



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA

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Order Instituting Rulemaking to Develop a
Successor to Existing Net Energy Metering
Tariffs Pursuant to Public Utilities Code Section
2827.1, and to Address Other Issues Related to
Net Energy Metering

Rulemaking 14-07-002
(Filed July 10, 2014)

**SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) AMENDED COMMENTS ON
PROPOSED DECISION ADOPTING SUCCESSOR TO NET ENERGY METERING TARIFF**

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I. INTRODUCTION

Under Rule 14.3 of the California Public Utilities Commission’s (Commission’s) Rules of Practice and Procedure, Southern California Edison Company (SCE) provides its comments on the Proposed Decision Adopting Successor to Net Energy Metering (NEM) Tariff (the PD).

SCE supports California’s energy and environmental policy objectives, and recognizes that achieving the State’s ambitious decarbonization goals will require, among other things, the deployment of customer-sited solar photovoltaic (PV) systems. For the last 20 years, the NEM program has provided substantial support to the rapid growth of these systems. The current NEM structure results in a subsidy paid by non-NEM customers at a level that is no longer needed to support continued growth of the solar industry. The subsidy provided by non-NEM customers to NEM customers is neither reasonable with the costs that NEM customers impose on the grid nor consistent with the requirements of Assembly Bill (AB) 327. SCE’s proposal for the NEM successor tariff, filed in this proceeding in August, mitigates this subsidy and the cost to nonparticipating customers in a manner that is sustainable to the growth of customer-sited solar PV by establishing a reasonable export compensation rate for energy exported to the grid and

including a capacity charge to account for fixed costs and nonbypassable charges (NBCs).¹ SCE's proposal satisfies AB 327's mandate, is straightforward, and is fair to *all* customers. The Commission should adopt SCE's proposal.² The PD, however, rejects the proposals of all parties, including utilities and customer advocacy groups, seeking to modify the existing framework to reflect the tremendous progress of the solar industry, and fails to make any significant move to transition to a structure that meaningfully reduces the growing cost subsidy to non-NEM customers.

SCE recognizes the importance of the successor tariff to its customers, the Commission, the solar industry, and the State of California. The Commission must begin a transition to a more sustainable future for all customers. To that end, SCE has coordinated with Pacific Gas & Electric Company (PG&E) and San Diego Gas and Electric Company (SDG&E) (collectively, the Utilities) to propose a compromise structure that maintains most of the benefits in the PD for solar providers, and shares with nonparticipating customers a portion of the newly extended benefits of the federal Investment Tax Credit (ITC).³ In summary, under the Utilities' compromise:⁴

- Solar customers would be credited for each kWh of electricity produced by their PV system that displaces the coincident energy use by their home or business at their otherwise applicable retail rate.
- Solar customers would be paid a fixed export compensation rate for energy exported to the grid (*i.e.*, energy that exceeds coincident onsite use). This export compensation rate would be 15 cents/kWh for all new installations before the total of all NEM and successor tariff solar reaches 7% of the utility's aggregate customer coincident peak demand, and 13 cents/kWh after reaching 7% of the

¹ The full details of SCE's proposal can be found in SCE's Response to the Administrative Law Judge's Ruling Seeking Party Proposals for the Successor Tariff (filed August 3, 2015).

² SCE's proposal applies to residential customers and small commercial customers (*e.g.*, GS-1 rate group) that are served on tariffs that do not include a demand charge.

³ After the issuance of the PD, Congress extended the federal ITC for solar PV systems to 2019. This tax credit extension is a material benefit to the economics of solar PV systems that was not originally accounted for in the PD. At a minimum, the Commission must consider this *additional* significant benefit to solar PV systems in its final decision.

⁴ As with SCE's original proposal, the Utilities' compromise applies to residential customers and small commercial customers that do not include a demand charge. *See supra.* fn 2.

utility's aggregate coincident customer peak demand. These export compensation rates approximate the benefits under the PD, while attempting to share a portion of the ITC extension benefits with nonparticipating customers. The rates would be fixed for all of the Utilities and applicable to all customers served under the successor tariff.

