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Renewable Energy Alert

CPUC Issues Ruling Affecting Solar Initiative Incentives and Review of New Applications

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On July 9, 2010, the California Public Utilities Commission (CPUC) issued a ruling proposing to modify the California Solar Initiative (CSI) incentive program, which provides incentives for solar energy systems to customers of California's investor-owned utilities (IOUs). Under the CSI, Performance Based Incentive (PBI) payments are available to solar systems between 30 kilowatt and 1 megawatt capacity.[1] Individual incentives vary based upon customer class, but decline based upon the volume of applications received and processed by the CSI Program Administrator in each IOU service territory.

Applications for projects made to the CPUC on or before the July 9, 2010 ruling are not affected, but incentives available to applicants to the PBI program after July 9 are subject to change contingent upon a final CPUC decision. Further, review of new governmental and nonprofit CSI applications are temporarily suspended while the CPUC considers the proposed modifications. These applications will be queued for reservation processing in the order received following CPUC action. The CPUC is expected to act by September 2010 on the proposals in the ruling.

Ruling Issued on Budget Concern

The CPUC seeks to modify the CSI incentive mechanism, citing budget concerns[2] that the incentive budget will be depleted well before the program achieves its overall capacity goals, due to high participation rates in the CSI program.[3] The ruling proposes three actions to increase the incentive budget: (1) remove the 8 percent discount rate embedded in the calculation of PBI payments,[4] (2) reduce incentive rates for government and nonprofit applicants and (3) shift $20 million from the program administration budget to the incentive budget.

The CPUC is re-evaluating the 8 percent discount rate for PBI incentive payments, which are issued on a cents-per-kilowatt-hour basis over a five-year period. This discount rate was established in 2006 to ensure that customers would be equally receptive to an upfront incentive payment versus a five-year payment stream. The CPUC will consider a discount rate with respect to changes in the economic climate, with a lower-rate preserving budget dollar to install more systems.

[1] Smaller systems (less than 30 kw) receive a separate one-time lump sum Expected Performance Based Buydown (EPBB). Under the ruling, these will continue to be processed normally. Government/nonprofit applications, however, are suspended and may be subject to a revised incentive.

[2] The source of these budget concerns are: (1) uncertainty regarding the electricity that performance based incentive systems will produce during the five-year PBI payment period, (2) assumptions regarding the rate of participation of government and nonprofit entities eligible to receive higher incentives and (3) anticipation of applications that will later drop out of the program. Budget uncertainties were widely recognized at the inception of the program, and the CPUC determination establishing the CSI anticipated a need to revisit incentives.

[3] CSI programs overseen by the CPUC have a budget of $2.167 billion over 10 years; the goal is to reach 1,750 MW of installed solar capacity by 2016 in the investor-owned utility service territories. Through June 23, 2010, the CSI program has received 765 MW of applications. The ruling does not give specifics regarding the CSI budget, but states that the current CSI budget spent or committed is higher than anticipated.

[4] PBI incentives are required for projects.

Under the current CSI program, government and nonprofit entities that are not eligible for federal tax credits receive higher rebate levels.[5] Program records indicate that many government and nonprofit applicants are taking advantage of third-party owner financing arrangements, reducing the importance of the incentive differential to the project. That said, the ruling proposes to decrease the differential between commercial and government/nonprofit applicants by 50 percent.

Finally, the CPUC proposes to transfer $20 million in CSI administrative funds to cover incentive budget needs. The proposed additional funds would not be applied to expand MW goals for the "steps" of incentives available, but would increase the overall program budget.

Treatment of CSI Applications as CPUC Considers Budget Change

As discussed, the ruling only impacts applications made to the CPUC after July 9, 2010. Applications received on or before July 9, 2010 will continue to be processed normally with existing incentive levels.

One aspect of this impact is that PBI incentive rates available to applications made after July 9 are subject to change. While the CPUC considers the ruling, applications from residential and commercial customers filed after July 9 will be reviewed for completeness, but will not receive a confirmed reservation that sets their incentive level.

The ruling also directs CSI program administrators to postpone issuing reservations for government and nonprofit applications received after July 9, 2010. These applications will be queued on a first-come, first served basis, pending further direction from the CPUC. These applications will be subject to a potential incentive level change, depending on the final CPUC ruling on the proposed modification of CSI incentives.

Decision Expected by September

The CPUC has requested that stakeholders comment on the Proposed Decision on an expedited basis. Initial comments were due to the CPUC by July 22, 2010, with reply comments due by July 28, 2010. CPUC President Michael Peevey will report on the matter at the CPUC's July 29, 2010 meeting. It is expected that the CPUC will issue a decision on the proposals in September.

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[5] For example, government/nonprofit PBI payments are currently $0.19/kwh, $0.26/kwh and $0.19/kwh in Pacific Gas and Electric Company, Southern California Edison Company and San Diego Gas and Electric Company's service territories, respectively. Applicable commercial rates are currently, $0.09/kwh, $0.15/kwh and $0.09/kwh. Tax-exempt entities that take advantage of federal tax credits through third-party financing agreements with solar providers receive the lower commercial rate.

