

### **3. Finance EBR**

DEPARTMENT OF FINANCE ENROLLED BILL REPORT

AMENDMENT DATE: June 29, 2006  
RECOMMENDATION: Sign

BILL NUMBER: SB 1  
AUTHOR: K. Murray

ASSEMBLY: 49/19  
SENATE: 36/4

**BILL SUMMARY: Energy: Million Solar Roofs Initiative**

Public Utilities Commission (PUC) Decision 06-01-024, adopted in January 2006, created the California Solar Initiative (CSI) to provide \$2.9 billion in rebates for solar system installations through 2016. This bill will provide legislative direction for the implementation of the CSI and place requirements on publicly-owned utilities and home builders, who are not subject to PUC regulation.

**FISCAL SUMMARY**

The PUC would have collected \$2.9 billion over the lifetime of the CSI under their decision. Funding would have been provided by a surcharge on electricity and natural gas consumption by customers of the utilities regulated by the PUC. This bill will: (1) prohibit surcharges on natural gas consumption for the purpose of providing solar energy rebates, (2) cap aggregate costs for the solar programs at \$3.4 billion, (3) require publicly-owned utilities to collect \$784 million for their own solar programs, and (4) authorize the PUC to make awards for solar thermal systems, not just photovoltaic systems, and research and development projects. The bill will decrease the amount the PUC can collect for authorized CSI purposes by approximately \$300 million, but adds \$784 million for solar programs administered by publicly-owned utilities. The bill requires the subsidy level to decline by an average of at least 7 percent annually and to reach zero by December 31, 2016.

**COMMENTS**

Finance recommends that this bill be signed because it will encourage the development of renewable energy sources in California. Furthermore, solar energy production is highest during peak demand times.

This bill was originally sponsored by the Administration to implement the Million Solar Roofs Initiative. However, amendments made to SB 1 last year would have placed certain requirements on the installers of solar energy systems that would have resulted in increased costs. Consequently, the Administration withdrew its support of the bill. Those requirements have been removed and the Administration has renewed its support of the bill. The bill will implement the provisions of the Million Solar Roofs Initiative that the PUC lacked authority to include in the CSI.

The California Solar Initiative was adopted by the PUC in January 2006 and would provide \$2.9 billion in incentives for photovoltaic installations over the next 11 years. Incentives begin at \$2.50/watt on January 1, 2007 and will decline over the lifetime of the program. Under the CSI, the PUC would oversee \$2.5 billion in incentives for existing residential and commercial consumers and the Energy Commission would use \$350 million of funds already allocated for renewable energy for new residential construction. The solar components of the Self-Generation Incentive Program and the Emerging Renewables Program will become a part of the CSI. The intent of the program is to encourage development in the industry to enable solar to become a competitive energy alternative without subsidies. Funding is sufficient to subsidize 3,000 MW of photovoltaic installations over the lifetime of the program.

(Continued)

Analyst/Principal	Date	Program Budget Manager	Date
(0624) M. Almy <i>Matt Almy</i>	<i>9/17/06</i>	Fred Klass <i>[Signature]</i>	<i>8/17/06</i>
Department Director	Date		
<i>John Klyde</i>	<i>9/17/06</i>		

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**COMMENTS** (continued)

The bill will do the following related to establishment and administration of the CSI:

- Reduce the PUC's spending authority to about \$2.2 billion, of which \$101 million may be used for solar thermal systems and \$50 million for research and development. The bill caps expenditures at \$3.4 billion and allocates \$784 million for publicly-owned utilities and \$350 for the Energy Commission, leaving \$2.2 billion for the PUC.
- Require the incentive level to decline by an average of at least 7 percent per year and reach zero by December 31, 2016. The CSI specified a 10 percent decline.
- Prohibit the PUC and Energy Commission from establishing other incentive programs for increased installation of solar energy systems on residential and commercial buildings.
- Require performance-based incentives by January 1, 2008 for all solar energy systems larger than 100 kw and for 50 percent of the systems larger than 30 kw.
- Specify that the CSI does not substitute for the implementation of existing programs for low-income ratepayers, or existing cost-effective energy efficiency or demand response programs.
- Require homebuilders to offer solar systems on homes in subdivisions scheduled for completion after January 1, 2011. This requirement can be waived if a sufficient number of solar systems are installed on the homebuilder's other projects.
- Require the Contractor's State Licensing Board to review, and if necessary, revise licensing requirements to ensure the individuals installing solar systems have the requisite expertise.
- Require publicly-owned utilities to initiate their own solar energy programs with a total value of \$784 million by January 1, 2008.
- Require the PUC to report on the CSI to the Legislature by June 30, 2009 and annually thereafter.
- Increase the net-metering cap from 0.5 percent to 2.5 percent of a utility's peak load. Under net-metering, utilities are required to offset the amount of electricity a customer consumes from the electric grid with electricity produced by the customer and returned to the grid. Solar systems produce greater amounts of electricity during the day and production in excess of consumption is returned to the grid. However, when solar system production is slow during the night, the customer draws power from the grid. Net-metering provides a significant incentive to install solar systems and without increasing the cap, utilities would not be required to offset a customer's consumption with power returned to the grid once net-metered customers accounted for 0.5 percent of peak load.

In addition, customers participating in the California Alternative Rates for Energy program, the Family Electric Rate Assistance program, or both, which service low-income families and households, would not be subject to the rate surcharge funding the CSI, but will be eligible for benefits.

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**BILL ANALYSIS/ENROLLED BILL REPORT - (CONTINUED)**  
**AUTHOR** **AMENDMENT DATE**

**Fund Code**  
**BILL NUMBER**

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Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)						Fund Code
		LA	(Dollars in Thousands)					
	CO	PROP						
	RV	98	FC	2006-2007	FC	2007-2008	FC	2008-2009
6000/PUC	SO	No						
<b>Fund Code</b>	<b>Title</b>							
0462	Publ Utilities Comm Utilities Reimb Acct							0462

**SUGGESTED VETO MESSAGE**

**SB 1**

**(as amended June 29, 2006)**

**I am returning Senate Bill No. 1 without my signature.**

**Public Utilities Commission (PUC) Decision 06-01-024, adopted in January 2006, created the California Solar Initiative (CSI) to provide \$2.9 billion in rebates for solar system installations through 2016. This bill will provide legislative direction for the implementation of the CSI and place requirements on publicly-owned utilities and home builders, who are not subject to PUC regulation.**

**I am vetoing this bill because it is unnecessary. The PUC has already put a solar rebate program in place that will achieve the goal of installing 3,000 MW of solar energy generating capacity in the state by 2017.**