Date of Issuance: February 26, 2025

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION **RESOLUTION E-5373**
February 20, 2025

R E S O L U T I O N

Resolution E-5373. Southern California Gas Company, Pacific Gas and Electric, Southern California Edison Company, and Center for Sustainable Energy® Self-Generation Incentive Program Inflation Reduction Act Tax Credit

PROPOSED OUTCOME:

- Approves, with modification, the joint proposal by Southern California Gas Company, Pacific Gas and Electric, Southern California Edison Company, and Center for Sustainable Energy® concerning the Self-Generation Incentive Program's Inflation Reduction Act Tax Credit Proposal filed in the joint Advice Letter 6405-G, 5000-G/7436-E, 5423-E, and 161-E.

SAFETY CONSIDERATIONS:

There are no safety considerations associated with this resolution.

ESTIMATED COST:

There are no costs associated with this resolution.

By joint Advice Letter 6405-G, 5000-G/7436-E, 5423-E, and 161-E, filed on November 18, 2024.

SUMMARY

This Resolution approves, with modification, the joint proposal by Southern California Gas Company (SCG), Pacific Gas and Electric (PG&E), Southern California Edison Company (SCE), and Center for Sustainable Energy® (CSE), hereafter referred to as the joint Program Administrators (PAs), Self-Generation Incentive Program (SGIP) Inflation

Reduction Act (IRA) Tax Credit proposal for the new Residential Solar and Storage Equity budget (RSSE) and all other SGIP budgets.

This Resolution determines how to maximize the federal cost share of SGIP project costs covered by the federal IRA through the following policies:

- SGIP will cap its share of incentive payments at 70 percent of eligible project costs when the SGIP payment is from state funds, the system is third-party owned (TPO), or the system is nonresidential. Each of these types of projects is eligible to claim an IRA tax credit of 30 percent of eligible project costs.
- When the SGIP payment is from ratepayer funds for host customer owned residential projects, the applicant is required to disclose the percentage of total eligible project costs being claimed through the IRA tax credit between 0 to 30 percent. For ratepayer funded equity budget projects, the SGIP payment will cover the difference between the reported IRA tax credit and up to 100 percent of eligible project costs.
- TPO systems and nonresidential systems may alter the percentage of IRA tax credit reported at the Incentive Claim Form (ICF) stage based on the bonus credits. Depending on the amount of bonus credits reported this may reduce the SGIP share of the project below 70 percent.
- Adds a disclaimer in the SGIP application designating if the SGIP payment is from ratepayer or state funds.
- Requires SGIP PAs to discuss adding DAC-SASH TPO consumer protections to SGIP in a future workshop and to include a recommendation via a Tier 2 Advice Letter within six months.
- Requires SGIP PAs to provide more clarity on what documentation must be provided by RSSE projects that claim to be ineligible for the IRA tax credit and why the credit could not otherwise be utilized or transferred by a third-party entity via Tier 2 Advice Letter within six months of implementation.
- Requires the SGIP PAs to make the relevant handbook and application changes before the RSSE opens.
- Adds a pathway for SGIP PAs to modify the IRA tax credit in SGIP if the availability of the tax credit changes.

These changes will maximize the federal cost share of SGIP project costs covered by the federal IRA tax credits and spread SGIP funds to more projects as mandated by Decision (D.) 24-03-071 (“the Decision”).

Table 1. IRA Tax Credit Contribution to Total Project Cost in SGIP Options Considered[1]

Funding Source	**Owned By**	**Current SGIP Policy**	**Joint AL Proposal**	**Resolution Proposal**
State Budget /GGRF	TPO	1-70% ($165-11,500)	30-70% ($4950-11,500)	30-70% ($4950-11,500)
	Host Customer	1-30% ($165-4950)	30% ($4950)	30% ($4950)
Ratepayer Collections	TPO	1-70% ($165-11,500)	30-70% ($4950-11,500)	30-70% ($4950-11,500)
	Host Customer	1-30% ($165-4950)	30% ($4950)	1-30% ($165-4950)
Exception Process to Claim 0% of Tax Credit		Documentation explaining why the project would be ineligible for the tax credit.	Documentation explaining why the project would be ineligible for the tax credit or why the credit could not otherwise be utilized or transferred by a third-party entity.	Documentation explaining why the project would be ineligible for the tax credit and why the credit could not otherwise be utilized or transferred by a third-party entity.

BACKGROUND AND PROCEDURAL CONTEXT

The California Public Utilities Commission (Commission) established the SGIP in D.01-03-073 in response to Assembly Bill (AB) 970 (Ducheny, Stats. 2000, Ch. 329) using ratepayer funds. The collection of ratepayer funds for SGIP was extended through December 31, 2024 and the administration of ratepayer funds in the SGIP was extended through January 1, 2026.[2] AB 102[3] allocated $280 million of the State Budget to the SGIP in Fiscal Year (FY) 2023-24 from the Greenhouse Gas Reduction Fund (GGRF)[4] for solar and storage or standalone storage incentives to low-income residential customers, including those receiving service from publicly owned utilities (POUs).

Currently in the SGIP, program rules limit incentive payments to eligible project costs net of incentives received or anticipated from other sources. To achieve this policy, the applicant is required to input what percent of the total project cost the applicant expects

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[1] Case of a single-family residential project with a 15 kWh storage system with total eligible project costs of $16,500.

[2] SB 700 (Wiener, 2018).

