Decision 08-12-004 December 4, 2008

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 08-03-008 (Filed March 13, 2008)

DECISION GRANTING IN PART PETITION TO MODIFY DECISION 06-01-024 TO SUSPEND CALIFORNIA SOLAR INITIATIVE COLLECTIONS IN 2009

1. Summary

This decision grants, in part, a petition for modification of Decision 06-01-024 filed jointly by San Diego Gas & Electric Company (SDG&E) and Southern California Edison Company (SCE) requesting a temporary suspension in collections from their ratepayers to fund the California Solar Initiative (CSI) in 2009 due to a current surplus of funds in each utility's CSI balancing account. This means that the portion of electric rates that funds CSI will be decreased in 2009 for ratepayers of SCE and SDG&E, without jeopardizing the payment of CSI incentives or the future success of the program. A new revenue requirement schedule for CSI is adopted to replace the schedule previously adopted in Decision 06-12-033. The decision denies the portion of the petition requesting an advice letter process for further modification of the schedule for collection of CSI funds from ratepayers.

2. Background

In Decision (D.) 06-01-024, the Commission established the CSI, a program providing incentives for customer installations of solar distributed generation.

The electric customers of the three large investor-owned utilities (IOUs) in California—Pacific Gas and Electric Company (PG&E), SCE, and SDG&E—contribute to the CSI program through their electric distribution rates. The Commission first adopted an annual revenue requirement for CSI in D.06-01-024. (D.06-01-024, pp. 6-7.) Table 1 in that order lays out a schedule of annual collections for each utility from 2006 through 2016, totaling $2.5 billion. The order states:

> "If the difference between program expenditures and the amounts the utilities collect in rates is substantial, we will consider adjusting the collection of the revenue requirement." (*Id.*, p. 7.)

Following the enactment of Senate Bill (SB) 1[1] setting forth CSI eligibility criteria and limiting program's funding source to electric ratepayers, among other things, the Commission modified its table of annual revenue requirements to conform to the new CSI budget of $2.16 billion.[2] (*See* D.06-12-033, Appendix A, Table 1.) This revenue requirement, shown below, is still in effect today.

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[1] Chapter 132, Statutes of 2006.

[2] Initially, customers of Southern California Gas Company contributed to CSI, but this was modified in D.06-12-033 following passage of SB 1.

Table 1: CSI Annual Revenue Requirements as adopted in D.06-12-033
(In millions of dollars)

Year	PG&E	SCE	SDG&E	Total
2007	$140	$147	$33	$320
2008	$140	$147	$33	$320
2009	$140	$147	$33	$320
2010	$105	$110	$25	$240
2011	$105	$110	$25	$240
2012	$105	$110	$25	$240
2013	$70	$74	$16	$160
2014	$70	$74	$16	$160
2015	$70	$74	$16	$160
2016	$2	$2	$1	$5
Total	**$946**	**$996**	**$223**	**$2,165**

In addition, the Commission directed that unspent solar funds from the Commission's other distributed generation program, the Self Generation Incentive Program (SGIP), should be transferred to CSI on December 31, 2006. (*See* D.06-08-028, p. 106 and D.06-12-033, pp. 33-34 and Ordering Paragraphs 11 and 12.)[3]

3. Joint Petition for Modification

On September 12, 2008, SDG&E and SCE (or "Joint Petitioners") jointly filed a petition for modification of D.06-01-024 relating to the annual revenue requirement for CSI. The petition requests that the Commission allow SDG&E and SCE to temporarily suspend collection of CSI funds from its electric

[3] In a ruling of September 25, 2008, the Administrative Law Judge (ALJ) requested the IOUs report the dollar amount of funds transferred on December 31, 2006 to the CSI balancing account from the SGIP budget, as directed by D.06-12-033.

customers in 2009 and approve an Advice Letter process to effect any similar future temporary suspensions.

