

Summary of the CPUC Hearings on the NEM Successor Tariff

Arguments in favor of maintaining the previous NEM Tariff Structure

During the CPUC hearings, solar advocates argued that the previous NEM structure should be maintained to continue to encourage market adoption of distributed solar. The up-front cost of installing a solar system has dropped, but remains high for the average California household or business. Advocates fear that reducing the NEM rate to the wholesale rate or adding additional fixed charges will make solar cost prohibitive.

In addition, advocates argue that all benefits of distributed solar should be included in the CPUC's cost-benefit analyses. These potential benefits include:

- Reduction of electricity prices due to the displacement of more expensive power sources
- Reduction of air and climate pollution
- Reduction in maintenance costs for the electricity grid
- Increase in energy security

The Brookings Institute published a much-cited paper in May 2016 that provides a review of cost-benefit analyses of NEM from around the country. The report concluded that these studies increasingly find that “the economic benefits of net metering actually outweigh the costs and impose no significant cost increase for non-solar customers.”

The paper can be found here: <http://www.brookings.edu/research/papers/2016/05/23-rooftop-solar-net-metering-muro-saha>

Arguments against the current NEM Tariff Structure

During the hearings, IOUs argued that the previous NEM structure is unfair because they claim that non-solar customers end up paying more for grid maintenance than solar customers. This is because the rates that non-solar customers pay incorporate traditional costs like maintenance, planning, and risk management.

Utilities are particularly concerned with two issues:

- The rate that NEM customers are allowed to “sell” electricity back to the grid is currently set at the retail rate. This means that NEM customers sell electricity to the grid at the same rate that it costs them to purchase electricity from the grid. Some IOUs argue that this rate should be closer to the wholesale rate that IOUs pay to procure energy from other sources. For comparison, the wholesale rate is roughly half of the retail rate.
- NEM customers are currently exempt from many charges, including standby charges, departing load charges, and costs associated with interconnection fees and distribution upgrades. Some IOUs argue that NEM customers should pay higher fees to cover fixed maintenance costs because these customers rely on a functioning grid.

San Diego Gas and Electric estimates that their non-solar customers will be required to pay an additional \$300 annually by 2025 due to this “cost shift.” However, the Solar Energy Industries Association disputed this number with their own calculation, which estimates the cost shift will increase a non-solar customer’s bills by less than 1%.

CPUC Decision on the NEM Successor Tariff

The CPUC hearings happened on the tail of two similar hearings in Hawaii and Nevada. In both states, the PUCs approved successor NEM tariffs that were favorable to the IOUs and disadvantageous to solar customers.

In contrast, the CPUC passed a narrow three-two decision on January 28, 2016 that continues the previous NEM structure in California with some slight changes and clarifications. The decision was widely praised by solar advocates. The CPUC will revisit the issue in 2019.

In their comments, the CPUC Commissioners generally concluded that the successor tariff moves in the right direction, but does not provide a long-term answer to some of the concerns raised by the IOUs. Commissioner Carla Peterman, who voted in favor of the Decision, stated that “It is clear the Commission is not comfortable with the variety of value and cost estimates.” The Commission directed staff to conduct more definitive analysis of alternative compensation structures and the true impact of the cost-shift from NEM to non-NEM customers.

The 140 page decision can be found here:

<http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M158/K181/158181678.pdf>

CPUC’s summary of the previous NEM tariff can be found here:

<http://www.cpuc.ca.gov/General.aspx?id=3800>

CPUC’s summary of the changes made as part of the successor tariff can be found here:

<http://www.cpuc.ca.gov/General.aspx?id=3934>