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## **APPENDIX B**

**Energy Division Recommendations  
for the Self-Generation Incentive Program  
Program Modification Requests  
March 21, 2008**

**Energy Division Recommendations  
for the Self-Generation Incentive Program  
Program Modification Requests  
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*Overview*

The Self-Generation Incentive Program (SGIP) provides financial incentives for new self-generation equipment installed to meet all or a portion of a facility's electricity load. Prior to 2007, SGIP was designed to complement the Energy Commission's Emerging Renewables Program (ERP) by providing incentives to larger self-generation technologies, including solar photovoltaic systems, up to 1.0 megawatt (MW) in capacity. In January 1, 2007, all incentives for photovoltaic systems were removed from SGIP and were provided through the California Solar Initiative (CSI) program. Following the inception of the CSI program, 2007 SGIP incentives for other renewable and non-renewable self-generation technologies were structured as follows:

Incentive Levels	Eligible Technologies	Incentive Offered (\$/Watt)	Minimum System Size	Maximum System Size <sup>1</sup>
Level 2 (Renewable Non-Solar)	Wind turbines	\$1.50/W	30 kW	5 MW
	Renewable fuel cells	\$4.50/W	None	
	Renewable fuel internal combustion engines and large gas turbines	\$1.00/W		
	Renewable fuel micro-turbines and small gas turbines	\$1.30/W		
Level 3 (Non-Renewable Non-Solar)	Non-renewable fuel cells	\$2.50/W	None	5 MW
	Non-renewable & Waste Gas fuel micro-turbines and small gas turbine	\$0.80/W		
	Non-renewable & Waste Gas fuel internal combustion engines and large gas turbines	\$0.60/W		

Assembly Bill (AB) 2778, which was enrolled into law in 2006, limited eligible technologies in SGIP to fuel cell and wind distributed generation technologies only. All

other technologies referenced in the above table were deemed ineligible in SGIP as of January 1, 2008. Please see the 2008 SGIP incentive structure below:

Incentive Levels	Eligible Technology	Incentive	(\$/watt) Minimum
Level 2 Renewable	Wind Turbines	\$1.50	30 kW
	Fuel Cells (Renewable fuel)	\$4.50	30 kW
Level 3 Non-renewable	Fuel Cells (Non-renewable fuel) <sup>3</sup>	\$2.50	None
<sup>1</sup> Level 1 previously included solar generation, now administered through the <a href="#">California Solar Initiative</a> <sup>2</sup> Maximum incentive payout capped at 1 MW and maximum system size is 5 MW <sup>3</sup> Systems must utilize waste heat recovery meeting Public Utilities Code 216.6			

In August 2003, the Program Modification Guideline was developed, as directed by the California Public Utilities Commission (CPUC or Commission). The SGIP Program Administrators<sup>1</sup> have received numerous program modification requests (PMRs) to include additional technologies in the program, as well as other program changes. Since Decision 03-08-013, no PMR has been officially considered by the CPUC.

Because the process to review Program Modification Requests has been ineffective at implementing program modifications, Energy Division recommends modifying the existing PMR review process as described in detail on page 4.

The PMRs have been reviewed carefully by the Program Administrators, who have submitted recommendations to the Energy Division on whether to accept or deny the proposed program modifications. The PMRs contain detailed information about their respective technologies, as well as lengthy reports detailing technology pros and cons including environmental impacts, potential market impacts, and estimated administrative burden if the modification is accepted.

Energy Division has reviewed the SGIP Working Group recommendations. In accordance with the PMR process, this report provides a summary of Energy Division's recommendations based on its review of the SGIP Working Group documents. Please note that these are recommendations for technologies that were eligible under SGIP in 2007 only.

