Date of Hearing: April 25, 2011

ASSEMBLY COMMITTEE ON UTILITIES AND COMMERCE
Steven Bradford, Chair
AB 864 (Huffman) – As Amended: April 13, 2011

SUBJECT: Self Generation Incentive Program

SUMMARY: This bill would allow distributed energy resources with a nameplate generating capacity of up to 10 megawatts eligible for incentives, but would limit the award of incentives to not more than 5 megawatts of that capacity.

EXISTING LAW:

1) Authorizes the California Public Utilities Commission (PUC) to administer the Self Generation Incentive Program (SGIP) to provide rebates for fuel cells and wind distributed generation (DG) technologies through 2012.

2) Restricts SGIP-eligible technologies to wind and fuel cell DG technologies that meet or exceed specific emissions standards.

3) Requires the California Energy Commission (CEC), on or before November 1, 2008, in consultation with the California Air Resources Board (CARB), to evaluate the costs and benefits of providing ratepayer subsidies for renewable and specific fossil fuels, and make recommendations for the changes in the eligibility of technologies and fuels under the program and whether the level of subsidy should be adjusted.

4) Requires the PUC to provide an additional incentive of 20 percent for the installation of eligible DG resources from a California supplier.

FISCAL EFFECT: Unknown.

COMMENTS: According to the author, the purpose of this bill is to direct the PUC to increase the maximum project size from eligible for SGIP funding from 5MW to 10MW. This will allow larger electricity consumers who have significant potential for on-site DG resources to receive SGIP funding for larger projects than those currently permitted by the PUC. It would also allow incentives for up to 5 MW of the total project, in contrast to the current PUC limit of 3 MW.

There are electricity consumers who have the potential to install projects using eligible technologies larger than 5 MW, and such larger projects will provide greater greenhouse gas (GHG) reduction benefits. The circumstances for the customer to determine that there is value in participating in self-generation are as varied as the technologies used to generate the power. For example, a microchip processor or cement plant may see value reducing peak load usage and having reliable power on site; whereas a refinery or hospital may see value in using thermal energy to cogenerate electricity.

The SGIP provides incentives for DG to support existing, new, and emerging distributed energy resources. The SGIP provides rebates for qualifying distributed energy systems installed on the customer's side of the utility meter. Qualifying technologies include wind turbines, fuel cells,

solar thermal, and storage systems. The incentives are funded by a monthly surcharge on customer utility bills with the exception of CARE customers.

Governor Brown has recently expressed a desire for California to develop 12,000 megawatts of localized energy by 2020. Self-generation refers to distributed generation (DG) installed on the customer's side of the utility meter that provides electricity for a portion of that customer's entire electric load.

Background: As a result of the 1999-2000 energy crisis, the Legislature passed AB 970 (Ducheny), Chapter 329, Statutes of 2000, to encourage investment in new, environmentally superior electricity generation. Originally, this program was designed to complement the CEC's Emerging Renewables Program (ERP) by providing incentive funding to larger renewable and non-renewable self generation units up to the first 1.0 MW in capacity. However, in 2008 a PUC decision (Decision 08-04-049) increased the incentive cap to 3.0 MW on a pilot basis, contingent on available budget, while retaining the overall 5 MW size cap. The following December, pursuant to PUC Decision 09-12-047, the requirement for available carry over funding was eliminated; thus allowing all projects regardless of proposed capacity to be funded from the current program year budget. At present, SGIP provides subsidies for up to 50% of the project cost for the installation of DG technologies, no greater than 3MW, on a utility customer's premises and that the projects are sized to meet a customer's onsite-load up to a 5 MW size. Within that 3 MW capped incentive program, participants receive their incentives on a declining structure for the portion of a system over 1 MW in order to account for economies of scale.

SB 412 Implementation: SB 412 (Kehoe), Chapter 182 Statutes of 2009, authorized the PUC, in consultation with the CARB, to determine eligible technologies for the SGIP based on the requirement that they "achieve reductions of greenhouse gas emissions pursuant to the California Global Warming Solutions Act of 2006." SB 412 also extends the sunset date of the SGIP from January 1, 2012 to January 1, 2016.

