BEFORE THE PUBLUTILITIES 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 (Filed November 8, 2012)

COMMENTS OF THE CALIFORNIA FARM BUREAU FEDERATION TO THE ASSIGNED COMMISSIONER'S RULING REGARDING ESTABLISHMENT OF A NET ENERGY METERING TRANSITION PERIOD PURSUANT TO ASSEMBLY BILL 327

KAREN NORENE MILLS
Attorney for
California Farm Bureau Federation
2300 River Plaza Drive
Sacramento, California 95833
Telephone: (916) 561-5655
Facsimile: (916) 561-5691
E-mail: kmills@cfbf.com

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I. INTRODUCTION

Pursuant to the Assigned Commissioner's Ruling Regarding the Establishment of a Net Energy Metering Transition Period ("ACR") the California Farm Bureau Federation ("Farm Bureau")[1] submits its comments and recommendations about the establishment of an appropriate transition period for customer-generators taking service under a net energy metering ("NEM") tariff. Farm Bureau commends the Commission's action in moving forward expeditiously to affirm the necessary clarification for assuring the NEM customer-generators are appropriately protected under rules for a transition period as a new framework for customer generation is developed. Agricultural customer-generators have invested in the opportunities to generate energy on their farms and ranches resulting in better management of their electric demands and system demands. The decisions to do so were based on a certain framework provided under the net metering statute and the implementation of the statute by the Commission. It is important that there be continuity provided to customers under the construct that existed as decisions were made to invest in on-site renewable generation. The transition rules should recognize that customers relied on the NEM tariff framework for the financial projections in decisions to proceed with their projects.

Farm Bureau responds below to the questions presented in the ACR, most importantly recommending that the transition period for existing NEM customers focus on an expected system life analysis with the adoption of a 30 year minimum system life.

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[1] The California Farm Bureau Federation is California's largest farm organization with approximately 78,000 agricultural and associate members in 53 county Farm Bureaus. California farmers and ranchers sell $44.7 billion in agricultural products annually. Farm Bureau's members expect to pay in excess of $850 million for their electric service.

II. COMMITMENT TO ENSURE CONSISTENCY FOR THE PROGRAM IS ESSENTIAL TO FUTURE POLICIES

Not only have customers relied on the current framework to base investment decisions for projects, they have been encouraged to do so. Representative of that encouragement are the materials distributed through GO Solar California. For example, materials produced as recently as 2009 directed at businesses include encouragement to "Make Solar Your New Business Plan," and "Boost Your Reputation."[2] The information further explains the operation of NEM as a "special billing arrangement that allows your business to receive credit for the full retail value of the electricity its system generates and exports to the electricity grid."[3] Since 2009, of course, the NEM program was changed and now includes all forms of renewable energy as well as solar.[4] Although there has been a respectable entry by a number of types of renewable energy other than solar into the NEM program, the predominant NEM facilities are comprised of solar generation.[5] Farm Bureau strongly supported the inclusion of other forms of renewable generation in NEM, but recognizes the determinations made for the transition of NEM will be driven by solar, which determinations should be workable and applicable to other forms of generation as well.

Commensurate with the provision of incentives to entice customers to commit time and resources to invest in renewable generation must be a commitment to provide them with reasonable certainty over the continuity of the offered program. The

[2] See CSI Program Fact Sheets at http://www.cpuc.ca.gov/PUC/energy/Solar/outreachtools.htm.
[3] It should be noted that for agricultural customers and commercial customers with monthly and demand charges, many charges are paid on an ongoing basis.
[4] The enactment of Senate Bill 489 (Wolk) allowed all types of renewable energy to utilize net metering.
[5] The Report, "Introduction to the California Net Energy Metering Ratepayer Impacts Evaluation" dated October 28, 2013 estimated that as of the end of 2012 99% of accounts and 96% of capacity on NEM tariffs was associated with solar. See page 4 of the Report.

