BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking Regarding Policies Procedures and Rules for the California Solar Initiative, the Self-Generation Incentive Program and Other Distributed Generation Issues	Rulemaking 12-11-005 (November 8, 2012)

REPLY COMMENTS OF THE CALIFORNIA SOLAR ENERGY INDUSTRIES ASSOCIATION REGARDING THE ESTABLISHMENT OF A NET ENERGY METERING TRANSITION PERIOD

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Pursuant to the Assigned Commission's Ruling (ACR) Regarding the Establishment of a Net Energy Metering (NEM) Transition Period, issued on November 27, 2013, the California Solar Energy Industries Association (CALSEIA) hereby submits these reply comments.

1. Unequal treatment would impair market continuity and conflict with the statutory requirement.

Pacific Gas & Electric (PG&E) and San Diego Gas & Electric (SDG&E) recommend separate status for projects installed between April 1, 2014 and December 31, 2015 and for projects installed after January 1, 2016.[1] The utilities propose that projects installed during those time periods be subject to a shorter NEM transition period than projects installed before April 1, 2014. CALSEIA disagrees with this recommendation, and is particularly concerned that solar installations would plummet in the middle period if people who are considering investments in solar generation are given a reduced period of time under NEM 1.0 with no certainty about a NEM 2.0 program. If companies experience nearly two years of a dead market they will lose experienced workers and economies of scale that have been important factors in the maturing of the industry.

Above all, the State of California cannot risk its investment in solar power.

[1] Pacific Gas & Electric Opening Comments, p. 2; San Diego Gas & Electric Opening Comments, p. 6.

Through the California Solar Initiative, California ratepayers have invested $3 billion in the solar power market. It has been a tremendous success, with 43,000 Californians now employed in the solar industry.[2] Installations are continuing based on the support of net metering and the federal investment tax credit but mostly without CSI incentives.

If people considering investments in solar power experience so much uncertainty that demand for new systems decreases significantly, the momentum created by the state incentive program that all ratepayers have paid into will be lost.

Splitting NEM transition into three separate periods is also unnecessarily confusing. One important rate design principle is that "Rates should provide stability, simplicity and customer choice."[3] Establishing three different NEM transition stages would add excessive complexity for customers who are considering investments in solar.

Unequal treatment also violates statute. AB 327 directs the Commission to establish "a transition period" for systems installed prior to July 1, 2017 or the meeting of each utility's NEM cap.

2. Simple payback periods are not relevant.

Several parties included estimates and comments on simple payback. CALSEIA appreciates that the Commission has given consideration to payback periods as required by AB 327, but estimates of simple payback do not form a reasonable basis for establishing the NEM transition period.

AB 327 does not state that the transition period should be set by "simple payback," a term that is understood to mean the point at which customers have recovered their initial capital outlay. Instead, the Legislature chose to direct the Commission to consider the "expected payback" period. In any industry, payback on an investment includes profits or savings accruing from that investment. It is clear that a customer does not make a large expenditure or commit to a long-term

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[2] Solar Foundation, National Solar Jobs Census, November 2012.

[3] Order Instituting Rulemaking on the Commission's Own Motion to Conduct a Comprehensive Examination of Investor Owned Electric Utilities' Residential Rate Structures, the Transition to Time Varying and Dynamic Rates, and Other Statutory Obligations, 21 June 2012.

purchase agreement based on breaking even. The customer expects to have substantial long-term savings. Therefore, the determining factor is about customer expectations – how long a time period is the typical customer expecting to earn savings from the solar investment or commitment at the time the investment decision or the purchase commitment is made. This time period is equivalent to the customer's reasonable expectation of the lifetime of the system.

Further, any calculation of simple payback would have to take into consideration future changes to rate schedules. It is not reasonable at this time to speculate on future rate changes for purposes of valuing investments in solar systems, particularly in this time of uncertainty over the impact of AB 327 implementation.

3. Establishing the transition period should not be an opportunity to redesign net metering.

The comments of PG&E, SCE, and The Utility Reform Network discuss metrics of cost-effectiveness of net metering and reference the recent "Net Energy Metering Ratepayer Impacts Evaluation" prepared by the E3 consulting firm.[4] That discussion is relevant to the design of NEM 2.0, not to the transition period matter at hand. The impacts evaluation will need to be updated based on data from proposals for the future NEM tariff, and a vibrant debate is certain to take place about program design.

It is noteworthy that the ACR for the creation of a net metering transition period does not ask about cost effectiveness or what level of program support is needed to encourage the expansion of solar electricity generation. The transition period should simply be determined according to what is fair to customers who have invested in solar generation. Determinations of net metering program design will follow at the appropriate time.

4. Warranty periods for solar systems are 25 years, not 10 years.

[4] See: http://www.cpuc.ca.gov/PUC/energy/Solar/nem_cost_effectiveness_evaluation.htm.

PG&E's contention that, "Most customers only receive a 10 year system warranty" is factually inaccurate. The PV modules are the core of the system and determine the useful life of the system. Customers do not dismantle their systems when the inverter gets old or when other maintenance is required. As documented in CALSEIA's Opening Comments, all leading manufacturers warrant their modules for 25 years, and that is the relevant time period for the warranty of the system.

5. PG&E misrepresents the financial circumstances of PPA customers.

PG&E notes that a majority of residential systems installed in recent years have used third-party ownership models and that many of those models provide contracts with no upfront payment for the customer and bill savings from the start.[5] However, PG&E fails to acknowledge that those benefits are dependent on rates and net metering terms. If rates tiers were flattened, fixed charges assessed, or net metering agreements altered, it could result in customers losing all savings associated with the solar contract and potentially paying more for their combined electricity and lease bills than they would have without the solar system.

Further, the positive cash flow opportunities are only possible because customers sign 20-year contracts to purchase electricity from the vendor, often with a guaranteed option for a 10-year extension. It could hardly be more clear that the time horizon that a customer is basing the decision on is at least 20-30 years.

Looking to the future, it may not be possible for solar vendors to offer PPAs with bill savings from the start if rates and NEM terms are dramatically altered. If companies are not able to offer contracts with more than insignificant bill savings, the PPA model that has helped greatly expand the universe of customers that are able to consider solar power could disappear.

Therefore it is not reasonable to use the existence of positive cash flow contracts under current conditions as an indication of a short payback period.

6. Major policy changes would greatly reduce consumer confidence.

[5] PG&E Opening Comments, p. 7.

CALSEIA appreciates PG&E's statement that customers with existing solar systems are "likely to be surprised or disadvantaged by the NEM 2.0 changes."[6] If those surprises and disadvantages are so large as to create a public outcry that the state is changing the rules after having encouraged them to go solar, many potential future solar investors will be unwilling to trust programs that the Commission designs.

7. Conclusion

CALSEIA appreciates the opportunity to provide these comments and requests that the Commission heed these cautionary points.

DATED at Sacramento, California, this 23rd day of December, 2013

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[6] Ibid, p. 10.