

Date of Hearing: April 6, 2022

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY

Eduardo Garcia, Chair

AB 2667 (Friedman) – As Amended March 15, 2022

**SUBJECT:** Integrated Distributed Energy Resources Fund

**SUMMARY:** Establishes a state fund administered by the California Energy Commission (CEC) to provide incentives to support customer-sited clean distributed energy resources (DERs). Specifically, **this bill**:

- 1) Establishes the Integrated Distributed Energy Resources Fund (“the fund”) as a special fund in the State Treasury, names the CEC as administrator of the fund, and directs that monies shall be made available upon appropriation by the Legislature.
- 2) Requires the CEC to consult with the California Public Utilities Commission (CPUC) and the California Air Resources Board (CARB) to implement a program to provide incentives to support statewide customer adoption of clean DERs across the industrial, commercial, and residential sectors.
- 3) Specifies resources eligible for fund incentives include customer demand management, managed charging of electric vehicles, clean backup power, and other DERs that the CEC, in consultation with CARB, determines will achieve greenhouse gas emissions (GHG) reductions.
- 4) Defines “eligible customer” that may access program incentives as customers of a publicly-owned electric utility (POU) or a distribution service customer of an electrical corporation, which includes customers of investor-owned utilities (IOUs), community choice aggregators (CCAs), and electric service providers (ESPs).
- 5) Requires the CEC establish a system to equitably award fund incentives to support adoption of commercially available DERs by eligible customers. Mandates the CEC set incentive levels based on the ability of the DERs to:
  - a. Support local and system electrical grid reliability through managed operation of the DER to meet distribution and transmission system needs.
  - b. Support resiliency, via self-islanding, during periods of power system disruptions.
  - c. Reduce environmental pollution in disadvantaged communities or provide resiliency benefits to vulnerable communities, including the access and functional needs population.
  - d. Facilitate clean vehicle charging with an emphasis on medium- and heavy-duty vehicles co-located at ports, warehouses, and in transit corridors.
- 6) Requires the CEC to establish a process to allow LSEs to apply for incentives on behalf of their customers as part of that LSE’s resource adequacy (RA) obligation, if the customer is located within the distributed service area of an electrical corporation.

- 7) Makes a number of findings and declarations related to the need for increasing the deployment of clean DERs in California.

**EXISTING LAW:**

- 1) Establishes the CEC within the Natural Resources Agency and assigns it various duties, including applying for and accepting grants, contributions, and appropriations, and awarding grants consistent with the goals and objectives of a program or activity the CEC is authorized to implement or administer. (Public Resources Code §§ 25200-25233.5)
- 2) Establishes the Self-Generation Incentive Program (SGIP) at the CPUC, and allows the CPUC to direct investor-owned utilities (IOUs) to collect monies annually from ratepayers through December 31, 2024, to be used to provide SGIP incentives for DERs. The CPUC must administer SGIP incentives until January 1, 2026, and provide repayment of all unallocated SGIP funds to reduce ratepayer costs. (Public Utilities Code § 379.6)
- 3) Defines “load-serving entities” (LSEs) as investor-owned utilities (IOUs), electric service providers, and community choice aggregators. (Public Utilities Code § 380 (k))
- 4) Requires the CPUC, in consultation with the California Independent System Operator, to establish resource adequacy (RA) requirements for all LSEs to ensure the reliability of electrical service in California while advancing, to the extent possible, the state’s goals for clean energy, reducing air pollution, and reducing emissions of GHGs. (Public Utilities Code § 380)
- 5) Defines the “Access and functional needs population” as individuals who have developmental or intellectual disabilities, physical disabilities, chronic conditions, injuries, limited English proficiency or who are non-English speaking, older adults, children, people living in institutionalized settings, or those who are low income, homeless, or transportation disadvantaged, including, but not limited to, those who are dependent on public transit or those who are pregnant. (Government Code § 8593.3)

**FISCAL EFFECT:** Unknown. This bill is keyed fiscal and will be referred to the Committee on Appropriations for its review.