PMRs related to technologies that weren't eligible for SGIP in 2007 or SGIP rules that are no longer relevant are not detailed in this report. The PMRs that are not detailed in this report include:

- PMG04-001-SCE: Modification request to Photovoltaic and Wind Turbine Capacity Rating –This PMR was not considered in this report because the requested handbook change, and supporting rationale given by the PMR applicant was based on solar photovoltaic (PV) capacity only. As mentioned above, SGIP

<sup>1</sup> SGIP Program Administrators are Pacific Gas and Electric (PG&E), Southern California Edison (SCE), and the California Center for Sustainable Energy (CCSE),

- no longer provides incentives for PV systems. The PMR Applicant requested a similar handbook change for wind-turbines that require inverters, but no supporting rationale was given to support the handbook change for wind technologies.
- PMG04-002-SCE: This PMR for Allowance for Funds Used During Construction (AFUDC) was withdrawn by Victorville in October 2004.
  - PMG05-005-PGE: The California Coalition of Fuel Cell Manufacturers (CCFCM) requested a methodology for accounting for other incentives and rebates for fuel cell projects that allows incentives up to \$1,500/kw to be applied directly against project costs. This PMR is no longer relevant because SGIP no longer accounts for project costs.
  - PMG05-006-PGE: CCFCM requested to limit transfer to incentive Level 1. This PMR is no longer relevant because, as of 2007, the level 1 incentive was removed with the inception of the California Solar Initiative.
  - PMG05-007-SDREO: CCFCM proposed to create a level 2R (for renewable technologies) and 2N (for non-renewable technologies) incentive levels. The CPUC adopted a new incentive structure which included separate incentives renewable and non-renewable fuel cells.
  - PMG05-008-SDREO: This PMR proposed a separate incentive level for wind. This PMR is no longer relevant because, as of 2007, wind has its own incentive level.
  - In 2007, a Fuel Cell Energy (FCE) submitted a PMR to propose an increase in the size limitation eligible for incentives. FCE also filed a Petition to Modify a decision (PTM) to address this issue. FCE's proposal was addressed in the PTM. In response, the CPUC issued a proposed decision which increased the size limitation from 1MW to 3MW on March 20, 2008. Because this PMR was addressed in a PTM, no number was assigned to the PMR.

Energy Division's recommendations are summarized below:

	<b>Program Modification Request</b>	<b>SGIP Working Group Recommendation</b>	<b>Energy Division Recommendation</b>
1	<b>PMG04-001-PGE:</b> Request to modify rule which precludes any system operating on diesel fuel or Diesel Cycle from eligibility in SGIP.	Unanimously opposes the rule modification.	Due to program ineligibility, deny the program modification request.
2	<b>PMG04-002-SDREO:</b> Request to include Solar Thermal Electric Power Generation into SGIP	Unanimously approves inclusion of the technology.	Due to program ineligibility, deny the program modification request.
3	<b>PMG04-003-SDREO:</b> Request to include Organic Rankin Cycle Waste Heat to Electricity technology into SGIP.	Split recommendation: PG&E, SCE, SoCalGas and SDG&E recommend denying the PMR. CCSE recommends including the technology into SGIP	Due to program ineligibility, deny the program modification request.
4	<b>PMG03-003-SCE:</b> Request to include STM Stirling Engine generators into SGIP	Split recommendation: PG&E SCE recommend eligibility only if the technology is fueled by a renewable fuel. CCSE, SDG&E and SoCalGas recommend eligibility if fueled by both renewable and nonrenewable fuels. Unanimous recommendation to not include any systems that fueled by a waste heat stream.	Due to program ineligibility, deny the program modification request.
5	<b>PMG05-004-PGE:</b> Request to change the definition of “renewable fuel” to include syngas, created from medical waste.	Unanimous recommendation to deny the program modification request.	Deny the program modification request.
6	<b>PMG06-013-SDREO:</b> Request to include Advanced Energy Storage technology into SGIP.	Split recommendation: CCSE and PG&E recommend including the technology into SGIP. SCE and SoCalGas recommend denying the program modification request.	Due to program ineligibility, deny the program modification request as proposed, but increase the incentive, at all levels, by \$2.00 per watt if the wind or fuel cell is coupled with Advanced Energy Storage technologies.
7	<b>PMG07-002-SCE:</b> Request to modify the rule which requires existing generation systems to be deactivated for at least 12 months prior to achieve eligibility for SGIP participation.	Unanimous recommendation to accept rule modification.	Accept rule modification, and alter rules to replace renewable and nonrenewable projects with no requirement to deactivate generation systems for 12 months.

