

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



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In the matter of the Application of PacifiCorp (U901E) for approval to implement a Net Surplus Compensation Rate	Application 10-03-001 (Filed March 1, 2010)
In the Matter of the Application of Sierra Pacific Power Company (U903E) for Approval of a Net Surplus Compensation Rate.	Application 10-03-010 (Filed March 15, 2010)
Application of Pacific Gas and Electric Company To Implement Assembly Bill 920 (2009) Setting Terms and Conditions For Compensation For Excess Energy Deliveries By Net Metered Customers. (U 39 E)	Application 10-03-012 (Filed March 15, 2010)
Application of Southern California Edison Company (U338E) in Response to Assigned Commissioner's Ruling Directing Electric Utilities to File Applications Proposing a Net Surplus Compensation Rate Pursuant to Assembly Bill 920.	Application 10-03-013 (Filed March 15, 2010)
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**REPLY COMMENTS OF THE SOLAR ALLIANCE AND VOTE SOLAR INITIATIVE
ON PROPOSALS FOR A NET SURPLUS COMPENSATION RATE
AND CORRESPONDING POLICY ISSUES**

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August 6, 2010

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In accord with the Assigned Commissioner and Administrative Law Judge Scoping Memo and Ruling issued in above-captioned consolidated proceedings on June 1, 2010, the Solar Alliance¹ and the Vote Solar Initiative (collectively the “Joint Solar Parties”) reply to certain comments on the proposed methodologies for setting a net surplus compensation rate for net energy metering (NEM) customers filed in the above consolidated proceedings on July 23, 2010.

¹ The comments contained in this filing represent the position of the Solar Alliance as an organization, but not necessarily the views of any particular member with respect to any issue.

I. INTRODUCTION

As set forth in its Opening Comments, the Joint Solar Parties have advanced a Net Surplus Compensation Rate (NSCR) rate which (1) captures important elements of the value to the investor-owned utilities (IOUs) of net surplus generation, and (2) leaves other ratepayers unaffected by utilizing Commission-approved avoided costs and by minimizing the costs to administer the new rate. As a result, the Joint Solar Parties' proposal satisfies both pieces of the legislative directive for establishing the rate.² In short, the Joint Solar Parties have proposed a NCSR using the Commission-approved market price referent, adjusted to reflect the time of delivery (TOD) of solar generation, plus the line losses and transmission and distribution (T&D) costs that are avoided by the typical solar photovoltaic NEM customer-generator.

Through their opening comments, the IOUs dispute the credibility of certain aspects of the Joint Solar Parties' proposal. As will be illustrated below, the arguments raised by the IOUs do not hold water.

II. RESPONSE TO IOUS' COMMENTS

A. It is Appropriate to Base the NSCR on the Market Price Referent.

The opening comments of the IOUs use several different arguments to challenge the Joint Solar Parties' proposal to base the NSCR on the market price referent (MPR) in effect at the time that a NEM customer's system comes on-line. None of these arguments withstand scrutiny.

First, PG&E argues that the energy value of net exports should not be based on a long-term forecasts of gas costs (such as those used in the MPR) because it would result in a mismatch

² See Public Utilities Code Section 2827 (h)(4)(A) ("The net surplus electricity compensation valuation shall be established so as to provide the net surplus customer-generator *just and reasonable compensation for the value* of net surplus electricity, *while leaving other ratepayers unaffected.*")

with the payment cycle for net surplus generation (e.g., one year) and the underlying gas cost forecasts used to develop the MPR for a particular time period (e.g., five years or more).³ PG&E's argument fails to recognize that the time frame in which net surplus generation is recorded and compensated has nothing to do with the time frame in which the utility avoids costs for net surplus power. Once a NEM customer has installed an on-site system that produces net surplus power, then that system will produce power for the next twenty-plus years and will avoid utility costs over that long-term time horizon. Although the annual surplus generation for an individual NEM customer may vary somewhat from year-to-year, in aggregate the net surplus output from the tens of thousands of NEM customers on each utility's system will be steady and predictable, as the historical data for PG&E's net surplus customers already shows.⁴ Moreover, all of this net surplus generation will come from renewable energy systems designed to produce power over a long-term, twenty-plus-year time horizon, not just for one year. Accordingly, at the time the NEM customer installs his system, the costs that the utility avoids are best represented by the current long-term projection for the energy and capacity costs of the generation unit (including full mitigation for any greenhouse gas emissions) that the utility would have installed but for this new renewable generation, i.e. by the current-year MPR.⁵