[3] AB 102 (2023), https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240AB102

[4] California Climate Investments, https://ww2.arb.ca.gov/ourwork/programs/california-climate-investments/about

to claim from the IRA tax credits. If the expected IRA tax credit and the calculated SGIP incentive are greater than the total eligible project costs, the SGIP incentive is adjusted down. In general market budgets, this disclosure and calculation often does not affect the amount of SGIP incentive paid as the SGIP incentive covers a small fraction of the project costs. In equity budgets where SGIP covers up to 100% of eligible costs, the disclosure of the expected tax credit and calculation often affects the amount of SGIP incentive paid. For example, if the equity applicant discloses an expected tax credit of 30%, 15%, or 0% then the SGIP incentive payment is adjusted accordingly to pay 70%, 85%, or 100% respectively. If the applicant or other entity is not claiming the tax credit, the applicant is "required to provide documentation explaining why the project would be ineligible for the tax credit."[5]

In March 2024, the Commission passed the Decision with Ordering Paragraphs (OP):

> "28. Program Administrators for the Self-Generation Incentive Program, within 90 days of the issuance date of this decision, must update their applications to:
> (a) Indicate the expected Inflation Reduction Act (IRA) tax credit value on their project application and this amount will be deducted from the SGIP incentive request.
> (b) For applicants that indicate that they will not claim the IRA tax credit, include in or attach to their application a statement explaining why the project would be ineligible for the credit.
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> 29. Program Administrators (PAs) for the Self-Generation Incentive Program (SGIP) shall hold a workshop to develop proposals to maximize the federal cost share of SGIP project costs covered by the federal Inflation Reduction Act tax credits and to evaluate whether changes to current project cost eligibility is warranted. Within six months after the adoption of this Decision, the PAs shall file and serve the proposal through a Tier 2 Advice Letter." [6]

On August 9, 2024, the PAs received an extension to comply with OP 29 from the Commission's Executive Director until November 18, 2024.

[5] SGIP Handbook 2024 Version 2 at 46.
[6] D.24-03-071 at 104, https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M527/K963/527963349.PDF

How Federal Tax Credits Have been Handled in Related CPUC Programs

Disadvantaged Communities – Single Family Solar Homes (DAC-SASH) provides solar incentives to qualifying low-income homeowners living in Disadvantaged Communities within the service territories of PG&E, SCE, and SDG&E. The funds for the incentives first come from the available greenhouse gas allowance revenues and then through customer rates via public purpose funds.[7] All projects are provided with the maximum DAC-SASH incentive that is under the total eligible project costs. If the system cost is higher than the incentive, the PA will attempt to identify additional funding resources or the customer may choose to pay the remainder out of pocket.[8] Review of the program has found that TPO systems claim the IRA tax credit while single-family host customer owned projects are not expected to claim the IRA tax credit, as no customers have needed to contribute monetarily.[9] In DAC-SASH, 91 percent of projects entered into a TPO arrangement.[10] DAC-SASH requires all TPO models to meet a set of minimum consumer protections.[11]

Solar on Multifamily Affordable Housing (SOMAH) provides solar incentives and technical assistance to qualifying affordable housing within the service territories of PG&E, SCE, SDG&E, Liberties Utilities Company, and PacifiCorp. All applicants are required to report if claiming a federal or state tax credit. If the project claims only the IRA investment tax credit (ITC), the SOMAH incentive is automatically reduced by 30 percent. There is a process for further incentive reductions if additional tax credits are also being utilized. "Additional ITC [bonus credits] are now possible through the IRA and will reduce incentives. These will be reviewed by the SOMAH PA on a case-by-case basis based on the project's utilization of other incentive funds."[12]

Inflation Reduction Act Residential Clean Energy and Energy Investment Credits Background

The IRA extended existing tax credits for renewable energy technology to energy storage systems.

For residential systems owned by the host customer,

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[7] DAC-SASH Program Handbook Third Edition at 2.
[8] *Id.* at 12.
[9] Process ad Load Impact Evaluation of the DAC-SASH 2023, Evergreen Economics at 25.
[10] Low-Income Solar PV Data, accessed on 12/18/2024. CaliforniaDGStats
[11] DAC-SASH Program Handbook Third Edition at 15.
[12] SOMAH Program Handbook Eighth Edition at 52.

> "The Residential Clean Energy Credit equals 30% of the costs of new, qualified clean energy property … installed anytime from 2022 through 2032…
> the credit amount [received] can't exceed the amount [owed] in tax. [The host customer] can carry forward any excess unused credit, though, and apply it to reduce the tax [owed] in future years…
> The credit has no annual or lifetime dollar limit."[13]

The Internal Revenue Service (IRS) provides guidance on how to use the Residential Clean Energy tax credit with other funding sources:

1. **"Public utility subsidies** for buying or installing clean energy property are subtracted from qualified expenses. This is true whether the subsidy comes directly to you or to a contractor on your behalf. However, utility payments for clean energy you sell back to the grid, such as net metering credits, don't affect your qualified expenses.
2. **Rebates** are subtracted from qualified expenses if **all** of these apply:
   - The rebate is based on the cost of the property.
   - It comes from someone connected to the sale such as the manufacturer, distributor, seller or installer.
   - It isn't given as payment for services you provide.
3. **State energy efficiency incentives** are generally **not** subtracted from qualified costs unless they qualify as a rebate or purchase-price adjustment under federal income tax law. Many states label energy efficiency incentives as rebates even though they don't qualify under that definition. Those incentives could be included in your gross income for federal income tax purposes."[14]

For non-residential systems and TPO systems, the

> "Energy investment credits… Section 48C provides a tax credit of up to 30% of the qualified investment in an advanced energy project that meets the prevailing wage and apprenticeship requirements… Section 48 also provides 3 bonus credits if certain conditions are met.
> - The energy credit is increased by up to 10% for projects meeting certain domestic content requirements for steel, iron, and manufactured products.
> - The energy credit is increased by up to 10% if located in an energy community.
> - The energy credit is increased by up to 20% on certain solar and wind facilities placed in service in connection with low-income communities."[15]

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[13] IRS Residential Clean Energy Credit | Internal Revenue Service
[14] *Id.*
[15] Instructions for Form 3468 (2023) | Internal Revenue Service

Proposed IRA Tax Credit Utilization in Joint PA Advice Letter

On September 20, 2024, the PAs held a workshop to solicit feedback from SGIP stakeholders on how to maximize the IRA tax credit. On November 18, 2024, the PAs submitted a joint Advice Letter, 6405-G, 5000-G/7436-E, 5423-E, and 161-E (SCG AL 6405-G et al.) to establish the IRA tax credit process in the SGIP.

