

**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
(Filed November 8, 2012)

**REPLY COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 E)
ON THE PROPOSED DECISION ESTABLISHING A NET ENERGY
METERING TRANSITION PERIOD**

RANDALL J. LITTENEKER
STACY W. WALTER

Pacific Gas and Electric Company
77 Beale Street, B30A
San Francisco, CA 94105
Telephone: (415) 973-2179
Facsimile: (415) 973-0516
E-Mail: rjl9@pge.com

Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

March 17, 2014

**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
(File November 8, 2012)

**REPLY COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 E)
ON THE PROPOSED DECISION ESTABLISHING A NET ENERGY
METERING TRANSITION PERIOD**

I. INTRODUCTION

Pacific Gas and Electric Company (PG&E) provides these reply comments on President Peevey's *Proposed Decision Establishing A Transition Period Pursuant to Assembly Bill 327 For Customers Enrolled In Net Energy Metering Tariffs*, released on February 20, 2014 (Proposed Decision or PD). Opening comments on the PD were provided by over 15 parties.¹ PG&E appreciates the comments from TURN, ORA, SDG&E, and SCE echoing the concerns raised in PG&E's opening comments that the proposed 20-year transition period is directly at odds with the direction of the legislature in AB 327, as well as the views of the bill's author and other key legislators, is not needed to provide existing and new customers with a reasonable opportunity to recover their investment, and permits far too many costs to be shifted to other customers. PG&E has specific comments on the following additional items:

- Proposals to extend the transition period beyond 20 years based on expected or actual useful life are in error.
- The legislature did not mandate a single transition period for different customer classes and installation "vintages"; varying transition periods should be adopted.

¹ These reply comments address specific items in the opening comments by the Interstate Renewable Energy Council (IREC), the California Solar Energy Industries Association (CalSEIA), the Vote Solar Initiative (Vote Solar), the Net Energy Metering Public Agency Coalition (NEM-PAC), the Solar Energy Industries Association and the Alliance for Solar Choice (SEIA/TASC), the Local Government Sustainable Energy Coalition (LGSEC), and the Silicon Valley Leadership Group (SVLG).

- Claims that the solar market will collapse without a lengthy transition are not accurate, since bill savings will continue under the new NEM rules.
- A solar customer produces a cost shift that is many times higher than that of a CARE customer.
- The Commission should reject the proposal that grandfathering should be measured from the date the customer first applies to interconnect.

II. DISCUSSION

A. **Proposals To Extend The Transition Period Beyond 20 Years Based On Expected Useful Life Arguments Are In Error.**

Many parties agreed with the Commission’s decision to base the transition period on expected life of the renewable generator, but take exception to the proposed choice of 20 years as the correct measure of that useful life. Parties’ recommendations range from 25 to 30 years or more. Most simply cite language in the PD supporting a transition based on expected life, and then proceed with various arguments about why 20 years is too short. The Commission should reject these proposals. As the Legislature made clear, the CPUC must base the transition on payback period, not expected system life. The language in AB 327 clearly states that the CPUC shall consider payback period and as key legislators clarified, expected life was considered and rejected by the Legislature.

With the exception of one party referring to a specific customer group, none of the parties advocating for a longer transition period based on expected life argued that payback period was longer than 20 years, and most did not mention payback at all. Therefore these arguments for a longer transition period should be rejected.

B. **The Legislature Did Not Mandate A Single Transition Period, And Varying Transition Periods Should Be Adopted.**

SEIA, Vote Solar, and CalSEIA all argued that the legislature required adoption of a single transition period for all customers of all classes, no matter when they came on line. All rely on the language in 2827.1(a)(6) stating that the Commission must establish “a transition period.” (Emphasis added.) Vote Solar continues: “If the Legislature had intended to delineate NEM customer classes in any way, including by applying separate transition periods based upon the time a customer interconnected its system, the legislative language or accompanying bill

analysis would have made this clear.” Vote Solar p. 5.

In fact, the words of the statute and the accompanying bill analysis did make clear that the Commission may set more than one transition period. That same section of AB 327 concludes that the rules adopted by the Commission “shall consider a reasonable expected payback period *based on the year the customer initially took service...*” The bill analysis was similar.² Thus, both the words of the statute and the committee reports recognized that the reasonable payback calculation could vary by vintage and other factors, and instructed the CPUC to decide the issue based on these factors.

As explained in detail in opening comments, the Commission should adopt a shorter transition period for projects coming on line after this transition decision. In addition, several parties argue for different transition periods for government agencies. LGSEC and NEM-PAC point out that the payback period could be longer for customers who cannot take advantage of tax incentives for renewable power, because they have no tax responsibility. PG&E agrees that the payback period can be longer for government or non-profit customers, with the obvious corollary that commercial and residential paybacks would be shorter. However, government and non-profit customers who owned their systems received higher incentives if they participated in the CSI program. In addition, many government and non-profit solar installations are owned by third parties who can take advantage of and pass on the tax benefits. In such a case, government or non-profit customers with a lease or PPA would have the same payback period as a similarly situated customer with a tax liability – typically less than ten years, according to the Navigant study. In fact, as described in PG&E’s reply comments to the ACR, many PPA customers have an immediate payback because they do not pay any upfront costs. Nonetheless, PG&E agrees that for many non-taxable customers who own their systems (i.e. did not lease their systems), these lost tax benefits may exceed the offsetting CSI premium, particularly as the CSI incentive

² The Assembly Committee on Utilities and Commerce bill analysis of September 11, 2013 quoted this language, and then stated “The PUC will need to define what is meant by a “reasonable expected payback period” and establish standard assumptions for calculating the payback period, particularly the price paid for the on-site generation because this value varies widely and the price affects payback.”

program winds down, and so does not object to a different transition period for such customers.³

C. Claims That The Solar Market Will Collapse Absent A Long Transition Are Not Accurate, Since Bill Savings Will Continue Under The Successor NEM Rules.