### **The Program Modification Request Process**

Under Decision 03-08-013, a Program Modification Request (PMR) process was established. The PMR process is as follows:

1. An applicant contacts a Program Administrator and develops a program modification request package for submittal to the SGIP Working Group.
2. The proposal is distributed to the Working Group for evaluation.
3. A presentation is made by the applicant or the sponsoring Program Administrator to the Working Group.
4. The Working Group develops recommendations on the eligibility of the new technology or program rule modification.
5. The applicant has the opportunity to comment on the Working Group's final recommendations before it is submitted to the Assigned Commissioner.
6. The Energy Division submits the Working Group's final recommendations before it is submitted to the Assigned Commissioner.
7. The Commission's decision will address the Energy Division/Working Group recommendations and public comments raised by an Assigned Commissioner's Ruling.

The SGIP Working Group added an eighth step in which the Working Group would implement adopted program modifications on a semi-annual basis at either the beginning or the middle of the program year or on a schedule selected by the Commission.

A copy of the PMR process guide is available at:

[http://www.pge.com/includes/docs/pdfs/suppliers\\_purchasing/new\\_generator/incentive/program\\_modification\\_guideline.pdf](http://www.pge.com/includes/docs/pdfs/suppliers_purchasing/new_generator/incentive/program_modification_guideline.pdf).

Since D.03-08-013, a total of fourteen PMRs have come to the SGIP Working Group and the CPUC. Numerous parties have approached the Working Group with proposed modification requests that required no Commission action. Some of those modifications have been implemented over the years, e.g. program handbook and forms changes. However, no PMR has been completed the entire eight-step process. The intent of D.03-08-013 was to implement a more effective process for considering new technologies and program rule changes. Because the Program Modification Request process has not met the CPUC's original intent, Energy Division recommends modifying PMR process in D.03-08-013 as described below:

- All PMRs must be submitted to the SGIP Working Group for review.
- All parties desiring a program modification would be required to meet with the SGIP Working Group at the monthly SGIP Working Group meeting to determine if the Working Group would support the PMR.
- At the meeting, the SGIP Working Group would first determine whether or not the proposed PMR requires a modification to a prior Commission order.

A. If the PMR is minor and non-substantive, and does not require modifications to prior Commission orders, then:

- The Working Group will review the PMR. If accepted, the Working Group will make the appropriate changes to the Handbook.
- If the Working Group needs more information, the party proposing the PMR would have the opportunity to present at the following Working Group meeting with additional information which supports its request for a program change.
  - The Working Group will make a decision to accept or deny the PMR based on the new information presented in the follow-up presentation.
- The proposed program change and the Working Group recommendation(s) and rationale will be captured in the Working Group meeting minutes.
- If the party objects to the Working Group's decision to deny the PMR, the party may write a letter to Energy Division stating why their program change should be included in SGIP. Information that supports the party's reasons to accept the program change must be included in the letter.
  - Energy Division will then make a final decision on whether to approve the PMR.
  - Energy Division will report its final decision at the following SGIP Working Group meeting, which will be captured in the SGIP Working Group meeting minutes.
  - If the PMR is accepted, appropriate revisions to the handbook will be made to capture the change.

