

NEM Grandfathering

February 19, 2014





PG&E's Grandfathering Proposal

- PG&E's **transition period** for current customers to move from existing program to NEM 2.0 is based on a reasonable payback period that:
 - Protects existing NEM customers' investment in their systems
 - Subjects non-participating PG&E customers to lower cost shifts
 - Gradually steps down to NEM 2.0 to mitigate a gold rush
 - Reflects AB327 direction to base transition period on reasonable payback period.

Interconnection From	Interconnection To	Customer Transfers to NEM 2.0*	Years on NEM 1.0
<i>Start of NEM</i>	<i>March 30, 2014</i>	<i>January 1, 2023</i>	<i>10 - 25</i>
<i>April 1, 2014</i>	<i>December 31, 2015</i>	<i>January 1, 2020</i>	<i>5 - 7</i>
<i>January 1, 2016</i>	<i>June 30, 2017</i>	<i>NEM 2.0 effective date</i>	<i>1 - 1.5</i>

• Transition occurs first true-up period following January 1, 2023

Privileged and Confidential



Solar Parties' Proposals Perpetuate the NEM Cost-Shift

Proposals for "life-of-system" significantly increase the potential cost-shift over proposals based on reasonable payback

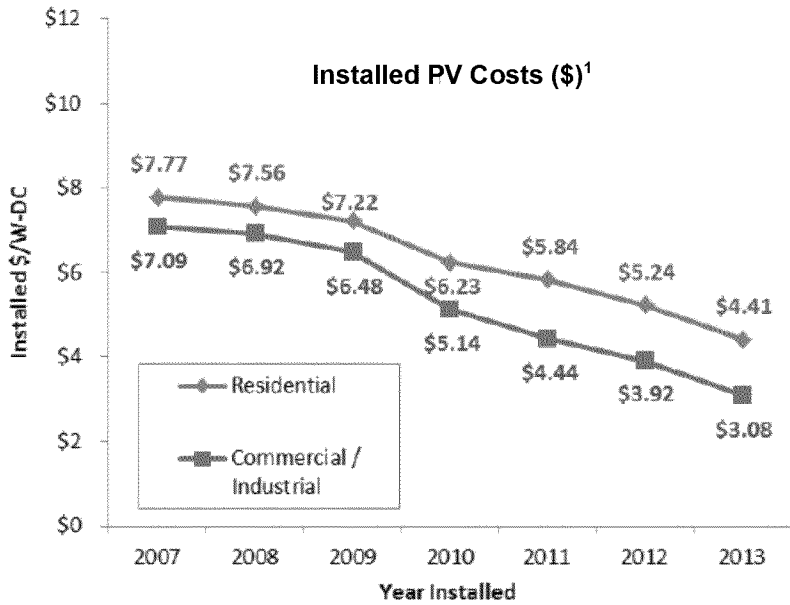
	Years Post 2017	MWs Grandfathered ²	Cumulative PG&E Cost-Shift During Proposed Grandfathering period (\$ billions) ¹
<i>TURN</i>	3	1,640	\$1.3
<i>ORA</i>	5	1,640	\$2.1
<i>PG&E, SDG&E</i>	7	1,310	\$2.0
<i>SCE</i>	7	1,640	\$2.9
<i>CCSE- & Most solar Parties</i>	20 -30	2,409	\$12.3 - \$18.4
<i>Other solar parties</i>	45	2,409	\$27.7

Notes:

- 1) Calculations rely on Cost-Shift per MW per year in 2017 of \$255,000 from E3 work-papers;
- 2) Projected volumes are from E3 work-paper projections of year-end volumes, with partial year values interpolated. Proposals from CCSE and solar parties are set at PG&E's NEM Cap of 2409 MW due to expected "gold-rush" from lengthy grandfathering. PG&E and SDG&E's proposal is assumed to result in less megawatts grandfathered than SCE's because of the step-down in grandfathering proposed by the former.