- Solar customers, regardless of when they are interconnected under the successor tariff, would be served on time-of-use (TOU) rates beginning in January 2018.
- The fixed export compensation rate structure (15 or 13 cents/kWh) would apply for 10 years from the original date new solar customers interconnect.
- The Commission would revisit this structure, reassess its impact on nonparticipating customers and the solar industry, and make additional changes that are effective in 2019.

If the Commission does not adopt SCE's proposal or the Utilities' compromise proposed above, SCE's comments also detail other revisions that should be made to the PD relating to the collection of NBCs. Finally, SCE's comments also address the requirements for customers with systems sized larger than one megawatt (MW).

II. THE PROPOSED DECISION FAILS TO MEET THE STATUTORY REQUIREMENT TO ADDRESS THE SUBSIDY PAID BY NONPARTICIPATING CUSTOMERS

The PD disregards AB 327's requirement that the Commission ensure both: (1) the sustainable growth of customer-sited distributed generation, and (2) that the total benefits of the successor tariff to all customers and the electrical system are approximately equal to the total costs. The PD errs by ignoring facts that demonstrate the growing shift of costs under the current NEM tariff and the statutory requirements to consider this cost shift from NEM customers to non-NEM customers in adopting a successor tariff. This subsidy has significantly increased the electric bills of nonparticipants and will have an increasingly significant effect as the number of NEM customers continues to grow.

The PD is equally dismissive of the Ratepayer Impact Measure test results, despite acknowledging that "there is almost no version of a NEM successor tariff that does not have

higher costs than benefits to nonparticipants, and to a significant degree.”⁵ The significant subsidization of NEM customers by nonparticipants through cost-shifting has been identified and quantified by reform-oriented parties and by the Commission-sponsored E3 NEM Cost Benefit Study.⁶ Nonetheless, the PD speculates that there must be other benefits to the electrical system and to all customers that “are not fully known, and thus not able to be put in equivalent form on the other side of the equation with costs” and that “further investigation of benefits and costs is warranted.”⁷ This speculation, which is unsupported by the evidentiary record, should be rejected. The record is more than adequate for the Commission to make an informed and reasonable decision that reduces the subsidy burden of nonparticipants while still supporting market growth for customer-sited renewable generation in a sustainable manner.

The PD also disregards the results of the E3 Public Tool that was explicitly designed to meet AB 327’s directives.⁸ Using the Public Tool, SCE identified nearly \$17 billion (net present value) of costs that would be shifted to nonparticipants if NEM continues unchanged from 2017 to 2025.⁹ Other parties pointed to similar cost shifts.¹⁰ SCE estimates that if the PD were adopted, it would maintain nearly the same subsidy burden as the current program -- over \$15 billion from 2017 to 2025. SCE estimates that this subsidy would result in the current average annual residential customer bill increasing by \$465 (\$39 per month) by 2025, or by roughly 42 percent (all else held constant).¹¹ SCE projects that California Alternate Rates for Energy

⁵ PD at p. 57.

⁶ See “California Net Energy Metering Ratepayer Impacts Evaluation,” prepared by Energy + Environmental Economics, Inc. (E3), October 28, 2013, *available at* <http://www.cpuc.ca.gov/NR/ronlyres/D74C5457-B6D9-40F4-8584-60D4AB756211/0/NEMReportwithAppendices.pdf> [as of January 6, 2016], and presented by the Commission to the California Legislature fulfilling the requirements of AB 2514 (Bradford, 2012).

⁷ PD at p. 57.

⁸ See Administrative Law Judge’s Ruling Seeking Party Proposals for the Successor Tariff: “Each party making a proposal ... must provide clear and transparent information about all aspects of the proposal. Proposals must utilize the information and processes demonstrated in the Staff Tariff paper ... Each party’s proposal must include a discussion of the ways in which the proposal meets each of the criteria set out in Section 2827.1(b)(1), (3), (4), and (5).”

⁹ See SCE’s proposal at p. 17.

¹⁰ See PG&E’s Proposal for NEM Successor Tariff at p. 4; SDG&E’s Proposal for Net Energy Metering Successor Tariff at p. 8; Office of Ratepayer Advocates’ Proposal for NEM Successor Tariff at p. 4; The Utility Reform Network’s Proposal for NEM Successor Tariff at p. 11.

