PUBLIC ADVOCATES OFFICE

Cal Advocates' NEM Successor Tariff Proposal

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NEM 3.0 Goals

- Sustainable Growth: NEM should align with the rate of growth of distributed generation needed to attain California's clean energy goals in the most cost-effective, expeditious, and equitable manner.
  - Cost Effective: Lower the cost burden on nonparticipants.
  - Equity and Affordability: Provide incentives to increase participation of lower income customers and protect them from the cost burden.
  - Efficient Electricity Use: Incentivize the efficient use of electricity that is aligned with grid needs and the state's decarbonization goals.
  - Urgency: Reform NEM ASAP to better align with these principles.

Reasons for NEM Reform:

- **NEM is creating an unreasonably large and growing cost burden.**
  - $2.85 billion/year in 2021, $6.62 billion/year in 2030.
  - Average residential customer currently pays $100-$234 more annually due to NEM.
- **NEM cost burden undermines electric vehicle adoption and building electrification.**
- **NEM is less cost-effective than other renewable energy procurement strategies.**
  - NEM is 6.41 times more expensive than RPS contracts for renewable generation.
- **NEM growth lags in disadvantaged communities.**
  - Lower income (CARE) customers represent 28% of total residential customers, but only 10% of NEM program participants.
- **NEM is not maximizing grid value.**
  - Only 6% of 2019 NEM systems were paired with energy storage.

Cal Advocates' Proposal Summary

- **Create a fairer and more balanced successor tariff:**
  - Compensate participants through net billing at the avoided cost.
  - Establish a Grid Benefits Charge (GBC).
  - Provide storage incentives to encourage NEM 1.0 and 2.0 participants to transition to the successor tariff.
- **Create a more equitable, affordable successor tariff:**
  - Exempt lower-income customers from the proposed GBC.
  - Consider an Equity Charge mechanism to directly address needs of disadvantaged communities (such as proposed by NRDC).

Export Compensation: Net Billing at Avoided Cost

- Net billing allows for fair compensation and for customers to use the energy they generate.
- Compensate exports at CPUC's Avoided Cost Calculator (ACC) levels:
  - Sufficiently values benefits such as reductions in greenhouse gas (GHG) emissions, transmission costs, distribution costs, etc.
  - Calculated by the export-weighted average of 1-year ACC values, by time-of-use (TOU) period.

Rate Structure: TOU, GBCs, & Equity Charge

- Successor tariff should be a separate tariff which pairs with customer-chosen TOU rate.
- Grid Benefits Charge (GBC)
  - NEM customers still rely on the grid, but do not pay their fair share of fixed costs including distribution, transmission, and non-bypassable charges.
  - GBC will recover the cost of these grid services current NEM customers pass to nonparticipants.
  - Proposed GBC ranges $6.00/kW to $6.52/kW monthly.
- Equity Charge would help address the obstacles lower income customers face as identified by the SB 350 Barriers Study.

Terms of Service: No Netting Period, Monthly Rollover, & Annual True-up

- Instantaneous netting ensures most accurate energy valuation.
- Maintains ability for customers' excess bill credits to rollover each month.
- Maintains annual true-up at wholesale prices.

Integrate Energy Storage: Incent NEM 1.0/2.0 Customers to Transition to Successor Tariff

- Retail rates compensation for NEM 1.0 and 2.0 results in system payback of 3-8 years, and contributes to the large cost burden on non-participants.
- Paired storage can reduce peak demand and GHG emissions.
- Offer storage rebate to NEM 1.0/2.0 customers who switch to successor tariff within 5 years.
  - $3,200 rebate commensurate with SGIP general market incentive.
  - After second year, rebate drops 10% annually.
- After 5 years, automatically switch remaining NEM 1.0 and 2.0 customers to successor tariff.

