

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

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

Rulemaking 06-03-004  
(Filed March 2, 2006)

**ADMINISTRATIVE LAW JUDGE'S RULING REDUCING SOLAR PHOTOVOLTAIC INCENTIVE PAYMENTS**

This ruling provides parties notice of the automatic reduction of incentive payments for solar photovoltaic (PV) projects from \$2.80/watt to \$2.50/watt, per the procedure set forth in Decision (D.) 06-01-024.

**Background**

The Commission currently oversees the Self-Generation Incentive Program (SGIP) which, among other things, provides incentive payments to customers who install solar PV technologies. In D.05-012-044, the Commission increased its solar incentive budget from \$42 million to \$342 million for the SGIP in 2006. The decision set solar rebates at \$2.80/watt for qualifying new solar projects. Shortly thereafter, the Commission issued D.06-01-024, which created the California Solar Initiative (CSI) with a total budget for solar incentives and programs of \$2.8 billion over 11 years. The \$342 million budget for SGIP in 2006 is part of the \$2.8 billion budgeted for CSI over 11 years.

In establishing the CSI, the Commission noted the difficult task of setting incentive levels high enough to motivate solar investments and yet not so high that ratepayers are subsidizing projects that would be built with lower incentives. (D.06-01-024, *mimeo*, p. 24.) The Joint Staff Proposal attached to

D.06-01-024 contains a schedule for automatic reductions of incentive payments on an annual basis or when program participation reaches specific megawatt (MW) levels. (See D.06-01-024, Appendix A, p. 15, Table 5: Triggers for Reductions in Rebate Levels.) A critical goal of the automatic reduction in incentive payment levels based on triggers is to ensure optimal funding availability over the duration of the CSI program. In D.06-01-024, the Commission adopted the Staff Proposal, which includes the automatic trigger mechanism. The decision also discusses a procedure for the Administrative Law Judge (ALJ) assigned in Rulemaking (R.) 04-03-017, or a successor docket,<sup>1</sup> to make additional reductions to incentive payment levels if warranted by market conditions. (*Id.*, p. 25.)

### **Incentive Reduction**

On March 20, 2006, the assigned ALJ received notice from the Commission's Energy Division staff that 2006 solar PV project applications for CSI funds have exceeded the 50 MW trigger set forth in D.06-01-024. (*See* Attachment A to this ruling for a copy of the Energy Division notice.) The total applications in hand as of March 9, 2006 total 91 MW.<sup>2</sup> Indeed, the Energy Division memo indicates that new program applications as of March 9, 2006 are already an additional 41 MW into the second trigger point of 70 MW of incremental demand (or 120 MW cumulative). The Commission has previously

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<sup>1</sup> On March 2, 2006, the Commission closed its Distributed Generation Rulemaking (R.04-03-017) and opened this successor docket on CSI and Distributed Generation.

<sup>2</sup> This total does not include 2005 solar project applications received on or before December 15, 2005, which will be paid an incentive of \$3.00/watt as ordered by Ordering Paragraph 3 of D.05-12-044.

stated, "Where demand for rebates exceeds supply, it is reasonable to assume the incentive levels are higher than they need to be to motivate investment."

(D.06-01-024, *mimeo*, Conclusion of Law 12, p. 39.)

Thus, this ruling provides notice to the parties that the 50 MW trigger has been reached and all applications in excess of the 50 MW threshold, up to the next trigger at 70 MW, will automatically receive the lower incentive payment of \$2.50/watt. We are aware that not all applications may proceed to the reservation stage, and then onward to completion. The program administrators should work with the Energy Division and California Energy Commission (CEC) Staff to ensure equitable application of the incentive level of \$2.80 per watt under the first 50 MW cap for applications received thus far. Consideration should be given to such factors as the order of application receipt, payment of the application fee, completeness of the application, amounts requested across administrators, and/or other relevant factors.

If any party objects to the implementation of the automatic trigger mechanism as set forth in this ruling, that party may file comments within seven days from the date of this ruling. A further ruling or order of the Commission will be issued if there is any need to modify this ruling and/or respond to objections.

Therefore, **IT IS RULED** that:

1. The program administrators for the Self-Generation Incentive Program (SGIP), in coordination with Energy Division Staff, shall ensure that incentive payment levels for solar photovoltaic (PV) projects are reduced from \$2.80/watt to \$2.50/watt for all 2006 program applications exceeding the 50 MW threshold, unless modified by further ruling of the Commission.

2. Parties may comment on this ruling within seven days from the date of this ruling.

Dated March 21, 2006, at San Francisco, California.

/s/ DOROTHY J. DUDA

Dorothy J. Duda  
Administrative Law Judge

**ATTACHMENT**

State of California

**M e m o r a n d u m**

**Date:** March 20, 2006

**To:** ALJ Duda

**From:** **Energy Division**

**Subject:** *Energy Division Staff Proposal to Lower the Self-Generation  
Incentive Program Solar Rebate Amount for 2006.*

**I. Summary Recommendation**

As of March 9, 2006, the Self-Generation Incentive Program (SGIP) program administrators (PAs) have collectively received solar incentive applications in excess of 91 MW. In Decision (D.) 06-01-024, the Commission adopted a mechanism to automatically reduce incentives in order to preserve program funding (see Appendix 1). Energy Division recommends that the assigned Administrative Law Judge implement this mechanism to decrease the current solar rebate amount of \$2.80/watt to \$2.50/watt effective immediately for 2006 SGIP solar applications.

