TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER DEPARTMENT: UTILITIES
DATE: DECEMBER 18, 2006 CMR:444:06

SUBJECT: APPROVAL OF A BUDGET AMENDMENT ORDINANCE IN THE AMOUNT OF $750,000 FROM UTILITIES ELECTRIC SUPPLY RATE STABILIZATION RESERVE, TO PROVIDE INCENTIVES TO CITY OF PALO ALTO UTILITIES’ CUSTOMERS TO CONTINUE INSTALLING PHOTOVOLTAIC SYSTEMS

RECOMMENDATION
Staff recommends that Council approve the attached Budget Amendment Ordinance in the amount of $750,000 to provide additional funding for the existing City of Palo Alto Utilities’ (CPAU) “PV Partners” (photovoltaic) program for FY 2006-07 to provide incentives to CPAU customers who install a solar electric or photovoltaic (PV) system.

BACKGROUND
CPAU is required to collect and spend at least 2.85% of electric utility revenues in four categories which qualify for Public Benefit funds: a) cost-effective energy efficiency, b) renewable energy, c) research, development and demonstration (RD&D), and d) low-income assistance programs. For the past seven years, CPAU has offered incentives to customers who install PV systems, as part of the state-mandated Electric Public Benefits Program (renewable energy). The Electric Public Benefit Reserve was established for unspent funds arising from unanticipated changes in market demand for these programs.

California’s Senate Bill 1 (signed August 24, 2006) affects PV program funding. The bill requires all publicly-owned utilities to offer specified minimum incentives for PV systems, on or before January 1, 2008, for a ten year period. This mandate also prevents public utilities from taking funds previously used for energy efficiency and low income programs to meet the customer demand for solar incentives. The budget to meet CPAU’s
share of the total California PV installation goal is projected to be $13 million, averaging $1.3 million per year for ten years. Staff will return to Council in 2007 with the revised new PV program design, and funding levels to meet the requirements of Senate Bill 1. By continuing the City’s existing PV Partners program, the existing demand for PV rebates can be satisfied without interruption, and all installations that are completed after January 1, 2007 will count towards the City’s SB1 goals.

DISCUSSION
The award-winning PV Partners program has experienced significant demand for incentives in the past few years with more homeowners installing systems on existing housing stock, and greater numbers of developers using solar for their new construction projects. The increase in annual PV installations has averaged 114% since the program’s inception.

CPAU has previously met increased demand for solar incentives by redirecting unspent funds within the overall annual Electric Public Benefits program budget, but is unable to meet the higher-than-projected demand with this year’s Renewable Energy category budget of $225,000, nor are sufficient budget dollars available from other programs or Public Benefit categories. For FY 2006-07, CPAU has already paid out $190,000 in customer incentives, resulting in a budget balance of $35,000.

Staff projects that $750,000 is needed to satisfy the current program demand. Presently, $300,000 in incentives is pending from received customer applications. Other projected incentive expenses include: a) a new housing project with 25 condos applying for an additional $150,000 in PV incentives; b) a potential large-scale commercial application requiring from $200,000 in incentives; and c) a FY 2006-07 additional market potential for single-family applications of up to $135,000.

RESOURCE IMPACT
These additional funding requirements require a Budget Amendment Ordinance to transfer $750,000 from the Electric Supply Rate Stabilization Reserve to the PV Partners program within the Electric Fund operating budget. This transaction will decrease the Electric Supply Rate Stabilization Reserve to a balance of $63.8 million. This transaction will not draw upon the Electric Public Benefit Program Reserve, which will be needed for potential non-solar Public Benefits.

POLICY IMPLICATIONS
This request does not represent a change in policy.

ENVIRONMENTAL REVIEW
This is not a project under the California Environmental Quality Act.

ATTACHMENTS
Attachment A: Budget Amendment Ordinance
Attachment B: PV Program Participation
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