MEETING NOTICE AND AGENDA

ENERGY WORKING GROUP
The Energy Working Group may take action on any item appearing on this agenda.

Thursday, May 24, 2007
11:30 a.m. to 2:00 p.m.

SANDAG
7th Floor Board Room
401 B Street, Suite 800
San Diego, CA 92101-4231

Staff Contact: Susan Freedman
(619) 699-7387
sfr@sandag.org

AGENDA HIGHLIGHTS

• ASSEMBLY BILL 1064
• REGIONAL ENERGY STRATEGY TASKS
• REGIONAL CLIMATE CHANGE TASKS

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1. **WELCOME AND INTRODUCTIONS**

2. **SUMMARY OF APRIL 26, 2007, EWG MEETING**

   The EWG should review and approve the attached meeting summary.

3. **PUBLIC COMMENTS AND COMMUNICATIONS**

   Anyone who would like to address the Energy Working Group (EWG) on a topic not on the agenda should do so at this time.

4. **ASSEMBLY BILL 1064: SELF-GENERATION INCENTIVE PROGRAM**

   At the EWG legislative forum in November 2006, the EWG recommended continuation of the Self-Generation Incentive Program (SGIP) for all technologies. As introduced, AB 1064 addressed this recommendation but has been amended to exclude energy-efficient combined heat and power systems. The EWG is asked to recommend that the bill be supported as introduced. The bill and staff recommendation are attached.

5. **REGIONAL ENERGY STRATEGY TASKS AND PROGRESS REPORT**

   A) At the Resources Subcommittee, California Center for Sustainability (SDREO) presented the framework for updating the regional infrastructure assessment. Progress will be presented and a completed infrastructure inventory will come to the EWG in July.

   B) As part of the CEC partnership, staff is conducting research and review of energy plans from other regions in and out of California. Initial findings will be presented to the EWG for consideration in the RES Update.

   C) Staff has begun research and review of municipal energy elements for general plans and will present initial findings for comment.

6. **REGIONAL CLIMATE CHANGE TASKS AND PROGRESS TO DATE**

   As part of the CEC partnership, staff has begun research and review of municipal climate change plans in and outside of California. This will serve as one basis for a regional climate change framework to be brought to the EWG this summer.
7. **EWG SUBCOMMITTEE UPDATES**

   **A)** Policy: Legislative and regulatory update, upcoming tariff discussion.

   **B)** Resources: Upcoming infrastructure discussions, including local power and transmission options, and other subcommittee activities.

8. **EWG RETREAT**

   The EWG will hold a retreat on Thursday, June 14, in Chula Vista at the City Council chambers. The facilitated meeting is scheduled for 9 a.m. to 1 p.m. and lunch will be provided. The retreat is in place of the regularly scheduled EWG meeting (June 28).

9. **EWG CALENDAR ITEMS**

   A calendar of upcoming meeting tasks will be provided at the meeting.

10. **SUGGESTED MEETING TOPICS FOR NEXT MEETING**

    EWG members should suggest items to be discussed at the next or future meeting.

11. **ADJOURN**

    The EWG Retreat is on June 14 (see item 8). The next regular EWG meeting is scheduled for June 28, 2007, from 11:30 a.m. to 2:00 p.m.

+ next to an item indicates an attachment
AGENDA ITEM #1: WELCOME AND INTRODUCTIONS

EWG Chair Henry Abarbanel, City of Del Mar, called the meeting to order at 11:40 a.m. and facilitated introductions.

AGENDA ITEM #2: SUMMARY OF MARCH 22, 2007, MEETING

Mr. Abarbanel asked that any concerns regarding the March 22, 2007, Meeting Summary be sent to Susan Freedman, SANDAG, so necessary corrections can be made.

AGENDA Item #3: PUBLIC COMMENT AND COMMUNICATIONS

Andrew McAllister, San Diego Regional Energy Office (SDREO), invited the group to attend the SDREO grand opening ceremony on Thursday, May 3, 2007. He also announced the Street Smart Event for May 17 and urged everyone to attend.

AGENDA ITEM #4: SENATE BILL 451 – ENERGY: GOVERNMENTAL ENERGY PRODUCERS

Jennifer Porter, SDREO, updated the group on Senate Bill 451. This bill allows municipalities to aggregate their renewable energy use to one site to offset the charges incurred by another site in the same municipality. This expands opportunities for public agencies to install and use of renewable distributed generation at their facilities. This bill went to the Senate Energy, Utilities, and Communications Committee on Tuesday, April 24, 2007, passed unanimously, and will soon go to the Senate floor for an approval vote.