³ Pacific Gas and Electric Company's (U 39 E) Opening Comments on Net Surplus Compensation Proposals, A. 10-03-001, et al (July 23, 2010) (PG&E Comments), at pp. 3-4.

⁴ See Table 2 of the Joint Solar Parties' Opening Comments, based on data obtained through discovery.

⁵ PG&E makes the misleading point that the 2008 MPR is based upon forecast gas costs of \$9.97 per MMBtu in 2010, while actual California gas prices in 2010 are less than \$4.50 per MMBtu. See PG&E Comments, at 4. In mid-2008, when California gas prices peaked at over \$12 per MMBtu, one could have made exactly the opposite argument that the 2008 MPR gas forecast was too low. The MPR is based on a 20-year forecast of natural gas costs made at a particular point in time, and showing that one year of such a projection was wrong does not invalidate the forecast as a reasonable estimate at the time it was made. Furthermore, because the MPR gas forecast is a 20-year projection, even substantial changes in short-term prices in the first years of the forecast have only modest impacts on the overall 20-year forecast.

Taking a different approach, Edison argues that the MPR is inappropriate because it is above wholesale market costs and is a legislatively created metric intended only for use in the Commission's cost containment mechanism for the Renewables Portfolio Standard (RPS) program.⁶ Edison asserts that the MPR does not reflect an actual market price of electricity that net surplus generation will avoid. Again, this argument fails to recognize that net surplus generation from NEM systems will provide the purchasing utility with RPS credit, and thus will allow the utility to avoid the long-term costs associated with additional purchases of new renewable generation *under the RPS program*.

As the Commission is well aware, the fundamental purpose of the RPS is to encourage the development of new renewable generation, and the bulk of power required to meet RPS requirements must come from new, long-term resources. The IOUs are allowed to buy short-term power plus Renewable Energy Credits (RECs) for only a strictly limited minority of their RPS portfolios.⁷ As a result, the IOUs' essential proposal that the NSCR should be a short-term wholesale market price plus a "proxy" for the REC price does not represent the IOUs' marginal or avoided costs for incremental RPS power. If the IOUs could meet all, or even a majority, of their RPS needs by purchasing short-term wholesale power plus RECs, then the IOUs' NSCR proposals might make sense. But this is highly unlikely to be the case.

⁶ Opening Comments of Southern California Edison Company (U-338E) on Proposals for a Net Surplus Compensation Rate Submitted in Response to Assigned Commissioner and Administrative Law Judge Scoping Memo and Ruling Dated June 1, 2010, A. 10-03-001, et al (July 23, 2010) (Edison Comments), at p. 5.

⁷ In D. 10-03-021, the Commission limited the IOUs' use of tradable RECs without the delivery to California of the associated power to no more than 25% of their RPS procurement obligations through the end of 2011 (*see* p. 4). Although legislation now pending before the California Legislature may change this percentage and may modify the definition of a REC-only transaction, it remains clear that the bulk of the IOUs' RPS purchases must come from new renewable generation built in California.

What is clear is that the MPR is a reasonable benchmark for the market price of the long-term renewable resources that the IOUs are buying, under long-term contracts, to satisfy the bulk of their RPS needs. Contrary to Edison's assertions, there actually is a market for long-term RPS contracts, a market that the IOUs utilize each year through their annual RPS solicitations. Although the exact contract prices in this market are confidential, the available data on the aggregate costs of these purchases shows that the MPR is, if anything, a conservative measure of avoided RPS costs,⁸ thus making it a suitable proxy for the NSCR.