Implementation Timeline

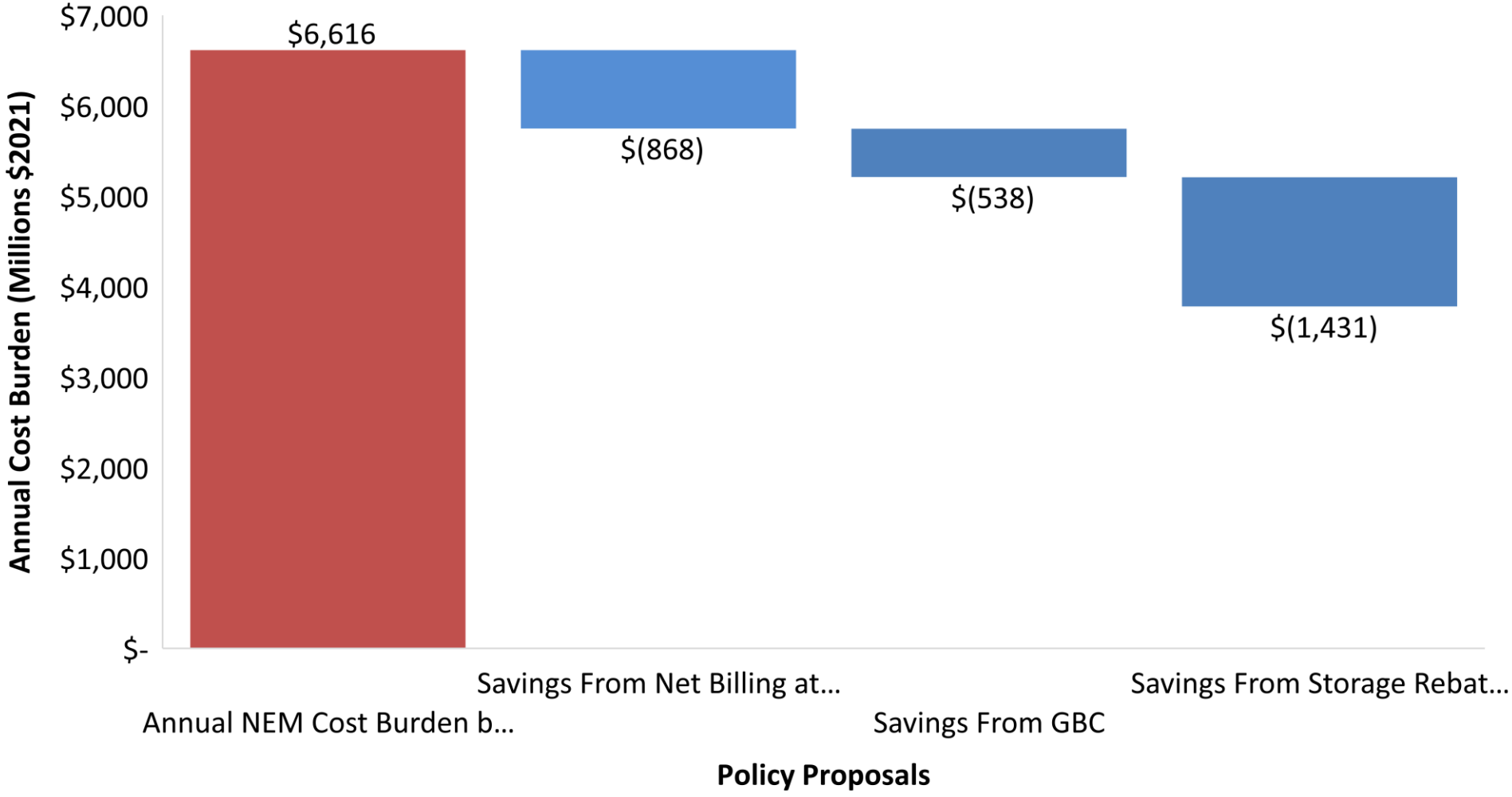
- Current NEM limitations threaten timely achievement of state's climate and equity goals, and must be addressed immediately.
- Enact successor tariff through advice letter filings and begin accepting customers January 31, 2022.
- Any glidepaths to the successor tariff should not span beyond January 31, 2025.

Reduction in Cost Burden

- **Cost burden created by NEM**:
  - $2.85 billion/year in 2021
  - $6.62 billion /year in 2030
- **Proposal for successor tariff** lowers the cost burden by $1.52 billion/year in 2030.
- **Proposal for NEM 1.0 and 2.0 transition** lowers total cost burden by $26.06 billion out of $45.4 billion over current 20-year transition period.
- Combined Proposal saves the average customer $180-$235/year by 2030.
- Combined Proposal results in reasonable payback period of 13-15 years.
  - Solar panels retain 80% of their starting efficiency after 40 years.

Reduction in Cost Burden Cont.

Figure 1: Cal Advocates' Policy Proposal Reductions to Annual NEM Cost Burden in 2030 (Millions $2021)



Consistent with Statute

Statute	Net Billing at ACC	GBCs (Waived for CARE)	Transition NEM 1 + 2 Customers	Equity Charge
Ensures sustainable growth - **PU Code § 2827.1(b)(1)**	✓	✓	✓	✓
Ensures growth in disadvantaged communities - **§ 2827.1(b)(1)**		✓	✓	✓
Is based on costs and benefits of renewable electrical generation - **§ 2827.1(b)(3)**	✓	✓	✓	✓
Delivers benefits that approximately equals costs - **§ 2827.1(b)(4)**	✓	✓	✓	✓
Ensures customers receive a reasonable payback period - **§ 2827.1(b)(6)**	✓	✓	✓	✓
Provides participants with just and reasonable rates - **§ 2827.1(b)(7)**	✓	✓	✓	✓
Provides all customers with just and reasonable rates - **§ 451**	✓	✓	✓	✓

Alignment with Guiding Principles

Guiding Principles	Net Billing at ACC	GBCs (Waived for CARE)	Transition NEM 1 + 2 Customers	Equity Charge
(a) complies with the statutory requirements of PU Code 2827.1	✓	✓	✓	✓
(b) ensures equity among customers	✓	✓	✓	✓
(d) fairly considers all technologies	✓	✓	✓	✓
(e) is coordinated with the Commission and California's energy policies	✓	✓	✓	✓
(f) is transparent and understandable to all customers and should be uniform, to the extent possible, across all utilities	✓	✓	✓	✓
(g) maximizes the value of customer-sited renewable generation to all customers and to the electrical system	✓	✓	✓	✓

Q & A

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