¹¹ According to SCE’s 2014 Annual Statistical Report, SCE’s total weighted monthly residential customer bill is \$92. See <http://www.edison.com/content/dam/eix/documents/investors/sec-filings-financials/2014-financial-statistical-report.pdf> at pp. 16-17.

(CARE) program customers, who now make up one-third of SCE’s residential customers, would likely see bill increases by 2025 that are more than the \$26/month average discount they currently receive.¹² If the Commission were to elect not to apply the ever increasing solar subsidy to CARE customers, then the increase for the remaining non-NEM residential customers would be far above the \$39/month level by 2025. Finally, even if the Commission were to maintain the PD only through 2019, SCE estimates a \$4.5 billion nonparticipant subsidy burden. Requiring middle and lower-income customers, particularly SCE’s CARE customers, to subsidize customers who are, for the most part, more affluent is unreasonable, unfair, and poor public policy.

The PD concludes that 2019 is the “appropriate time to review the NEM successor tariff established by this decision ... and to make any adjustments to the successor tariff, including possible changes to the tariff design and related programs that are necessary at that time.”¹³ SCE urges the Commission to begin a meaningful transition now to reduce the subsidy burden to nonparticipating customers. The Commission can satisfy this objective and the requirements of AB 327 by adopting SCE’s original proposal. There is considerable evidence in this proceeding that demonstrates that SCE’s proposal ensures sustainable growth of customer-sited solar PV systems and the total benefits of the successor tariff to *all* customers and the electrical system are approximately equal to the total costs. Absent adopting SCE’s proposal, the Utilities propose a transitional compromise.

**III. THE UTILITIES PROPOSE A TRANSITIONAL COMPROMISE THAT
MAINTAINS THE BENEFITS OF THE PD WHILE SHARING THE BENEFITS OF
THE ITC EXTENSION WITH NONPARTICIPATING CUSTOMERS**

SCE supports California’s energy and environmental policy objectives, and recognizes that the successor tariff will play a part in achieving these objectives. SCE believes it has a critical role in modernizing the power network to enable customer choice in the energy

¹² Per SCE’s 2014 CARE program reported numbers, calculated as the total annual CARE surcharge divided by the annual average number of domestic CARE accounts.

¹³ See PD at p. 4. The process to determine a fixed charge for the *default* TOU tariff for the residential class was identified in D.15-07-001, but that is not the appropriate proceeding to establish any fixed charges for an optional tariff such as the successor tariff, which, under the PD, would *require* TOU pricing.

technologies they wish to use. SCE also recognizes the importance and impact of the successor tariff on its customers, the Commission, the solar industry, the State of California, and other stakeholders in this process. As such, the Utilities propose a compromise that maintains most of the benefits in the PD for solar providers, and attempts to share with nonparticipating customers a portion of the newly extended benefits of the ITC as a modest, but important, step in transitioning to a more complete successor tariff. The components of the Utilities' compromise are set forth below.

A. The Commission Should Adopt an Export Compensation Rate that Maintains the Benefits of the PD, While Attempting to Share the Benefits of the ITC with Nonparticipating Customers

Under the Utilities' compromise, residential and small commercial solar PV customer-systems would be credited for each kWh of electricity produced by their PV system that displaces the coincident energy use by their home or business at their otherwise applicable retail rate. Any energy generated by a customer's solar PV system not used to serve onsite load would be paid an export compensation rate of 15 cents/kWh for all new installations before the total of all NEM and successor tariff solar reaches 7% of the utility's aggregate customer coincident peak demand, and 13 cents/kWh after reaching 7% of the utility's aggregate coincident customer peak demand. These transitional rates are intended to approximate the benefits of the PD for solar providers, while attempting to share a portion of the benefit of the extension of the ITC with nonparticipating customers.¹⁴ To simplify the successor tariff program for all customers state-wide, the rate is fixed and the same under the successor tariff for all of the Utilities. Because each of the Utilities have different rate schedules, this structure does not equally capture the benefit of the ITC to nonparticipating customers across the utilities. Higher utility retail rates result in more of the ITC extension benefits being provided to nonparticipating customers. However, simplifying the program will empower customers to make informed choices under the

