Milbank

February 1, 2016

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Project Finance Group Client Alert: California Approves New Net Metering Tariff

On January 28, the California Public Utilities Commission ("CPUC") voted in favor of a net metering successor tariff for customers of Southern California Edison, Pacific Gas & Electric, and San Diego Gas & Electric, California's three largest investor-owned utilities. The decision is seen as being favorable for the continued growth of residential solar installations and other distributed generation sources. While the CPUC's order maintains retail rates that allow customers to fully offset energy generated from on-site systems, it also introduced customer fees and other measures meant to provide long-term stability for the growth of distributed generation in the state. The new net metering rules are expected to remain in effect until reconsideration by the CPUC in 2019.

The new tariff will continue to give utility customers credit at the full retail rate for any electricity that is exported to the grid and maintains the state's net excess generation payout at the retail rate. Customers under the new tariff must pay a nonbypassable charge on each kilowatt-hour of energy consumed from the grid, as opposed to the old tariff whereby customers would only pay the charge on energy from the grid after offsetting the energy generated on-site. The CPUC order also creates a new one-time interconnection fee charged at a reasonable rate to customers with systems of 1 MW capacity or less. Customers who use the successor net metering tariff can use the tariff for 20 years from the date of interconnection.

The successor tariff will also require all residential net metering customers to use their utility's time-of-use rate ("TOU rate") in order to align energy costs with grid conditions and incentivize reduced demand during peak hours. Residential customers must use a default residential TOU rate or another offered rate with the exception of residential customers of San Diego Gas & Electric who can use existing tiered rates for up to five years during the period that the utility is adjusting their residential TOU rates.

With this decision, the CPUC has shown a strong commitment to increasing the use of solar power by residential customers. In marked contrast to other nearby states, like Nevada and Arizona, where local utilities have successfully fought to curtail net metering through fees and lower tariffs, California's net metering program preserves full value for power that residential solar ratepayers return to the grid. In so doing, it makes the market more attractive to solar power developers. This regulatory consistency will also make it easier for developers to attract debt and equity capital to finance residential solar distributed generation portfolios in the state.

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Please feel free to discuss any aspects of this Client Alert with your regular Milbank contacts or any of the members of our Project Finance Group.

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