

STATE OF CALIFORNIA

Public Utilities Commission
San Francisco

M e m o r a n d u m

Date: April 19, 2006

To: The Commission
(Meeting of April 27, 2006)

From: Delaney Hunter, Director
Office of Governmental Affairs (OGA) — Sacramento

Subject: **AB 2778 (Lieber)** - Electricity: self-generation incentive program
As Introduced February 24, 2006

LEGISLATIVE SUBCOMMITTEE RECOMMENDATION: Support.

SUMMARY OF BILL: This bill would provide that the existing Self-Generation Incentive Program (“SGIP”) be extended from its current legislative expiration date of January 1, 2008 to January 1, 2017.

SUMMARY OF SUPPORTING ARGUMENTS FOR RECOMMENDATION: This legislation would add the permanence of a legislative mandate to a program already created under the Public Utilities Commission (Commission) regulatory action. The existing SGIP will be modified beginning in January 2007 to exclude Photovoltaic (“PV”) technology incentives, which will be administered by the California Solar Initiative. A large proportion of the remaining SGIP budget is earmarked to provide incentives to technologies that are underrepresented in the distributed generation marketplace such as wind and fuel cells. Extending the SGIP will allow these underrepresented technologies to continue receiving incentives that promote market sustainability for these technologies.

SUMMARY OF SUGGESTED AMENDMENTS (if any): None.

DIVISION ANALYSIS (Energy Division): Currently the legislative mandate for the SGIP is scheduled to expire on January 1, 2008. The proposed bill will extend the SGIP expiration date to January 1, 2017. This extension would apply for all SGIP-eligible technologies except PV technologies which will be subsumed into the California Solar Initiative on January 1, 2007.

SGIP-eligible distributed generation technologies include PV, wind turbines, renewable / non-renewable fuel cells, micro turbines, internal combustion engines, and small / large gas turbines. Historically, PV technologies have dominated the program in terms of

capacity installed under the program. In fact, since program year 2004, program administrators (PAs) have had to move funding from other technology levels to accommodate the high demand for PV incentives. Clean distributed generation technologies such as renewable fuel cells and wind turbines have been underrepresented and have not arrived at a level of marketability that would indicate they are sustainable without the additional incentives provided by the SGIP. Fuel Cells and Wind distributed generation together represent only 4% of the capacity installed under the SGIP to date. On the other hand, PV capacity installed under the program represents more than 50%. Extending the SGIP will ensure that these underrepresented clean technologies will have an opportunity to utilize SGIP incentives in an environment that does not necessitate a need to compete for limited program funds once PV technologies are subsumed into the CSI program on January 1, 2007.

AB 1685 added Section 379.6(b)(4) to the Public Utilities Code giving the Commission discretion regarding the administration of the SGIP with the following language:

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.

The topic of whether to extend the SGIP was included as an issue area in the current distributed generation rulemaking (R.06-03-004), which states: "The SGIP is currently set to sunset at the end of 2007. We are strongly inclined to continue the program past that date, but will need to determine, in this proceeding, the exact nature of the program continuation, including funding levels, timeframe, incentive amounts, as well as other ongoing policy and program modifications." Although the Commission may extend the program beyond 2007, this legislation would make that a certainty.

Diversifying the State's electricity portfolio has long been a goal of the Commission. The Energy Action Plan adopted by the Commission on May 8, 2003, lists the following priority entitled "Promote Customer and Utility Owned Distribution Generation" relative to clean distributed generation:

Distributed generation is an important local resource that can enhance reliability and provide high quality power, without compromising environmental quality. The state is promoting and encouraging clean and renewable customer and utility owned distributed generation as a key component of its energy system. Clean distributed generation should enhance the state's environmental goals. This determined and aggressive commitment to efficient, clean and renewable energy resources will provide vision and leadership to others seeking to enhance environmental quality and moderate energy sector impacts on climate change. Such resources, by their characteristics, are virtually guaranteed to serve

California load. With proper inducements distributed generation will become economic.

Extending the SGIP will help the Commission to meet the clean distributed generation goals identified in the Energy Action Plan.

PROGRAM BACKGROUND:

D.01-03-073 created the Self-Generation Incentive Program in response to AB 970 on March 21, 2001.