The Joint PA Advice Letter proposes that:

- All SGIP projects are defaulted to take the full IRA tax credit at 30 percent of the total eligible project costs with SGIP covering up to 70 percent of project costs;
- The SGIP incentive will be reduced to ensure the SGIP and the IRA tax credit are not covering more than the eligible project costs;
- Customers may work with a TPO that will monetize the federal IRA tax credit share of the project costs;
- For projects with TPO, the owner will be required to state if any additional IRA bonus credits are being monetized and the SGIP share of project costs is reduced accordingly;
- If an applicant is not claiming the IRA tax credit, documentation is required to explain why the project would be ineligible for the credit or why the credit could not otherwise be utilized or transferred by a third-party entity; and
- To assist applicants in claiming the IRA tax credit, additional IRS resources will be provided to applicants and additional workshops on the topic will be convened.[16]

NOTICE

Notice of Joint AL SCG 6405-G, PG&E 5000-G/7436-E, SCE 5423-E, and CSE 161-E (SCG AL 6405-G et al.) was made by publication in the Commission's Daily Calendar. SCG states that a copy of the Advice Letter was mailed and distributed in accordance with Section 4 of General Order 96-B.

[16] SCG AL 6405-G et al. at 3-5.

PROTESTS

SCG AL 6405-G et al. was timely protested on December 9, 2024, by California Solar & Storage Association (CALSSA) and the Energy Savings Company (Free Energy).

The Joint PAs responded to the protests of CALSSA and Free Energy on December 16, 2024.

The following provides a summary of the major issues, grouped by topic, raised in the protests and the Joint PAs reply.

Protests on Proposed IRA Tax Credit in SGIP

1) SGIP as an Incentive, Rebate, or Subsidy

Both CALSSA and Free Energy protest the designation of the SGIP payment as an incentive and claim that the IRA tax credit would pay 30 percent on the net of the project cost and the SGIP incentive as the SGIP funds are provided by a public utility.[17] CALSSA protests that if SGIP is treated as an incentive it would count as taxable income for low-income customers which could push them into a different tax bracket and might disqualify them from other low-income programs.[18] CALSSA recommends including disclaimers at both the Reservation Request Form (RRF) and Incentive Claim Form (ICF) stage that the SGIP payment must be reported as taxable income to the federal government.

CALSSA claims that for a TPO entity, the SGIP payment is taxable income in all cases, but if the TPO entity does not have enough tax liability they will need to sell the IRA tax credits on the market which often yields a lower cash value than the credits. CALSSA recommends that the IRA tax credit percent being claimed be edited at the ICF stage to incorporate market sale price or additional IRA bonus credits.[19]

2) Treatment of the IRA Tax Credit

Free Energy protests that the 30 percent reduction would put the SGIP incentive below the previous $0.85 per watt-hour (Wh) which had very low uptake and will result in few applicants.[20] Free Energy protests that the mandatory claiming of the IRA tax credit

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[17] CLASSA protest at 1. Free Energy protest at 4.
[18] CALSSA protest at 2.
[19] *Id*. at 3.
[20] Free Energy protest at 5.

creates unneeded burden to the host customer as spreading the funds to more projects is not needed based on low project uptake in the budget historically.[21] Free Energy protests that the timing of the IRA tax credit could take years to claim due to long project timeline and low tax liability for claiming rolled over tax credits.[22] Free Energy proposes that applicants can either claim the IRA tax credit themselves or transfer the IRA tax credits to the SGIP PAs to reinvest in the SGIP.[23]

Free Energy protests that the exception process would force customers to use a TPO arrangement or face a 30 percent upfront cost for the system.[24] CALSSA claims that TPO projects will have higher total eligible project costs due to a higher administrative burden.[25] CALSSA claims that the IRA tax credit could be impacted by the Trump administration.[26]

Joint PA Reply: The PAs claim that the proposal is in line with OP 29 of the Decision and the tax implications are out of the scope of the AL. The PAs claim that the exception process will allow customers ineligible for the IRA tax credit due to unique tax situations to submit documentation to receive an exemption. The PAs request that the Commission reject the protests and approve SCE 6405-G et al. with no modifications.

DISCUSSION

The Commission has reviewed the joint AL, the protests, and the reply, and approves SCG 6405-G et al. with modifications. We next discuss each topic following the structure of the previous section.

1) SGIP as an Incentive, Rebate, or Subsidy

First, we must resolve the threshold issue of how the Residential IRA tax credits are treated based on the source of SGIP funding: ratepayer collections vs state budget.

The IRS guidance on the Residential Clean Energy tax credit distinguishes between funds that come from a public utility and funds that come from the state as an incentive or rebate. As SGIP residential budgets are funded by ratepayer collections and the state

[21] *Id*. at 11.
[22] *Id*. at 7.
[23] *Id*. at 12.
[24] *Id*. at 9.
[25] CALSSA protest at 4.
[26] *Id*.

budget, these potentially require different administrative policies. We will establish the policies for each type of funding in the following sections.

