Docket No.: A.09-02-013 and A.09-04-018

Exhibit No.: ______________________

Date: September 14, 2009

Witness: Janice Lin

PREPARED TESTIMONY OF JANICE LIN ON BEHALF OF THE CALIFORNIA ENERGY STORAGE ALLIANCE REGARDING THE PACIFIC GAS & ELECTRIC COMPANY AND SOUTHERN CALIFORNIA EDISON COMPANY REQUEST FOR APPROVAL OF PROPOSED FUEL CELL PROJECTS

PREPARED TESTIMONY OF JANICE LIN ON BEHALF OF THE CALIFORNIA ENERGY STORAGE ALLIANCE REGARDING THE PACIFIC GAS & ELECTRIC COMPANY AND SOUTHERN CALIFORNIA EDISON COMPANY REQUEST FOR APPROVAL OF PROPOSED FUEL CELL PROJECTS

I. Introduction

The mission of the California Energy Storage Alliance ("CESA") [1] is to expand the role of energy storage to promote faster adoption of renewable energy and a more stable and secure electricity grid in California. My business address is:

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David Brower Center
2150 Allston Way, Suite 210
Berkeley, CA 94704

In my capacity as Managing Director of StrateGen Consulting, LLC, and Co- Founder and Director of CESA, I am actively involved in helping clients market and sell distributed grid connected energy systems to a wide range of potential customers. I provide strategic and technical support to CESA member companies and end users of Advanced Energy Storage ("AES") to deploy new energy storage projects, and accomplish their business objectives. During 2007-2009, I led a successful effort to obtain incentive co-funding for AES through California's Self Generation Incentive Program ("SGIP") – which currently funds AES at $2/W out of an annual $83 million budget, and concurrently developed several demonstration projects for AES in California. Prior to founding StrateGen and CESA, I served as Vice President of Business Development and Vice President of Product Strategy at PowerLight Corporation, a leading designer and installer of large-scale grid-connected solar electric systems and energy

[1] The California Energy Storage Alliance is an *ad hoc* advocacy group made up of renewable energy system integrators, energy industry consultants, and energy storage system manufacturers. CESA's membership presently consists of A123 Systems, Inc., Beacon Power Corporation, Chevron Energy Solutions, Debenham Energy, LLC, Fluidic Energy Inc., Ice Energy, Inc., Prudent Energy, PVT Solar, Xtreme Power Solutions and ZBB Energy Corporation. The views expressed in this testimony are those of CESA, and they do not necessarily reflect the views of all of the individual CESA member companies on every specific point.

efficiency services (now SunPower Systems). I hold an MBA from the Stanford Graduate School of Business, a BS from the Wharton School of Business and a BA in International Relations form the University of Pennsylvania's College of Arts and Sciences.

The purpose of this testimony is to address Southern California Edison Company's ("SCE's") request to the Commission to utilize SGIP funding to offset 50% of the initial capital cost of its proposed development of three fuel cell installations of up to 3 MW at various state universities in SCE's service territory ("Project).[2] Specifically, I provide further information to support CESA's Protest to SCE's Application, based on my experience working with the SGIP program to develop distributed renewable energy projects over the last nine years.

II. SCE Should Not Be Allowed To Use SGIP Funds For Its Fuel Cell Program

SCE attempts to circumvent D.01-03-073 which "prohibited utility distribution companies from receiving SGIP incentives" (page 23). Specifically, SCE proposes to use $10.8 million of existing SGIP monies to fund 50% of the Project described in the Application estimated direct capital cost. However, as SCE itself acknowledges, Commission policy expressly prohibits utilities from using SGIP funds or the use of such monies to fund utility projects.[3] The policy against use of SGIP funds by utilities was established in D.01-03-073, which provides in pertinent part:

"The following entities are not eligible for incentives under this program:

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[2] SCE's application was consolidated with a similar application related to Pacific Gas and Electric Company by ALJ Duda in her ruling from the bench at the June 22 prehearing conference that granted the May 19, 2009 motion to consolidate filed by the Division of Ratepayer Advocates ("DRA"). This ruling was subsequently confirmed in the Assigned Commissioner's and Administrative Law Judge's Scoping Memo and Ruling issued June 25, 2009 ("Scoping Memo").

[3] SCE Application, at p. 4.