There was a note in the bill about a similar bill, SB 1017, which was introduced by Senator Perata and allows the physical wheeling of power from one location to another in the San Francisco region. There may be potential to collaborate on both bills.

Laura Hunter, Environmental Health Coalition, inquired about the accommodation of private/government partnerships in the bill for renewable energy projects. It was noted these are not excluded nor explicitly included in the bill and that the bill is designed for municipal sites to maximize their renewable energy capacity. Alan Ball, Qualcomm, added that this bill will benefit some third-party providers but it is dependent on their capacity to produce excess energy thus won’t benefit everyone.
Mr. Abarbanel reported that he and Mr. Ball met with Dave Geier and J.C. Thomas of SDG&E to discuss development of a new tariff by SDG&E that would administratively meet the goals of the legislation. Rob Anderson, SDG&E, stated that the proposed tariff also may apply to low-cost housing projects. Paul O’Neal, San Diego North Economic Development Council, inquired if this would also apply to other public agencies such as the water district, which it would.

Further discussion will be brought to the EWG Subcommittees. Tom Blair, City of San Diego, recommended moving forward with the bill and drafting a tariff and/or other amendments for broadening capacity.

**AGENDA ITEM #5: REQUEST FOR INDEPENDENT POWER PRODUCER (IPP) NOMINATIONS**

Mr. Abarbanel requested nominations for the new EWG member category of an Independent Power Producer. Nominations were verbally made at the meeting and to be made in writing after the meeting to Susan Freedman, SANDAG, by May 4, 2007. The EWG Chairs will then work with staff to identify a willing member and alternate from the nominations.

Mike Evans (San Diego Chamber of Commerce) nominated Steve Hoffmann (NRG), Jim Hinrichs (Dynegy), and J.J. Fair (Calpeak). Dave Carey with the Port of San Diego also nominated Jim Hinrichs. Paul O’Neal (NC EDC) nominated Steve Hoffmann.

**AGENDA ITEM #6: EWG MEMBER ATTENDANCE POLICY AND UPDATE**

The policy was approved at the Regional Planning Committee (RPC) meeting on April 6, 2007, and became effective immediately. The one-year attendance period will run from April 2007 to March 2008. The policy states that with the exception of the subregional representation, if a voting member misses two consecutive meetings or three total over the course of one calendar year, then they will be considered as advisory members. After one year, advisory members may petition the EWG for consideration as a voting member again. Members of the RPC are able to appoint and recommend members to the EWG. Elected officials already on the EWG are also able to recommend additional considerations for membership to the RPC for approval. Any member in danger of losing his/her voting privileges due to poor attendance will be notified via email by SANDAG staff.

The EWG will have a maximum of 25 voting members. The EWG Membership Subcommittee will continue to meet on an ad hoc basis, as necessary. The EWG has requested that the subcommittee further discuss how to best have non-voting members serve in an advisory capacity at meetings, if a member loses voting status.

Dr. Sweedler inquired about the possibility of flexibility in the policy and if discretion on behalf of the Chair would be permitted. He was reminded about the flexibility of alternates and that such discretion was not favored by the Chair.

**AGENDA ITEM 7: SUBCOMMITTEE REPORTS**

**Policy Subcommittee**

Mr. Ball reviewed the EWG Policy Subcommittee’s discussions. The Direct Access Workshop was held on April 11, 2007, at SDREO. Attendance was high and the presentations were strong.
The Subcommittee met on April 19, 2007, where legislative updates and planning for future workshops were discussed. As part of the group’s May meeting, there will be an informational workshop component focused on resource adequacy. Additional workshops are being planned on climate change and transportation energy.

Subsequent Policy Subcommittee meetings will be held on the first Wednesday of every month beginning May 2, 2007.

Resources Subcommittee

Mr. O’Neal reviewed the last Subcommittee meeting, which was held on April 2, 2007. Three presentations were provided to the group: Scott Debenham on wind power in the San Diego region. Project proponents of LEAPS presented their vision on a new electrical transmission line into San Diego County from the North. The Subcommittee Chair recommended that EWG provide them an audience when possible, likely in September.

Dick Hertzberg discussed the San Diego Community Power Project—or Enpex—with the Subcommittee and discussed the relationship among Enpex, Miramar, and the City of Santee from his perspective.

The next Resources Subcommittee meeting will be held on May 7, 2007. Updating the Regional Energy Infrastructure Study will be included, along with transportation fuels in relation to the renewed interregional partnership between the County of Riverside and County of San Diego.

Membership Subcommittee

Many of the issues associated with the subcommittee are addressed in Agenda Item #6.

