



**DATE:** January 18, 2022

**TO:** Mayor and City Council

**FROM:** Director of Public Works

**SUBJECT:** Adopt a Resolution Opposing the California Public Utilities Commission's Proposed Decision Threatening Net Energy Metering and Supporting a Net Energy Metering Policy that Continues the Growth of Local and Rooftop Solar

## **RECOMMENDATION**

That Council adopts the attached resolution (Attachment II) opposing the California Public Utilities Commission's proposed decision threatening new energy metering and supporting a net energy metering policy that continues the growth of local and rooftop solar.

## **SUMMARY**

The California Public Utilities Commission Board (CPUC) issued a proposed decision (PD) that threatens access to net energy metering and rooftop-scale solar and storage by homeowners and tenants alike. The CPUC could vote on the PD as early as January 27, 2022. If the PD is approved, it would make it extremely difficult for Hayward and California to meet adopted climate action and equity goals.

## **BACKGROUND**

Customers who install small solar, wind, biogas, and fuel cell generation facilities to serve all or a portion of onsite electricity needs are eligible for the state's Net Energy Metering (NEM) program. NEM allows customers who generate their own electricity to serve their energy needs directly onsite and to receive a financial credit on their electric bills for any surplus energy fed back to their utility.

The current NEM program was adopted by the CPUC in 2016<sup>1</sup>. The program provides customer-generators rate credits for energy exported to the grid and requires them to pay charges that align NEM customer costs more closely with non-NEM customer costs. NEM is designed to support the installation of customer-sited renewable energy generation.

On December 3, 2021, the East Bay Community Energy (EBCE) Board of Directors adopted a resolution<sup>2</sup> urging the CPUC to strengthen the NEM program by expanding clean

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<sup>1</sup> The CPUC approved Decision 16-01-044 on January 28, 2016.

<sup>2</sup> The EBCE resolution is available at <https://ebce.org/meetings/special-meeting-board-of-directors-12-3-21/>

distributed generation access to all households, particularly of low- and moderate-income ratepayers.

## DISCUSSION

In early 2021, the CPUC launched a formal proceeding to update the current NEM structure. The new rulemaking is referred to as NEM 3.0 because this is the third iteration of the NEM program. More than 17 proposals were submitted to the CPUC for consideration, including a joint proposal from the state's big three investor-owned utilities (IOUs): Pacific Gas & Electric (PG&E), Southern California Edison (SCE), and San Diego Gas & Electric (SDG&E). Opponents of the big three IOUs' joint proposal claim that it would hinder the state's highly successful rooftop solar market, which is a key strategy in the state reaching its ambitious clean energy and environmental goals.

On December 13, 2021, the CPUC issued a PD<sup>3</sup> that is very similar to the IOUs' joint proposal. Notable elements of the PD include the following:

- Credit Value of Excess Energy Exported to the Grid is Slashed by Nearly 80%
  - There is no transition identified, so the full reduction would take effect as soon as NEM 3.0 is implemented.
  - The PD proposes values for each hour of the day rather than consistent values within existing time-of-use periods.
- Inadequate Market Transition Credits are Proposed
  - There would be no incentive for commercial customers, including small businesses, schools, places of worship, and non-profits.
  - There would be no incentive for solar on new home construction, thus further exacerbating the unaffordability of the statewide real estate market and interfering with California's ambitious new Title 24 goals, particularly its solar mandate for residential customers.
  - A new fund of \$150 million per year would be created to fund solar for the lowest-income customers. The PD proposes no further specifics, with details promised to be worked out later.
- Eligibility Term Reduced for Existing (NEM 1.0 and NEM 2.0) Solar Customers
  - The PD proposes that the current 20-year eligibility period for NEM 1.0 and NEM 2.0 would be reduced to 15 years for residential non-California Alternate Rates for Energy (CARE) customers.
- Dramatic Increases in Payback Periods for Rooftop Solar Systems
  - Under the current NEM 2.0 rate design, the payback period for a typical residential rooftop solar system is estimated to range between 5 and 9 years.
  - Under the PD, the residential simple payback period for market-rate customers would increase to 16.0 years for PG&E customers, 18.6 years for SCE customers, and 9.3 years for SDG&E customers. The residential simple

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<sup>3</sup> The CPUC's proposed decision is available at <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M430/K903/430903088.PDF>

payback period for lower-income customers would increase to 11.6 years for PG&E customers, 11.2 years for SCE customers, and 12.2 years for SDG&E customers.

A consensus is emerging that a fair and effective rooftop solar policy must share its benefits with low-income and disadvantaged communities that have previously been left out. The PD further exacerbates these inequities. If approved, the PD is expected to significantly curtail the installation of new rooftop solar and battery storage, which would make it very difficult for California to meet its ambitious clean energy targets. The attached resolution opposes the PD and supports a NEM that expands clean energy access to all households, particularly of low-and-moderate income customers.

## **FISCAL AND ECONOMIC IMPACTS**

Adoption of the attached resolution will not cause a fiscal or economic impact. If the CPUC adopts the PD, there would be negative consequences for existing and potential solar customers as well as for manufacturers and installers of rooftop solar and battery storage systems.

Under the current NEM structure, local and rooftop solar installations are proliferating rapidly in Hayward with monthly building permits in the hundreds of kilowatts. For example, in December 2021, which is not a representative month for construction activity, the City issued final inspections for more than 280 kilowatts of solar generation capacity in Hayward. Making the NEM structure less rewarding would not only impact the local economy by discouraging installation of new local and rooftop solar, but it would also adversely impact the environment.

## **STRATEGIC ROADMAP**

This agenda item supports the Strategic Priority of Combat Climate Change. Specifically, this item relates to the implementation of the following project:

Project 1: Reduce Dependency on Fossil Fuels

## **SUSTAINABILITY FEATURES**

No direct identifiable environmental sustainability savings are associated with this item. However, the passage of the IOUs' joint proposal would likely squelch the deployment of rooftop-scale solar and storage in the City of Hayward, which would interfere with a key strategy in the realization of Hayward's climate action goals.

## **PUBLIC CONTACT**

No public contact has been conducted.

## **NEXT STEPS**

If approved by Council, staff will send the resolution to Governor Gavin Newsom, State Senator Bob Wieckowski, Assemblymember Bill Quirk, and members of the CPUC.

*Prepared by:* Erik Pearson, Environmental Services Manager

*Recommended by:* Alex Ameri, Director of Public Works

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', is written above a horizontal line.

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Kelly McAdoo, City Manager