¹⁴ By way of example, and for SCE using the PD's proposal, the Public Tool provides a rate of 18.1 cents/kWh as financial credit for exported power from NEM customers. The benefits provided by the extension of the ITC were identified in the Public Tool under the "DER Pro Forma" tab as 8.6 cents/kWh under the Base Case Solar Cost Case and 5.1 cents/kWh under the Low Case Public Tool Solar Cost Case. Thus, an export compensation rate of 15 and 13 cents/kWh represents a partial sharing of the ITC benefits, while maintaining the benefits of the PD to solar providers.

successor tariff, make the program easier to understand, and simplify the ability of solar providers to market their product and services across all three utility service territories during this transition period.

This compromise represents a rational and reasonable change that does not disrupt the economics of solar PV systems, while attempting to provide some relief to the significant subsidy provided by nonparticipating customers to participating customers. The PD identified the expiration of the ITC as a significant but transient factor affecting the value or effectiveness of the successor tariff in achieving sustained growth.¹⁵ The Joint Solar Parties identified the expiration of the ITC as the primary reason to avoid making any substantial changes to the NEM structure in this proceeding.¹⁶ Because the PD apparently uses the imminent expiration of the ITC to justify its limited modification of the current NEM tariff, the beneficial financial impact of the continuation of the ITC should equally justify modification of the NEM tariff to achieve some transitional reduction in the subsidy paid by nonparticipants. Even if that were not part of the rationale for limiting any significant change to the current NEM tariff, there is no reason for none of the benefit to accrue to nonparticipants and plenty of evidence that no significant harm to solar adoption would follow based on the PD's limited change to the status quo.

If the Commission chooses not to adopt the Utilities' compromise, it must consider these newly established benefits to solar providers that did not exist before the issuance of the PD. Regardless of how the Commission accounts for these benefits – whether through an export compensation rate or a simple reduction to the retail rate similar those NBCs identified in the PD – the Commission should provide some mechanism to share these benefits with nonparticipating customers.

¹⁵ See PD at pp. 46-47; *see also* "...there are policies of the federal government that can have significant impacts on the value or effectiveness of the NEM tariff. The principal policy discussed in this proceeding is the federal ITC...which is scheduled to end for residential customers at the end of 2016." PD at p. 52.

¹⁶ Joint Solar Parties Opening Brief, Oct. 19, 2015, at p. 4: "Solar providers have every motivation to reduce costs and gain market share, but are limited by real world challenges, including the looming sunset of the [ITC] in 2016. Even if cost reduction goals are met in the near term, they will not offset the looming reduction in the ITC ..."; SEIA Ex Parte Notice dated Dec. 4, 2015, attachment C at p. 43: "the step-down of the federal solar ITC at the end of 2016 is likely to be an additional shock to solar adoption." "I would encourage the first change to be implemented after the expiration of the ITC has been fully absorbed and the rate of solar adoption has returned to its level before the expiration of the ITC." (p. 44).

B. The Commission Should Authorize Mandatory TOU Rates in 2018 for all Solar Customers Served on the Successor Tariff

The PD correctly recognizes the need for alignment between the successor tariff and the expansion of TOU rates for residential customers, mandating that solar customers under the successor tariff must take service on a TOU rate beginning January 2018.¹⁷ The PD also provides that this TOU requirement would apply to solar customers under the successor tariff who interconnect prior to January 2018, but ties that TOU requirement to when the Commission has instituted default TOU rates for residential customers, which will not occur prior to January 2019. For purposes of the Utilities' compromise or if the Commission chooses not to adopt the Utilities' compromise, the Commission should clarify that beginning January 2018 *all* NEM customers under the successor tariff, regardless of interconnection date, must be served on a TOU rate.

C. The Commission Should Limit the Provision of the Export Compensation Rate to 10 Years

The PD provides that customer-generators may continue to take service under the successor tariff for 20 years after interconnection of the customer's system. This is an unreasonably long period and well beyond typical payback periods for solar PV systems. A solar customer's average expected payback period is typically 4-8 years.¹⁸ Given the rapid rate of transformation that the solar industry has seen in terms of technological advancements and declining panel costs, locking customers into 20-year periods is unreasonable and likely to exacerbate the subsidy burden shouldered by nonparticipants. As a compromise, the Utilities

¹⁷ See PD at pp. 89-90; see also PD at COL 10, which states "...once the Commission has instituted default TOU rates for residential customers, all customers using the NEM successor tariff established by this decision should be required to stay on their default TOU rate, or on another available TOU rate otherwise applicable to them, in order to begin or continue to use the NEM successor tariff."