AGENDA ITEM #8: APPROVED CALIFORNIA ENERGY COMMISSION (CEC) FUNDING

Ms. Freedman thanked the team who worked on CEC approval of two separate energy planning contracts with SANDAG in the amounts of $50,000 and $400,000 that effectively form a partnership between the organizations. The contracts are now awaiting acceptance by the SANDAG Board at their April 27, 2007, meeting and, when approved, work should start the week of May 1, 2007. These revenue agreements will leverage existing funds provided by SANDAG and SDG&E. This also will fund a limited-term associate planner, an intern, and added consultant services to complete the work effort through the 3rd quarter of FY 2009.

The projects will focus on updating the Regional Energy Strategy (RES); expanding the Sustainable Regions Pilot Program; and addressing alternative transportation fuels, vehicles, and infrastructure. The RES will address climate change with a regional greenhouse gas action plan and a municipal energy element.

An additional $50,000 “Rebuild America” program grant was provided to SANDAG. As part of the update of the RES, SANDAG will prepare a report section that includes measures that will encourage the energy-efficient design of new non-residential buildings. The Rebuild America program is a network of community-based partnerships across the nation that are committed to saving energy, improving building performance, easing air pollution through reduced energy
demand, and enhancing the quality of life through energy efficiency and renewable energy technologies.

Bill Powers, Sierra Club, inquired about the May 1 deadline of the first deliverable, a review of the 2003 RES, and who would be included in that process. Ms. Freedman explained that because an April start date was anticipated, everything would be pushed back, and EWG members would be involved throughout the process. The deliverables would be brought before the EWG at the monthly meetings. There would also be public workshops over the course of the partnership. Mr. Powers also asked if this would be a revision or an entirely new analysis. As was discussed in the previous EWG meeting, this will be an update and expansion of the RES to include transportation energy, climate change, and local energy planning.

Dave Carey (Port of San Diego) introduced Michelle White, who is now the Project Manager for the Air Quality Management Program. She will be involved in air quality issues such as those included in the RES.

Dr. Sweedler asked if the EWG would be the primary body for development of the RES. Mr. Abarbanel answered that the EWG would oversee this effort and serve as an advisory tool for the Regional Planning Committee, who then advises the Board of Directors. The Board makes the final decision on the Plan.

The format for developing the RES will be through open and transparent processes. SANDAG, EWG Subcommittees, SDREO, and outside consulting experts will be key contributors to the discussion items, framework, and chapters of the strategy. These items will be brought to the EWG for review as they are developed. There is also a state-level advisory committee for the partnership including the State Air Resources Board (CARB), Cal EPA, CEC, and others.

Ms. Hunter pointed out that it is important to look at the current plan and find topics to be advocated as early actions in conjunction with AB 32. The final hearing on AB 32 will be in June in Los Angeles.

**AGENDA ITEM #9: LOCAL CLIMATE CHANGE ACTIVITIES**

Mr. Abarbanel noted this informational item has been discussed. It concerns the U.S. Mayors Climate Protection Agreement and the associated sample letter is in the packet for review. Area signatories and supporters were commended.

**AGENDA ITEM #10: EWG RETREAT**

Mr. Abarbanel discussed the upcoming EWG retreat to be held Thursday, June 14, 2007, in Chula Vista. During this event, goals and accomplishments of the EWG will be discussed and major undertakings for 2007-2008 will be laid out. Topics will include examination of the Subcommittee structure and possibly renewable energy parks in region. Future items that members would like to have discussed should be submitted in a timely manner. The Chairs and staff will meet with a facilitator to determine full scope of the meeting.

Ms. Hunter stated an interest in promoting the loading order, finding ways to ramp up efficiency, and increase renewable energy sources. She also recommended addressing peak demand issues.
through a pilot project focusing on clean, secure, and sustainable sources, including a partnership aspect. She also suggested the need for a summary of current energy supply, source of supply, demand, and location of demand for appropriate planning. The updated regional energy infrastructure study discussed in item 8 will provide this inventory.

Investigating clean energy clusters in economic development terms was suggested as a discussion topic and Dr. Sweedler agreed to prepare a ten-minute briefing on this during the retreat. Transportation energy and natural gas issues were also mentioned. Mr. Powers made a request to Rob Anderson for load duration curves for the last three years in order to facilitate peak load discussions.

Tom Blair, City of San Diego, mentioned the need to recognize that projects are implemented in the form of tariff schedules assigned to various uses. He encouraged examination of the structure of these schedules and the signals these send to the community.

**AGENDA ITEM #11: SUGGESTED MEETING TOPICS FOR NEXT MEETING**

Explicit discussion on sections/topics of the updated RES will be made an agenda item for the next EWG meeting on May 24, 2007.