B. If the proposed change requires modification to a prior Commission order or if the PMR addresses large programmatic or substantive issues, then:

- Then Working Group will review the PMR and make a recommendation to support or oppose the PMR in the same meeting.
- The proposed program change, the Working Group recommendation and rationale will be captured in the Working Group meeting minutes.
- The party proposing the PMR has the choice to move forward and submit a petition to modify (PTM) for Commission review regardless of the Working Group's recommendation, but a summary of the discussion of the PMR at the Working Group meeting, a list of comments in support or against the PMR, as well as the Working Group's overall recommendation with rationale must accompany the PTM at the time of filing. It is not required that the Working Group prepare its own document in support or opposing the PMR. It is required that the Working Group members support the PMR process by providing the applicant any support in making sure that they have an accurate summary of the discussion, list of comments, and Working Group recommendation with rationale.
- The Energy Division participates in Working Group meetings and is welcome to participate in the discussion related to the PMR as well as in generating the "list of issues". The Energy Division does not need to participate in the "recommendation" portion of the Working Group's PMR review.

- Once the PTM is filed with the Commission, the normal PTM process will transpire, only it will have the benefit of the idea being somewhat vetted before submittal. All parties have a chance to comment on PTMs as per normal CPUC rules.
- The Commission will review and address the PTM in a decision.

The above process is more efficient than the current Program Modification Guideline, because it expedites the eight-step process. One of the purposes of meeting the Working Group is for the party proposing the change to vet the proposed program change with the Working Group and receive immediate feedback on the proposed change. The process should inform the party on how to move forward with the program change in a single meeting, rather than through a multi-step process that would take more time. The elimination of these steps for non-substantive changes can significantly shorten the PMR review time.

If the modified PMR process described above is adopted by the CPUC, then the Handbook would need to be revised to reflect the changes in the process.

**1. PMG04-001-PGE: Modification request to current rule on eligible systems capable of diesel operation**

*Overview*

St. Helena Hospital, a potential SGIP Applicant, requests a modification to the rule found in the SGIP Program Handbook Section 2.4.8, which precludes any system operating on diesel fuel or Diesel Cycle from eligibility in SGIP. St. Helena Hospital proposes the rule be modified to allow an exemption for facilities “providing necessary public services and operating in an emergency condition when normal operation on natural gas or other fuel is not possible.”

The Applicant claims the proposed rule change has no anticipated impact on the cost or implementation of SGIP.

*SGIP Working Group Recommendation*

The SGIP Working Group unanimously opposes the Program Modification Rule based on the following rationale:

- The original CPUC decision specifically excludes diesel-fired and backup generation from the program.
- The likelihood and duration of such an emergency event or natural disaster where natural gas is unavailable is probably very small.
- It counters the program’s objectives.
- The customer group who would benefit is very small.
- It creates unnecessary administrative burden.

*Energy Division Recommendation*

Pursuant to PU Code 379.6, Section (3)(b), deny the program modification request as the technology will be deemed ineligible as of January 1, 2008.

## **2. PMG04-002-SDREO: Modification to include Solar Thermal Electric Power Generation**

### *Overview*

SOLEL Inc, a solar thermal electric technology provider, requests the inclusion of Solar Thermal Electric power generation to SGIP. Solar Thermal Electric power generation is a solar energy driven turbine system fueled solely by a solar field or fueled by a solar field in combination with a renewable or natural gas system.

### *SGIP Working Group Recommendation*

The SGIP Working Group unanimously recommended that systems that are fueled solely by a solar field, or a solar field in combination with a renewable/natural gas back-up fuel system contributing 25% or less of the fuel input be eligible to participate in SGIP based on the following rationale:

- Systems meeting this definition meet the PU Code 2085 for systems operating on renewable fuel, which defines systems operating with a fossil fuel back of 25% or less as a renewable fueled system.
- The technology appears to meet the intent of the program goals of peak demand reduction, and emphasizes renewable energy and zero-emission self-generating technologies.
- The technology appears to have environmental impacts comparable to solar photovoltaic.
- The technology falls within the minimum-maximum allowable system size range.
- The technology meets maintenance requirements and is anticipated to meet interconnection and air permitting requirements.

### *Energy Division Recommendation*

Pursuant to PU Code 379.6, Section (3)(b), deny the program modification request as the technology will be deemed ineligible as of January 1, 2008<sup>2</sup>.