The two IRS designations being considered for residential host customer SGIP payments include a public utility subsidy or a state energy efficiency incentive. Generally, a public utility subsidy applies "if a public utility provides (directly or indirectly) a subsidy to a customer for the purchase or installation of any energy conservation measure" and a state energy efficiency incentive applies when a "state may provide incentives to encourage taxpayers to purchase property that also qualifies for an Energy Efficient Home Improvement Credit or the Residential Clean Energy Property Credit."[27] If an SGIP payment is considered a public utility subsidy, the applicant would claim the Residential Clean Energy tax credit on the net of the project cost and SGIP payment. Therefore, in equity budgets where SGIP is intended to cover most of the project costs, the tax credit could be 0 percent. If an SGIP payment is considered a state energy efficiency incentive, the applicant would claim the Residential Clean Energy tax credit on the full project cost so the tax credit can cover 30 percent of the project cost and SGIP can cover up to 70 percent of the project cost.

SGIP Treatment of IRA Tax Credits for Residential Ratepayer Funded Projects Owned by the Host Customer

The SGIP ratepayer funds are mandated to be collected from IOU rates by California legislation. However, IRS guidance states that any funds that come directly or indirectly from a public utility are considered a public utility subsidy (Table 2), which would lead to the IRA tax credit being applied to the net of the total project cost and the SGIP incentive.[28] Therefore, the Commission finds it reasonable to exempt ratepayer funded residential host customer-owned projects from the assumed 30 percent IRA tax credit. Historically, SGIP customers in ratepayer budgets have claimed the IRA tax credit on both the full system cost and partial system cost (Figure 1). The range of possible federal tax credit amounts claimed in part depends on the amount of project costs that exceed the eligible amount of SGIP incentives. Given the variability in the amount of federal tax credit claimed in ratepayer funded projects, the Commission finds it reasonable to

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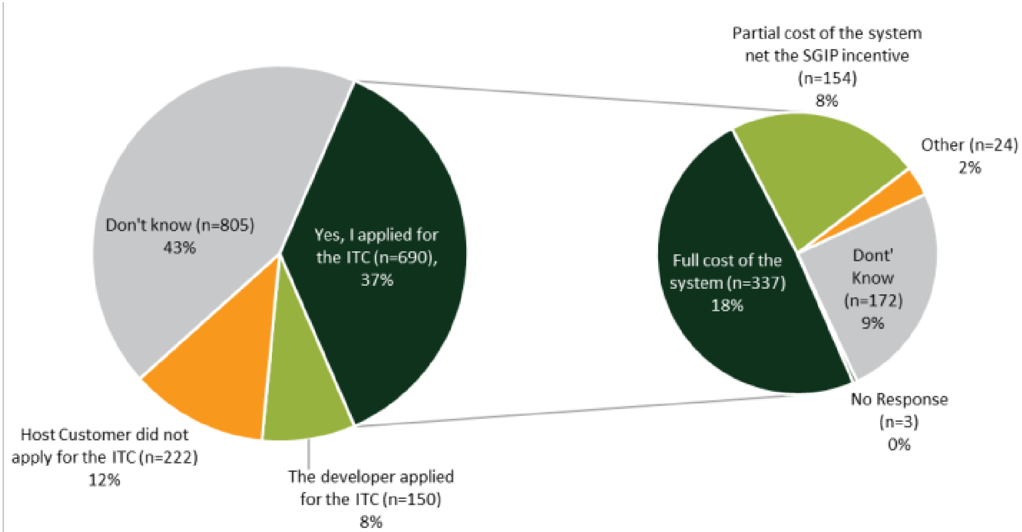
[27] IRS Frequently asked questions about energy efficient home improvements and residential clean energy property credits at 7. https://www.irs.gov/pub/taxpros/fs-2024-15.pdf
[28] *Id.*

continue the current practice of having the applicant include the percent of the total project cost that the applicant expects to receive from the IRA tax credit. This amount will be deducted from the SGIP incentive if the combined SGIP incentive and IRA tax credit is greater than the total eligible project costs.

Figure 1. SGIP Host Customers' Self-Reported Participation in the IRA Tax Credit[29]



SGIP Treatment of IRA Tax Credits for Residential State Budget Funded Projects Owned by the Host-Customer

The SGIP is administered by four public utilities and one non-profit. The GGRF funds assigned to SGIP from the state budget are not considered a public utility subsidy. The IRS guidance on the Residential Clean Energy tax credit categorizes SGIP budgets funded by state funds, as a state energy-efficiency incentive. This applies only to the Residential Solar and Storage Equity (RSSE) budget currently (Table 2). The SGIP payment is not a rebate as:

- The payment is related to the capacity of the system installed, not the cost of the property;
- The payment is not from a party selling the property to the customer; and

[29] 2021-2022 SGIP Program Administrator Performance at 61.

- The payment is tied to specific system performance requirements as outlined in the SGIP Handbook.[30]

Therefore, all SGIP projects with payments for systems from state funds can claim the IRA tax credit on the total eligible project costs.

Table 2. Funding Source in SGIP

SGIP Budget	Funding Source	IRS Designation for the Residential Clean Energy Tax Credit
Residential Solar and Storage Equity	State Budget ($280 million for solar and storage)	State Energy Efficiency Incentive Not a rebate
	Ratepayer Collections ($19.5 million for storage only)[31]	Public Utility Subsidy
Equity Resiliency	Ratepayer Collections	Public Utility Subsidy
Small Residential Storage	Ratepayer Collections	Public Utility Subsidy
San Joaquin Valley Residential	Ratepayer Collections	Public Utility Subsidy
San Joaquin Valley Non-Residential	Ratepayer Collections	Not Applicable
Non-Residential Storage Equity	Ratepayer Collections	Not Applicable
Large-Scale Storage	Ratepayer Collections	Not Applicable
Generation	Ratepayer Collections	Not Applicable

SGIP Treatment of IRA Tax Credits for Non-Residential Projects and TPO Projects

The IRS guidance on the commercial Energy Investment Credit categorizes TPO residential and non-residential SGIP projects funded by either state funds or ratepayer funds as having a basis of total eligible project costs for the system.[32] Therefore, TPO residential and all non-residential SGIP projects can claim the minimum 30 percent tax credit on the full project cost and are eligible for additional bonus credits that can cover up to 70 percent of the full project cost.

