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California Energy Commission
Docket Unit, MS-4
1516 Ninth Street
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RE: Docket 04-DIST-GEN-1: Order Instituting Rulemaking Regarding Policies, Procedures and Incentives for Distributed Generation and Distributed Energy Resources ("OIR"); 03-IEP-01, 02-REN-1038, and 03-RPS-1078

Dear Commissioners:

San Diego Gas and Electric (SDG&E) and the Southern California Gas Company (SoCalGas) appreciated the opportunity to listen to the presentations and participate at the California Energy Commission's (CEC) Joint 2004-2005 Integrated Energy Policy Report (IEPR) Committee and Renewables Committee workshop in Sacramento on renewable energy issues. We further appreciate the opportunity to file these comments relating to this OIR supplementing those we offered at the workshop.

SDG&E is resource deficient and transmission-constrained within its service territory. Other than for some local photovoltaic power (PV), limited potential for wind and methane recovery projects, there are no significant native renewable power resources available to SDG&E. All resources must be imported either over pipes or wires to deliver or produce electricity for customers in SDG&E's service territory. Given these constraints there are a number of concerns that SDG&E has regarding the Renewables Portfolio Standard (RPS) goals and the Renewable Energy Credits (RECs). These concerns are:

(1) Must streamline the permitting and approvals for electric transmission in order to facilitate removal of the current existing transmission bottlenecks;

(2) Power produced behind a meter by a renewable source should not be treated as second class and should be able to be counted towards the RPS goals;

(3) RECs should be severable from energy; and,

(4) To the extent that the IOU is compensating persons for renewable power at over market prices, the IOU should have the benefit of any REC thereby derived.

SDG&E believes that it is important for the commission to refocus its incentives for PVs. The goal to be inferred from current incentives is that the state is simply interested in encouraging the installation of PV panels, regardless of their effectiveness, actual power production, location, benefit to the grid, or longevity. A more beneficial incentive for the commission to support would be an alternative goal that encourages the production of as many MWHRs as possible per dollar of incentive paid. This approach would be better achieved by paying incentives based on the performance of a PV system over time.

RPS AND TRANSMISSION

SDG&E currently has approximately 500 MW of proposed renewable resources in the California Independent System Operator's (ISO) generator interconnection queue. In addition, as part of SDG&E's current renewable request for offer process, SDG&E is seeking to identify renewable generation that may be available for purchase or ownership in the Imperial Valley area of California. Accessing any renewable generation out of SDG&E's service area will likely depend upon whether additional transmission facilities can be licensed and built to allow for such deliveries to the San Diego load centers. The state's reluctance to build any transmission facilities anywhere near people for any reason, even for off-grid locations to access renewables such as wind and geothermal, is a significant deterrent to achieving the state's renewable power goals. SDG&E's existing system can accommodate only a small portion of these proposed renewable resources absent major transmission infrastructure upgrades. While each interconnection facility study identifies the upgrades associated with a specific project, there is a need to look at the big picture. To evaluate each renewable interconnection individually may not provide the best long-term answer to determine the best fit to meet reliability needs and reduce future transmission congestion while providing access to renewable resources. SDG&E supports formation of stakeholder groups to develop transmission plans for renewable resource areas such as Tehachapi and Salton Sea.

RPS AND RENEWABLE ENERGY CREDITS

One way to help reduce transmission constraints is to endorse the creation and trading of RECs. RECs will allow the development of renewables in those areas where development is cost effective, and allow the utilities to buy the unbundled credit in areas where development or transmission is not possible or is cost prohibitive. The net result should be more renewables. SDG&E encourages the commission to support this approach.

PERFORMANCE INCENTIVES FOR PHOTOVOLTAICS

The current Self-Generation Incentive Program (SGIP) is set up to provide a given $/watt of installed capacity for a given PV system. The Net Energy Metering incentive design is such that customers will not be able to tell when their PV systems and components are starting to degrade. There is no transparent incentive or feedback mechanism to tell the owners of PV that they need to take some corrective O & M action. Thus, customers are encouraged to install PV panels without any reasonable way for the owners to understand the real performance of the units over time or to provide assurance that owners will replace their inverters when they fail. This has resulted in the state moving well along the pathway of installing tons of panels, but it has not gone very far to encourage the ongoing operation of PV once it is installed.

Additionally, the commission should work diligently to find ways to transition into providing time-of-use based incentive payments for the output of PV that will encourage customers to: (1) produce kWh over time; and (2) produce the kWh in the afternoons in the summer, coincident with system peak, as much as practical. Further, the incentives based on kWh should be designed to provide the owners of PV with a performance measure on a monthly basis so that they can understand if their PV systems need attention. This could be as cheap and simple as trimming a tree or washing down the unit, or as expensive and complex as replacing some portion of the original installation. By providing ongoing visible feedback, customers will be empowered to catch problems on their systems as early as practical and perhaps even pursue ongoing remedies through installers or manufacturers. As SDG&E approaches its Net Metering Cap of 0.5%, the commission should view this as an opportunity to transition to more meaningful approaches to incentives, perhaps allowing SDG&E to conduct a pilot to determine how best to make the transition.

Finally, SDG&E encourages the commission to support our view that customer-owned renewables in our service territory should count toward SDG&E's renewables portfolio.

CONCLUSION

In summary, SDG&E supports:

- Unbundled renewable energy certificates (RECs) and the trading thereof.
- Renewable DG, provided it counts towards SDG&E's RPS.
- Allowing the utility to use its best efforts to meet the RPS by 2010 provided this policy does not lead to rate increases.
- Performance-based incentives for PV.

Respectfully submitted,

Bernie Orozco