Finally, the Joint Solar Parties note that the IOU arguments against the use of the MPR fail to recognize that the MPR has become more than just the cost containment benchmark for the RPS program. Pursuant to AB 1969, the Commission has also used the MPR to price the surplus output, above the output needed to serve on-site loads, from small renewable generators up to 1.5 MW in size. This surplus generation is sold to the IOUs at the wholesale level, in the same fashion as net surplus generation under AB 920. The AB 1969 program is analogous to AB 920, except that it applies to the output of somewhat larger renewable generators (up to 1.5 MW versus the maximum 1 MW for NEM customers). Furthermore, the Commission has recognized that the MPR is an appropriate measure of the IOUs' long-run avoided costs,⁹ and

⁸ See Footnote 10 to the Division of Ratepayer Advocates' (DRA) June 21 proposal, at p. 14, which shows the average prices for RPS generation in 2007-2009, compared to the corresponding MPR values.

⁹ See D. 10-04-055, at pp. 5-9. This decision modified and clarified D.09-12-042, the Commission's decision adopting prices to be paid to new small combined heat and power (CHP) facilities developed under AB 1613. These orders adopted a price based on the MPR, recognizing that small CHP facilities allowed the utilities to avoid the costs associated with a new combined-cycle plant, which is the basis for the MPR. In doing so, the Commission distinguished this long-run avoided cost price from the short-run avoided cost prices that the Commission adopted in D. 07-09-040 for QFs.

has used it as the basis for pricing 10-year contracts for the output of both traditional QFs under PURPA¹⁰ and new, efficient combined heat and power projects under AB 1613.¹¹

B. Net Surplus Generation Avoids Capacity Costs.

PG&E asserts that the intermittent, sporadic and unforecastable nature of the net export generation does not allow the utility to avoid capacity costs.¹² In a similar vein, SDG&E argues that excess generation from the NEM program cannot be counted for resource adequacy (RA) and therefore it does not avoid capacity costs when a customer installs net metered solar or wind generation.¹³ These IOUs thus conclude that a capacity value should not be included in the NSCR. They are wrong on this account.

The Joint Solar Parties have already responded to arguments regarding the purported inappropriate inclusion of a capacity value in the NSCR. First, with respect to PG&E's assertion, the comments of the Joint Solar Parties¹⁴ show that, in aggregate, tens of thousands of NEM customers will produce a stable, predictable, and significant amount of renewable capacity, and thus individual net surplus generators should be compensated for capacity. This conclusion has been confirmed by the annual evaluation reports for the California Solar Initiative (CSI)

¹⁰ Decision 07-09-040.

¹¹ Decisions 09-12-028 and 10-04-055.

¹² PG&E Comments at p. 5

¹³ Opening Comments of San Diego Gas & Electric Company (U 902 E) on Proposals for Net Surplus Compensation, A. 10-03-001, et al (July 23, 2010) (SDG&E Comments), at p.13

¹⁴ Comments of the Solar Alliance and Vote Solar Initiative on Proposals for a Net Surplus Compensation Rate and Corresponding Policy Issues, A. 10-03-01, et al (July 23, 2010)(Joint Solar Parties Comments), at p. 8-10.

which show that PV systems provide significant capacity at the time of the system peak.¹⁵ Not compensating net surplus generators for this capacity would fail to comply with the indifference standard mandated in AB 920.