[30] IRS Frequently asked questions about energy efficient home improvements and residential clean energy property credits at 7.
[31] Data accessed on 12/19/2024 at https://www.selfgenca.com/home/program_metrics/.
[32] Instructions for Form 3468 (2023) | Internal Revenue Service

SGIP Treatment of IRA Tax Credits by Project Type

Table 3. SGIP Utilization of IRA Tax Credit

Project Type	Funding Source	SGIP IRA Tax Credit Utilization
Residential single family host customer owned	Ratepayer Collections	Applicant submits 0 to 30 percent of IRA tax credit being claimed
Residential single family host customer owned	State Budget	Assumed 30 percent IRA tax credit
Residential multifamily host customer owned	All	Assumed 30 percent IRA tax credit with ability to increase up to 70 percent with adders
Third-party owned systems	All	Assumed 30 percent IRA tax credit with ability to increase up to 70 percent with adders
Non-residential host customer owned	All	Assumed 30 percent IRA tax credit with ability to increase up to 70 percent with adders

The Commission finds it reasonable to apply a minimum 30 percent IRA tax credit to all SGIP projects (Table 3), excluding residential projects owned by the host customer funded by ratepayer dollars.

Some of the IRA tax credit bonus credits require an application that may not be resolved by the time of the RRF. The Commission finds it reasonable for TPO and non-residential SGIP projects to modify the expected percent of IRA tax credit at the ICF stage to account for awarded bonus credits. If this results in a decrease in the expected IRA tax credit value, the project will only obtain more SGIP funds if funds are available at that time. To claim additional funds, the TPO entity must submit documentation explaining why the IRA tax credit percentage decreased. If the modification results in an increased IRA tax credit percentage, the SGIP payment will be decreased accordingly. The Commission finds it unreasonable to adjust the expected IRA tax credit percent due to the market value of the tax credits as the market value of the tax credits at time of sale is highly uncertain and administratively burdensome to verify.

Table 4. Illustrative Examples of Resolution's Proposed Use of the IRA Tax Credit in SGIP[33]

Funding Source	SGIP Budget	Total Eligible Project Cost	Pre-IRA Tax Credit SGIP Incentive	IRA Tax Credit Percent	IRA Tax Credit Value	Final SGIP Incentive
Ratepayer Collections	Equity Resiliency – Residential Host Customer Owned	$16,500	$15,000	2.7% (Input of 0-30% by applicant)	$450	$15,000
	Equity Resiliency – Residential TPO	$16,500	$15,000	40% (Assumed 30% and 10% bonus credit)	$6,600	$9,900
State Budget	RSSE – Residential Host Customer Owned or TPO	$16,500	$16,500	30% (Assumed 30%)	$4,950	$11,550

The Commission finds the income tax implications of the SGIP payment to host customers to be highly uncertain and beyond the jurisdiction of the Commission. The host customer should follow IRS guidance on how to file their taxes and the Commission does not offer tax advice. The Commission finds it reasonable to include a disclaimer in the SGIP application indicating if the SGIP incentive is from ratepayer or state funds. The SGIP PAs proposed in SCG 6405-G et al. to include links to official IRS guidance for interpretation by the customer on the SGIP website[34] which is approved by the Commission. The Commission further directs the SGIP PAs to send a direct notice to the appropriate SGIP participants including links to the IRS guidance, the expected or final value of the SGIP incentive, and the tax credit value that was indicated by the applicant in the SGIP application. This notice will ensure that host customers who own the system will directly receive the appropriate information about the SGIP incentive and are aware of the availability of IRS guidance for their review.

[33] 15 kWh energy storage system. Equity Resiliency incentive is $1.00 per Wh from ratepayer collections. RSSE incentive is $1.10 per Wh from the state budget.
[34] SCG 6405-G et al. at 3.

2) Treatment of the IRA Tax Credit

The Commission finds that the reduction in SGIP payment to ensure the combined IRA tax credit and SGIP payment do not exceed the total eligible project costs is ordered by D.24-03-071 OP 28 and dismisses all protests requesting otherwise. The Commission finds that D.24-03-071 removed several barriers to low-income host customer participation,[35] including raising the incentive rate, which will reasonably lead to high participation in the RSSE once it opens.

The Commission finds that SGIP payments are only made after the system has been interconnected and verified at ICF, in alignment with the IRA tax credit. Therefore, the maximum amount of time it will take to claim the tax credit after the SGIP payment is one year: if the project completes interconnection in mid-April the applicant could get the SGIP incentive after completing the ICF but would need to wait till next April to claim the tax credit. The Commission finds the amount of time it takes for a customer to monetize the IRA tax credit against their tax liability to be an acceptable reason to claim ineligibility for the IRA tax credit in the SGIP application and the Commission sets 5 years as the reasonable timeline. For example, if a host customer can show through their most recent tax return at RRF that they are unlikely to be able to monetize the full tax credit within five years, the host customer will have demonstrated that they are ineligible for the tax credit in the view of SGIP. Monetarily, for a system of 5 kW solar and 15 kWh storage with total eligible costs of $32,000, the eligible tax credit is 30 percent of $32,000 or $9,600. Absorbing this amount of tax credit over 5 years would require a tax liability of $1,920 or more per year. If the host customer's tax returns for 2024 show a tax liability less than $1,920 then the host customer would be considered ineligible for the tax credit in SGIP. The tax return must be the most recently available and may not be older than the tax year prior to the time of the RRF.