Although there is considerable frustration around the delayed implementation of the SB 412 program, the PUC staff asserts that progress is being made and a preliminary ruling is expected this summer. As the PUC staff move closer to the ruling, some of the issues that they are exploring are: 1) should SGIP continue to offer technology differentiated incentives, or should the program consider a single incentive structure based on reductions in greenhouse gas emissions; 2) should the PUC eliminate the maximum size restriction of 5MW for all technologies participating in SGIP; 3) and should the commission retain the program requirement that projects be sized to meet on-site load. Considering the direction the PUC is going, the goals of this bill may soon be met by way a ruling.

Rush to the finish line: Due to the concern regarding modest fund levels remaining, and the fact that the proposed SB 412 program modifications would enlarge the range of eligible technologies, projects using currently eligible technologies could absorb all available SGIP funding before the PUC could act to expand SGIP to allow other technologies to participate in SGIP. On Feb 10, 2011 the PUC issued an Assigned Commissioner's Ruling directing the SGIP Program Administrators (PAs) to temporarily suspend accepting reservation requests for SGIP incentives. Specifically, the motion sought to place a moratorium on new SGIP applications until the decision implementing SB 412 is approved by the PUC and takes effect. Therefore, it appears presumptuous to expand the pool of applicants to this program before its disposition has been finalized.

Why SGIP: In addition to the SGIP program, there are other programs that provide a financial incentive to customers for self-generating electricity. The Net Energy Metering (NEM) program is an electricity tariff billing mechanism. It allows a customer to place an electricity generation system on-site to offset electricity usage. The benefits are realized at the end of the year when the customer is either billed or credited for the net energy usage or production.

Under the California feed-in tariffs program, customers are paid for the cost of generation based on the value of electrical generation, but are not intended to embed a subsidy or rebate in the price offering.

The two main distinctions of note are, unlike the NEM and FIT programs, the SGIP, offers upfront financial incentives. Moreover, pursuant to PUC decision 05-05-011, the customer generating the electron is allowed to keep the renewable energy credit (REC); thus making this program very attractive under the newly authorized RPS. This also has implications for the GHG emissions trading market that has yet to be established. In an effort to comply, many large energy users see value in reducing their greenhouse gas footprint by implementing onsite electrical generation technology. Because of the current size to load requirement, the customers that will be participating in the 5-10MW range, prescribed by this bill, are very high energy users; cement plants, steel mills; refineries etc. It should be noted that, pursuant to the cap and trade regulations, these entities will be afforded allowances that will assist them in complying with AB 32.

Public good or good public money? :
The SGIP budget was initially set at $125 million per year in 2001, with cost responsibility allocated across Investor-Owned Utilities' (IOUs) ratepayers, with the exception of CARE participants. With the creation of the California Solar Initiative (CSI) in 2006, the CPUC redirected the portion of the SGIP budget that supported solar incentives into the CSI program. SB 412 limited that collection of ratepayer dollars to no more than $83 million per year. The average impact to a residential ratepayer is around $5 per year.
According to critics of the SGIP program, this $83 million is ratepayer money that is being used to subsidize large companies.

The proponents argue that the program has substantial benefits to ratepayers and raising the cap would further that benefit. Some of the benefits include: 1) delaying or reducing the need for new transmission and distribution lines; 2) creating construction and operation jobs within the state; 3) reducing stress on the grid during peak consumption hours; 4) and incentivizes localized clean power near the load center.

Same pot more hands: Given the statutory budget limit of $83 million per year, raising the cap from 3MW to 5MW would not have any more ratepayer impact; however, it could very well create a situation where fewer participants can access the rebate. This makes it very difficult to determine at what point the value to the ratepayer ceases to exist. Moreover, it is unclear if the author wishes to allow for the full 50% rebate up to the 5 MW limit or provide for a graduated rebate system as is in place currently. The committee may wish to consider an amendment to allow rebates up 5MW, if the commission finds that the technologies are cost effective using the methodology in the Cost Effectiveness Study on the Self Generation Incentive Program published in February 2011. Additionally, the committee may wish to consider a tiered rebate for the portion of a system over 3 MW.

REGISTERED SUPPORT / OPPOSITION:

Support

California Business Properties Association
California Large Energy Consumers Association (CLECA)
California Manufacturers & Technology Association (CMTA)
Sonoma County Water Agency

Opposition

None on file.

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