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<sup>2</sup> While technology is ineligible under SGIP, it is eligible to receive incentives as a non-PV technology under the CSI program.

### **3. PMG04-003-SDREO: Modification to include Organic Rankin Cycle (ORC) Waste Heat to Electricity Generation**

#### *Overview*

United Technologies Corporation (UTC), an aerospace and building technology provider, requested the inclusion of Organic Rankin Cycle (ORC) Waste Heat to Electricity. Rankin cycles use waste heat to vaporize a working fluid which is then expanded through a turbine to generate electricity.

#### *SGIP Working Group Recommendation*

The SGIP Working Group had a split recommendation on this PMR. Split-PG&E, SCE, SoCalGas, and SDG&E recommend the request be rejected based on the following rationale:

- Based on the technology's capital costs, it is not appropriate for Level 1 incentives of \$4.50/watt<sup>3</sup> which is greater than the estimated installed costs for the system (\$2.63/watt).
- The technology relies on fossil fuel or other gas inputs, therefore cannot be deemed as a "stand alone" system and is ineligible for funding.
- There was no evidence provided to show that the system can comply with energy efficiency requirements.
- D.03-01-006 and D.03-12-036 denied a previous petition to include expansion turbines in SGIP for the reasons described above.

CCSE recommends accepting Waste heat as a renewable fuel based on the following rationale:

- Waste gas is recognized as having similar benefits to renewable resources in other states.
- The technology meets the intent of SGIP goals to reduce peak demand and emphasize zero emissions generation technologies.
- The technology recovers waste heat that would otherwise be vented or rejected to the atmosphere and converts waste heat into usable electrical energy.
- Because the installed costs are similar to renewable non-solar technologies, the incentive level such as large gas turbines, CCSE recommends that the technology be included as a renewable non-solar technology with an incentive should be set at \$1.00/watt.

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<sup>3</sup> In 2004, the time of the submission of this PMR, SGIP had a Level 1 incentive that provided incentives to photovoltaic systems, wind turbines and fuel cells.

*Energy Division Recommendation*

Pursuant to PU Code 379.6, Section (3)(b), deny the program modification request as the technology will be deemed ineligible as of January 1, 2008.

**4. PMG03-003-SCE: STM Stirling Engines as an eligible technology**

*Overview*

Aloha Systems, a consulting firm representing Solar Thermal Motors (STM), submitted a PMR to include the STM Stirling Engine generators in SGIP. The technology is a stirling engine that uses solar thermal as an external heat source to fuel the engine. Aloha Systems requested that the STM Stirling Engine generators be added as a Level 3-R and 3-N technology.

*SGIP Working Group Recommendation*

PG&E and SCE recommend it be eligible **only** if the Stirling engine generating system is fueled by a renewable fuel as defined by the SGIP Handbook. CCSE, SDG&E and SoCalGas recommend it be eligible for SGIP if the technology is fueled by renewable fuels and nonrenewable fuels. The Working Group unanimously recommends that if the Stirling engine generating system is fueled by a waste heat stream then it **not** be eligible for SGIP. These recommendations are based on the following rationale:

- Stirling generating technologies show the potential to be more compatible with combustion fuels as a fuel source or renewable fuels than conventional technologies.
- A distribution network has been established and commercial sales of systems have occurred, and SGIP can help market the technology by imposing performance and warranty of units.
- Waste energy conversion is prohibited by the program and is controlled by the application of the technology.
- PG&E and SCE state that STM did not substantiate that the unit meets emission requirements, and should not be included as a nonrenewable technology until it can demonstrate meeting the emission requirements.
- SoCalGas, CCSE and SDG&E state that they were not aware of any technologies that meet the required emissions criteria without a NOx credit<sup>4</sup>.
- In addition, SoCalGas, CCSE and SDG&E state that meeting this requirement is site-specific and would depend on several variables including application, system design, and type of emissions clean up equipment. Therefore, STM Stirling engine generating system should be included as eligible for incentives if fueled by nonrenewable fuels, similar to internal combustion engines.

