PUC proposal to tax solar power could chill climate for fuel savings

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Modesto resident Bob DeMont took the California energy crisis real seriously. During the worst of the shortages, he cut power consumption at his home by 40 percent and has since gone on to install a $115,000 solar system on his roof.

DeMont, a Gallo Winery director, figured his reduced PG&E bills meant the solar system would pay for itself within 17 years. Now he isn't sure how long it would take if regulators approve a plan to impose fees on all solar generation statewide.

The proposed fees, which the state Public Utilities Commission is expected to vote on later this month, are intended to help cover the billions of dollars California spent trying to avoid rolling blackouts during the past few years.

But critics say the fees would in fact cost more to collect than the amount they'd raise, and would ultimately deter Californians from pursuing solar power as an alternative energy source.

"People will be turned off completely if this passes," DeMont said. "It would make no financial sense to go solar."

This is a tricky issue. On the one hand, California is deep in the hole after getting into the power-buying business on behalf of cash-strapped utilities. It will take many years for ratepayers to pay off the debt with sky- high electricity bills.

Are those who now switch to solar passing along their share of the burden to others? That's what an administrative law judge concluded recently and what state regulators will be deciding on in coming weeks.

On the other hand, use of solar power is clearly something that needs to be encouraged as part of long-term efforts to increase energy independence and break the nation's dangerous addiction to fossil fuels.

California is so serious about this as a policy goal that the state already says it will subsidize about half the cost of installing most residential solar systems.

"It's totally schizophrenic," said Ed Smeloff, assistant general manager for power policy at the San Francisco Public Utilities Commission. "They'll give you funds to help you produce solar power, but then they'll charge you when you do it."

He added: "This would be sending a real signal to businesses and consumers that the state doesn't support solar."

It's actually a bit more complex than that. The question state regulators are looking at is whether monthly exit fees should be charged for people who avoid utility charges by producing their own electricity.

Solar power represents just a small portion of off-the-grid systems. The bigger concern for the state is if factories and other large-scale utility customers install diesel generators and produce much of their own juice.

That's why state regulators are looking at imposing between 2 cents and 5 cents per kilowatt hour in fees for anyone with an off-grid system, which makes sense for big, industrial diesel setups but would cast a dark cloud over solar.

Kari Smith, policy director for the California Solar Energy Industries Association and manager of regulatory affairs for PowerLight Corp., a Berkeley solar-system manufacturer, said the proposed fee would cost average residential solar users about $16 per month.

Savings from use of solar power would thus be cut almost in half for most people, she said, noting that solar can reduce the average $80 PG&E bill by about $40. This would significantly lengthen the time it would take for the typical $15,000 solar system to pay for itself.

Moreover, Smith said her trade group has determined that fees on solar use would generate no more than $1.5 million annually for the state, but would cost as much as $4 million per year to collect.

This would be due primarily to installation and upkeep of new equipment to monitor solar output at homes and businesses statewide.

"It will stop the solar industry in its tracks," Smith said. "The sun is free, but this would levy an operating cost on privately owned solar systems."

John Nelson, a spokesman for Pacific Gas and Electric Co., said the utility is sympathetic to the plight of solar users but believes all Californians should be responsible for the state's electricity costs.

"It's about paying your fair share," he said. "Exit fees are designed to protect all the other customers who can't afford to put solar on their roof."

But T.J. Rodgers, chief executive officer of Cypress Semiconductor, which has spent more than $2 million installing solar panels at its San Jose headquarters, counters that solar users should not be penalized just because the state and PG&E bungled the energy crisis.

"We invested a bunch of bucks to get a bunch of watts," he said. "If I do something to reduce my bill, why should I have to pay for somebody else's screwup?"

Solar advocates are pushing for a total exemption from any exit fees regulators impose. But PUC sources tell me that users of solar, wind and other renewable energy sources will probably end up paying at least something each month.

The compromise, regulators hope, will lie in charging solar users less than the amount levied on others with off-grid systems. Final sums have yet to be determined.

This is fair, I suppose. But it also seems counterproductive to attach new fees to an important (yet largely untapped) energy resource that the state is otherwise paying Californians to pursue.

Smith of the solar business association estimated that an exemption on exit fees for solar users would translate to little more than an additional 2 or 3 cents a year for other ratepayers -- not exactly the onerous burden envisioned by PG&E.

Put another way, would most Californians be willing to pay just a couple of cents annually to encourage use of solar energy statewide? Something tells me they would.

"Solar is part of the solution," Smith said. "It's not part of the problem."

FOR THE RECORD: United's well-compensated chief exec, Glenn Tilton, has confirmed that the company put him up for several months at the swanky Four Seasons Hotel in Chicago, as I reported in my Friday column.

But he told a gathering of Chronicle editors and reporters (and me) that the monthly tab wasn't $18,000, as many United employees believed. It was closer to $9,000.

Oh, and he said the airline's bankruptcy proceedings are going just fine, thank you very much.

SolarAccess.com News

Fee Proposal Could Harm California Solar Power

by Peter Carvelli, Editor, SolarAccess.com News

Sacramento, California - February 7, 2003 [A SolarAccess.com Exclusive] Solar energy activists in California are fighting a policy battle against a proposed fee that, if adopted, will increase the cost of solar power for grid-tied utility customers.