**AGENDA ITEM #12: ADJORN**

The meeting was adjourned at 12:45 p.m.
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<td>City of Del Mar</td>
<td>Henry Abarbanel, Co-Chair</td>
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<td>Irene M. Stillings</td>
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<td>Scott Anders</td>
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San Diego – Imperial Counties Labor Council

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<td>David Grubb</td>
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<tr>
<td>Industrial Environmental Association (IEA)</td>
<td>Patti Krebs</td>
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<tr>
<td>Industrial Environmental Association (IEA)</td>
<td>Jim McCollum</td>
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**OTHERS**

Jim Cron - Harvard Mutual
Alexandra Hart - IBEW
Julie Gelfat - IBEW
Jack Burke - SDREO
Tom Blair – City of San Diego
Bob Resley – Resley Consulting
Michelle White – Port of San Diego
David Hicks – Dynegy
Jaleh Firoz - AES Consulting
Doug Perkins – AGG
Rob Rundle - SANDAG
Susan Freedman - SANDAG
Matthew Owens - SANDAG
May 24, 2007

AGENDA ITEM NO.: 4

Action Requested: RECOMMEND

ASSEMBLY BILL 1064: SELF-GENERATION INCENTIVE PROGRAM

Introduction

In 2006, the California Legislature enacted AB 2778 to extend the sunset of the Self-Generation Incentive Program (SGIP) from 2008 until 2012. However, AB 2778 limited the technologies available for the incentive program to fuel cell and wind technologies only, excluding Combined Heat and Power (CHP) technologies. This session, AB 1064 as originally introduced would extend to 2012 incentives for CHP under the SGIP program.

Recommendation

The EWG is asked to make a recommendation to the Regional Planning Committee and/or Executive Committee that SANDAG submit a Letter of Support for AB 1064, as introduced.

Background

Senator Kehoe hosted the SANDAG Energy Legislative Forum on November 29, 2006. One of the legislative items presented addressed promoting clean distributed generation (DG) via the continuation of this incentive program. The Regional Energy Strategy and the state’s “preferred loading order” both recognize the benefits of clean DG.

Enacted last year, AB 2778 extended SGIP until 2012 for wind and fuel cell technologies. AB 1064 would continue the incentives for all clean technologies currently within the SGIP that meet the state’s prescribed efficiency rating of 60 percent, namely clean combined heat and power (CHP) technologies. According to SGIP participant feedback, without these incentives these CHP projects could not have been installed.

These incentives are necessary to overcome financial hurdles that can prevent installation of CHP; the current rate structure for distributed generation technologies is such that use of CHP can be cost-prohibitive. Second, CHP installations can reduce the need for transmission lines. Rather than importing electricity from outside the region, CHP is an energy-efficient DG source that is generated and used onsite. Lastly, CHP is an ultra-clean technology, which increases traditional generation efficiencies of 30-45 percent to over 60 percent efficiency by recapturing the heat generated from the first source and turning that heat into a second source of energy production.
AB 1064 passed out of the Utilities and Commerce Committee as well as the Natural Resources Committee; however, the bill was amended, removing the CHP provision. The Energy Working Group is asked to recommend that the bill be supported as originally written. Both the introduced and amended bills are attached.

Attachments: 1. AB 1064 as originally introduced  
2. AB 1064 as amended

Key Staff Contact: Susan Freedman, (619) 699-7387, sfr@sandag.org
An act to amend Sections 224 and 379.6 of, and to add Section 230.8 to, the Public Utilities Code, relating to energy.

LEGISLATIVE COUNSEL'S DIGEST


(1) Under existing law, the Public Utilities Commission (PUC) has regulatory authority over public utilities, including electrical corporations and heat corporations, as defined.

This bill would except from the definition of a heat corporation, a person employing solar thermal distributed technology, as defined, for the production or generation of heat for its own use or the use of its tenants or for sale to a heat corporation or state or local public agency.

(2) Existing law requires the commission, in consultation with the State Energy Resources Conservation and Development Commission (Energy Commission), to administer, until January 1, 2012, a self-generation incentive program for distributed generation resources. The program is applicable to all eligible technologies, as determined by the commission and subject to certain air emissions and efficiency standards, until January 1, 2008, except for solar technologies, which the commission is required to administer separately, after January 1, 2007, pursuant to the California Solar Initiative. Commencing January 1, 2008, until January 1, 2012, existing law limits eligibility for nonsolar technologies to fuel cells and wind distributed generation technologies.
that meet or exceed emissions standards adopted by the State Air Resources Board.