The host customer will still need to demonstrate why the credit could not otherwise be utilized or transferred by a third-party entity to receive an exception to the 30% tax credit deduction. The Commission finds it reasonable to require both criteria (ineligible to receive the IRA tax credit and why the credit could not otherwise be utilized or transferred by a third-party entity) in order to be granted an exception to the 30 percent tax credit deduction. The joint AL proposal that either case be satisfied would create an unreasonable loophole for customers who are not able to utilize or transfer the tax

[35] Eliminated deed or resale restrictions for low-income residential, expanded low-income categorical eligibility, and developed an upfront payment program. D.24-04-071 at 3.

credit by a third-party entity to not claim the 30% tax credit deduction regardless of their ability to claim the tax credit.

The Commission finds that a specific developer not having a TPO option available is not sufficient to demonstrate that the credit could not otherwise be utilized or transferred by a third-party entity.

The Commission finds that the Residential Clean Energy tax credit cannot be transferred based on IRS guidance.[36] Therefore, Free Energy's proposal to have the host customer transfer IRA tax credits to the SGIP PAs adds additional complexity to the process and is rejected.

As the IRA tax credit is currently available, the Commission finds it reasonable to make these rules based on what is currently known. If the availability of the IRA tax credit changes in the future, the SGIP PAs are directed to file a Tier 2 Advice Letter within 21 days of learning of any material changes to the tax credit to implement the needed handbook and database changes.

The Commission clarifies that for the RSSE budget there are three pathways for residential customers to choose from:

1) The customer can own the system and claim the IRA tax credit for 30 percent of the project cost and receive an SGIP incentive for up to 70 percent of the project cost.
2) The customer can contract with a TPO developer and the TPO will monetize the tax credit at 30 to 70 percent of the project cost and receive an SGIP incentive for up to the remainder of the project cost.
3) The customer can submit documentation demonstrating why their project is ineligible to receive the IRA tax credit and why the credit could not otherwise be utilized or transferred by a third-party entity to receive the full SGIP incentive.

The Commission finds that these options do not force a host customer into a TPO arrangement. In DAC-SASH, 91 percent of the low-income solar projects enter a TPO arrangement.[37] A customer may choose a TPO arrangement for reasons unrelated to the upfront cost of the system such as "ongoing education and engagement, solar production online monitoring, and access to phone support and troubleshooting

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[36] IRS Elective pay and transferability frequently asked questions: Transferability | Internal Revenue Service.

[37] Low-Income Solar PV Data, accessed on 12/18/2024. CaliforniaDGStats

throughout the expected life of the solar electric system."[38] To further ensure adequate consumer protections, the SGIP PAs should discuss at a future workshop potentially requiring developers offering TPO models in SGIP to adhere to the TPO model consumer protection requirements used in DAC-SASH that were established in D.15-01-027. The SGIP PAs may propose including these or more relevant TPO consumer protections via a Tier 2 Advice Letter.

TPO Model Requirements in DAC-SASH:[39]

1) Ensure the Program customers receive at least 50 percent of the savings, as compared to standard IOU rates, from the PV generating and storage equipment;
2) Reduce or eliminate barriers for customers with poor credit (low FICO score) to qualify and participate;
3) Address concerns that homeowners may have about moving or selling their home during the TPO contract term;
4) Cover maintenance, operations, inverter replacement, and monitoring;
5) Prohibit liens on homes;
6) Minimize the risk to the low-income customers that the system would be removed for delinquent payments;
7) Ensure that all costs are apparent and upfront and that there is no risk that the TPO deal would result in an additional financial burden to the customer;
8) Standardize financial terms for low-income customers where possible;
9) Protect the customer against terms that could change after contract signing;
10) Require that TPO agreements note the potential for additional costs associated with the contract, if applicable;
11) Require the TPO provider to clearly explain that rate changes will affect the economics of a power purchase agreement; and
12) Require that TPO agreement provisions spell out what happens in the event that the financing company defaults.

These options will maximize the federal cost share of SGIP project costs covered by the federal IRA tax credits and spread SGIP funds to more projects as mandated by Decision (D.) 24-03-071 ("the Decision"). The Commission finds that having additional guidance on what documentation is sufficient to claim 0 percent of the IRA tax credit would be beneficial after the SGIP PAs have a better understanding of the process. In the meantime, all new exception case types should be elevated to the SGIP Working

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[38] DAC-SASH 2022 Marketing, Education, and Outreach Plan at 17.
[39] D.15-01-027 OP 18. Language has been slightly modified to apply to storage as well.

Group and receive consensus from the SGIP PAs and Energy Division staff. To ensure the success of the RSSE, if there has been low-uptake of the RSSE due to the IRA tax credit rules after 6 months of implementation, SGIP PAs may propose alternative exemption criteria via a Tier 2 Advice Letter that does not frustrate the Commission's goal of leveraging the federal cost share for SGIP.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this Resolution must be served on all parties and subject to at least 30 days public review. Section 311(g)(2) provides that this 30-day review period and 20-day comment period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day review and 20-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments on January 14, 2025.

CALSSA, CSE, and Tesla filed timely comments on the draft resolution on February 3, 2025.

We now discuss comments for each issue followed by Commission resolution of each issue.

1) SGIP as an Incentive, Rebate, or Subsidy

No parties commented on the Commission's designation of the SGIP funds.

