

# VALLEY CLEAN ENERGY ALLIANCE

## Staff Report – Item 8

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**TO:** Community Advisory Committee Members

**FROM:** Mitch Sears, Interim General Manager  
Rebecca Boyles, Director of Customer Care and Marketing

**SUBJECT:** Update on the Net Energy Metering (NEM) 3.0 Proceeding

**DATE:** June 24, 2021

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The purpose of this report is to provide an update on the California Public Utilities Commission (CPUC) proceeding on the Net Energy Metering (NEM) Successor Tariff, or NEM 3.0.

### BACKGROUND

Net Energy Metering (NEM) is an electric utility tariff that allows customers with onsite electricity generation (usually solar) to get compensated at the retail rate via a bill credit on a month-to-month basis for exporting their excess generation to the grid. NEM began in 1995 in California and has been revised several times in response to impacts on the electric grid and electric rates for non-NEM customers. The timeline of the NEM 3.0 proceeding could experience delays, but a decision is expected by the end of 2021, with potential implementation in Q1 of 2022.

It is too soon to know what changes to expect under NEM 3.0, but the public conversation about the proceeding has been considerable among audiences that follow energy issues. The three investor-owned utilities (IOUs) have submitted proposals for NEM 3.0 that would significantly reduce the financial incentives for customers to go solar, while solar advocacy groups would like to see a more gradual step-down in incentives while encouraging battery storage. Groups such as The Utility Reform Network (TURN) support eliminating what the IOUs have identified as a cost-shift from NEM to non-NEM customers, but believe that the IOU proposals may go too far. Utilities and solar advocacy groups seem aligned on balancing the needs of low-income customers with the needs of the grid. There is also agreement that the next phase of NEM should encourage battery storage, electric vehicles and heating electrification.

Currently, most NEM customers are enrolled in what is called NEM 2.0, which came into effect in 2017, the principal differences between NEM 1.0 and NEM 2.0 being:

- NEM customers are required to be on Time-of-Use (TOU) rates, in which electricity is more expensive at times of the day when demand is higher; and

- NEM 2.0 customers are required to pay (not eligible for credit) non-bypassable charges, including the Wildfire Fund Charge, Competition Transition Charge, Nuclear Decommissioning and Public Purpose Program charges.

Under NEM 3.0, NEM 2.0 customers will be able to remain on their legacy rates (a term sometimes known as “grandfathering,” which should not be used<sup>1</sup>). So, NEM 3.0 changes should only affect those customers that apply for interconnection agreements after the California Public Utilities Commission (CPUC) comes forward with a final decision on NEM 3.0.

#### Additional Considerations

Staff believes that any CPUC modifications to NEM should be based on a full benefits/cost accounting approach. This should include assessment of the avoided cost values a NEM customer provides to the system such as GHG emission reductions, contributions to RPS goals, and transmission and distribution system efficiencies. Staff will be monitoring to see how the CPUC incorporates these principles into any decision, recognizing that the calculation of the cost to serve and benefits provided are complex and subject to interpretation.

#### **NEXT STEPS**

Staff will continue to monitor progress on the NEM 3.0 proceeding and report back in Q4 2021.

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<sup>1</sup> Merriam-Webster defines “grandfathering” as “a clause creating an exemption based on circumstances previously existing especially : a provision in several southern state constitutions designed to enfranchise poor whites and disenfranchise Blacks by waiving high voting requirements for descendants of men voting before 1867” Source: <https://www.merriam-webster.com/dictionary/grandfather%20clause>