Second, with respect to SDG&E's argument that it does not receive RA credit for this generation, as stated in the Joint Solar Parties' Comments,¹⁶ SDG&E is raising an ongoing issue that applies to wholesale distributed generation interconnected at the distribution level. The problem is not that this generation does not deserve to receive RA credit, but that the CAISO has not developed a process to certify the deliverability of wholesale DG resources interconnected at the distribution level.¹⁷ Given the fact that the generation of NEM customers is, by definition, located in close proximity to loads, there should be no doubt that this output is deliverable to loads.¹⁸ Most of the output from NEM generators already receives RA credit, by serving on-site loads and thus reducing the demand forecast used to determine RA needs. Thus, it is reasonable to assume that the remaining surplus generation from NEM resources also provides RA capacity

¹⁵ See, for example, "CPUC California Solar Initiative: 2009 Impact Evaluation Final Report," prepared by Itron, at pp. ES-12 to ES-14, showing that 245 MW of PV systems produced 144 MW of capacity during the 2009 system peak hour. The Joint Solar Parties note that, because the NSCR is a price expressed entirely in dollars per MWh, to the extent that a PV system does not produce its full nameplate capacity during a peak period, the system will receive compensation only for the capacity that it actually provides. The 2009 data shows that CSI systems produced approximately 59% of their nameplate capacity during the peak hour. The 2009 Itron report is available at <http://www.cpuc.ca.gov/PUC/energy/Solar/evaluation.htm#reports>.

¹⁶ Joint Solar Parties' Comments, at p. 10.

¹⁷ The Commission made clear in its 2010 resource adequacy order that it will work in next year's RA case to resolve the deliverability issue for all wholesale DG resources. See D. 10-03-036, at pp. 29-31.

¹⁸ At least one IOU (PG&E) has argued that all wholesale distributed generation should be deemed deliverable and should receive RA credit. See D. 10-06-036, at p. 29, citing PG&E's proposal to deem distributed generation as deliverable.

value to the utility, and the Joint Solar Parties do not believe that the Commission needs to wait for the broader RA issue for wholesale DG to be resolved before finding that AB 920 generation should be assumed to provide RA value. For these reasons, it is appropriate to conclude that net surplus generation avoids capacity costs.

C. The Standard Solar Production Profile is the Most Reasonable Profile for Net Surplus Generation.

Both PG&E and SDG&E argue that the Joint Solar Parties' proposal to use a solar production profile to weight net surplus generation inaccurately biases the time-of-delivery factor upward.¹⁹ SDG&E argues that its proposal to use a representative profile of excess generation — one that nets customer consumption against the solar production — is more accurate and better represents the profile of net surplus generation. PG&E observes that NEM customers' net surplus generation has been netted across all TOU periods and all twelve months, such that there is a single net kWh amount, and argues that there is no meaningful way to allocate that single net kWh amount back to different TOU periods or months. With respect to these arguments, the Joint Solar Parties recognize that it is not possible to determine exactly when each net surplus kWh was produced. However, this does not mean that it is impossible to select a reasonable – and meaningful – profile for net surplus output.

The goal of the calculation method for the time-of-delivery factor is to establish a profile for net surplus generation, i.e. for solar output that is in excess of the on-site load. A simple example illustrates why the use of a standard solar production profile is the most reasonable choice for this profile. Assume that a solar system consists of 20 PV panels and that the system

¹⁹ PG&E Comments at p. 6; SDG&E Comments at p. 17.

produces 10% more kWhs than the on-site load. If one removed two panels from the system, then the output would exactly match the on-site load, and there would be no surplus generation. Thus, the profile for the system's net surplus generation is simply the output from the final two panels that produce the extra generation. The production profile for these two panels has exactly the same shape over the course of the day as the profile for the system as a whole. Thus, it is appropriate to use a standard solar output profile to develop a time-of-delivery factor for net surplus generation, without considering the profile for the on-site load. Stated differently, it is the marginal output of a PV system that produces the final kWhs that constitute the surplus generation in excess of the on-site load. The probability that the system will produce these marginal kWhs in any hour is given by the distribution of the system's output across the hours of the day, i.e. by the standard production profile for the system. This probability does not depend on the profile of the on-site load, because by definition we are considering only the marginal kWhs that are in excess of the on-site loads. As a result, the most reasonable profile for net surplus generation is the standard solar production profile, not SDG&E's proposal to use a profile for solar output net of a representative load.