The bill would require the commission, in consultation with the Energy Commission, to administer, until January 1, 2012, a self-generation incentive program for distributed generation resources as originally established by the commission, subject to certain air emissions and efficiency standards and with the exception of solar electrical generation technologies, which are to be separately administered pursuant to the California Solar Initiative. The bill would make solar thermal distributed technologies that displace usage of natural gas or electricity eligible for the self-generation incentive program, as determined by the commission, and would require that any incentives authorized by the commission be performance-based so that incentives are earned based on the actual energy savings.


The people of the State of California do enact as follows:

SECTION 1. Section 224 of the Public Utilities Code is amended to read:

224. (a) “Heat corporation” includes every corporation or person owning, controlling, operating, or managing any heating plant for compensation within this state, except where heat is generated on or distributed by the producer through private property alone solely for his own use or the use of his tenants and not for sale to others.

(b) “Heat corporation” shall not include a corporation or person employing landfill gas technology or solar thermal distributed technologies for the production or generation of heat for its own use or the use of its tenants or for sale to a heat corporation or state or local public agency.

SEC. 2. Section 230.8 is added to the Public Utilities Code, to read:

230.8. “Solar thermal distributed technologies” means devices or systems that utilize solar thermal energy (sunlight) for space heating, space cooling, industrial or commercial process water for heating or cooling, or a combination of those purposes.
SEC. 3. Section 379.6 of the Public Utilities Code is amended to read:

379.6. (a) (1) The commission, in consultation with the State Energy Resources Conservation and Development Commission, shall administer, until January 1, 2012, the self-generation incentive program for distributed generation resources originally established pursuant to Chapter 329 of the Statutes of 2000.

(2) Except as provided in paragraph (3), the extension of the program pursuant to Chapter 894 of the Statutes of 2003, as amended by Chapter 675 of the Statutes of 2004 and Chapter 22 of the Statutes of 2005, shall apply to all eligible technologies, as determined by the commission, until January 1, 2008 2012.

(3) The commission shall administer solar electrical generation technologies separately, after January 1, 2007, pursuant to the California Solar Initiative adopted by the commission in Decision 06-01-024.

(4) Solar thermal distributed technologies that displace usage of natural gas or electricity are eligible for the program, as determined by the commission. Any incentives authorized by the commission shall be performance-based so that incentives are earned based on the actual energy savings.

(b) Commencing January 1, 2008, until January 1, 2012, eligibility for the program pursuant to paragraphs (1) and (2) of subdivision (a) shall be limited to fuel cells and wind distributed generation technologies that meet or exceed the emissions standards required under the distributed generation certification program requirements of Article 3 (commencing with Section 94200) of Subchapter 8 of Chapter 1 of Division 3 of Title 17 of the California Code of Regulations.

(e) Eligibility for the self-generation incentive program’s level 3 incentive category shall be subject to the following conditions:

(1) Commencing January 1, 2007, all combustion-operated distributed generation projects using fossil fuel shall meet an oxides of nitrogen (NOx) emissions rate standard of 0.07 pounds per megawatthour and a minimum efficiency of 60 percent. A minimum efficiency of 60 percent shall be measured as useful energy output divided by fuel input. The efficiency determination shall be based on 100 percent load.
(2) Combined heat and power units that meet the 60-percent efficiency standard may take a credit to meet the applicable NO\textsubscript{x} emissions standard of 0.07 pounds per megawatthour. Credit shall be at the rate of one megawatthour for each 3.4 million British thermal units (Btus) of heat recovered.

(3) Notwithstanding paragraph (1), a project that does not meet the applicable NO\textsubscript{x} emissions standard is eligible if it meets both of the following requirements:

(A) The project operates solely on waste gas. The commission shall require a customer that applies for an incentive pursuant to this paragraph to provide an affidavit or other form of proof, that specifies that the project shall be operated solely on waste gas. Incentives awarded pursuant to this paragraph shall be subject to refund and shall be refunded by the recipient to the extent the project does not operate on waste gas. As used in this paragraph, “waste gas” means natural gas that is generated as a byproduct of petroleum production operations and is not eligible for delivery to the utility pipeline system.

(B) The air quality management district or air pollution control district, in issuing a permit to operate the project, determines that operation of the project will produce an onsite net air emissions benefit, compared to permitted onsite emissions if the project does not operate. The commission shall require the customer to secure the permit prior to receiving incentives.

(c) In determining the eligibility for the self-generation incentive program, minimum system efficiency shall be determined either by calculating electrical and process heat efficiency as set forth in Section 218.5, or by calculating overall electrical efficiency.

