations of roughly \$2 million in Clean Renewable Energy Bonds (New CREBs) and roughly \$10 million in Qualified Energy Conservation Bonds (QECBs) that it intends to utilize for solar projects on sites. This \$12 million in tax-exempt financing will not be

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worth issuing if the projects it is intended for escalate in cost to the point of infeasibility. The City is extremely concerned with the level of reduction in government / non-profit incentives, and strongly requests that the CPUC minimize the reduction in these incentives.

Budget Reallocation of \$20 million between Administration and Incentives

San José sees this proposed action as an administrative issue and has no comments.

For the reasons cited above, the City of San José requests that the Commission acknowledge and consider the deleterious impact these proposed actions will have on the installation of solar projects by local governments within California. San José implores the Commission to modify these proposed actions to ameliorate the severe effects they will likely produce. We also encourage you to hold one or more public workshops on this Rulemaking to allow for additional public input.

Respectfully Submitted,

/s/ MARY TUCKER

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CERTIFICATE OF SERVICE

I hereby certify that, pursuant to the Commission's Rules of Practice and Procedure, I have this day served a true copy of COMMENTS OF THE CITY OF SAN JOSÉ ON THE ORDER INSTITUTING RULEMAKING REGARDING POLICIES, PROCEDURES, AND RULES FOR THE CALIFORNIA SOLAR INITIATIVE, THE SELF-GENERATION INCENTIVE PROGRAM AND OTHER DISTRIBUTED GENERATION ISSUES on all parties identified on the attached service list(s). Service was effected by one or more means indicated below:

Transmitting the copies via e-mail to all parties who have provided an e-mail address. First class mail will be used if electronic service cannot be effectuated.

Executed this **22nd day of July, 2010**, at San Jose, California.

/s/ KEVIN ARMSTRONG

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