¹⁸ The Energy Division's Staff Paper presented results from various scenarios for the current NEM structure under different rate and DG value assumptions, with payback periods ranging from 4.7 to 7.8 years. See Energy Division Staff Paper on the AB 327 Successor Tariff or Standard Contract (Staff Paper) (June 3, 2015) at pp. 1-26.

propose that the export compensation rate apply for 10 years from interconnection date.¹⁹ This compromise strikes a balance between the expected payback period and the benefits provided by the PD.

D. The Commission Should Revisit the Successor Tariff and Implement any Needed Change in 2019

The Utilities' compromise represents meaningful progress towards compliance with AB 327, and will not result in harmful economic impact on solar providers. The Utilities view this structure, including the export compensation rate, as a transition that should be revisited before 2019 to allow for changes to be implemented in 2019. Consistent with the PD, revisiting the successor program allows the Commission to consider changes in tax policy, the adoption rate under these subsidies, solar costs, utility rates impacts, and the results of the Distribution Resources Planning OIR (R.14-08-013) and Integration of Distributed Energy Resources OIR (R.14-10-003).

IV. THE COLLECTION OF NONBYPASSABLE CHARGES PROPOSED BY THE PD SHOULD ENSURE THEIR COLLECTION WHEN MINIMUM BILLS ARE TRIGGERED FOR NEM CUSTOMERS

The requested change in this section only applies to the minimum bill under the PD's proposed NEM structure. If the Commission adopts the Utilities' compromise, this change becomes moot and the minimum bill would be applied to total deliveries just as they are for all other residential customers, *i.e.*, the non-CARE minimum bill would apply when the sum of delivery charges is less than \$10 per month.²⁰

¹⁹ Only the export compensation rate is fixed for 10 years. TOU rates will change as modified by the Commission.

²⁰ See D.15-07-001.

The PD’s recommended treatment of NBCs for NEM customers requires a technical revision to the application of minimum bills. Minimum bills that apply to NEM customers, just like all residential customers, are intended to provide for some recovery of a utility’s fixed costs of service for customers whose usage in certain months is very low, including NEM customers whose net usage in particular months is very low, or sometimes zero.²¹ The combination of delivery revenues (distribution, transmission, and NBCs) and in SCE’s case, a \$0.94/month basic charge, triggers the minimum bill for non-CARE customers when these revenues are less than \$10 per month.²²

To preserve the intent of the PD and ensure collection of NBCs from all customers for all deliveries from the grid, the minimum bill for NEM customers should apply when the *net* distribution component of delivery revenues, including any fixed charges, is less than \$10 per month. The bill for NBCs should be added to the \$10 minimum bill, when applicable, to NEM customers. Thus, the total bill these NEM customers would pay when net distribution charges are less than \$10 is the minimum bill of \$10 per month, plus NBCs charged on all deliveries, and any applicable net generation charges.

The PD recommends that all energy deliveries to successor tariff customers should be billed for NBCs that are partially avoided with full retail netting of deliveries and exports. The PD concludes that future successor tariff customers should “pay nonbypassable charges on each kWh of electricity they consume from the grid in each metered interval [each hour],” (but not on their own generation consumed on site), concluding that this change “is unlikely to have a

²¹ D.15-07-001 states “For customers with no or very low usage, the minimum bill would function like a customer charge and collect a portion of the utilities’ fixed costs, assuring that each customer pays something for the continued ability to take energy from the grid. Customers who use more energy (and whose bills exceed the minimum bill amounts) pay no minimum bill but instead pay for customer access and usage through volumetric rates.” D.15-07-001 at p. 218.