**II. Background**

On December 15, 2005, the Commission approved a \$300 million increase to the SGIP solar budget which brought total 2006 solar funding to \$342 million. The allocation of the additional \$300 million for solar incentives in the SGIP was an interim measure taken toward meeting the CPUC's broader efforts to establish the California Solar Initiative described in D.06-01-024 and adopted by the CPUC on January 12, 2006.

The SGIP program has often been oversubscribed since 2004. The program administrators instituted a wait list to accommodate applications received during periods when funding is exhausted.

The Commission and the PAs have utilized various methods to maximize program funding. Effective January 1, 2006, the Commission reorganized technology funding levels to create a category solely for solar projects, which allocates more funding for solar projects, and mitigates competition for limited funding among other SGIP renewable technologies.<sup>3</sup> The PAs reallocated funding several times in 2004 and 2005 from other technology categories to solar projects, typically from technologies that have historically low program participation rates, or from other non-renewable technologies, as permitted by D.01-03-073.<sup>4</sup> More recently, the PAs implemented an application fee to discourage non-viable projects which reserve program funding but never materialize. Phantom projects result in high drop-out rates and delayed funding for more mature projects waiting for SGIP funding.

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<sup>3</sup> Currently SGIP rebates are paid up to five MW for systems over 30 KW of solar, wind, fuel cells, renewable micro-turbines, IC engines, small and large gas turbines running on renewable fuels, and non-renewable fuel cells, micro-turbines, IC engines, and small and large non-renewable gas turbines.

<sup>4</sup> D.01-03-073, p. 21; "Although the utilities may exercise full discretion in moving funds from non-renewable self-generation categories to the renewable category...The utilities shall not unreasonably withhold funds that could be used to deploy a greater amount of renewable self-generation."

**III. Current Program Status**

On February 10, 2006 the SGIP began accepting applications for new projects at \$2.80/watt, to be funded under the additional \$300 million authorized via the CSI program decision. By March 9, the PAs received incentive applications from new 2006 projects which equal approximately 91 MW. If all 91 MW were paid an incentive of \$2.80/watt, this would exhaust approximately \$255 million in 2006 program funds.

**2006 SGIP Solar Application Status**

<b>Administrator</b>	<b>2006 New Solar Applications (MW)</b>
Southern California Edison	21
Pacific Gas and Electric	53
SoCalGas	7
San Diego Gas and Electric (San Diego Regional Energy Office)	10
<b>TOTAL:</b>	<b>91</b>

In addition to the SGIP accepting new applications after a long wait-list period, another factor that may have contributed to high solar participation rates is a recent change in the federal tax code allowing credits of up to 30% of installed costs for commercial systems in place between January 1, 2006 and December 31, 2007. We recognize that not all project applications proceed to completion. Historically, some applicants drop out of the program for various reasons, which releases funding for other solar projects. However, given the magnitude of the federal tax credit in 2006, and the promise of declining

incentive levels, we believe it is unlikely that these cancellations will reduce reserved capacity to less than 50 MW, the first trigger identified in Appendix 1.

#### **IV. Energy Division Staff Recommendation**

After reviewing the SGIP solar application data, Energy Division recommends that the Assigned ALJ decrease the solar rebate immediately from \$2.80/watt to \$2.50/watt to preserve program funding, utilizing the process adopted in D.06-01-024.

As described in D.06-01-024, "One of two events could trigger an incentive reduction...the first 50 MW reserved under the CSI, or the end of one calendar year, whichever occurs first." Solar applications for 2006 have already exceeded 50 MW.

Appendix 1 provides the schedule of declining rebates adopted in D.06-01-024. The first decline occurs when applications exceed 50 MW. A second decline occurs when the first of two events occur: applications increase incrementally by an additional 70 MW (cumulative to 120 MW), or on January 1, 2007.

APPENDIX 1

Rebates would change at the earliest of reaching either:			Starting at \$2.80/watt equivalent in 2006	
"Bin" or Year	Date	Incremental MW Applications	Bin (\$/watt)	Total Incentive \$ Committed (million \$)
0	1/1/06		2.8	
1	1/1/07	50	2.5	125.0
2	1/1/08	70	2.25	157.5
3	1/1/09	100	2.0	200.0
4	1/1/10	130	1.75	227.5
5	1/1/11	170	1.5	255.0
6	1/1/12	230	1.25	287.5
7	1/1/13	300	1.0	300.0
8	1/1/14	400	0.75	300.0
9	1/1/15	500	0.5	250.0
10	1/1/16	650	0.25	162.5
Totals:		2600MW <sup>5</sup>		\$2.3 billion

(END OF APPENDIX 1)  
(END OF ATTACHMENT)

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<sup>5</sup> Note: The MW total reflected is corrected from table that was included in D.06-01-024.

**CERTIFICATE OF SERVICE**

I certify that I have by mail this day served a true copy of the original attached Administrative Law Judge's Ruling Reducing Solar Photovoltaic Incentive Payments on all parties of record in this proceeding or their attorneys of record.

Dated March 21, 2006, at San Francisco, California.

/s/ ELIZABETH LEWIS  
Elizabeth Lewis

**N O T I C E**

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