The Commission also should be aware that there is not a significant difference between the Joint Solar Parties and SDG&E methods. **Figure 1** attached to these comments compares the SDG&E profile of net surplus generation for the residential class to the Joint Solar Parties' profile of solar generation alone, with both profiles expressed in terms of the percentage of annual generation that falls into each hour of the day.²⁰ As the figure clearly shows, there is very

²⁰ The SDG&E profile is taken from Lines 1 and 4 of Table 2 in the spreadsheet "Workpaper - SDG&E TOU Adjustment Factor Derivation;" the Joint Solar Parties' profile is derived from the PVWATTS hourly output for a representative PV system located in San Diego, as shown in the "PV Output" tab of the workpapers for the calculation of the NSCR for SDG&E.

little difference between the two profiles.

Finally, the SDG&E approach of using a profile for solar output net of a representative load would be much more complex to apply, because the “representative load” can vary across the customer classes. Thus, SDG&E’s approach would require a different calculation of the time-of-delivery factor for each customer class, and thus would result in a different NSCR for each class of NEM customers. In contrast, the Joint Solar Parties’ method uses a single solar production profile for each IOU, and calculates a single NSCR that would apply to all of each IOUs’ NEM customers.

D. Net Surplus Generation Avoids Transmission and Distribution Related Costs.

PG&E argues that the CPUC should not accept claims that net surplus kWhs under AB 920 avoid any transmission or distribution (T&D) costs, and the utility asserts that such benefits have not been quantified and included in avoided cost calculations to date.²¹ SDG&E asserts that by receiving the full retail rate as credit for production that offsets on-site loads, NEM customers already receive compensation for T&D benefits for production associated with onsite consumption.²² These arguments are readily refuted.

The Joint Solar Parties’ comments explained in detail why net surplus generation avoids T&D costs.²³ Thus, contrary to PG&E’s argument, the Commission has concluded that distributed generation can be credited collectively with avoided line losses and, assuming a significant penetration of distributed resources, with avoided investment-related T&D costs.²⁴

²¹ PG&E Comments at pp. 7-8.

²² SDG&E Comments at pp. 13-14.

²³ Joint Solar Parties Comments at pp. 4-5.

²⁴ See D. 09-08-026, at pp. 32-33 (line losses) and pp. 35-36 (investment-related T&D costs).

The Commission has used the E3 avoided cost calculator adopted for energy efficiency resources as the source for these T&D-related avoided costs.²⁵ The use for AB 920 compensation of the same avoided T&D costs used for energy efficiency resources makes particular sense given that net surplus generation often will result from a NEM customer reducing his usage through the installation of energy efficiency measures.²⁶ Regarding PG&E's argument that T&D benefits have not been quantified and included in actual avoided cost calculations, this is not correct. The Commission's January 2010 report to the Legislature on the cost-effectiveness of net metering included avoided T&D costs calculated using E3's avoided T&D costs for energy efficiency.²⁷ In addition, the Commission is including quantified T&D benefits in its cost-effectiveness evaluation of distributed generation resources, based on the draft report summarized at the recent August 4, 2010 workshop in R. 10-05-004.²⁸

Moreover, while SDG&E's argument that the retail rate credit provides compensation for T&D benefits may apply to that portion of a NEM customer's output that serves on-site load, it does not apply to generation that is in excess of on-site usage, *i.e.*, net surplus generation. As a result, NEM customers should be compensated in the NSCR for the T&D benefits provided by net surplus generation.

²⁵ *Id.* at p. 25. As with distributed generation, the Commission has recognized that a large number of widely distributed energy efficiency measures will reduce demand on the T&D system and, in the long-run and in the aggregate, should be given credit for allowing the utility to avoid investment-related T&D costs. *See* D. 05-04-024, at pp. 35-36. The Commission's adopted E3 avoided cost calculator for energy efficiency includes both avoided line losses and avoided investment-related T&D costs.

²⁶ A. 10-03-012, PG&E Application, at p. 30.

²⁷ "Net Energy Metering (NEM) Cost Effectiveness Evaluation," January 2010, prepared by E3, at pp. 41-43 and Appendix A, at pp. 16-17 and 24.