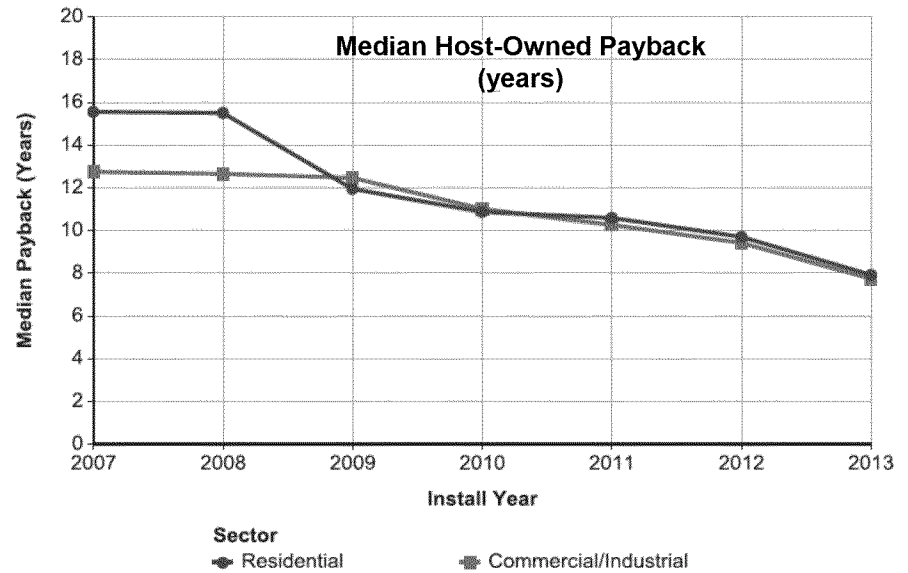
Basis for 7- to 10-Year Payback Period



¹Source: PowerClerk Working Data, November 27, 2013

- System prices declined 40% over 4 years
- Costs are expected to continue declining (Germany~\$2.35/Watt)

- Lower prices have led to declines in payback period
- This trend will continue to as costs continue to decline

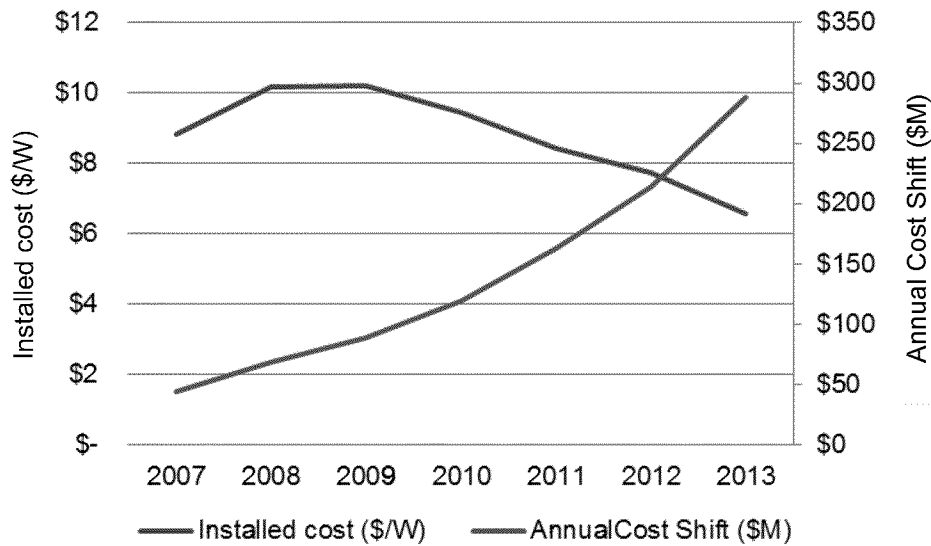




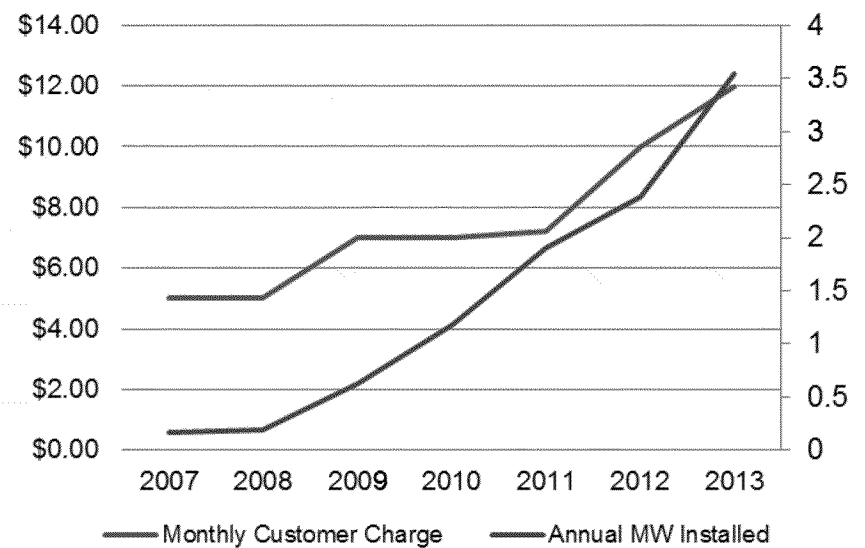
Market Analysis

- Solar industry's previous claims of market disruption did not materialize
- Decreasing system costs mean it is possible to address cost-shift without market disruption
- It is understandable that solar market wants to preserve (increase) profits, but not at expense of utility customers

As cost of solar has decreased, no savings have reached nonparticipating customers