The Silicon Valley Leadership Group argued that: “If the value proposition of current NEM customers suddenly changes and no longer results in energy bill savings for businesses and other customers that have invested in reliance on current rules, there will be a decline in investor and customer support for future deployment of these systems, which help achieve the State’s clean energy goals.” (p. 3) The implication that no benefits will be available once the transition period is over runs counter to the statutory language describing the requirement for the new NEM rules. AB 327 provides that in creating the new NEM rules, the Commission “shall [e]nsure that the standard contract or tariff made available to eligible customer-generators ensures that customer-sited renewable distributed generation continues to grow sustainably....” Section 2827.1(b)(1). Moreover, as explained in PG&E’s opening comments, the solar market in California is very robust and successful,⁴ and there is every reason to believe that success will continue with a reasonable transition period to the new NEM rules.⁵

D. Cost Shifts From A Solar Customer Is Many Times Higher Than From A CARE Customer.

Several parties expressed concerns with the substantial cost-shift associated with NEM adoption that would be subject to grandfathering. Based on the E3 report, in 2017 the annual cost shift per MW would be \$255,000. After residential rate reform, the amount would be \$133,000 per MW. This averages to roughly \$2,900 per NEM customer per year before rate

³ However, NEM-PAC is not correct that all government agencies should get a thirty year transition. NEM-PAC’s discussion of public agency planning for the most part described “expected benefits,” not payback.

⁴ Some parties have argued that NEM policy uncertainty is already slowing the solar market. In fact, in the four months since AB 327 was adopted, PG&E has experienced 41% year-over-growth in NEM adoption relative to the same period a year ago.

⁵ In a UBS conference call on July 11, 2013, Solar City Chief Financial Officer Bob Kelly answered a question about how AB 327 would impact its business model with “I don’t think it’ll impact it that much. We play in the second tier given the amounts that the amount of power that people use, the amount of savings they can get.” Similarly, on August 7, 2013, Lyndon Rive, Solar City CEO said that if the net metering debate turns out differently, “the way we’d have to address it is we’d have to reduce our price....”

reform and \$1,500 per NEM customer after rate reform.⁶ These are staggering amounts compared to other cross-subsidies. The subsidy for CARE customers currently averages about \$577 per CARE customer and with reform is projected to average \$485 per CARE customer by 2017.⁷

E. The Commission Should Reject The Proposal That Grandfathering Should Be Measured From The Date The Customer First Applies To Interconnect.

SEIA, TASC, and Vote Solar propose to modify the PD to provide that any customer who applies for NEM by June 1, 2017 will be grandfathered under the current NEM structure. This could substantially extend the grandfathering date, since projects can apply for interconnection years before they have been completed and built. The concern expressed in these comments that the utility might delay interconnection can be addressed without this unnecessary extension. Instead, the grandfathering should be based on submission of the documentation needed for a complete a NEM interconnection application, which includes the final building inspection.⁸ A prospective NEM customer should be treated under the terms and conditions that are effective on the date of receipt by an IOU of the complete application. This methodology of date of receipt of the complete application and supporting documentation can also be applied to determining eligibility as the NEM MW cap is approached.

III. CONCLUSION

PG&E appreciates the opportunity to provide these reply comments and requests that the Commission adopt the recommendations included here and in PG&E's opening comments.

⁶ Assumptions for the \$255,000/MW and \$133,000/MW values detailed in opening comments with rate reform based on PG&E Testimony filed in R.12-06-013 on February 28, 2013. Additional assumptions based on E3's assumed 2017 forecast of 728 MW and 1,032 MW of installed capacity and average system sizes of 5 kw and 100 kw for the residential and non-residential sectors respectively.

⁷ See Page A-2-1 of PG&E Testimony served February 28, 2013 in R.12-06-013, scenario with 50% Baseline, 2.1 % rate increases and CARE discount converging towards 35% by 2018. These calculations were based on Commission directions concerning the size of PG&E's revenue requirement.

⁸ The following are required under Section D.13 of Rule 21 to begin the 30 Business Day (Working Day) timeline: 1. A completed Net Energy Metering Interconnection Request including all supporting documents and required payments; 2. A completed signed Net Energy Metering Generator Interconnection Agreement; and 3. Evidence of customer's final electric inspection clearance from the Governmental Authority having jurisdiction over the Generating Facility.

Respectfully submitted,

RANDALL J. LITTENEKER
STACY W. WALTER

By: _____ /s/
RANDALL J. LITTENEKER

Pacific Gas and Electric Company
77 Beale Street, B30A
San Francisco, CA 94105
Telephone: (415) 973-2179
Facsimile: (415) 973-0516
E-Mail: rijl9@pge.com

Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

March 17, 2014