According to the petition, the revenue collected and credited to the CSI balancing accounts of SCE and SDG&E is much greater than the solar incentives and associated program administration costs paid out to date in the SCE and SDG&E territories. SDG&E expects an overcollection of approximately $90 million at the end of 2008, and SCE expects an overcollection of $343 million at the end of 2008. (Joint Petition, 9/12/08, p. 3, as corrected by Joint Response of SDG&E and SCE, 10/3/08, p. 4.) According to Joint Petitioners, large solar projects take as long as 24 months to complete and performance based incentives under CSI are paid out over a five year period, causing revenue collections to outpace incentive payments thus far under CSI.

To support their petition, Joint Petitioners describe how a temporary suspension of the collection of CSI funds will provide a rate decrease to their respective electric customers in 2009. They maintain this rate relief is in the best interest of their customers in these challenging economic times, and the proposal will have no impact on the incentive funds available for CSI operations as there are adequate funds in the CSI balancing account to fund the program until collections resume in 2010.[4] Both utilities would resume collections for CSI on January 1, 2010. In addition, Joint Petitioners urge the Commission to establish

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[4] According to the petition, a typical SDG&E residential customer would see a bill reduction of $0.90 per month, or 1.2%, and a typical small commercial customer would see a bill reduction of $2.73 per month, or 1.0%. For SCE, a typical residential customer would see a bill reduction of $1.35 per month, or 2.1%, and a typical small commercial customer would see a bill reduction of $3.16 per month, or 1.3%. (Joint Petition of SDG&E and SCE, 9/12/08, pp. 4-5.)

an advice letter process to allow future consideration of revenue requirement adjustments and to recover the temporarily suspended 2009 funding at a later date.

Pursuant to Rule 16.4, if more than one year has elapsed since the effective date of the decision, a petition for modification must state the reason the petition could not have been filed within one year. Joint Petitioners state the petition arises from the significant lag in payment of CSI incentives over time, the current economic climate and the anticipated rate pressures on customers from higher electric commodity costs. Given the timing of these events, Joint Petitioners assert the petition could not have been filed sooner. Joint Petitioners' reasons for filing beyond the one year deadline are reasonable and we will accept the petition for consideration.

4. Comments on Petition

The California Center for Sustainable Energy (CCSE), the Commission's Division of Ratepayer Advocates (DRA), PG&E and The Utility Reform Network (TURN) filed comments on the petition.

PG&E expresses support for the petition because it would give the IOUs flexibility to manage and adjust their CSI revenue requirements. Nevertheless, PG&E explains that it does not seek to suspend its own collections for CSI in 2009 because it has less carryover funds from SGIP than the Joint Petitioners, and PG&E has experienced high demand for CSI incentives. TURN expresses strong support for the petition, noting that a suspension of collections will benefit ratepayers by limiting rate increases in 2009 while not jeopardizing payment of CSI incentives or the future success of the program. CCSE states it does not oppose the petition.

DRA's comments take a more cautious tone. Rather than supporting the petition, DRA notes that ratepayers are neutral with respect to the level of funds held in the CSI balancing accounts as long as they receive interest on their funds. In other words, any interest accrued in these accounts now can offset future revenue collections, ultimately decreasing the dollar amount that must be collected from ratepayers in the future to fund CSI.[5] DRA also observes that if the petition is granted and CSI funds are not collected in 2009, the funds will need to be recovered in later years. Therefore, DRA questions whether future rate increases to make up for a lack of collections in 2009 are in the ratepayers' interest. Finally, DRA expresses concern that Joint Petitioners could be attempting to mask the rate effects of their separately filed applications to invest in photovoltaic (PV) systems, which, if granted, could have an affect on rates.[6] According to DRA, if a suspension of CSI collections lowers electric rates, this could make any rate effects from the utilities' own PV applications more palatable.

Joint Petitioners responded on October 24, 2008. They state the petition is intended to provide rate relief to their customers in 2009 and is not intended to promote either of Joint Petitioners' solar applications.

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[5] DRA questions whether SCE is properly accruing interest in its CSI balancing account because Attachment B of the petition does not show any interest accrual by SCE after March 2008. In response, Joint Petitioners state that the tariff for SCE's CSI balancing account indicates the account earns interest on an annual basis. Interest will be recorded for the entire year on December 31st of each year, rather than monthly. Thus, it appears that SCE is properly handling interest for its CSI balancing account.

