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INTRODUCED BY Assembly Member Leno
(Coauthors: Assembly Members Hancock, Jackson, and Koretz)

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An act to amend Sections 353.2 and 379.5 of, and to add Section 379.6 to, the Public Utilities Code, relating to energy.

LEGISLATIVE COUNSEL'S DIGEST

AB 1685, Leno. Energy: self-**generation** incentive program: peak reduction.

Existing law requires the Public Utilities Commission on or before March 7, 2001, and in consultation with the Independent System Operator, to take certain actions, including, in consultation with the State Energy Resources Conservation and Development Commission (Energy Commission), adopting energy conservation demand-side management and other initiatives in order to reduce demand for electricity and reduce load during peak demand periods, including, but not limited to, differential incentives for renewable or superclean **distributed generation** resources. Pursuant to this requirement, the commission has developed a Self **Generation** Incentive Program to encourage customers of electrical corporations to install **distributed generation** that operates on renewable fuel or contributes to system reliability. Existing law defines "ultra-clean and low-emission **distributed generation**" as an electric **generation** technology that produces zero emissions during operation or that produces emissions that are equal to or less than limits established by the State Air Resources Board, if the electric **generation** technology commences operation between January 1, 2003, and December 31, 2005.

This bill would require the commission, in consultation with the Energy Commission, to administer, until January 1, 2008, a self-**generation** incentive program for **distributed generation** resources in the same form that exists on January 1, 2004, but would require that combustion-operated **distributed generation** projects using fossil fuels commencing January 1, 2005, meet a NOx emission standard, and commencing January 1, 2007, meet a more stringent NOx emission standard and a minimum efficiency standard, to be eligible for incentive rebates under the program. The bill would establish a credit for combined heat and power units that meet a certain efficiency standard.

The bill would revise the definition of an ultra-clean and low-emission **distributed generation** to include electric **generation**

technologies that commence operation prior to December 31, 2008.

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. The Legislature finds and declares each of the following:

(a) Increasing California's reliance on renewable energy resources, particularly solar, "ultra-clean," and "low-emission" electricity **generation**, promotes stable electricity prices, protects public health, improves environmental quality, stimulates sustainable economic development, creates new employment opportunities, and reduces reliance on imported fuels.

(b) The development of renewable energy resources, particularly nonpolluting solar electricity **generation**, ameliorates air quality problems throughout the state and improves public health by reducing the burning of fossil fuels and the associated environmental impacts.

(c) The Self **Generation** Incentive Program administered by the Public Utilities Commission and established pursuant to Section 379.5 (Decision 01-03-073, March 27, 2001), has been a critically important subsidy for the growth of solar electricity **generation** in California, but is set to expire at the end of 2004.

(d) The Legislature intends that the commission continue the Self **Generation** Incentive Program in order to subsidize solar electricity **generation.**

SEC. 2. Section 353.2 of the Public Utilities Code is amended to read:

353.2. (a) As used in this article, "ultra clean and low emission **distributed generation**" means any electric **generation** technology that meets both of the following criteria:

(1) Commences initial operation between January 1, 2003, and December 31, 2008.

(2) Produces zero emissions during its operation or produces emissions during its operation that are equal to or less than the 2007 State Air Resources Board emission limits for **distributed generation**, except that technologies operating by combustion must operate in a combined heat and power application with a 60-percent system efficiency on a higher heating value.

(b) In establishing rates and fees, the commission may consider energy efficiency and emissions performance to encourage early compliance with air quality standards established by the State Air Resources Board for ultra clean and low emission **distributed generation.**

SEC. 3. Section 379.5 of the Public Utilities Code is amended to read:

379.5. Notwithstanding any other provision of law, on or before March 7, 2001, the commission, in consultation with the Independent System Operator, shall take all of the following actions, and shall include the reasonable costs involved in taking those actions in the distribution revenue requirements of utilities regulated by the commission, as appropriate:

(a) (1) Identify and undertake those actions necessary to reduce or remove constraints on the state's existing electrical transmission and distribution system, including, but not limited to, reconductoring of transmission lines, the addition of capacitors to increase voltage, the reinforcement of existing transmission capacity, and the installation of new transformer banks. The commission shall, in consultation with the Independent System

Operator, give first priority to those geographical regions where congestion reduces or impedes electrical transmission and supply.

(2) Consistent with the existing statutory authority of the commission, afford electrical corporations a reasonable opportunity to fully recover costs it determines are reasonable and prudent to plan, finance, construct, operate, and maintain any facilities under its jurisdiction required by this section.

(b) In consultation with the State Energy Resources Conservation and Development Commission, adopt energy conservation demand-side management and other initiatives in order to reduce demand for electricity and reduce load during peak demand periods. Those initiatives shall include, but not be limited to, all of the following:

(1) Expansion and acceleration of residential and commercial weatherization programs.

(2) Expansion and acceleration of programs to inspect and improve the operating efficiency of heating, ventilation, and air-conditioning equipment in new and existing buildings, to ensure that these systems achieve the maximum feasible cost-effective energy efficiency.

(3) Expansion and acceleration of programs to improve energy efficiency in new buildings, in order to achieve the maximum feasible reductions in uneconomic energy and peak electricity consumption.

(4) Incentives to equip commercial buildings with the capacity to automatically shut down or dim nonessential lighting and incrementally raise thermostats during a peak electricity demand period.

(5) Evaluation of installing local infrastructure to link temperature setback thermostats to real-time price signals.

(6) Incentives for load control and **distributed generation** to be paid for enhancing reliability.

(7) Differential incentives for renewable or super clean **distributed generation** resources pursuant to Section 379.6.

(8) Reevaluation of all efficiency cost-effectiveness tests in light of increases in wholesale electricity costs and of natural gas costs to explicitly include the system value of reduced load on reducing market clearing prices and volatility.

(c) In consultation with the Energy Resources Conservation and Development Commission, adopt and implement a residential, commercial, and industrial peak reduction program that encourages electric customers to reduce electricity consumption during peak power periods.

SEC. 4. Section 379.6 is added to the Public Utilities Code, to read:

379.6. (a) The commission, in consultation with the State Energy Resources Conservation and Development Commission, shall until January 1, 2008, administer a self-**generation** incentive program for **distributed generation** resources, in the same form as exists on January 1, 2004.

(b) Notwithstanding subdivision (a), the self-**generation** incentive program shall do all of the following:

(1) Commencing January 1, 2005, require all combustion-operated **distributed generation** projects using fossil fuels to meet an oxides of nitrogen (NOx) emissions rate standard of 0.14 pounds per megawatthour to be eligible for self-**generation** rebates.

(2) Commencing January 1, 2007, require all combustion-operated **distributed generation** projects using fossil fuels to meet an oxides of nitrogen (NOx) emissions rate standard of 0.07 pounds per megawatthour and a minimum efficiency of 60 percent, to be eligible for self-**generation** rebates. A minimum efficiency of 60 percent shall

be measured as useful energy output divided by fuel input. The efficiency determination shall be based on 100 percent load.

(3) Combined heat and power units that meet the 60 percent efficiency standard may take a credit to meet the applicable oxides of nitrogren (NOx) emission standard of 0.14 pounds per megawatthour or 0.07 pounds per megawatthour. Credit shall be at the rate of one megawatthour for each 3.4 million British Thermal Units (BTUs) of heat recovered.

(4) Provide the commission with flexibility in administering the self-**generation** incentive program, including, but not limited to, flexibility with regard to the amount of rebates, inclusion of other ultra clean and low emission **distributed generation** technologies, and evaluation of other public policy interests, including, but not limited to, ratepayers, and energy efficiency and environmental interests.