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Renewable energy net metering tariff gets green light

By Allan T. Marks and Francis Choi

On January 28, the California Public Utilities Commission (CPUC) voted 3-to-2 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 (IOUs). The decision is favorable for the continued growth of residential solar installations and other distributed generation sources.

Utility customers who produce their own electricity (for example, from rooftop solar panels) may receive a credit for surplus energy supplied to the electric grid. The credit is applied to the customer's electric bill, to offset some or all of the costs associated with monthly power purchases. Utilities had argued that the credit should be lower (perhaps as low as each utility's average cost of wholesale power purchased from independent energy producers). Solar power installers and customers seeking to install new small-scale (not over 1,000 kilowatts or 1 MW) renewable energy generation systems, which cost more per kilowatt of capacity than larger utility-scale facilities, argued that the credit should be set at the utilities' retail 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 a full retail rate for power that incentivizes continued distributed generation development. In so doing, it makes the market more attractive to residential solar providers, who have made it easier for residential homeowners to own and lease solar systems in recent years.

While the CPUC's order maintains retail net metering tariffs that allow customers to fully offset energy generated from on-site systems, it also introduces customer fees and other measures meant to provide long-term stability for the growth of distributed generation in the state. The successor tariff will go into effect on July 1, 2017, or after an IOU hits a threshold of net metering capacity reaching 5 percent of the non-coincident consumer peak demand. The new net metering rules are expected to remain in effect until reconsideration by the CPUC in 2019.

Under the new tariff, utility customers will continue to receive credit for excess power returned to the grid at the full retail rate. Customers under the new tariff must pay a nonbypassable charge on each kilowatt-hour of energy consumed from the grid, which is estimated to cost customers about $0.02-0.03 per kilowatt-hour. This policy replaces the old tariff whereby customers would only pay the charge on energy from the grid after offsetting the energy generated on-site. Customers who use the new net metering tariff will use the retail rate credit and must pay the nonbypassable charge for a period of 20 years, starting from the date that they interconnect with the energy grid. Future changes to the tariff when it is next reviewed in 2019 should impact only ratepayers who install new systems after that date.

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The CPUC order also creates a new one-time interconnection fee, estimated at $75 to $100, charged to net metering customers with renewable energy systems of 1 MW capacity or less. The purpose of the fee is to assist IOUs with recovering costs associated with interconnecting net metering customers to the grid. In accordance with the CPUC's goal of making distributed generation affordable for all customers, low-income ratepayers are eligible to have the interconnection fee waived.

For utilities, power costs more to generate and purchase during periods of peak load (like a hot summer afternoon) than when demand for power is lower (like at night). Accordingly, the successor net metering tariff will vary for residential net metering customers with the utility's time-of-use rate (TOU rate) in order to align utility energy costs with grid conditions and to incentivize energy conservation during peak hours. Under the new tariff, a residential customer would pay a variable rate for electricity depending on the time when power is used, and would receive credits at the corresponding TOU rate when surplus power is sold back to the grid. This should encourage retail customers under the new net metering tariff to use less power, and to maximize surplus power generation, when demand is highest, benefitting both ratepayers and the utilities. Residential customers must use a default residential TOU rate or another offered rate under the new tariff, 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 setting their residential TOU rates.

New York Times

A man installs solar panels on a home in Camarillo.

While good for residential net metering consumers, the new tariff may present a challenge for IOUs looking to fairly distribute the costs of distributed generation. During the CPUC proceedings, the IOUs noted that, while net metering customers tend to save the utility money by generating their own electricity (thus reducing the IOU's wholesale power requirements), net metering customers also pay fewer distribution costs. Distribution costs are then borne disproportionately by customers that do not use net metering. This cost shifting results in higher rates for most IOU ratepayers and reduces the ability of utilities to recover costs associated with installing and maintaining electricity transmission and distribution infrastructure. The IOUs also commented to the CPUC that the retail rate credit for net metering was established at a time when the cost of generating energy from residential solar systems was much more expensive, requiring subsidies to encourage initial investments. Today, installed costs for solar power are much lower and, the utilities argued, should be met with a lower net metering credit rate. The new net metering tariff's interconnection fee and adjustments to the nonbypassable charge are intended to mitigate the type of cost shifting highlighted by the IOUs, but the CPUC deferred addressing the issue further until future tariff proceedings.

As Californians start transitioning to the net metering successor tariff and residential solar power use grows in the state, we will see whether the current pricing scheme allows utilities to recover the costs of grid upgrades to handle distributed generation without unfairly burdening other ratepayers. For now, though, the CPUC has clearly affirmed the California's strong commitment to distributed generation and to renewable energy by providing regulatory certainty going forward and by maintaining full value at retail rates for surplus power generated by net metering customers.

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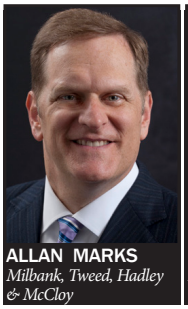

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