[6] *See* SCE's Application (A.) 08-03-015 and SDG&E's A.08-07-017.

5. Discussion

In D.06-01-024, and later in D.06-12-033, the Commission established funding for CSI in such a manner that annual revenue requirements are high in early years and decline in later years. This was purposeful, as CSI incentives are relatively high in the early year of the program and decline substantially in later years. Furthermore, unlike the Commission's prior programs that supported solar investments, the pace of solar deployment under the CSI is not subject to annual limits. Under the CSI, the market sets the pace of deployment, with demand for incentives determining the level of the rebates offered. As a result, the total amount of solar investment in any given year, and thus the total amount of rebates required, is not known with any certainty. Because the Commission was not sure how fast demand for solar incentives would materialize, it concluded it should front-load collections and ensure adequate funds for the program, and taper off collections as incentive rates also dropped. (D.06-01-024, p. 6.) In addition, the first years of the CSI program require the Program Administrators to quickly build their administrative capacity, and the Program as a whole to launch low income solar incentive programs and a Research, Development, Demonstration and Deployment (RD&D) Program. The start-up costs of these programs are another compelling reason to front-load CSI revenue requirements.

Joint Petitioners' respective CSI balancing accounts are currently overcollected, as they point out in their petition, in part because solar projects are taking a long time to go on-line and collect incentives. We have good reason to expect the funds will eventually be needed, particularly when low-income and RD&D programs are implemented. DRA points out that any revenue not collected now will only need to be collected later. DRA is concerned that if we suspend collections in 2009, we may need to increase the revenue requirement in later program years to ensure adequate funding.

On the other hand, we recognize that an important factor contributing to the overcollection is the transfer of SGIP funds to CSI in late 2006, as directed by the Commission. According to the Joint Petitioners, SDG&E transferred $37.2 million and SCE transferred $104.6 million to their respective CSI balancing accounts at the end of 2006 from their SGIP balancing accounts.[7]

Because the transfer of funds from SGIP has increased the overcollection in the CSI balancing accounts, we can suspend 2009 CSI collections. This means that SCE and SDG&E will effectively use the money they transferred from SGIP in December 2006 in place of 2009 CSI collections. This allays DRA's concern that revenue requirements in later years will need to be increased. Thus, we find it reasonable to allow SCE and SDG&E to suspend collections of further CSI revenue from ratepayers for the 2009 calendar year. Indeed, the amount transferred from SGIP for SDG&E is larger than collections would be in 2009,

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7 PG&E states that it transferred $37.1 million from its Self-Generation Program Memorandum Account (SGPMA) to CSI on December 31, 2006. Later, PG&E clarifies in comments on the proposed decision that it erred in transferring the $37.1 million to CSI because the funds were needed for SGIP projects that received incentive commitments from 2001 through 2006, but were not yet paid. PG&E suggests it should now transfer this amount back to SGIP so it can pay these incentive commitments. In directing the utilities to transfer unspent SGIP funds to CSI in December 2006, the Commission intended for the utilities to transfer money they had actually collected from ratepayers but not yet committed to SGIP projects. SCE and SDG&E transferred unused money they had collected for SGIP, resulting in that much less money they needed to collect from their ratepayers for CSI. Since PG&E had projects in the pipeline for which funds were committed, it should not have transferred $37.1 million to CSI. We will consider PG&E's transfer to CSI to be $0, and it should now reverse the accounting transfer it made on December 31, 2006 to CSI, and return this money to its SGPMA, because these funds are needed for SGIP projects reserved prior to December 31, 2006.

therefore we adjust the collection schedule for SDG&E in later program years to account for this. For SCE, the SGIP transfer of $104.6 million is $42.4 million less than the $147 million SCE would collect in 2009. However, the large overcollection in SCE's balancing account makes it reasonable to suspend collections until 2010. The difference of $42.4 million, if needed by SCE at a later date, can be added to SCE's 2016 revenue requirement which is quite low in comparison to other years.