(d) In administering the self-generation incentive program, the commission may adjust the amount of rebates, include other ultraclean and low-emission distributed generation technologies, as defined in Section 353.2, and evaluate other public policy interests, including, but not limited to, ratepayers, and energy efficiency and environmental interests.

(e) On or before November 1, 2008, the State Energy Resources Conservation and Development Commission, in consultation with the commission and the State Air Resources Board, shall evaluate
the costs and benefits, including air pollution, efficiency, and
transmission and distribution system improvements, of providing
ratepayer subsidies for renewable and fossil fuel “ultraclean and
low-emission distributed generation,” as defined in Section 353.2,
as part of the integrated energy policy report adopted pursuant to
Chapter 4 (commencing with Section 25300) of Division 15 of the
Public Resources Code. The State Energy Resources Conservation
and Development Commission shall include recommendations for
changes in the eligibility of technologies and fuels under the
program, and whether the level of subsidy should be adjusted, after
considering its conclusions on costs and benefits pursuant to this
subdivision.
AMENDED IN ASSEMBLY APRIL 17, 2007
CALIFORNIA LEGISLATURE—2007–08 REGULAR SESSION

ASSEMBLY BILL No. 1064

Introduced by Assembly Member Lieber

February 23, 2007

An act to amend Sections 224 and 379.6 of, and to add Section 230.8 to, the Public Utilities Code, relating to energy.

LEGISLATIVE COUNSEL'S DIGEST

(1) Under existing law, the Public Utilities Commission (PUC) has regulatory authority over public utilities, including electrical corporations and heat corporations, as defined.
This bill would except from the definition of a heat corporation, a person employing solar thermal distributed technology, as defined, for the production or generation of heat for its own use or the use of its tenants or for sale to a heat corporation or state or local public agency.
(2) Existing law requires the commission, in consultation with the State Energy Resources Conservation and Development Commission (Energy Commission), to administer, until January 1, 2012, a self-generation incentive program for distributed generation resources. The program is applicable to all eligible technologies, as determined by the commission and subject to certain air emissions and efficiency standards, until January 1, 2008, except for solar technologies, which the commission is required to administer separately, after January 1, 2007, pursuant to the California Solar Initiative. Commencing January 1, 2008, until January 1, 2012, existing law limits eligibility for nonsolar technologies to fuel cells and wind distributed generation technologies.
that meet or exceed emissions standards adopted by the State Air Resources Board.

The bill would require the commission, in consultation with the Energy Commission, to administer, until January 1, 2012, a self-generation incentive program for distributed generation resources as originally established by the commission, subject to certain air emissions and efficiency standards and with the exception of solar electrical generation technologies, which are to be separately administered pursuant to the California Solar Initiative.

This bill would make waste gas technologies, as defined and meeting certain requirements, eligible for the self-generation incentive program for distributed generation commencing January 1, 2008, until January 1, 2012. The bill would make solar thermal distributed technologies that displace usage of natural gas or electricity eligible for the self-generation incentive program, as determined by the commission, and would require that any incentives authorized by the commission be performance-based so that incentives are earned based on the actual energy savings.

(3) Existing law requires the commission to establish a program of assistance to low-income electric and gas customers, referred to as the California Alternate Rates for Energy or CARE program.

This bill would prohibit any costs of the self-generation incentive program from being recovered from customers participating in the CARE program.

(4) Existing law require the Energy Commission, on or before November 1, 2008, in consultation with the commission and the State Air Resources Board, to evaluate the costs and benefits of providing ratepayer subsidies for renewable and fossil fuel “ultraclean and low-emission distributed generation,” as defined, as part of the Energy Commission’s integrated energy policy report.

This bill would require the Energy Commission, on or before January 1, 2010, in consultation with the commission and the board, to evaluate past costs and benefits of providing ratepayer subsidies to natural gas and fossil fuel fired distributed generation through the self-generation incentive program.

The people of the State of California do enact as follows:

SECTION 1. Section 224 of the Public Utilities Code is amended to read:

224. (a) “Heat corporation” includes every corporation or person owning, controlling, operating, or managing any heating plant for compensation within this state, except where heat is generated on or distributed by the producer through private property alone solely for his own use or the use of his tenants and not for sale to others.

(b) “Heat corporation” does not include a corporation or person employing landfill gas technology or solar thermal distributed technologies for the production or generation of heat for its own use or the use of its tenants or for sale to a heat corporation or state or local public agency.

SEC. 2. Section 230.8 is added to the Public Utilities Code, to read:

230.8. “Solar thermal distributed technologies” means devices or systems that utilize solar thermal energy (sunlight) for space heating, space cooling, industrial or commercial process water for heating or cooling, or a combination of those purposes.