2) Treatment of the IRA Tax Credit

CALSSA, CSE and Tesla request that the Commission explicitly allow host customers in the RSSE choosing to own their own system be exempt from the IRA tax credit assumption when a customer has little to no tax liability.[40] CSE finds that "sourcing information from the 2023 U.S. Census Current Population Survey and HUD's 2023 AMI thresholds and found that 80.7% of Low-Income households in California have a tax liability of less than $4,950, and 26.5% of Low-Income households have a zero or negative tax liability. Moreover, CSE identified that the average tax liability for a Low-Income household in California is $939, which indicates it would take more than five (5)

[40] CALSSA Comments at 1. CSE Comments at 3. Tesla Comments at 1.

years of tax credit rollovers to realize the full $4,950 claimed against the total eligible project costs of a 15kWh storage system."[41]

Tesla finds that the draft resolution's exception process will require host customers with little tax liability to pursue a TPO arrangement. Tesla finds that a TPO provider may not pass the full 30 percent of the IRA tax credit to the customer, leading to the SGIP not covering the full project costs.[42] Some developers, like Tesla, do not offer a TPO option, precluding such developers from offering low-income customers a system through the RSSE.[43] CALSSA claims there are many reasons a TPO system may not work for a customer including: credit or income requirements, HOA rules, and unclear TPO availability.[44] Tesla claims that TPO systems may require system removal or full buy-out at the end of the TPO contract representing a cost to the host customer.[45] Telsa finds that there is no guidance on how to determine if a customer does not have access to a TPO provider in their area and the T2 AL in six months is not sufficient to cover this gap.[46] Tesla finds the draft resolution creates an unnecessarily complicated process on top of all the other program requirements that will require host customer education and may preclude many host customers from the RSSE.[47] CALSSA claims the exception process will lead to subjective determinations by the PAs when clear and consistent rules are needed in the SGIP, citing the 2021-22 SGIP PA Performance Evaluation where participants who rated the program poorly, 26 percent cited documentation requirements as a primary source of confusion.[48]

The Commission finds some of the parties' comments persuasive. As the tax credit is able to roll over indefinitely, the Commission finds that if a customer is unlikely to monetize the tax credit within 5 years then the customer has demonstrated ineligibility for the IRA tax credit in SGIP. For documentation, if the customer's most recent federal tax return shows a tax burden of less then 20 percent of the potential value of the tax credit then that customer has demonstrated ineligibility for the IRA tax credit in SGIP. However, the customer will still be required to demonstrate why the credit could not

[41] CSE Comments at 3. https://www.huduser.gov/portal/datasets/il.html. The SGIP defines a "low-income" household as one with a combined income of 80% or less of the Area Median Income (AMI) based upon a copy of the most recently available federal income tax documentation.
[42] Tesla Comments at 2.
[43] *Id.* at 3.
[44] CALSSA Comments at 1.
[45] Tesla Comments at 3.
[46] *Id.* at 2.
[47] *Id.* at 3.
[48] CALSSA Comments at 2. 2021-2022 SGIP PA Performance Evaluation, Table 4-2 at 29.

otherwise be utilized or transferred by a third-party entity to be exempt from the 30% tax credit deduction. The Commission maintains that the use of a TPO system for low-income households in California has been a successful practice in DAC-SASH. As found in the D.15-01-027, which initially allowed TPO systems in solar incentive programs, a study conducted in 2014 on behalf of the Commission found that TPO arrangements have not created any widespread consumer protection issues.[49] D.15-01-027 also established minimum standards for a TPO offering that would protect low-income customers from several of the hypothetical situations posed in comments. The Commission finds it reasonable to have the SGIP PAs discuss these standards with SGIP stakeholders to determine if the requirements should be included in SGIP. The Commission finds that a developer who does not have a TPO option can still participate in the RSSE if the customer chooses to own the system and monetize the tax credit. The Commission finds the concerns around a customer's TPO eligibility to be based on hypothetical situations and lacking in supporting evidence. The AL filing process laid out in OP 8 will allow the SGIP Working Group to establish more concrete exception criteria around the ability to utilize or transfer the tax credit by a third-party entity to be exempt from the 30% tax credit deduction based on actual cases that come up. The Commission finds that there is clear guidance on how to apply the IRA tax credit in SGIP provided in the initial AL and this resolution.

CALSSA and Tesla request that the Commission create a pathway for the SGIP PAs to modify the IRA tax credit in SGIP by filing a Tier 2 AL in 2 to 3 weeks to update the SGIP handbook and database if there is any material change to the availability of the IRA tax credits.[50]

The Commission finds this request to be prudent for future program efficiency if the IRA tax credit is materially changed. The proposed pathway has been added in OP 10.

CSE requests that a customer be exempt from the 30 percent tax credit deduction when either the customer is ineligible for the credit or the credit could not be utilized by a third-party entity.[51]

The Commission finds that while the Joint PA AL only required either case to be explained to receive an exception to the assumed 30 percent tax credit, the Commission requires that both be explained. It is not reasonable for a customer

[49] D.15-01-027 at 48
[50] CALSSA Comments at 2. Tesla Comments at 1.
[51] CSE Comments at 2.

to claim they cannot utilize a TPO system and then be exempt from the tax credit requirement in SGIP. Therefore, OP 8 remains the same.

CSE requests that the SGIP PAs be given 120 days in OP 7 to implement the changes to SGIP required in this resolution based on feedback from the SGIP database provider.[52] CSE finds that, while lessons will be learned on what documentation will be sufficient to fulfill the tax credit exception, the volume and frequency of such requests are unknown at this time. Therefore, CSE requests that OP 8 be modified to only require documentation to be exempt from the tax credit be submitted and that no further AL filing from the SGIP PAs be required.[53]

The Commission clarifies that the intent is for the IRA tax credit changes to be implemented before the RSSE opens. The Commission has modified OP 7 to make this modification which will grant the SGIP PAs more time to implement these changes but does not grant the full 120 days requested. The Commission finds that the future AL filing is still needed to provide modifications, if necessary, to the exemption criteria for IRA tax credits. Therefore, the Commission slightly modifies OP 8 to have a deadline of 6 months after the RSSE opens and maintains the rest of the language.

