

VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 12

TO: Valley Clean Energy Board of Directors

FROM: Mitch Sears, Interim General Manager
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SUBJECT: Net Energy Metering Policy

DATE: July 12, 2018

RECOMMENDATION

1. Postpone enrollment of NEM customers until early 2019 while NEM policy amendments are drafted and finalized and associated billing system modifications are completed.
2. Review and provide feedback on preliminary concept amendments to the existing Net Energy Metering (NEM) policy for consideration at a future meeting.

BACKGROUND AND ANALYSIS

The NEM Policy was approved by the VCE Board on February 8, 2018. The policy was developed over a lengthy process that included input from the Community Advisory Committee (CAC), the public, SMUD staff and VCE staff. The policy includes incentives designed to increase solar adoption and provide benefits to existing and future NEM customers. Key features of the existing policy include moving from annual billing (PG&E model) to monthly billing (VCE and CCA model), and moving all true-up dates to the month of April. The existing NEM policy closely follows the policies of other CCAs.

A local solar contractor identified an issue where a significant portion of existing NEM customers are likely to pay more during their first year of service with VCE compared to their annual true-up with PG&E. This is due to the consolidated VCE true-up in April. After the first year of payments, customers would be on a cycle that closely mimics their annual cycle with PG&E, but a proportion of them would not recover the additional payments made during the first year within a reasonable timeframe, even after accounting for VCE incentives (i.e. higher compensation for excess energy buy back and the 2.5% generation rate discount).

Even though the contractor supports VCE, he has recommended that his NEM customers opt-out of VCE to avoid overpaying during the first year. VCE staff studied the issue and determined the claim has merit and may justify changes to the existing NEM policy.

POLICY DECISION

The immediate recommendation is to postpone accepting NEM customers into VCE service until 2019. This will allow time for the development and review of proposed policy amendments for consideration at a future Board meeting (anticipated to be the September Board meeting). It also allows time for public outreach and for any modifications to the billing system should changes be approved by the Board.

COMMUNITY ADVISORY COMMITTEE (CAC) RECOMMENDATION

On July 2nd the CAC considered the recommendation to postpone enrollment of NEM customers until 2019. Following discussion, the Committee voted 7-0 to support the staff recommendation to postpone the NEM enrollment until 2019 to allow for the development of a modified policy and billing systems. In addition, if the Board approved the recommendation, the CAC emphasized the need for communication with NEM customers on the postponement and any amendments to the policy.

POLICY AMENDMENT CONCEPTS

Following identification of the potential “true up” issue, staff reviewed several concepts in collaboration with the Outreach Subcommittee of the CAC. The general approach taken by staff was to keep the policy simple for NEM customers while minimizing financial impacts on VCE. Based on these general objectives, staff offers the following preliminary concepts for Board consideration and feedback:

- 1. Adopt the true-up schedule used by PG&E for the majority of existing NEM customers**
 - This will be seamless to customers and they will receive VCE benefits.
- 2. Shift some customers to monthly billing**
 - Shift the roughly 670 existing NEM customers (less than 10% of NEM customers), who consistently owe more than \$500/year from an annual payment to monthly payments with an April true-up date. This reduces the fiscal impact to VCE – see Financial Impacts section below.
- 3. New NEM Customers**
 - New customers will be put on annual billing and will be trued-up on the month they become a NEM customer, unless annual true-up exceeds \$500. This will be similar to the existing PG&E NEM structure.

FINANCIAL IMPACTS

There are financial impacts from the potential policy changes. As shown in Table 1 below, the cumulative net impacts to VCE over a three-year period (when placing >\$500 customers on monthly billing and all others on an annual cycle), is \$895,000 and represents the cash flow that VCE would carry for this customer class. These customer payments would eventually be

received by VCE at the NEM customers' annual "true up" but would not be available to VCE in full over the course of the year. This places a limitation on VCE's ability to deploy that cash for other business purposes (e.g. incentives, rate stabilization, etc.). In addition, VCE will incur the cost of upgrading the billing engine which is estimated at \$75k to \$100k and possible ongoing administrative costs associated with 12 "true up" periods in a year rather than a single one in April of each year.

Table 1 shows the net carrying cost impacts of placing customers on an annual billing cycle under four different scenarios: (1) all customers being on an annual billing cycle exactly the same as the existing PG&E NEM program schedule (Annual); (2) placing customers owing more than \$1000 annually on a monthly billing cycle (all others on their existing annual billing cycle); (3) customers owing more than \$750 annually; (4) customers owing more than \$500 annually. Generally speaking, keeping all NEM customers on the existing annual billing cycle simplifies the program but creates the largest financial carrying cost for VCE. This trade-off is the key policy question that staff will be bringing back to the CAC and Board for consideration at future meetings.

Table 1: Net Impacts of Annual Billing

Net Position: (Thousands of \$)						
Scenario	# of Customers (Percent of VCE NEM Customers)	2018	2019	2020	2021	Difference in net position
<i>Current VCE adopted NEM Policy</i>		\$ 2,071	\$ 10,377	\$ 17,927	\$ 22,261	
(1) Annual (same as PG&E NEM program)		\$ 2,126	\$ 9,431	\$ 16,250	\$ 20,622	\$ 1,639
(2) NEM Customers owing more than \$1000 annually	124 (1.7%)	\$ 2,126	\$ 9,504	\$ 16,508	\$ 20,882	\$ 1,379
(3) NEM Customers owing more than \$750 annually	255 (3.5%)	\$ 2,126	\$ 9,585	\$ 16,703	\$ 21,078	\$ 1,183
(4) NEM Customers owing more than \$500 annually	667 (9.3%)	\$ 2,126	\$ 9,767	\$ 16,988	\$ 21,366	\$ 895

Notes:

1. Approximate number of NEM Customers: 7,200
2. Revenues are not recorded until true-up.

OUTSTANDING ISSUES

The following initial set of issues have been identified and, based on Board direction, will be considered when developing the preliminary draft policy amendments.

- Keeping NEM program simple for customers (i.e. structure similar to existing PG&E program)
- Changes to VCE's cash flow.
- Proposed changes will require up-front costs to upgrade the billing and back-office systems.
- Changes may increase ongoing administrative costs for VCE by having to support multiple true-ups per year rather than one time in April.
- Changes will take time, delaying inclusion of NEM customers into VCE. Existing NEM customers would need to stay with PG&E for while policies and processes are put in place.
- Timing and cost of outreach to NEM customers.
- Outreach to solar installers.
- Other issues/ideas will arise—keeping it relatively simple may be difficult.

PROPOSED NEXT STEPS

- Schedule and conduct outreach to NEM customers/solar installers in late July/early August
- Finalize policy amendment concepts and present to the CAC at their July 30 meeting
- Finalize policy amendment concepts and present to the Board at the August 9 meeting
- If Board approves recommendation, send 2 letters to all NEM customers and contractors notifying them of the proposed changes—one for postponement (immediately), and one to notify of revised policy when it is finalized (September).
- Proceed with changes to billing/back-office systems if final policy amendments are approved by the Board
- Implement changes and enroll customers beginning in early 2019