²⁸ "CSI Cost Effectiveness Evaluation," August 4, 2010, E3 Workshop Presentation in R. 10-05-004, at slides 21-23.

E. The Need for Long-term Contracts is a Hypothetical Concern at this Time.

SDG&E's comments argue that, if the Commission adopts a long term avoided cost rate such as the one proposed by the Joint Solar Parties, then it should require customer generators to sign the equivalent of a long-term contract prohibiting the customer from selling surplus generation under any other utility tariff offering.²⁹ The Joint Solar Parties recognize that, given that their proposed NSCR is a long-term levelized rate, there may need to be rules concerning switching to another option for selling net surplus output. However, at present the Joint Solar Parties are unaware of any other option for NEM customers to sell their surplus output, and SDG&E does not cite any such option. As a result, SDG&E's concern is, at present, merely theoretical, and the Joint Solar Parties do not believe that the Commission needs to address such a hypothetical concern at this time.

F. Implementation of the Joint Solar Parties Proposed NSCR Will Not Require Significant Billing System Changes.

Under the Joint Solar Parties' proposal, the price would be a fixed rate based upon the year the generator's system became operational. While recognizing that this approach is possible, SDG&E believes that the implementation of such an approach would be costly and complex due to the need for customer-specific billing which would need to take into account what year the specific customer's system came on-line and then apply the appropriate price, as opposed to applying a consistent pricing approach for all customers.³⁰ SDG&E is making the Joint Solar Parties' proposal more complicated than it actually is.

²⁹ SDG&E Comments at p. 15.

³⁰ SDG&E Comments at pp. 18-19.

First, the Joint Solar Parties' proposal does not require "customer-specific billing," i.e. it does not require the calculation of a NSCR rate that is different for each customer. All NEM customers that come on-line when a particular NSCR is in effect would receive the same NSCR. Only one piece of data needs to be added to SDG&E's billing system – the NSCR applicable to each NEM customer – and this piece of data never needs to be updated thereafter. SDG&E does not quantify how much more costly and complicated adding this one piece of data to its billing system for each NEM customer would be, compared to its own proposal that would require monthly updates to the calculation of its NSCR for the next 20 years. Second, the Joint Solar Parties observe that, with the advent of smart meters and the likely expanded use of time-sensitive pricing for all utility customers, utility billing systems are going to have to be adapted to add a great deal of additional information about all utility customers, not just NEM customers. Given this reality, the Commission should discount SDG&E's unsupported claim that adding one piece of data to its billing system for each NEM customer would be either costly or complex.

III. CONCLUSION

As illustrated above and in its Opening Comments, the Joint Solar Parties' proposed NSCR fulfills the legislative directive of compensating the NEM customer for the true value of their surplus generation sold to the IOU, while assuring that remaining ratepayers are left unaffected. This indifference for remaining ratepayers is achieved through the use of Commission-approved avoided costs and by a simple program design that will be easy to administer and readily understood by the NEM customer. Accordingly, the Joint Solar Parties respectfully request that the Commission adopt its proposed methodology for the calculation and administration of the NSCR.

Respectfully submitted this August 6, 2010, at San Francisco, California.