Commission should utilize this opportunity to provide the regulatory assurances needed for any type of program requiring significant investment. Like all businesses, agricultural customers face daily decisions about how to expend time and resources to improve and sustain their operations. Without some continuity in offered programs, there will be limited customer interest in investment of projects that are subject to significant regulatory uncertainty. Although the NEM cap was always a limiting factor to the program and some adjustments were anticipated, no customer would or should expect a dramatic change in the underlying credit construct. At a minimum, customers taking service under NEM prior to 2017 or to reaching the cap should be afforded continuity in the "special billing arrangement" represented as available in the program.

III. DIRECTION BY THE LEGISLATION AND FROM THE GOVERNOR ABOUT THE TRANSITION

Assembly Bill 327 (Perea, 2013) provides that beginning in 2017 or when ordered to do so by the Commission because the net metering cap has been reached,[6] new customer-generators will be required to take service under new rules, terms and rates to be developed by the Commission. The legislation also recognized some provision should appropriately be made for existing NEM customers as changes are considered to the program going forward. To do otherwise would render significant instability in the market, as potential participants weighed the impact of potential revisions to the credit mechanisms. Importantly, the statute provides that transition period be determined by March 31, 2014.[7]

Yet, it is the factors to be considered in establishment of the transition period

[6] Public Utilities Code, section 2827.1(c).
[7] Public Utilities Code Section 2827.1(b)(6).

which are important for the discussion here. Although the statute directs the Commission to consider "a reasonable payback period", such a factor is not intended to be the sole factor or the determining factor for the Commission's consideration. Importantly, Governor Brown's signing message for AB 327 provides important expectations for establishment of the transition period stating:

> As the CPUC considers rules regarding grandfathering of net metering customers, I expect the Commission to ensure that customers who took service under net metering prior to reaching the statutory net metering cap on or before July 1, 2017, are protected under those rules for the expected life of their systems.

In considering implications of the questions presented in the ACR, it becomes evident that a focus on the "expected life" of the systems provides the most straight forward and stream-lined method for administration of the transition period.

III. CUSTOMERS TAKING SERVICE UNDER THE NEM TARIFF PRIOR TO 2017/NEM CAP BENCHMARK SHOULD BE BASED ON AN EXPECTED SYSTEM LIFE DETERMINATION

A. An Administratively Determined Reasonable Payback Period Cannot Be Fairly Determined for All Customer-Generators

A payback period addresses only the anticipated direct costs of an installation, but does not address the risks and indirect costs borne by a customer-generator. Depending upon the technology or arrangement entered into for the installation the payback period could vary greatly among types of customers and operations. The payback period does not address the risks borne by the customer such as a longer payback period due to lower than anticipated energy generation, changes in the structure of the otherwise applicable tariff underlying the NEM, higher than anticipated

maintenance costs, or other similar types of factors. Nor are the indirect costs accounted for such as, credit impacts if money was borrowed to install the system, personnel time and costs to oversee installation and management of the system, and opportunity costs of directing time and financial resources toward the system instead of other investments. As a result, some customers may have actual payback periods that are longer than the established "reasonable payback period." Shifting them to a new set of rules before they have achieved payback of their systems could significantly extend their payback periods solely on account of changes that were not anticipated when the investment was made.

The expected system life, however, provides an indication of whether the anticipated return is sufficient to take on the risks and indirect costs not accounted for by a payback period assessment. The expected system life and the payback period are inextricably linked, as both inform the decision to take on a project. For example, if the customer estimated a payback period of 10 years, the customer would be much less likely to pursue the project if the expected system life were 11 years than if it were 20 years, although strictly speaking just based on the estimated payback both appear warranted. In actuality any investment in a project where the system life is closely aligned with the payback period, may not prove wise as there may be insufficient time to account for investment risks and indirect costs.

B. The Expected System Life is Administratively Simpler and Preferred to a Uniform Payback Period

The transition period should be linked to the full system life. Without such a benchmark, a reasonable period beyond the expected payback period would need to be

used to account for the risk and indirect costs anticipated by the customer, such as 50% of the established payback. The customer may face real costs not accounted for if the payback period underestimates those costs for its operations. Any dependency on the establishment of a reasonable payback period would be fraught with arbitrary assumptions, potentially resulting in errors. Reliance on the expected life provides for a straight forward approach and uses a cornerstone for a determination that is more appropriate and consistent across all types and sectors of customers.

