California Public Utilities Commission's Successor Net Metering Decision and Trends in Rate-Making

Article By:

Jillian C. Kirn

On January 28, 2016, by a 3-2 vote, the ***California Public Utilities Commission ("CPUC")*** agreed to extend California's net metering program. The CPUC's decision rejected proposals by three of the state's major utilities (Pacific Gas &Electric Co., San Diego Gas & Electric Co., and Southern California Edison) to decrease the financial credit received by eligible customers for excess energy sold back to the grid.

Energy executives and officials in many states have been watching California's decision-making process closely as the industry contends with massive changes stemming from alternative energy, particularly rooftop solar generation. Net metering allows a customer with on-site renewable energy generation to receive a financial credit for excess power generated by his or her system. Industry and policy makers continue to grapple with how best to value electricity when it flows from customers to utilities, rather than the reverse.

Many states have net metering policies, but the rates vary, with some states offering credits near wholesale energy prices and others, like California, offering the retail rate. In December, Nevada utility regulators decided to phase out retail rate net metering for rooftop solar customers in favor of a wholesale rate, decreasing the rate from almost 10 cents per kilowatt hour to slightly over 2 cents per kilowatt hour. In October, Hawaii utility regulators ended the state's retail net metering program, replacing it with alternative compensation options for rooftop solar customers.

The CPUC stated that its decision attempts to "strike a balance" between the requirements of Assembly Bill 327 and incentivizing a sustainable customer-sited renewable distributed generation program. Costs for net metering new customer-generators include a one-time interconnection fee and non-bypassable charges, the latter of which most consumers already pay. Those charges are slated to fund low-income and energy efficiency programs. Beginning in 2018, new customer-generators will also be compensated at variable rates depending on when they send their excess power to the grid.

California's new net metering program will benefit rooftop solar customers as well as customers with generation facilities larger than 1 megawatt. Those larger facilities will be required to go through California's "Rule 21" interconnection process and pay for any studies or grid improvements necessary to accommodate the new generation. Some Armed Forces bases and correctional facilities will be eligible to install these larger units.

The changes will not affect customers who already have solar photovoltaics or who install panels before the utilities in their area reach the rooftop use caps in their service territories, or by July 1, 2017, whichever occurs earlier. The utilities are required to submit new tariffs in compliance with the decision within 30 days. The CPUC said it will reconsider net metering again in 2019 and left open the possibility of additional revisions or charges.

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