FINDINGS

1. AB 102 (2023, Ch. 38) directed the CPUC to apply $280 million of the state budget to the Residential Solar and Storage Equity budget.
2. All SGIP budgets authorized by SB 700 contain funds from ratepayer collections.
3. On March 21, 2024, the CPUC issued Decision (D.) 24-03-071 *Decision Implementing Assembly Bill 209 and Improving Self-Generation Incentive Program Equity Outcomes* (Decision).
4. The Decision directed the SGIP PAs to develop a proposal to maximize the cost share of Inflation Reduction Act (IRA) tax credits in SGIP and spread SGIP funds to more projects.
5. On November 18, 2024, the SGIP PAs filed a proposal for IRA tax credit cost share in SGIP through a joint advice letter, SCG 6405-G, et al. (AL).
6. On December 9, 2024, the AL was timely protested by the California Solar & Storage Association (CALSSA) and the Energy Savings Company (Free Energy).

[52] CSE Comments at 4.
[53] *Id.* at 4.

7. On December 16, 2024, the SGIP PAs replied to the protests of the AL filed by CALSSA and Free Energy.
8. The SGIP PAs proposed to assume that all SGIP projects will receive a 30 percent IRA tax credit that, in combination with the SGIP payment, should not exceed the total eligible project costs.
9. For systems owned by the residential host customer, state funds are considered a state energy efficiency incentive by the Internal Revenue Service (IRS).
10. For systems owned by the residential host customer, ratepayer funds are considered a public utility subsidy by the IRS.
11. For systems owned by a third-party entity or non-residential host customer, both ratepayer and state funds are considered eligible cost basis by the IRS.
12. It is reasonable to apply the assumed 30 percent IRA tax credit for systems owned by the residential host customer funded by state funds and for all third-party entity owned (TPO) residential systems and nonresidential systems.
13. It is reasonable to have the applicant for systems owned by the residential host customer funded by ratepayer funds input the percentage of total project cost expected to be covered by the IRA tax credit.
14. It is reasonable for the SGIP application to disclose the funding source of the SGIP payment.
15. The SGIP PAs proposed to make the applicant aware of available IRS guidance on how to apply the tax credit.
16. It is reasonable to make this IRS guidance available in the SGIP application process and to send a direct notice of the guidance to SGIP participants.
17. The SGIP PAs proposed that projects not claiming the IRA tax credit must submit documentation for why the project is ineligible for the tax credit or why the credit could not otherwise be utilized or transferred by a third-party entity.
18. It is reasonable to request this documentation and that projects be able to demonstrate they meet both requirements to receive an exception to claiming the IRA tax credit.
19. It is reasonable to establish a pathway to modify the IRA tax credit process in SGIP in the event the availability of the tax credit changes.
20. It is reasonable for the SGIP PAs to hold a workshop to determine the relevance to SGIP of the TPO model minimum consumer requirements established in D.15-01-027 and currently used in DAC-SASH.

THEREFORE IT IS ORDERED THAT:

1. The request of Southern California Gas Company, Pacific Gas and Electric Company, Southern California Edison Company, and the Center for Sustainable

Energy® (SGIP PAs) to establish cost share between SGIP and the Inflation Reduction Act (IRA) tax credit as requested in Advice Letter 6405-G, 5000-G/7436-E, 5423-E, and 161-E is approved with modifications set forth below and otherwise specified herein.

2. SGIP PAs shall assume a minimum 30 percent IRA tax credit when the SGIP payment is from state funds, the system is third party owned, or the system is nonresidential.
3. SGIP PAs shall allow third party owned systems and nonresidential systems to alter the percentage of IRA tax credit at the Incentive Claim Form (ICF) based on the IRA tax credit adders. SGIP PAs shall allocate additional funding to these systems at the ICF if additional documentation explaining the IRA tax credit decrease is sufficient and there are unreserved funds left in that budget category.
4. SGIP PAs shall maintain the existing practice of having the applicant enter the expected IRA tax credit percentage for residential single-family projects owned by the host customer receiving a ratepayer funded SGIP incentive.
5. SGIP PAs shall include a disclaimer in the SGIP application designating if the SGIP payment is from ratepayer or state funds.
6. SGIP PAs shall send a direct notice to the appropriate SGIP participants including links to the IRS guidance, the expected or final value of the SGIP incentive, and the tax credit value that was indicated by the applicant in the SGIP application.
7. SGIP PAs shall implement these SGIP handbook, application, and database changes before the Residential Solar and Storage Equity (RSSE) budget opens to apply to all future SGIP applications.
8. SGIP PAs shall file a Tier 2 Advice Letter six months after the RSSE budget is opened to modify the IRA tax credit exemption criteria as needed. The current exemption criteria requires documentation be provided for projects claiming to be ineligible to claim the IRA tax credit and why the credit could not otherwise be utilized or transferred by a third-party entity.
9. SGIP PAs must notify the SGIP Proceeding Service List, the SGIP website announcements, and in future SGIP marketing materials and workshops once all changes required in this Resolution have been made.
10. SGIP PAs are directed to file a Tier 2 Advice Letter within 21 days of learning of any material changes to the tax credit to implement the needed handbook and database changes.
11. SGIP PAs shall hold a workshop to discuss whether to require the TPO consumer protection requirements established in D.15-01-027 OP 18 in SGIP. The SGIP PAs shall file a Tier 2 Advice Letter within six months determining whether and what TPO consumer protections should be in SGIP.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on February 20, 2025; the following Commissioners voting favorably thereon:

/s/ RACHEL PETERSON
Rachel Peterson
Executive Director

ALICE REYNOLDS
President

DARCIE HOUCK
JOHN REYNOLDS
KAREN DOUGLAS
MATTHEW BAKER
Commissioners