SCE and SDG&E should resume CSI revenue collections from ratepayers in 2010, per the revised revenue requirement schedule adopted in this order. PG&E does not request a suspension, so it should continue to collect its CSI revenue requirement per the schedule adopted in D.06-12-033, which we copy in this order.

In summary, we adopt a new revenue requirement schedule for CSI as follows, replacing the schedule previously adopted in D.06-12-033:

Table 2: Revised Annual CSI Revenue Requirements
(In millions of dollars)

Year	PG&E	SCE	SDG&E	Total
Transfer from SGIP on 12/31/2006	0	$104.6	$37.2	141.8
2007	$140	$147	$33	$320
2008	$140	$147	$33	$320
2009	$140	0	$0	$140
2010	$105	$110	$25	$240
2011	$105	$110	$25	$240
2012	$105	$110	$25	$240
2013	$70	$74	$16	$160
2014	$70	$74	$16	$160
2015	$70	$74	$12.8	$156.8
2016	$2	$45.4	$0	$47.4

Total	**$947**[8]	**$996**	**$223**	**$2,166**

We will not grant the request by SCE and SDG&E to establish an advice letter process for future revenue requirement changes. We stated in D.06-01-024 that we would consider adjusting the revenue requirement based on the pace of program expenditures. This decision makes such an adjustment. We prefer that future CSI revenue requirement adjustments be considered by the full Commission, following the filing of a petition to modify the revised revenue requirement set forth in this order. This will help us ensure that total revenue collected under the CSI program conforms to the $2.16 billion limit established in SB 1.

6. Comments on Proposed Decision

The proposed decision of President Michael R. Peevey in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of practice and Procedure. Comments were filed by PG&E and jointly by SCE and SDG&E. SCE and SDG&E support the proposed decision as written. PG&E requests a minor modification to allow it to transfer $37.1 million from CSI back to SGIP. The decision has been modified to explain and allow this transfer.

7. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Dorothy J. Duda is the assigned Administrative Law Judge in this proceeding.

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[8] The adopted revenue requirement for PG&E in D.06-12-033 contained a mathematical error and should have been $947 million. We correct the table adopted in this order accordingly, which brings the total CSI revenue requirement for the three IOUs to $2,166 billion, in compliance with the CSI budget limit in SB 1.

Findings of Fact

1. In D.06-12-033, the Commission adopted the currently effective annual CSI revenue requirement for each utility.

2. On December 31, 2006, SCE transferred $104.6 million and SDG&E transferred $37.2 million in unspent solar funds from SGIP to their respective CSI balancing accounts.

3. Both SCE and SDG&E have an overcollection in their CSI balancing accounts, in part due to the transfer of funds from SGIP in December 2006.

4. The Commission established funding for CSI in such a manner that annual revenue requirements are high in early years and decline in later years.

5. A suspension of the collection of CSI funds from ratepayers in 2009 will provide a rate decrease to the electric customers of SCE and SDG&E.

6. Joint Petitioners filed their petition more than one year from the date of the decision they seek to modify.

Conclusions of Law

1. The petition should be accepted for consideration because it arises from the significant lag in payment of CSI incentives over time and the current economic climate.

2. It is reasonable for SCE and SDG&E to suspend collections of CSI revenue requirement in 2009 due to each utility's current overcollection in its CSI balancing account.

3. The annual revenue requirement for CSI, previously adopted in D.06-12-033, should be modified as set forth in Table 2 of this order.

4. Future CSI revenue requirement changes should be considered through petition to modification of the relevant Commission decision.

O R D E R

IT IS ORDERED that:

1. The joint petition filed by Southern California Edison Company (SCE) and San Diego Gas & Electric Company (SDG&E) is granted in part to allow SCE and SDG&E to suspend 2009 collections for the California Solar Initiative (CSI).

2. The joint petition is denied with regard to its request to establish an advice letter process for further revenue requirement changes.

3. The revenue requirement for the CSI set forth in Table 2 of this order is adopted, replacing the schedule set forth in Decision 06-12-033.

This order is effective today.

Dated December 4, 2008, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners