



MEMORANDUM

To: LGSEC Members

From: Nathan Wyeth and Jody London, Regulatory Consultants

SUBJECT: Update on Development of Net Energy Metering Tariff (CPUC Docket R.14-07-002)

DATE: November 7, 2014

This memo provides an update on California Public Utilities Commission (“CPUC”) proceeding R.14-07-002, development of a net energy metering (“NEM”) tariff. AB 237, which called for creation of a new NEM tariff, requires that the tariff be completed by December, 2015. As we have previously reported, this process is complicated by ongoing revision of residential tariffs in another proceeding (also called for in AB 327). It is difficult to develop a NEM tariff without knowing what customers would otherwise pay. In the last month, the CPUC took comments on a tool it is developing to evaluate tariff options and held a prehearing conference to talk about the schedule for the proceeding.

Proceeding Procedural Status and Issues

Timing of Draft Public Tool Release

The “Public Tool” will be a software tool that will model the costs and benefits relating to NEM customers and thus provide guidance on the appropriate rate that NEM customers should receive on power they sell to the grid. Rather than having a single model or set of scenarios created by the Commission, the Public Tool will allow interested parties to input their own assumptions and communicate to the Commission their reasoning and results. The outputs from the Public Tool will then be incorporated into the determination of the NEM tariff. The release of the draft Public Tool is planned for late January, with a final tool to be released in late March 2015. A full calendar is below.

At the October 30 prehearing conference, it was announced that the release of a draft Public Tool is slated for late January. Energy Division staff announced that this draft Tool will strive to incorporate all the suggestions made by parties in written comments where feasible given budget constraints. There was discussion at the prehearing conference of whether written or oral comments on the construction of the draft Tool would be most appropriate given the need for parties to examine the tool and respond in time for the development of the final Tool. The Alliance for Solar Choice (“TASC”) voiced the opinion that written comments are essential for

the public record given how important the design of Public Tool will be and Anne Simon, the Administrative Law Judge (“ALJ”), suggested that she agreed.

Evidentiary Hearings

ALJ Simon also noted that she was changing the scope of the proceeding to allow for evidentiary hearings should they be called for. Multiple parties suggested that such hearings would be appropriate, given that there are matters of fact on which parties substantially disagree and the Commission may need to resolve these issues. As noted below, this generally concerns the existence and scale of societal benefits from distributed generation and measurement of the sustainability of the residential solar industry. As a result, ALJ Simon suggested that in future written comments, parties should be forthright in raising their concerns and priorities relating to the NEM so that the need for evidentiary hearings, and their focus, can be determined.

Disadvantaged Communities

Following up on written comments on the need to ensure careful consideration of how to incorporate disadvantaged communities in the NEM tariff, multiple parties including both utilities and advocacy organizations concurred at the prehearing conference on the need for a workshop in January/February 2015 on this topic. Building on comments made by Pacific Gas & Electric (“PG&E”) on the need for this workshop to help understand how these communities should be approached in this proceeding, ALF Simon noted that this will be a complex topic, made more complex due to the expected participation by many relevant organizations that are not normally parties to CPUC proceedings. The Sierra Club and the Interstate Renewable Energy Coalition (“IREC”) suggested that it would be helpful to have greater clarity on how this workshop will be conducted and how it will feed into the overall NEM process.

Grouping

The Sierra Club suggests that organizations using the Public Tool should present recommendations grouped into four categories: IOUs, solar providers, environmental advocates and ratepayer advocates. They suggest that this would clarify and simplify the process.

Cost of Service Study

Multiple commenters, including both San Diego Gas & Electric (“SDG&E”) and IREC, suggest that a “Cost of Service” study, examining the costs associated with serving NEM customers, is essential for this proceeding. In line with this, IREC as well as Clean Coalition suggest that it is inappropriate to use costs associated with interconnecting and serving utility-scale renewable energy to estimate costs associated with NEM customers. These parties believe a Cost of Service study would provide a better estimate for this.

Public Tool Design

In written comments prior to the Pre-Conference Hearing, parties diverge on several key questions for how the Public Tool will be designed and used.

Societal Benefits

The largest question appears to be whether and how “societal benefits” from distributed renewable energy should be incorporated into how this energy is valued when sold back to the grid. Organizations such as the Joint Solar Parties, IREC, Clean Coalition, Sierra Club, and the Silicon Valley Leadership Group advocate for inclusion of value provided by distributed renewables for the environment, water conservation, jobs, economic development, and carbon reduction, as well as generalized benefits to the grid from distributed generation such as grid resiliency and reduced costs related to natural gas price hedging. The LGSEC put forward similar views in comments submitted over the summer.

The investor-owned utilities (“IOUs”) strongly disagree that these societal benefits should be incorporated into the NEM tariff. PG&E calls these benefits “‘illusory’ or ‘ill-defined’ values... that don’t affect utility or customer costs.” It notes that the CPUC has rejected the incorporation of societal values into tariffs previously and should do so again. Southern California Edison (“SCE”) suggests that because public benefits are not shifted between those participating in net energy metering and those that are not, that they are not appropriate to include in the proceeding. SDG&E suggests that if societal benefits are included, that a single value (\$/kWh) should be transparently created to represent all of these societal values. Determining this value, and whether distributed renewables create such societal values, would seem to be what PG&E alludes to in its comments and prehearing conference remarks calling for evidentiary hearings.

Solar Industry Sustainability

A second major consideration addressed by many commenters is how the Commission should evaluate how a NEM tariff will contribute to the sustainability of the residential solar industry, as required by statute. PG&E suggests in comments that solar is an “established technology” that should not be further subsidized, but the main focus of comments is on whether the CPUC should continue to use “payback time” for customer-owned distributed generation as the best input for estimating a rate of customer adoption. Because of advances in solar financing, few customers pay for their systems upfront, making payback time less relevant. Basing sustainability estimates on payback period would therefore underestimate industry sustainability. Several commenters suggest that it is very difficult to estimate adoption rates and those new criteria are needed for estimating adoption.

Rate Classes

Several commenters seek clarification of whether the Commission is seeking to model multiple rate classes for the NEM tariff, or create a single program. SCE suggests modeling NEM customers as a separate class.

All Technologies

The California Farm Bureau Federation notes in written comments that the Public Tool should include the full spectrum of distributed generation technologies, not only those, like solar, that are already prevalent. The Farm Bureau suggests that designing a NEM tariff without other

technologies in mind would prevent their future growth.

NEM Public Tool Calendar

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| Energy Division provides written responses to opening comments (filed 10/1) and reply comments (filed 10/20) | December 2014 |
| Workshop on final approach for Public Tool and mock-up of user interface | December 2014 |
| Workshop on proposals for "Disadvantaged Communities" | January 2015 |
| Draft Public Tool released | Late January 2015 |
| Workshop to discuss and provide tutorial on draft Public Tool | February 2015 |
| Written Stakeholder comments on draft Public Tool | February-March 2015 |
| Proposed Decision to be issued in Residential Rates OIR (R.12-06-013) | March 2015 |
| Final version of Public Tool released | Late March 2015 |
| E3 issues report from the Public Tool | April 2015 |
| Party proposal using Public Tool submitted | To be set by ALJ |

Please contact Jody London with any questions or comments.