MEMORANDUM

TO: Mayor & Council Members

CC: Marc A. Ott, City Manager

FROM: Roger Duncan, AE General Manager

DATE: January 14, 2010

SUBJECT: Solar Rebate Program Changes

Overview

On September 24, 2009, Austin Energy suspended its commercial and multifamily solar rebate program. Austin Energy had already issued $700,000 from the FY2010 budget toward commercial solar rebates, and at that point set aside $100,000 of the remaining FY2010 Solar Rebate Program budget to pilot a new program for commercial and multifamily solar projects. Austin Energy committed to relaunch the commercial program in January 2010. Over the past four months, Austin Energy has conducted a number of stakeholder engagement meetings and received and evaluated feedback and suggestions. Austin Energy now proposes a new Commercial and Multifamily Solar Production Based Incentive (PBI) Program. Key features of this proposed program include:

- Development of 5,000 kilowatts of new solar photovoltaic capacity on commercial and multifamily customer facilities over the next five years through the PBI Program. After five years, Austin Energy plans to terminate new agreements under the Program and transition incentives for commercial and multifamily solar development to another program, such as a feed-in-tariff.
- The PBI Program will continue to provide incentives for photovoltaic (PV) solar systems connected on the customer's side of the meter under the terms and conditions of Austin Energy's Distributed Generation from Renewable Sources (Net Metering) Rider. The customer will receive the benefit of the solar power produced as a net metering customer; as a result, solar power offsets some of the customer's consumption. Austin Energy will determine the applicability of future changes in the Net Metering Rider to PBI Program customers as those changes are implemented.
- Austin Energy will continue to require that the customer assign to Austin Energy all Renewable Energy Credits generated by the system over the life of the system and to install appropriate metering equipment.

- The PBI, once agreed upon by Austin Energy, will be paid to the customer based on qualifying production on a monthly basis and for a term of ten (10) years.
- Austin Energy will establish an annual budget for the PBI program and manage against that budget. Incentive levels will be reviewed and, as appropriate, adjusted to systematically encourage reductions in the cost of solar systems and increases in the amount of solar production supported under the annual budget. A table describing the budget impacts of the PBI Program is attached.

The commercial and multifamily solar program redesign allows Austin Energy to provide a long-term incentive tied to actual energy production at lower annual cost (by spreading incentive payments over a number of years), to provide market stability to the local PV industry, and to match incentive levels more closely to actual market conditions.

Commercial and Multifamily Production Based Incentive "PBI" Program Elements

- The maximum system size for solar photovoltaic systems under the PBI Program is 20 kW AC. This is in accord with the Distributed Generation from Renewable Sources (Net Metering) Rider.
- Austin Energy approved solar contractors will submit PBI applications on customers' behalf.
- Application submittal does not entitle applicant to incentive funds. Applications must be accompanied by a copy of the contract between the customer and the installer. Once the incentive application and site is assessed and approved by Austin Energy, and if sufficient funds remain in the PBI budget, a Letter of Intent (LOI) will be issued. Austin Energy only undertakes an obligation to pay the incentive via the Letter of Intent.
- The LOI will state terms and conditions, including the incentive rate for renewable energy generation by the photovoltaic system and the duration of the agreement. Energy production by the PV system must be measured and verified by an Austin Energy installed utility grade meter. Austin Energy will make payments to customers, contractors or third parties on a quarterly basis. The customer must agree to make the agreement transferable in the event the property ownership changes and assign renewable energy credits created by the system to Austin Energy.
- Austin Energy's obligations under the agreement are payable from current electric operating and maintenance funds appropriated and available for this purpose. Austin Energy's payment obligations are special limited obligations of the City of Austin ("City"), payable solely from the revenues of Austin Energy, and not from any tax revenues of the City. The Agreement does not constitute indebtedness or a loan of the credit of the State, the City or any subdivision of the State within the meaning of any constitutional or statutory provisions. Neither the faith and credit nor the taxing power of the State, the City or of any political or subdivision thereof is pledged to the payment obligations of the City and/or Austin Energy under the agreement.

- In an effort to promote solar technologies and economic growth, qualifying equipment manufactured or assembled in Austin Energy's electric service area may qualify for a higher incentive level. "Manufactured or assembled" does not include installation of the system.
- At this time, Austin Energy intends to enroll new customers in the PBI Program for five years. The incentive level will be reset at the beginning of each program year and will be re-evaluated every four months by Austin Energy staff and in consultation with industry and community stakeholders. The annual appropriated budget for the PBI program will be allocated each four-month period, and the incentive level may be adjusted up or down according to prevailing market conditions. If the incentive level is increased, pending applications will be retained on file and addressed in the order that they were received. An increase in the incentive level will be offset by an adjustment in the number of applications approved in order to ensure that the budget is not exceeded. When the incentive level is decreased, pending applications *without* a signed Letter of Intent from Austin Energy will be returned to applicants. Applicants will have ten working days to resubmit a new application at the adjusted level in order to keep their position in the queue.
- Not-for-profit customers will not be excluded from participation in the program, but Austin Energy recognizes that they may difficulty accessing capital to support investments in solar systems and cannot take advantage of federal tax incentives. Austin Energy is investigating other incentive options for these customers.

Austin Energy will prepare presentations for both the Electric Utility Commission and the Resource Management Commission on these program changes. If you have any questions or comments please feel free to contact me at 322-6157 or Karl R. Rábago, Vice President, Distributed Energy Services at 322-6098 or karl.rabago@austinenergy.com.

Roger Duncan
General Manager