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<sup>4</sup> In 2003, AB 1685 established NOx emission credit that could be used by combined heat and power (CHP) units that meet the minimum system efficiency standard in order to meet the NOx emission standard.

*Energy Division Recommendation*

Pursuant to PU Code 379.6, Section (3)(b), deny the program modification request as the technology will be deemed ineligible as of January 1, 2008<sup>5</sup>.

**5. PMG05-004-PGE: Modification to include syngas created from medical waste**

*Overview*

Intellergy Corp, a bio-refinery service provider, requested a change the definition of “Renewable Fuel” to include syngas created from medical waste. Intellergy Corporation has developed a process that converts medical waste, currently disposed of in landfills, into hydrogen-rich syngas, which would then be used to operate a fuel cell.

*SGIP Working Group Recommendation*

The Working Group unanimously denied this program modification request based on the following rationale:

- Decision 02-09-051 defined renewable fuel as a “A renewable fuel is a non-fossil fuel resource other than those defined as conventional in Section 2805 of the Public Utilities Code, that can be categorized as one of the following: solar, wind, biomass, digester gas, or landfill gas.”<sup>6</sup>
- Further, the California Health and Safety Code Section 25143.5(g)(2) states “‘Biomass’ or ‘biomass waste’ does not include material containing sewage sludge, industrial sludge, **medical waste**, hazardous waste, or radioactive waste [emphasis added].”
- There is insufficient information on commercial availability and reliability of this process and technology, and no available data on the performance and cost of the process of converting medical waste into syngas.

*Energy Division Recommendation*

Based on the above rationale, Energy Division supports the SGIP Working Group recommendation to deny the Program Modification Request.

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<sup>5</sup> While technology is ineligible under SGIP, it is eligible to receive incentives as a non-PV technology under the CSI program.

<sup>6</sup> D.02-09-051, p. 15.

## **6. PMG06-013-SDREO: Modification to include Advanced Energy Storage (AES)**

### *Overview*

StrateGen Consulting LLC and VRB Power Systems Inc, a storage provider, requested the inclusion of Advanced Energy Storage (AES) technology into SGIP. The technology allows energy, drawn from the grid, to be collected, stored and discharged on demand. The technology can be coupled with solar or wind technologies to firm the capacity of the renewable technology. AES collects and stores electricity when the price for electricity is low and dispatches the stored energy when the renewable source is not generating electricity.

The technology is a large scale energy storage system, specifically a vanadium redox battery (VRB) that consists of two electrolyte tanks that are connected by a regenerative fuel cell. The technology has a 25 year expected equipment life, and has system efficiencies of 65-75%.

### *SGIP Working Group Recommendation*

CCSE and PG&E recommend including AES technologies in SGIP. Based on the following rationale:

- While AES does not directly generate electricity, its peak load-reduction capabilities and demand-response potential can benefit the utilities and ratepayers, as well as promoting the adoption of renewable energy generation systems.
- AES has been a potential eligible technology since the inception of SGIP.

SCE and SoCalGas recommend that AES technologies be rejected from SGIP based on the following rationale:

- Pursuant to Decision 01-03-073, the technology does fit the definition of “self-generation” whereby onsite distributed generation is installed on the customer-side of the meter<sup>7</sup>. AES technology captures and redistributes energy produced from other sources, rather than generating power onsite.
- Decision 99-10-065 defines storage technologies as “distributed energy resources”, and AB970 Section 339.15 identifies differential incentives for renewable or super clean distributed generation resources.

### *Energy Division Recommendation*

Energy Division agrees with SCE and SoCalGas’ argument that AES is not a self-generating technology as defined in D.01-03-073. Further, the technology does not meet statutory requirements of eligible technologies in SGIP. Therefore, staff recommends SGIP should not provide a stand-alone incentive for AES technologies.