SEC. 3. Section 379.6 of the Public Utilities Code is amended to read:

379.6. (a) (1) The commission, in consultation with the State Energy Resources Conservation and Development Commission, shall administer, until January 1, 2012, the self-generation incentive program for distributed generation resources originally established pursuant to Chapter 329 of the Statutes of 2000.

(2) Except as provided in paragraph (3), the extension of the program pursuant to Chapter 894 of the Statutes of 2003, as amended by Chapter 675 of the Statutes of 2004 and Chapter 22 of the Statutes of 2005, shall apply to all eligible technologies, as determined by the commission, until January 1, 2008.

(3) The commission shall administer solar electrical generation and electrical displacement technologies separately, after January 1, 2007, pursuant to the California Solar Initiative adopted by the commission in Decision 06-01-024.

(4) Solar thermal distributed technologies that displace usage of natural gas are eligible for the program, as determined by the
commission. Any incentives authorized by the commission shall be performance-based so that incentives are earned based on the actual energy savings.

(b) (1) Commencing January 1, 2008, until January 1, 2012, eligibility for the program pursuant to paragraphs (1) and (2) of subdivision (a) shall be limited to waste gas technologies pursuant to paragraph (2), and to fuel cells and wind distributed generation technologies that meet or exceed the emissions standards required under the distributed generation certification program requirements of Article 3 (commencing with Section 94200) of Subchapter 8 of Chapter 1 of Division 3 of Title 17 of the California Code of Regulations.

(2) Commencing January 1, 2008, until January 1, 2012, eligible waste gas technologies shall meet both of the following conditions:

(A) The project operates solely on waste gas. The commission shall require a customer that applies for an incentive pursuant to this paragraph to provide an affidavit or other form of proof, that specifies that the project shall be operated solely on waste gas. Incentives awarded pursuant to this paragraph shall be subject to refund and shall be refunded by the recipient to the extent the project does not operate on waste gas. As used in this paragraph, “waste gas” means natural gas that is generated as a byproduct of petroleum production operations and is not eligible for delivery to the utility pipeline system.

(B) The air quality management district or air pollution control district, in issuing a permit to operate the project, determines that operation of the project will produce an onsite net air emissions benefit, compared to permitted onsite emissions if the project does not operate. The commission shall require the customer to secure the permit prior to receiving incentives.

(c) Eligibility for the self-generation incentive program’s level 3 incentive category shall be subject to the following conditions:

(1) Commencing January 1, 2007, all combustion-operated distributed generation projects using fossil fuel shall meet an oxides of nitrogen (NOx) emissions rate standard of 0.07 pounds per megawatthour and a minimum efficiency of 60 percent. A minimum efficiency of 60 percent shall be measured as useful energy output divided by fuel input. The efficiency determination shall be based on 100 percent load.
(2) Combined heat and power units that meet the 60-percent efficiency standard may take a credit to meet the applicable NO\textsubscript{x} emissions standard of 0.07 pounds per megawatt-hour. Credit shall be at the rate of one megawatt-hour for each 3.4 million British thermal units (Btus) of heat recovered.

(3) Notwithstanding paragraph (1), a project that does not meet the applicable NO\textsubscript{x} emissions standard is eligible if it meets both of the following requirements:

(A) The project operates solely on waste gas. The commission shall require a customer that applies for an incentive pursuant to this paragraph to provide an affidavit or other form of proof, that specifies that the project shall be operated solely on waste gas. Incentives awarded pursuant to this paragraph shall be subject to refund and shall be refunded by the recipient to the extent the project does not operate on waste gas. As used in this paragraph, “waste gas” means natural gas that is generated as a byproduct of petroleum production operations and is not eligible for delivery to the utility pipeline system.

(B) The air quality management district or air pollution control district, in issuing a permit to operate the project, determines that operation of the project will produce an onsite net air emissions benefit, compared to permitted onsite emissions if the project does not operate. The commission shall require the customer to secure the permit prior to receiving incentives.

(d) In determining the eligibility for the self-generation incentive program, minimum system efficiency shall be determined either by calculating electrical and process heat efficiency as set forth in Section 218.5, or by calculating overall electrical efficiency.

(e) In administering the self-generation incentive program, the commission may adjust the amount of rebates, include other ultraclean and low-emission distributed generation technologies, as defined in Section 353.2, and evaluate other public policy interests, including, but not limited to, ratepayers, and energy efficiency and environmental interests.