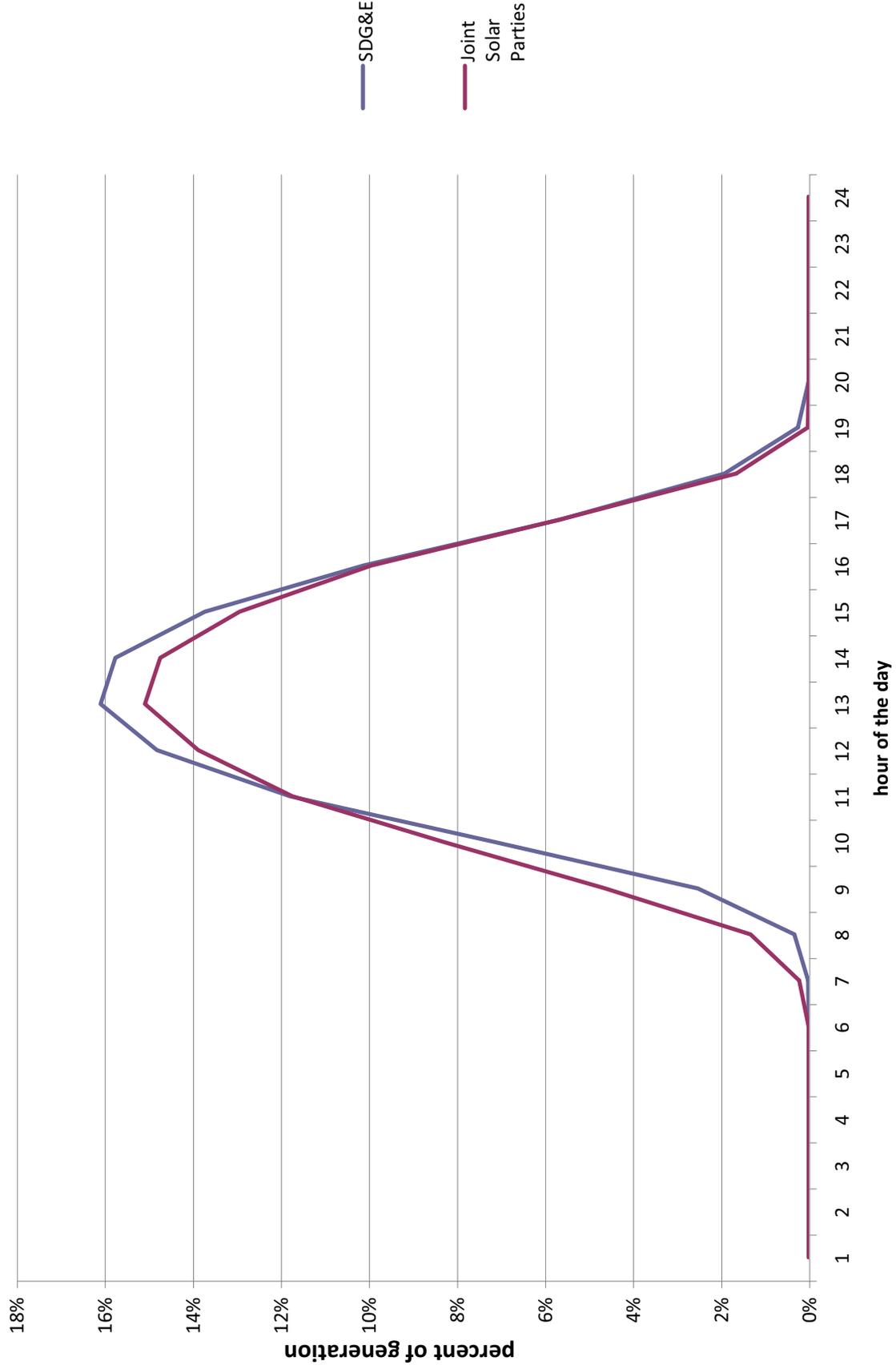
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Figure 1: Joint Solar Parties vs. SDG&E TOU Profiles



CERTIFICATE OF SERVICE

I, Melinda LaJaunie, certify that I have on this 6th day of August 2010 caused a copy of the foregoing

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SOLAR INITIATIVE ON PROPOSALS FOR A NET SURPLUS
COMPENSATION RATE AND CORRESPONDING POLICY ISSUES**

to be served on all known parties to A.10-03-001, A.10-03-010, A.10-03-012, A.10-03-013, and A.10-03-017 listed on the most recently updated service list available on the California Public Utilities Commission website, via email to those listed with email and via U.S. mail to those without email service. I also caused courtesy copies to be hand-delivered as follows:

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I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct. Executed this 6th day of August 2010 at San Francisco, California.

/s/ Melinda LaJaunie
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Service List – A.10-03-001; A.10-03-010;
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