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<sup>7</sup> D.01-03-073, p. 4.

However, Energy Division also agrees with CCSE and PG&E's argument that the technology supports SGIP's goal of encouraging peak demand reduction and renewable energy generation. Additionally, the "Energy Storage Benefits and Market Analysis Handbook", developed by Sandia National Laboratories, states that storage used with renewable generation could avoid/defer the need to build transmission capacity<sup>8</sup>.

Because the technology does support SGIP's goal of peak demand reduction, staff recommends supporting AES technology when coupled with wind and/or fuel cell technologies. Rather than providing a specific incentive for AES technologies, Energy Division staff recommends increasing the incentive by \$2.00/watt – in all categories – for those watts that are coupled with wind and fuel cells.

For example, the incentive would increase from \$1.50 to \$3.50 per watt for Level 2 wind turbines when the technology is coupled with AES. For example, if a project is a 500 kW wind turbine with 100 kW of storage, then the project would be paid \$3.50/watt for 100 kW of wind plus storage, and \$1.50/watt for 400 kW of wind only. The intent of increasing the incentive is to offset the additional costs incurred by adding the AES technology, and encourage SGIP incentive applicants to pair wind turbines and fuel cells with AES technologies. The increased incentive will subsidize up to 36 percent of the cost of the storage technology<sup>9</sup>. This incentive level is comparable to the current incentive levels for wind turbines only, which, on average, funds approximately 40 percent of the cost of the wind<sup>10</sup>.

Staff also recommends the incentive increase not be limited only to VRB technologies, but all advanced energy storage technologies, with an equipment life span of at least 20 years,<sup>11</sup> that can be coupled with wind or fuel cells.

SGIP Program Administrators should be ordered to update the SGIP Program Handbook to reflect the changes adopted.

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<sup>8</sup> "Energy Storage Benefits and Market Analysis Handbook: A Study for the DOE Energy Storage Systems Program" (December 2004), p. 16.

<sup>9</sup> Commercial AES systems range from \$5.50 to \$10 per watt.

<sup>10</sup> Based on SGIP data, available at

<http://www.energycenter.org/ContentPage.asp?ContentID=279&SectionID=276&SectionTarget=35>.

<sup>11</sup> All technologies eligible for SGIP must have a useful life of at least 20 years.

## 7. PMG07-002-SCE: Proposed Modification to Replacement Generator Rules

### *Overview*

FuelCell Energy (FCE), a fuel cell technology manufacturer, requested a modification to the existing SGIP Rule 2.5.10 Section D. Currently, Rule 2.5.10D allows SGIP eligibility to new generating systems intended to replace or augment existing on-site generation only if the Host Customer can demonstrate the existing generation system has been deactivated for at least 12 months. FCE states that a 12-month curtailment of generator operations is prohibitive for the following reasons:

- In order to meet market demand for more efficient and cleaner generation systems that mitigate excessive GHG emissions.
- Air quality management districts (AQMD) prohibit the 12-month curtailment of generation systems. Violating this prohibition would result in costly penalties.

### *SGIP Working Group Recommendation*

The Working Group unanimously accepted this program modification request based on the following rationale:

- There is merit in FCE's arguments.
- Encouraging renewable fuel cells will increase SGIP GHG reduction benefits and will enable the installation of fuel cell and wind turbine technologies, which is timely because fuel cells and wind projects will be the only eligible SGIP technologies as of January 1, 2008.
- The Working Group recommends altering the rules so that renewable projects can replace non-renewable or renewable projects with no down time requirement, and non-renewable projects can replace non-renewable or renewable projects only after a 12-month down time requirement.
- The Working Group also recommends that SGIP funds should not be used to fund new systems that replace systems that were funded by SGIP.

### *Energy Division Recommendation*

Energy Division supports the SGIP Working Group Recommendation. SGIP Program Administrators should be ordered to update the SGIP Program Handbook to reflect the changes adopted.

**(END OF APPENDIX B)**