D.04-12-045 modified the program on December 16, 2004, in response to AB 1685, extending the program through January 1, 2008.

D.06-01-024 created the California Solar Initiative Program for PV distributed technologies and other solar thermal technologies to begin accepting applications on January 1, 2007 (January 12, 2006).

D.05-12-044 infused \$300 million into the SGIP for PV incentives that have historically been oversubscribed (December 15, 2005).

Due to the historic oversubscription of PV applications in the SGIP, underrepresented DG technologies have had to compete for limited funds throughout the operation of the program. Extending the program will allow these underrepresented technologies to obtain incentives in future years without having to compete with high PV incentive demands.

LEGISLATIVE HISTORY:

March 29, 2001 – The Commission adopted load control and distributed generation initiatives pursuant to AB 970 (D.01-03-073).

October 12, 2003 – AB 1685 is adopted establishing emissions and efficiency requirements for fossil-fueled DG projects and extends the SGIP through January 1, 2008.

September 27, 2004 – AB 1684 allows projects that operate on waste gas to apply for SGIP incentives.

FISCAL IMPACT: Absorbable costs to the Commission.

STATUS: This bill is scheduled to be heard in the Assembly U&C Committee on April 24th.

SUPPORT/OPPOSITION: None on file.

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BILL LANGUAGE:

BILL NUMBER: AB 2778 INTRODUCED
BILL TEXT

INTRODUCED BY Assembly Member Lieber

FEBRUARY 24, 2006

An act to amend Section 379.6 of the Public Utilities Code,
relating to electricity.

LEGISLATIVE COUNSEL'S DIGEST

AB 2778, as introduced, Lieber Electricity: self-generation
incentive program.

Under existing law, the Public Utilities Commission has regulatory
authority over public utilities, including electrical corporations.
Existing law requires the commission, in consultation with the State
Energy Resources Conservation and Development Commission (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.

This bill would require the commission, in consultation with the
Energy Commission, to administer, until January 1, 2017, a
self-generation incentive program for distributed generation
resources in the same form that exists on January 1, 2004.

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

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

SECTION 1. Section 379.6 of the Public Utilities Code is amended
to read:

379.6. (a) The commission, in consultation with the State Energy
Resources Conservation and Development Commission, shall administer,
until January 1, ~~2008~~ 2017 , the
self-generation incentive program for distributed generation
resources originally established pursuant to Chapter 329 of the
Statutes of 2000. Except as provided in subdivision (b), the program
shall be administered in the same form as it existed on January 1,
2004.

(b) Eligibility for the self-generation incentive program's level
3 incentive category shall be subject to the following conditions:

(1) Commencing January 1, 2005, all combustion-operated
distributed generation projects using fossil fuel shall meet an
oxides of nitrogen (NOx) emissions rate standard of 0.14 pounds per
megawatthour.

(2) Commencing January 1, 2007, all combustion-operated
distributed generation projects using fossil fuel shall meet a NOx

emissions rate standard of 0.07 pounds per megawatthour and a minimum efficiency of 60 percent. 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 NOx emissions 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) Notwithstanding paragraphs (1) and (2), a project that does not meet the applicable NOx emission standard is eligible if it meets both of the following requirements:

(A) The project operates solely on waste gas. The commission shall require a customer that applies for an incentive pursuant to this paragraph to provide an affidavit or other form of proof, that specifies that the project shall be operated solely on waste gas. Incentives awarded pursuant to this paragraph shall be subject to refund and shall be refunded by the recipient to the extent the project does not operate on waste gas. As used in this paragraph, "waste gas" means natural gas that is generated as a byproduct of petroleum production operations and is not eligible for delivery to the utility pipeline system.

(B) The air quality management district or air pollution control district, in issuing a permit to operate the project, determines that operation of the project will produce an onsite net air emissions benefit, compared to permitted onsite emissions if the project does not operate. The commission shall require the customer to secure the permit prior to receiving incentives.

(c) In administering the self-generation incentive program, the commission may adjust the amount of rebates, include other ultraclean and low-emission distributed generation technologies, as defined in Section 353.2, and evaluate other public policy interests, including, but not limited to, ratepayers, and energy efficiency and environmental interests.