NET METERING RATES & RULES

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Net metering allows customers to offset their electricity usage and receive credit on their bills for excess electricity generated by solar energy systems that they own or lease.

SENATE BILL 374: Prior to the 2015 Nevada legislative session, NRS 704.773 required that NV Energy offer net metering until a cap of 3 percent of the total peak capacity of all utilities in the state was met. During its 2015 legislative session, the Nevada Legislature passed Senate Bill 374, which set a new cap of 235 MW, and directed the PUCN to examine the rates applicable to net metering customers and to identify and eliminate any unreasonable shifts in costs from net metering customers to other customers in order to move past the new statutory cap of 235 MW. SB 374 required NV Energy to file a proposed tariff, or rules and rates, with the PUCN by July 31, 2015. SB 374 set a Dec. 31, 2015, deadline for the PUCN to review and approve the proposed tariffs, including new rates.

PUCN'S DUTY UNDER SB 374: The PUCN's role is not to set state energy policy. Instead, the legislative process determines the state's energy policy, and the PUCN follows that legislative direction, which is set out in the Nevada Revised Statutes. SB 374 tasked the PUCN with ensuring that continuing net metering past the cap would not unreasonably shift costs from one group of ratepayers to another.

DOCKETS 15-07041 & 15-07042: On July 31, 2015, NV Energy filed applications with the PUCN for approval of a cost-of-service study and net metering tariffs for Nevada Power Company (NPC) and Sierra Power Pacific Company (SPPC). The PUCN designated those applications as Docket Nos. 15-07041 and 15-07042, respectively. In these dockets, many documents were filed with the PUCN and multiple hearings were held. All of that information is available on the PUCN website.

NEW NET METERING RATES APPROVED: On Dec. 23, 2015, the PUCN issued an order in Docket Nos. 15-07041 and 15-07042 implementing new rates for NV Energy customers who participate in net energy metering. At its Feb. 12, 2016, the PUCN reaffirmed its Dec. 23, 2015, order with one material change. The transition period was extended from four years to 12 years.

The order outlines a transition of all small commercial and residential net metering customers to a more cost-based rate structure over the next 12 years (2016 – 2028) that will eliminate unreasonable cost shifts between ratepayers without resulting in any additional profits to NV Energy. There are three basic components to the new rule: 1) a basic service charge, 2) a volumetric rate for the energy NV Energy sells to the customer, and 3) the rate NV Energy compensates the customer for the excess energy that NV Energy is required to accept from the customer generator.

Customer generators that remain connected to NV Energy's electric distribution system and rely on NV Energy to provide continually reliable service must pay their share of the fixed costs of maintaining NV Energy's system, no matter the volume of electricity they purchase from NV Energy.

The PUCN order adopts the following changes:

Separate ratepayer classes to eliminate subsidies: The PUCN found that current rates enable net metering customers to avoid paying for some of the fixed costs associated with the sale of electric service by NV Energy to net metering customers. For example, NV Energy incurs significant costs investing in the infrastructure (e.g., distribution system and generation assets) necessary to ensure that it can meet net metering customers' full electricity demands when their solar energy systems are not generating electricity. State and federal law entitle a regulated utility to recover in rates the full cost of its reasonable investment in facilities to serve customers. If net metering customers rely on these facilities, they should be responsible for their share of the costs that are incurred by NV Energy to provide them electric service - regardless of their use of solar energy systems to reduce the amount of electricity they purchase from NV Energy. Creating separate ratepayer classes for net metering customers ensures that costs allocated to net metering customers stay with net metering customers when determining rates.

Unreasonable cost shift: The PUCN found that, under the previous rates, costs were being unreasonably shifted away from small commercial and residential net metering customers to other non-participating ratepayers, resulting in higher rates for non-net-metering customers. The annual subsidy associated with the shift in fixed costs from net metering customers to other customers is approximately $623 per year for each residential net metering customer in Southern Nevada and $471 per year for each residential net metering customer in Northern Nevada. In addition to reducing the cost-shifts, the PUCN ordered NV Energy to account for the new rates in a manner (regulatory liability) to allow the PUCN to ensure that the increased collections from net metering customers would reduce costs for non-net-metering customers, rather than flow to NV Energy's shareholders.