**BACKGROUND:**

*SGIP* – Established in 2001 by the CPUC in response to legislative action<sup>1</sup> following the energy crisis, SGIP was established to provide incentives for DERs that could reduce peak energy demand. Since 2001, the Legislature has refined and extended SGIP several times. During 2014 and 2015, the CPUC acted to extend SGIP funding through 2019 and updated program eligibility criteria related to GHG emissions.<sup>2</sup> In 2016, the CPUC made significant programmatic changes for how SGIP incentive dollars were awarded and other program refinements. In 2016, the Legislature gave the CPUC the authority to double collections for SGIP from \$83 million

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<sup>1</sup> AB 970 (Ducheny, Chapter 329, Statutes of 2000)

<sup>2</sup> SB 861 (Committee on Budget and Fiscal Review, Chapter 35, Statutes of 2014)

annually to \$166 million.<sup>3</sup> In 2018, the Legislature extended the sunset date until 2024 and made other programmatic changes.<sup>4</sup> And in 2019, the Legislature allocated 10% of SGIP funds for the installation of energy storage and other DERs at facilities that provide critical infrastructure to communities in High Fire Threat Districts to support community resiliency.<sup>5</sup>

SGIP provides incentives to support existing, new, and emerging DERs. SGIP provides rebates for qualifying DERs installed on the customer's side of the utility meter that the CPUC, in consultation with CARB, determines will achieve reductions in GHG emissions. Qualifying technologies include wind turbines, waste heat to power technologies, pressure reduction turbines, internal combustion engines, microturbines, gas turbines, fuel cells, and advanced energy storage systems. Currently, SGIP allocates 85% of the funds to energy storage technologies.

The program has several goals:

- Environment – reduce GHGs, integrate renewables and reduce criteria air pollutants;
- Grid support– reduce or shift peak demand, reduce grid costs, provide ancillary services;
- Market transformation – support technologies that have the potential to thrive in future years without rebates; and
- Maximize ratepayer value and ensure equitable distribution of costs and benefits.

In 2018, the CPUC established an “Equity Budget” for SGIP to ensure that a portion of SGIP monies is reserved for projects that are located in disadvantaged and low-income communities. The objective of the investments is to: 1) bring positive economic and workforce development opportunities to the state’s most disadvantaged communities; 2) help reduce or avoid the need to operate conventional gas facilities in these communities, which are exposed to some of the poorest air quality in the state; and 3) to ensure that low-income customers, and non-profit or public sector organizations in disadvantaged or low-income communities, have access to energy storage resources. As shown in Table 1, by 2020 most of the Equity Budget SGIP programs were oversubscribed, with millions of projects waitlisted, demonstrating their high demand.

**TABLE 1 – CPUC SGIP Equity Budget Programs**

Program	Budget	% Adoption as of 2020
SGIP - Equity Residential Category	2019-2025 - \$31 million	>100% - \$20 million in projects waitlisted {as of July 2020; see Findings of Fact #8 in D. 20-10-017}
SGIP - Equity Non-Residential Category	2019-2025 - \$52.8 million	>100% - \$306.5 million in projects waitlisted {as of July 2020; see Findings of Fact #8 in D. 20-10-017}

<sup>3</sup> AB 1637 (Low, Chapter 658, Statutes of 2016)

<sup>4</sup> SB 700 (Wiener, Chapter 839, Statutes of 2018)

<sup>5</sup> AB 1144 (Friedman, Chapter 394, Statutes of 2019)

SGIP - Equity Resiliency Category	2019-2025 - \$612 million	>100% - \$39 million in projects waitlisted
SGIP - San Joaquin Pilots Category	\$10 million, one-time	< 20% - \$1.7 million utilized