(f) The costs of the self-generation incentive program adopted and implemented pursuant to this section may not be recovered from customers participating in the California Alternate Rates for Energy or CARE program established pursuant to Section 739.1.
(g) On or before November 1, 2008, the State Energy Resources Conservation and Development Commission, in consultation with the commission and the State Air Resources Board, shall evaluate the costs and benefits, including air pollution, efficiency, and transmission and distribution system improvements, of providing ratepayer subsidies for renewable and fossil fuel “ultraclean and low-emission distributed generation,” as defined in Section 353.2, as part of the integrated energy policy report adopted pursuant to Chapter 4 (commencing with Section 25300) of Division 15 of the Public Resources Code. The State Energy Resources Conservation and Development Commission shall include recommendations for changes in the eligibility of technologies and fuels under the program, and whether the level of subsidy should be adjusted, after considering its conclusions on costs and benefits pursuant to this subdivision.

(h) On or before January 1, 2010, the State Energy Resources Conservation and Development Commission, in consultation with the commission and the State Air Resources Board, shall evaluate past costs and benefits of providing ratepayer subsidies to natural gas and fossil fuel fired distributed generation through the self-generation incentive program. The evaluation shall be provided to the Legislature and the Governor, and include the following:

1. The costs and benefits of the self-generation incentive program to residential and small commercial ratepayers, since the inception of the program.
2. The significance of societal benefits, including reductions in the emission of greenhouse gases, voltage support and grid reliability, and the opportunity costs of alternatives.
(3) The commission shall administer solar electrical generation technologies separately, after January 1, 2007, pursuant to the California Solar Initiative adopted by the commission in Decision 06-01-024.

(4) Solar thermal distributed technologies that displace usage of natural gas or electricity are eligible for the program, as determined by the commission. Any incentives authorized by the commission shall be performance-based so that incentives are earned based on the actual energy savings.

(b) Eligibility for the self-generation incentive program's level 3 incentive category shall be subject to the following conditions:

(1) Commencing January 1, 2007, all combustion-operated distributed generation projects using fossil fuel shall meet an oxides of nitrogen (NO\textsubscript{x}) emissions rate standard of 0.07 pounds per megawatthour and a minimum efficiency of 60 percent. A minimum efficiency of 60 percent shall be measured as useful energy output divided by fuel input. The efficiency determination shall be based on 100 percent load.

(2) Combined heat and power units that meet the 60 percent efficiency standard may take a credit to meet the applicable NO\textsubscript{x} emissions standard of 0.07 pounds per megawatthour. Credit shall be at the rate of one megawatthour for each 3.4 million British thermal units (Btus) of heat recovered.

(3) Notwithstanding paragraph (1), a project that does not meet the applicable NO\textsubscript{x} emissions standard is eligible if it meets both of the following requirements:

(A) The project operates solely on waste gas. The commission shall require a customer that applies for an incentive pursuant to this paragraph to provide an affidavit or other form of proof, that specifies that the project shall be operated solely on waste gas. Incentives awarded pursuant to this paragraph shall be subject to refund and shall be refunded by the recipient to the extent the project does not operate on waste gas. As used in this paragraph, "waste gas" means natural gas that is generated as a byproduct of petroleum production operations and is not eligible for delivery to the utility pipeline system.

(B) The air quality management district or air pollution control district, in issuing a permit to operate the project, determines that operation of the project will produce an onsite net air emissions benefit, compared to permitted onsite emissions if the project does
not operate. The commission shall require the customer to secure
the permit prior to receiving incentives.

(c) In determining the eligibility for the self-generation incentive
program, minimum system efficiency shall be determined either
by calculating electrical and process heat efficiency as set forth in
Section 218.5, or by calculating overall electrical efficiency.

(d) In administering the self-generation incentive program, the
commission may adjust the amount of rebates, include other
ultraclean and low-emission distributed generation technologies,
as defined in Section 353.2, and evaluate other public policy
interests, including, but not limited to, ratepayers, and energy
efficiency and environmental interests.

(e) On or before November 1, 2008, the State Energy Resources
Conservation and Development Commission, in consultation with
the commission and the State Air Resources Board, shall evaluate
the costs and benefits, including air pollution, efficiency, and
transmission and distribution system improvements, of providing
ratepayer subsidies for renewable and fossil fuel “ultraclean and
low-emission distributed generation,” as defined in Section 353.2,
as part of the integrated energy policy report adopted pursuant to
Chapter 4 (commencing with Section 25300) of Division 15 of the
Public Resources Code. The State Energy Resources Conservation
and Development Commission shall include recommendations for
changes in the eligibility of technologies and fuels under the
program, and whether the level of subsidy should be adjusted, after
considering its conclusions on costs and benefits pursuant to this
subdivision.