- Customers who have entered into contracts for DG services (e.g. DG installed as a distribution upgrade or replacement deferral) and who are receiving payment for those services; (this does not include power purchase agreements, which are allowed)
- Customers who are participating in utility interruptible or curtailable rate schedules or programs
- Customers who are participating in any other state agency-sponsored interruptible, curtailable, or demand-responsiveness program
- *Utility distribution companies themselves or their facilities*. (Emphasis added)"[4]

In D.04-12-045, the Commission later clarified this policy as follows:

> "Decision 01-03-073 prohibited utility distribution companies from receiving SGIP incentives. The Working Group seeks clarification as to which distribution companies are excluded from the program.
>
> We clarify that public and investor-owned gas or electricity distribution utilities that generate or purchase electricity or natural gas for wholesale or retail sales, are not eligible to receive incentives." [5]

Given the Commission's clear and unambiguous prohibition on the use of SGIP funds by utilities, the Commission should deny SCE's cost recovery proposal. Moreover, allowing SCE to use SGIP funding would create an inherent conflict of interest, because SCE itself administers the SGIP funds for all program applicants.

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[4] D.01-03-073, Attachment 1, at p. 25.

[5] D.04-12-045, at p. 23.

III. SCE's Supporting Argument For The Application – Its Claim Of 'Underutilized Funding' Is Premature Given The Recent Inclusion Of AES Into The SGIP.

In D.08-11-044, issued November 21, 2008, the Commission allowed AES systems that meet certain technical criteria and are coupled with eligible SGIP technologies to receive SGIP incentive funds. Full implementation of this decision only occurred on May 8, 2009 when the current revised SGIP Program Handbook was issued and SGIP Program Administrators subsequently began accepting SGIP applications for qualified AES systems. While it is true that there is a sizable unspent Budget in SCE's SGIP account, (in the "Report of Southern California Edison Company on the Self Generation Incentive Program) – it is important to note that the budgetary amounts noted are only through May 1, 2009. Recent programmatic changes to the eligible size of fuel cell projects (D.08-04-049, issued April 24, 2008) as well as the inclusion of AES (effective May 8, 2009) should have increased demand for SGIP funds. At a minimum SCE should be required to report SGIP reservation activity from May 1, 2009 through present before asserting that SGIP funds are being 'under utilized'. Allowing SCE to utilize a significant portion of finite SGIP funding for utility-owned fuel cell projects would not only set a dangerous precedent, but would also certainly reduce available funding to qualified applicants for all of the eligible technology classes. Successful market development requires certainty and time – if SCE were to improperly and unfairly utilize SGIP funds for their own Project, this would have a 'chilling' effect on the commercial market for all eligible technologies as it would call into question the availability of remaining funds for private sector development.

IV. SCE's Use Of SGIP Funds For These Demonstrations Will Not Accelerate Fuel Cell Commercialization – Rather, It Will Stymie Further Development By Third Parties.

One of SCE's key arguments for use of SGIP funding to is to accelerate fuel cell commercialization. A key assumption embodied in this claim is that the very existence of reference projects like the ones proposed by SCE will dramatically accelerate fuel cell deployment via increased 'public awareness'. While public awareness is important, especially for generating new customer inquiries, it is not sufficient to converting inquiries into installed projects. Other important variables for customer adoption include the value proposition to the end customer and the perceived risks associated with achieving that value proposition. For fuel cell and other distributed generation project in California, the SGIP is essential to achieving rates of return required by end users to overcome their natural inertia to undertaking such a project, a project that is typically not core to their underlying business. If the Commission allowed SCE to reverse years of precedent to the contrary, it would introduce a significant source of new funding risk into fuel cell and other SGIP-eligible technology development that previously did not exist. This would have the exact opposite effect of SCE's stated intention. By setting a precedent for utility use of SGIP funds, the availability of future funds would be at risk. With future incentive funding potentially at risk, third party private sector project developers will not be willing to invest the time and energy – often spanning many months if not years – to develop an economically challenging project only to discover that SGIP funds have been consumed by SCE. From a private sector perspective, it is very hard to compete with a utility that enjoys a guaranteed rate of return on its capital invested, especially if the up front capital requirements are significantly reduced by use of ratepayer funds.

V. Recommendation

The Commission should reject SCE's proposal to use SGIP funds for its Project. Absent the imposition of this condition, the Commission should reject the SCE application entirely. This completes my testimony.