**COMMENTS:**

- 1) *Author's Statement.* According to the author, “As California faces climate-triggered extreme weather events, natural disasters, reliability planning challenges, energy market instabilities due to global geopolitical unrest, the state should expand deployment of clean distributed energy resources (DER) as a critical tool to support statewide and economy-wide decarbonization, resiliency, and equity objectives. AB 2667 would create a new incentive program administered by the CEC to support innovative new approaches to DER adoption based on DER functional attributes in a technology neutral manner.”
- 2) *Open to All.* This bill establishes a fund, upon appropriation by the Legislature, to provide incentives to support DER deployment in a manner similar to the CPUC’s SGIP. SGIP, however, is funded through the distribution component of IOU rates, and thus is limited to IOU customers. By establishing a new program at the CEC, funded through the state budget, this bill will provide the benefits of SGIP to customers of IOUs, POU, CCAs, and ESPs. Given the high demand for SGIP, such an expansion seems reasonable and in line with state priorities of promoting clean energy adoption.
- 3) *Incentive Stacking.* As the fund created under this bill is open to any electric customer in the state, it also means that customers of IOUs who have been awarded SGIP funds could also receive funds from the CEC’s program. This bill does require the CEC to establish a system to equitably award the fund incentives, but does not prohibit past recipients of SGIP (or any similar local or federal DER effort) from receiving funding. Such incentive stacking may be useful if programs do not provide for the full cost of a DER, and thus stacking could help lower the barrier to entry for many low-income customers; or when customers desire different DERs on their property or business, such as a backup battery alongside vehicle smart charging, stacking could allow for the use of separate incentives to fund the different projects.

However, such incentive stacking may be problematic for programs with limited financing and high customer demand, as has been experienced in SGIP. In such cases, permitting multiple funding streams to go to a single project or permitting multiple incentive programs to be awarded to a single customer could have the consequence of denying other qualified customers access to *any* incentive. This may be especially true for low-income customers that may have limited time and resources to apply for program funds. As a result, the author may wish to consider providing the CEC more guidance in this bill regarding incentive stacking, to maximize DER benefits to as many Californians as possible.

- 4) *What is a clean distributed energy resource?* This bill does not specify what technologies qualify as “clean distributed energy resources” for the purposes of awarding funding, except to note incentives “shall include customer demand management, managed charging of electric vehicles, clean backup power, and other distributed energy resources” that the CEC and CARB determine will achieve GHG reductions. “Clean distributed energy resource” is likewise not defined in statute.<sup>6</sup> Structuring the bill in this manner allows the agencies the most flexibility to design the programs in a way that matches incentives with needs and statewide policy goals. However, it may expose the program to the risk of emerging, costly technologies consuming most of the program budget.<sup>7</sup>

5) *Related Legislation.*

SB 833 (Dodd) requires the CEC to develop and implement a grant program for local governments to develop community energy resilience plans, as specified, to address power outages. Requires a plan for identifying locations where the construction of microgrids or other DER could meet local resilience needs. Status: In the Senate Committee on Appropriations after passage in the Senate Committee on Energy, Utilities, and Commerce on March 14, 2022; Ayes 13, NVR 1.

6) *Previous Legislation.*

AB 1144 (Friedman) requires the CPUC to allocate at least 10% (\$16.6 million) of the 2020 funds from SGIP for the installation of energy storage and other DERs at facilities that provide critical infrastructure to communities in High Fire Threat Districts to support community resiliency. Status: Chapter 394, Statutes of 2019.

SB 700 (Wiener) extends the sunset date for SGIP by five years, requires the CPUC to adopt requirements for storage systems to ensure that they reduce GHG emissions, and prohibits generation technologies using non-renewable fuels from obtaining SGIP incentives as of January 1, 2020. Status: Chapter 839, Statutes of 2018.

- 7) *Double Referral.* This bill is double-referred; upon passage in this Committee, this bill will be referred to the Assembly Committee on Natural Resources.

## REGISTERED SUPPORT / OPPOSITION:

### Support

California Efficiency + Demand Management Council  
 California Solar & Storage Association  
 Environmental Defense Fund  
 Kaluza  
 Mainspring Energy  
 Microgrid Resources Coalition

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<sup>6</sup> Although statute does provide a definition of “distributed energy resource” dating back to the energy crisis. Found in Public Utilities Code § 353.1.

<sup>7</sup> Such as industrial fuel switching to hydrogen.

NRG Energy  
The Climate Center

**Opposition**

None on file.

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