Generally seen as a progressive state that sets the tone for legislation throughout the rest of the country, the proposal has the state's solar power industry outraged and mobilized to see that solar users are protected.

In January, Administrative Law Judge, Charles Pulsifer issued an order that would impose a two to five cent per kilowatt hour (kWh) departing load or exit fee on all distributed generation, including solar, wind and other fossil fuel technologies such as diesel generators.

According to Washington, D.C.-based Solar Energy Industries Association (SEIA), the proposed fee is an attempt by California's private utilities - Pacific Gas & Electric, Southern California Edison and San Diego Gas & Electric - to reduce the debt the state incurred from buying power during the energy crisis of 2000.

Glenn Hamer, SEIA's executive director said he is outraged by the proposed fee.

"We're alarmed by the opinion of the administrative law judge," Hamer said. "The decision suggests that the more clean energy you produce the more you get penalized for doing so - simply put it's a tax on solar generation. It's an environmentally destructive decision."

The proposal would give utilities the right to install meters on privately owned solar energy and other power systems to measure the output and impose the exit fee on the kWh generated. Off-grid systems would not be effected.

In his order, Pulsifer stated, "Departing Load Customer Generation shall pay its share of Department of Water Resources (DWR) ongoing power charges...such charge shall be set equal to the corresponding cents/kilowatts surcharge component in effect on the date of departure as determined pursuant to the Direct Access (DA) phase ... proceedings."

The order does not immediately become law. According to Les Nelson, executive director of the California Solar Energy Industries Association (CalSEIA), the order can be acted on in some way by the five person California Public Utilities Commission, ignored completely or adopted verbatim.

"We've been intervening on this for a considerable period of time, (which) has led up to the proposed decision issued last week that basically ignores everything that we said and imposes an exit fee," Nelson said.

Sam Vanderhoof, of California-based inverter manufacturer SMA America, Inc. said he is concerned about the proposed fee, fearing it could "raise havoc" with a successful renewables program. He compared the situation to the European market where his company ships nearly 6000 units monthly - the yearly US market demand.

"It's a mind set," Vanderhoof said. "It's the government backing, it's different. I see Europe embracing it because they want to lessen their dependence on foreign oil."

The proposed fee would include any individual or business systems with meters - essentially any system that generates electricity including cogeneration systems and diesel generators. Fees would be imposed based on either the metered output of the system (CalSEIA is arguing that can't be done because of California's net metering law) or with charges assessed based on capacity of the system, not actual output.

Photovoltaic generation, though, is unique and should be treated differently because of its environmental and economic benefits, say its supporters.

"Our argument all along has been that PV is special and ought not to get departing load charges imparted on it," CalSEIA's Nelson said. "We're doing everything we can to persuade the commission that PV should not (face the fees) because the state is providing incentives to PV on one hand and would be taking the money back on the other hand."

In fact, Pacific Gas & Electric (PG&E), one of three utilities pushing for the fees, (the others are Southern California Edison and San Diego Gas & Electric) administers the payment of millions of dollars in PV, wind and other Renewable Energy incentives in 2002 and already in 2003. According to Paul Moreno, a spokesman for PG&E, the utility paid US$6.8 million toward PV projects in 2002, the first year it offered incentives, and already US$1.2 million this year.

The "Self-Generation Incentive Program," designed primarily for business or large institutional customers, provides a US$4.50 per watt incentive up to 50 percent of project cost on 30 kW to 1.5 MW PV, wind or fuel cell systems. The program, created in March 2001 by the CPUC, ordered utilities to offer financial incentives to their customers who install certain types of distributed generation facilities to meet all or a portion of their energy needs. As part of this program, PG&E was authorized US$48 million a year in customer incentives.

David Rubin, director of Service Analysis, for PG&E said the ruling follows the utilities' belief that all customers who installed distributed generation systems after the state began buying power on January 17, 2001, and therefore benefited from that power purchase, has a responsibility to pay for future power contracts.

"The question now before the commission is, if a customer departs - not through conservation or normal course of business, only through onsite generation, what is their fair share?" Rubin said. "They would then be shifting that responsibility onto other customers."

Rubin described a complex system of exemptions that he said may apply to some owners of onsite solar power and other DG systems, but admitted that solar users would in fact face new charges should the commissioners accept the order.

For a relatively small, home PV system, the charge would amount to a fairly small increase in total system cost. For example, a 2 kW system receiving five sun hours per day, has the potential to generate 10 kWh of electricity. Under the proposed fees this would add a minimum of US$.20 to a maximum of US$.50 per day (US$73 to $182.50 per year) to the operating costs of the system. (Large, commercial systems would face considerably higher charges.)

Nelson called the total dollar amount that could potentially be collected from PV system owners "inconsequential" compared to the total magnitude of the costs the utilities are attempting to recover. Even a small charge on PV systems is too much, according to SEIA's Hamer.

"If it were one penny it would be outrageous," Hamer said. "It's the principle of taxing the people of California who have decided to generate clean energy - it's an assault on common sense."

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