IV. THE EXPECTED LIFE OF A SYSTEM SHOULD BE BASED ON DURABILITY OF THE SYSTEM NOT A WARRANTY BENCHMARK

The ACR requests input on whether warranties are appropriate guidelines for determination of the expected life of the system. Such measures should not be used as a transition metric for the affected customers. Although warranties are likely a factor in the customer's decision to move forward with the project, just like the payback period, they are not an appropriate standard by which to measure how long a customer anticipated the system was capable of generating energy to offset usage. Reliance on a warranty measure would require extensive examination into the type of warranty considered, whether for system performance or for materials and workmanship. Although such measures may provide appropriate minimums by which to assess the system, particularly for business customers, the ability to be able to make ordinary repairs to the system and keep it operational will also be a consideration and weighed as a factor.

The more appropriate reference is the anticipated operational life of the system. That measure provides an appropriate benchmark to weigh with other more variable

factors such as payback period, warranty, or operational complexity for consideration of assumed analyses which occurred as these projects were undertaken. We urge the Commission adopt a minimum 30 year measurement as an expected system life to appropriately provide assurances to customers. Such a measure is consistent with assumptions used in an NREL Study for life cycle assessments[8] in which the operating lifetime of the PV system and its components was identified as 30 years. As indicated earlier, it is recognized that there are a variety of types of generation facilities which are able to take NEM service. However, for administrative simplicity a single system life measure should be used across all systems. It should be understood as well that ordinary repairs to systems are to be expected during the expected life of a system.

V. COMMENCEMENT OF MEASUREMENT FOR EXPECTED LIFE

The ACR posits the date of interconnection as the commencement date for the expected life of the system. Such a measure is likely the most fair, reasonable and well-documented date to use.

VI. REASONABLE PAYBACK PERIOD SHOULD NOT BE USED AS THE MEASURE

The ACR solicits comment about how to determine an appropriate payback period for these purposes. As it points out the payback period would in fact differ by customer sector, organization structure of the customer (if applicable), size, time of installation, type of system used, funding mechanisms, geographic location and a number of other factors. Because of the vast variation assessing a payback period and for the reasons explained in Section III above, it is clear the expected system life is the

[8] http://www.nrel.gov/docs/fy13osti/56487.pdf.

preferred measurement. To do otherwise would require extensive documentation from customers or otherwise the Commission would have to be in the position of making broad assumptions about customers.

VII. TREATMENT OF MODIFICATIONS TO EXISTING FACILITIES

An important consideration presented by the ACR is how to treat modifications to existing generation facilities that increase the generating capacity of the facility after July 1, 2017. It is an important question because while there may be interest in such expansions, dividing the existing system could be problematic from an operational standpoint were additions required to be separated from the pre-existing facility. Although it might be possible to pro-rate the generation from the pre-existing facility with the added capacity from any modifications, necessary calculations would be administratively cumbersome, burdensome and likely subject to extensive debate. A reasonable solution for administrative simplicity would be to require that modifications made subsequent to July 1, 2017, would be eligible for the transition program only through the date that the original system was eligible. The additions will not be eligible for their entire system life, but it is a reasonable compromise because they would be made with the knowledge of the changes to the NEM structure.

VIII. CONCLUSION

Although the NEM program has engendered much debate in the last few years, it has essentially performed as was expected, implemented and encouraged. Agricultural customers have embraced NEM generation not only as a way to manage energy cost and usage, but also as a way to add value to their business operations in a broader

fashion. It would undermine the goals and commitments for not only this program, but for future programs in which customers are encouraged to make substantial investments based on regulatory frameworks, not to ensure commitments to customers are kept.

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Respectfully submitted,

Karen Norene Mills
Attorney for
California Farm Bureau Federation
2300 River Plaza Dr.
Sacramento, CA 95833
E-mail: kmills@cfbf.com