SMUD has increased customer fixed charge with no decrease in installation rates

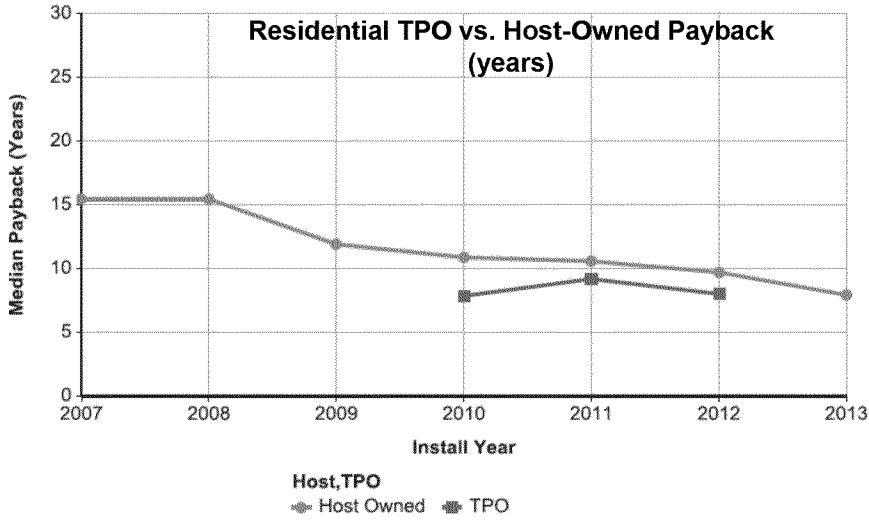




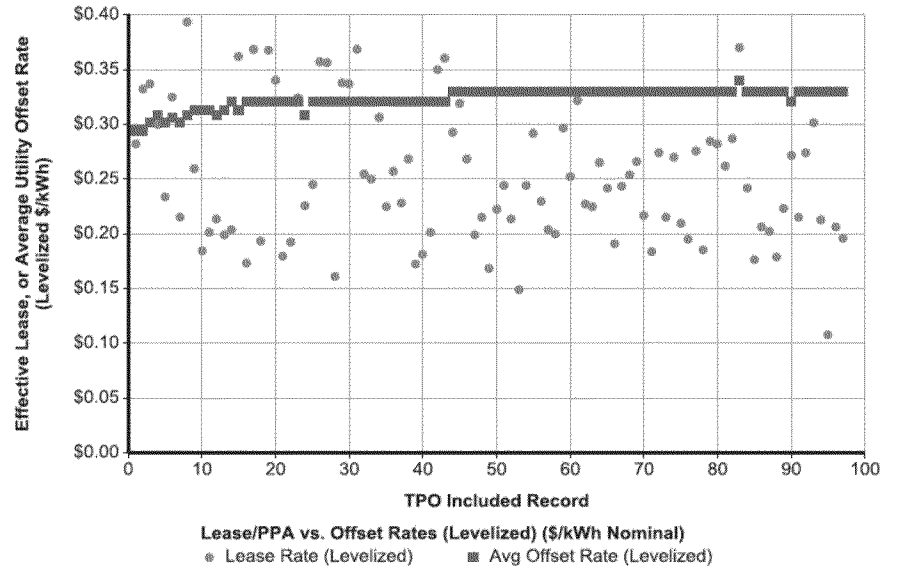
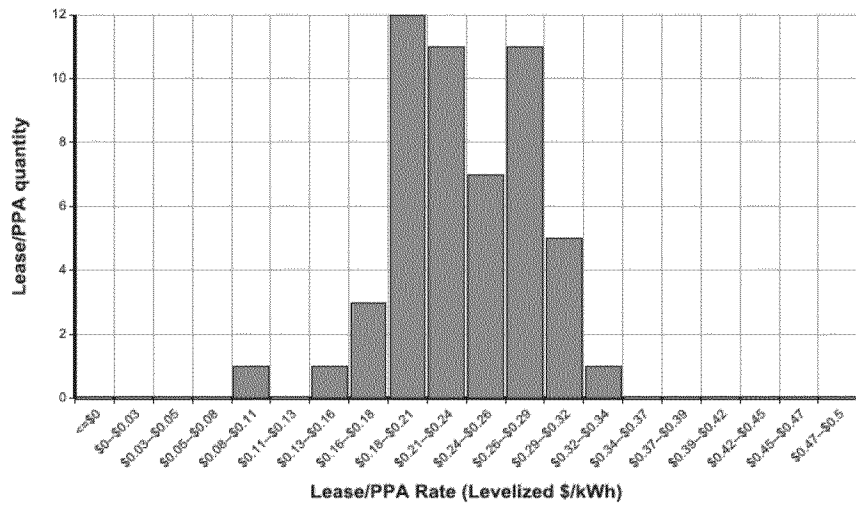
APPENDIX



Residential Third-Party Owned Analysis



- TPO payback lower than host-owned for residential; TPOs are able to monetize depreciation
- TPO arrangements provide immediate savings with little upfront payment
- Required conversion of the lease/PPA into terms that could translate into payback





Residential adoption is concentrated among high income customers

