



**Pacific Gas and
Electric Company™**

Les Guliassi
Director
State Agency Relations

Mail Code B29L
Pacific Gas and Electric Company
P.O. Box 77000
San Francisco, CA 94177-0001

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415.973.6463
Fax: 973.9572

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ELECTRONIC DELIVERY

California Energy Commission
Docket Office
Docket No. 06-NSHP-1
1516 Ninth Street, MS-4
Sacramento, CA 95814-5512

**Re: Comments of Pacific Gas and Electric Company on the CEC's New
Solar Homes Partnership (NSHP) Affordable Housing Component
Advisory Committee Meeting of November 9, 2006**

Pacific Gas and Electric Company (PG&E) respectfully submits the following comments on the CEC's New Solar Homes Partnership (NSHP) Affordable Housing Component Advisory Committee Meeting of November 9, 2006.

Thank you for considering our comments. Please feel free to call me at (415) 973-6463 if you have any questions about this matter.

Sincerely,

Enclosure /mld

**PG&E Comments on New Solar Homes Partnership Affordable
Housing Component
Advisory Committee Meeting of November 9, 2006**

INTRODUCTION

Pacific Gas and Electric Company (PG&E) appreciates this opportunity to comment on the work of the Affordable Housing Advisory Committee (the “Committee”) and applauds the effort and thoughtful analysis that has gone into the Committee’s discussions. Ensuring that low-income customers, in new affordable housing, are able to participate in the New Solar Homes Partnership (NSHP) is an important measure of the program’s success. PG&E supports several of the concepts raised by the Committee. In particular, PG&E supports the Committee’s view that a specific set-aside should be established for new affordable housing, and that the rebate amount reflects whether the solar project offsets “common area” loads or provides a benefit directly to individual tenants. PG&E urges the Committee to support a simple and predictable solar rebate structure and to allow for multiple, creative solutions rather than a single, prescriptive approach.

DISCUSSION

Affordable housing developers face different processes in the development of their projects and the installation of PV systems compared to conventional builders. Financing arrangements for affordable housing deals are complex and development timelines longer; the use of housing tax credits at different levels to finance building construction further complicates an already complex financial analysis for financing solar equipment. Added to that are considerations of how solar benefits might affect tenant utility bills, utility allowances and ultimately the rental cash flow available for mortgage financing. To serve the low-income community effectively, the NSHP rebate process should be straightforward and simple to implement. Rebates should be paid as a lump sum to offset project development costs.

PG&E continues to support the energy efficiency requirements developed by the CEC in conjunction with the NSHP. An integrated approach best meets both individual and overall customer energy needs and is consistent with the principles adopted in the California Energy Action Plan. The Tier 1 and Tier 2 energy efficiency thresholds will help to ensure that smart energy use is fully incorporated into project design.

The Committee's discussion on November 9, 2006, of the need to a specific set aside of incentive funds for affordable housing highlighted the complex nature of affordable housing finance and the heterogeneity of projects. PG&E supports the idea of a set-aside to ensure that at least a portion of NSHP funding is allocated to affordable housing projects. Without a specific set-aside, such as the 10% designated in the California Solar Initiative (CSI) implemented by the California Public Utilities Commission, there is no assurance that this popular rebate program won't bypass the low-income community entirely.

Solar systems provide benefits over time (potentially 25 years). To the extent these benefits can be recognized and financed they can also provide up-front capital to build an affordable housing project—or at least offset a portion of the cost of a solar system. Estimating the future savings and present day financial contribution is essential to understanding how much should be provided in the form of rebates.

Two general approaches to installing solar systems were identified in the Committee's discussion: systems that serve "common loads" and systems that provide solar power directly to individually metered units. These approaches highlight an important policy issue: are the NSHP's purposes served by providing benefits to the property owner (via a solar system that offsets "common load") or should the benefits of the solar system flow directly to the low-income tenant? As always is the case in affordable housing, there are many variations on these general approaches and special circumstances to be considered, including situations where the property is master-metered or sub-metered. At the risk of over-simplifying a rich discussion, solar systems that serve only the common area loads for a property are simpler and less expensive to install compared to systems that provide power directly to each tenant.

PG&E believes customers make better energy choices when they are directly responsible for their own energy costs. Moving away from individually metered properties for the sake of simplifying solar system installations is neither consistent with state policy nor smart energy use. Recognizing the challenges this creates for installing solar in affordable housing, PG&E supports the concept of one incentive level for common load systems and a higher incentive for systems that provide benefits directly to tenants.

The Committee devoted some time to a discussion of utility billing system changes that could assign the benefits of a single large solar system to the individual tenants of a property. The concept may seem simple and appears to be consistent with providing direct tenant benefits if that is the policy direction the Commission decides is preferable. PG&E respectfully suggests that the Committee consider the costs and benefits as well as incentives and disincentives such a solution might bring. For instance, moving solar system benefits from the property developer to tenants may complicate financing the solar system and the developer's incentive to take on the task. Changing housing allowances to finance the system will have the net effect of raising rents. In addition, there are significant policy issues that would need to be resolved to make billing system changes, including the basis for allocating solar benefits among tenants, tenants on different rates, treatment of tenants who move during the one-year net metering true-up period, and seasonal and weather-related variation in solar system output. This concept needs further development to determine whether there are real benefits to offset what will certainly be a significant increase in administrative costs.

CONCLUSION

The NSHP should be a program that serves all customers—not only those with the personal wealth to install solar systems. PG&E supports this important effort and urges the Committee to propose specific set-asides for affordable housing and a tiered rebate structure that reflects the different cost structures in common area versus direct-to-tenant solar systems. PG&E hopes the Committee will adopt a simple, up-front payment structure and allow market participants to explore creative options.