²² “We agree that the minimum bill should be calculated using the method ... which calculates a minimum bill on only the delivery portion of the customer’s bill (the delivery portion is defined as all rate components except for the generation rate).” D.15-07-001 at p. 228. NEM customers subject to minimum bills separately pay for their net generation charges while non-NEM customers subject to minimum bills pay separately for their total generation charges.

significant impact on the economics” of a customer-generator’s system.²³ As the PD correctly states, NBCs are currently assessed “only on the netted out volume of electricity consumed from the grid,” avoiding payment for them just as other energy delivery charges are avoided by netting of delivered and exported kWh for NEM customers. The PD would collect NBCs consistent with the law and the Commission’s policies that customer-generators should pay NBCs even if they leave the system to avoid unwarranted cost shifts to other customers.²⁴ This change should be implemented as part of the NEM successor tariff, if the Commission adopts the PD.

V. THE COMMISSION SHOULD RECONSIDER REQUIREMENTS FOR CUSTOMERS WITH SYSTEMS SIZED OVER 1 MEGAWATT

There are two statutory requirements for systems greater than 1 MW: (1) the projects must not have a significant impact on the distribution system; and (2) the projects must be subject to reasonable interconnection charges.²⁵ The PD focuses solely on the second requirement but erroneously assumes that the requirement to pay for all interconnection costs means that projects will not have a significant impact on the distribution grid.²⁶ That is not necessarily the case. For example, a 15 MW generating facility that triggers significant upgrades to the distribution system or causes the curtailment of other generating facilities on the same line has a significant impact on the distribution system, regardless of whether the customer-generator pays for study costs and upgrades. This is why SCE, the Energy Division’s Staff Paper, and

²³ See PD at pp. 88-89. The PD’s inclusion of the transmission charge, Public Purpose Program charge, Nuclear Decommissioning Charge, Competition Transition Charge, New System Generation Charge, and the Department of Water Resources bond charge in NBCs is appropriate and consistent with the Commission’s determination of NBCs in D.07-09-016, but should also include the Public Utilities Commission Reimbursement Fee.

²⁴ The Commission has stated that “The PPP surcharge has been deemed so important that customers must still pay this surcharge even when customers leave the distribution system by relying upon ‘distributed generation.’ ... [C]ustomers departing for distributed generation must continue to pay for these programs, thereby avoiding unwarranted cost shifts to other ratepayers.” See D.03-02-068 at p. 45.

²⁵ See Public Utilities Code Section 2827.1(b)(5).

²⁶ See PD at p. 93.

other parties concluded that the ability of a generating facility to pass Rule 21's Fast Track process²⁷ is a reasonable and straightforward mechanism for determining whether that facility has a significant impact on the distribution system.²⁸ If the Commission adopts the PD's proposal to allow systems of any size to participate under the successor tariff, regardless of their impact to the distribution system, these systems will need to be treated like any other exporting generating facility under the Rule 21 interconnection process to ensure fair and equitable treatment for all generating facilities looking to interconnect to the grid. These systems will also be subject to all applicable state and federal requirements for exporting generating facilities that exceed 1 MW.²⁹

VI. CONCLUSION

SCE respectfully requests that the Commission's final decision adopt SCE's recommendations and provide the Utilities with 90 days—not 30 days—to file the Tier 2 advice letter implementing the successor tariff.

²⁷ Under SCE's Rule 21, Section E.2.b.i, in addition to non-exporting and NEM generating facilities, exporting generating facilities with a gross nameplate rating no larger than 3 MW on a 12 kV, 16 kV or 33 kV line are also eligible for Fast Track evaluation. Additionally, where an applicant with a larger exporting generating facility agrees to the installation of protective devices that prevent the generating facility's net export from ever exceeding the Fast Track eligibility limits, the net export will be considered for purposes of Fast Track eligibility.

²⁸ See SCE's Proposal at p. 35; Staff Paper at pp. 1-13; ORA's Proposal at pp. A-25-A-26; and PG&E's Proposal, p. 29 (PG&E advocated for a 3 MW limit, which is similar to their Fast Track requirement).

²⁹ Although both the NEM and successor tariff statutes require that eligible generating facilities be sized to onsite load, these generating facilities still have the ability to export large amounts of generation to the grid (especially mid-day) because there is no protection in place to prevent export and the sized-to-load requirement is based on estimated kWh production over the course of a year.

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