

April 12, 2021

TO: All CALSSA Member Companies

RE: Process and Possible Outcomes for NEM-3

This memo communicates basic information about upcoming changes to net energy metering (NEM) so that you can provide accurate expectations to customers while revisions to the program are under consideration.

## **Background**

Net metering allows customers to get credit from their utility for electricity they export to the grid. When a solar system produces more energy than the building is using, electricity flows onto the power grid and is consumed by neighboring customers. The utility gives a credit to the generating customer for that energy. At the end of the month, the credits are netted against the cost of electricity the customer draws from the grid.

Traditionally, net metering has provided one-for-one credit. A kWh exported is deducted from the kWh consumed from the grid. In 2016, the California Public Utilities Commission (CPUC) made revisions to net metering. Under NEM-2, customers are assessed “non-bypassable charges” on exported energy. These charges pay for low-income bill assistance, energy efficiency programs, and energy research. In effect, customers sell power to the utility for approximately 2 ¢/kWh less than the price they pay for power from the utility, which is calculated separately within each time-of-use rate period.

The CPUC is currently developing NEM-3. Additional changes to net metering may result in a further devaluation of export credits and could result in new monthly fees for solar customers.

## **Timeline**

The CPUC opened its NEM-3 proceeding in August 2020 and expects to issue a decision in January 2022. Proposals for changes to net metering were filed on March 15. Hearings will be held in June.

After the decision is final, there will likely be an implementation period of at least several months to work out the exact tariff language and allow projects that are under development to apply before the new rules take effect.

## **20-Year Eligibility for NEM-2**

It has already been established that customers who install solar under NEM-2 will not be subject to the changes in NEM-3 for the first 20 years of system operation. Some parties are proposing to change this but the CPUC has ruled it out of scope. To qualify for NEM-2, the customer must submit an initial interconnection application before the November 2021 decision. The full 20-year NEM-2 term may also apply to customers that submit applications between the decision and the implementation date several months later.

For commercial customers, a complete interconnection application includes a system design, so the size and electrical layout of the system must be finalized before submittal. Minor equipment changes are often allowed on a pending application, but significant design changes force customers to withdraw the application and submit a new one. Therefore, customers must be confident they have finalized their system design before November 2021 to get the full benefits of NEM-2, and they may get some or all of the benefits if they apply between that date and approximately Q3 2022.

For residential customers, the trigger for NEM-2 eligibility is likely to be final inspection by the local building department. Systems must be installed and inspected before November 2021 or Q3 2022, depending on which date the CPUC decides on. Because many contractors maintain a pipeline of installations, customers will need to get in the queue in time to have their system completed before the deadline.

## **Changes Under Consideration**

For commercial customers, the utilities have proposed new monthly fees that work out to \$1000-\$3400 per month for a 250 kW system. For residential customers, the new fees proposed by the utilities are on the order of \$75 per month. Multiple parties have proposed to reduce the value of NEM credits by 55%-80%. CALSSA does not expect the CPUC to approve proposals that go so far, but most observers expect significant change.