

# VALLEY CLEAN ENERGY ALLIANCE

## Staff Report

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**TO:** Valley Clean Energy Alliance Community Advisory Committee

**FROM:** Mitch Sears, Interim General Manager  
Michael Champ, Sacramento Municipal Utility District (SMUD)

**SUBJECT:** Net Energy Metering Policy

**DATE:** January 29, 2018

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### RECOMMENDATION

Staff is requesting the Community Advisory Committee (CAC) recommend to the VCEA Board to adopt policy option 2, and the recommended administrative policy decisions.

### BACKGROUND AND ANALYSIS

At the January 11, 2018 Community Advisory Committee meeting SMUD presented background information and received feedback on Net Energy Metering (NEM). On January 18, 2018 the VCEA Board received a similar presentation and provided feedback to staff. At the February 8, 2018 VCEA Board meeting, VCEA staff will be asking the Board to consider adopting a NEM policy. In addition, staff will be recommending that the Board adopt several administrative aspects of the NEM policy.

### Administrative Policy Decisions

When a NEM customer is enrolled into a CCA, a true-up is triggered with PG&E. This true-up may result in required payments to PG&E or adjustments to accumulated credit balances. At times farther from a customer's regular true-up date, the required payment or credit balance is likely to be larger, while at the true-up date, it should be closer to zero. Staff recommends enrolling customers on a schedule that aligns with their current PG&E true-up date, rather than all at once during the overall CCA launch. Each enrollment event of NEM customers will require VCEA to pay a \$4,475 mass enrollment fee to PG&E. Thus, having monthly enrollments will incur an additional one-time expense of \$49,225.

Staff recommends trueing up all NEM customers annually on their April bill cycle. Currently, customer true-ups occur on the anniversary of the system operation approval date. Moving them to April will result in lower overall payments and credits between VCEA and customers, as the accumulated credit balance of customers should be at a low before spring energy production. In addition, an April true-up will result in operational efficiencies for VCEA in managing one batch process for the year.

Staff recommends setting a cash-out minimum of \$100, and only cashing out customers electing to cash out. Any balance below \$100, and any balance from customers who have not elected to cash out, will be rolled over to the next cycle as a bill credit. Setting a minimum cash-out limit reduces the number of transactions for the customer, and lowers the overall cost of mailing checks. Requiring an election to cash out reduces the amount of uncashed checks and required follow-up processes.

Staff recommends requiring payment monthly. This eliminates the potential sticker shock of a large bill, and reduces the total accounts receivable exposure. This also simplifies the bill for customers, with them not needing to distinguish between informational bills, and bills that are due. Finally, this clarifies definitions and reporting of delinquent accounts.

### **Excess Generation Policy**

Under current PG&E policy, customers are billed monthly, according to their net usage, accumulating bill credits at the retail rate for excess generation in any given billing cycle. Annually on their true-up date, PG&E calculates the net usage on a kWh basis for the past 12 months. If this is negative, any accumulated retail credits are removed. If it is positive, the net surplus generation for the year is compensated at the wholesale energy rate.

Staff evaluated three alternative NEM policies:

1. Match PG&E policy, but compensate net surplus generation at a wholesale energy rate plus a \$0.005/kWh adder
2. Compensate excess generation in any given month at the retail rate plus \$0.01. Pay out annually at the accumulated retail credits, up to a maximum of \$2,500. Past this amount, pay at the wholesale energy rate plus a \$0.005 adder.
3. Compensate excess generation in any given month at the retail rate plus \$0.01. Pay out annually at the accumulated retail credits.

Of these options, Option 1 is the expected lowest cost, at a \$46,700 annual premium to a policy mirroring PG&E. Option 2 is more expensive at \$828,500 annually. Option 3 is the most expensive at \$2.2M annually. Option 3 – and to a lesser extent, Option 2 – would significantly increase the economic incentive to add rooftop solar. To the extent they increase solar adoption, they would reduce future CCA revenues and put pressure on rate discount targets. These costs are subject to changes in the wholesale value of electricity, changes in the production and demand shapes of NEM customers, and changes in rate schedules and billing period definitions.

In addition to the overall costs, the options distribute the benefits differently across customer types, as seen in table 1 below.

Table 1 - Customer Financial Benefit of Various NEM Options

	Total Gain		Options		
	From	To	1	2	3
# Impacted Customers	\$ 1,000	and up	10	133	161
	\$ 500	\$ 1,000	4	237	226
	\$ 100	\$ 500	39	1,065	1,048
	\$ -	\$ 100	764	3,879	3,879
	No impact	\$ -	4,539	42	42
Average Impact	\$ 1,000	and up	\$ 2,709	\$ 1,938	\$ 9,915
	\$ 500	\$ 1,000	\$ 584	\$ 669	\$ 668
	\$ 100	\$ 500	\$ 270	\$ 277	\$ 275
	\$ -	\$ 100	\$ 9	\$ 30	\$ 30
	No impact	\$ -	4539	42	42
<b>Total Cost</b>			<b>\$ 46,706</b>	<b>\$ 828,494</b>	<b>\$ 2,152,028</b>

Option 1 does not change the NEM calculation for the majority of customers. It only affects the 18% of customers (primarily non-residential) who net surplus generate on an annual basis. Option 2 and 3 provide benefits to nearly all customers, since it increases the value of any generation by \$0.01/kWh. These options also provide far higher rates for net surplus compensation, typically approaching peak retail prices instead of wholesale prices. This may be as much as \$0.20/kWh, but varies significantly by rate schedule. Option 2 caps this benefit at \$2,500/customer, while Option 3 leaves it uncapped. By leaving retail compensation uncapped, Option 3 provides a large benefit to large net surplus generators.

With any NEM policy that allows for a \$0 bill, increasing adoption may eventually lead to a need to change rate structures, as VCEA will need to cover the costs of marketing, billing, load balancing, regulatory compliance, and other non-energy costs. As customers commit to a 20-year asset installed on their home, any changes to NEM rates are typically only applied to go-forward installations, with existing customers grandfathered into their existing rate. Thus, a NEM policy should be designed to handle future as well as current customers.

Staff recommends adopting a NEM policy in line with Option 2. Most residential customers will be unaffected by the \$2,500 cap, but it will limit the total amount of power that VCEA purchases at retail rates. By compensating at wholesale above the cap, VCEA will continue to incentivize buildout of additional solar where it is economic. This option strikes a balance between increasing the incentive for installing solar and managing the total budget impact.

## CONCLUSION

Staff is seeking a recommendation from the Community Advisory Committee in support of Board adoption of the following Net Energy Metering Policy decisions:

- Initial enrollment of NEM customers on a monthly basis, based on PG&E true-up date
- Annual true-up for all NEM customers held annually in April
- Cash-out only for customers with more than \$100 in credits who opt-in. Other customers will have credit balance roll over to the next billing cycle.

- Credit customer monthly for excess generation at retail plus \$0.01, without additional compensation for participation in renewable programs
- Settle annually at the accumulated retail credits, up to a maximum of \$2,500. If retail credits are over \$2,500, settle at the greater of \$2,500 or the wholesale value of net surplus generation.
- Calculate the wholesale value of net surplus generation at the simple average of DLAP pricing between 7am and 5pm of the previous 12 months, plus a \$0.005/kWh adder.