Net energy metering subsidy line item on customer bills: The PUCN ordered NPC and SPPC, in their next respective general rate cases, to propose including a line item entitled "Net Energy Metering Subsidy" on customer bills that identifies the subsidy each non-net-metering customer pays each month to subsidize net metering customers. The companies would have to include the same proposals in every subsequent general rate case filing with the PUCN until the subsidy is completely eliminated on Jan. 1, 2028.

Grandfathering: The PUCN decided the new net metering rules should apply to all net metering customers, not just new customers. Treating net metering customers differently depending on the date of the system application would have potentially been confusing and impractical to administer, especially in real estate transactions. The new rule treats all net metering customers identically.

Gradual implementation of new rates: The order outlines a tri-annual incremental implementation of the new rates for net metering customers to reduce and ultimately eliminate the current cost shifting between net metering customers and those who do not participate in net metering. The new rates will be fully implemented on Jan. 1, 2028.

Lower volumetric charge/increased basic service charge: The order includes a decrease to the volumetric commodity charge and a corresponding increase to the fixed basic service charge. For the basic service charge, all customers pay a minimum amount each month regardless of how much electricity the customer uses because many of the infrastructure costs are fixed and do not vary based on usage. The basic service charge covers costs such as meters, power lines and other distribution facilities. Some of the fixed costs are also collected through a consumption-based charge. See the tables on pg. 3 for more information.

Compensation for excess electricity: The PUCN ordered that NV Energy must change the way it compensates net metering customers for the excess energy produced by the customers' energy systems. Previously, NV Energy credited any excess energy back to net metering customers at retail rates. Because NV Energy can either produce or purchase identical energy in the wholesale market, providing the retail rate overvalued the excess energy produced by net metering systems. The PUCN set a new rate of compensation to reflect the actual value of excess generation, which is based on avoided energy cost (the energy that NV Energy did not have to supply to the grid) and a credit for reduced energy/line losses. As with the rest of the revised net metering rates, the change in the compensation for excess energy will be phased in over 12 years. See the tables on pg. 3 for more information.

Optional rates: The order offers net metering customers the option to take service under time-of-use and time-of-production rates to allow them to take full advantage of energy generation during peak and off-peak periods. Time-of-use pricing enables net metering customers to respond to price signals for both the excess generation produced by their net metering systems and the electricity delivered by NV Energy, while positioning them to benefit from future advancements in technologies, such as storage.

CAN THE RATES CHANGE BEFORE BEING FULLY IMPLEMENTED IN 2028? Yes. The reason for the gradual transition was to give net metering customers time to adjust, but it also allows for periodic adjustments based on data in NV Energy's next general rate cases for SPPC and NPC. SPPC's next general rate case will take place in 2016, and NPC's will occur in 2017. Nevada law requires electric utilities to file a general rate case application at least once every three years. For more information on general rate cases, please see the PUCN's "General Rate Case Process" fact sheet.

WHY DID THE PUCN RELY ON NV ENERGY'S MARGINAL COST OF SERVICE STUDY? It is a longstanding and widely accepted practice to rely on the utility's cost-of-service study when setting the utility's rates. The PUCN utilized the data provided by NV Energy because NV Energy is the only entity with the specific customer data necessary to evaluate the costs of providing service to its customers. Prior to being accepted by the PUCN, the data underlying NV Energy's study was subjected to rigorous review by experts representing various interested parties in Docket Nos. 15-07041 and 15-07042. A marginal cost-of-service study is the most appropriate tool for setting rates because it examines the actual costs of serving various customers.

Other studies, such as the 2014 "Nevada Net Energy Metering Impacts Evaluation," conducted by E3 and commissioned by the Nevada Legislature, are useful for public policy decisions but are not as helpful for actually setting rates. The E3 study was a cost/benefit analysis focusing on whether or not it would be appropriate to promote, incentivize, or support net metering in Nevada. Although the E3 study is not a rate-setting tool, extrapolating the E3 study under current conditions, the conclusion of the E3 study is consistent with the findings of NV Energy's marginal cost-of-service study.

The E3 study showed there would be a $36 million benefit to non-net-metering customers from net metering if utility-scale solar costs were $100 per megawatt-hour. That finding is premised on utility-scale solar (i.e. large solar farms located in the desert) costing $100 per megawatt-hour to finance, construct and maintain over a certain period of time. Based on the end-of-2013 numbers that the E3 study utilized, $100 per megawatt-hour for utility-scale solar appeared to be a reasonable assumption. However, the E3 study also included sensitivity analyses to demonstrate what would happen to the cost/benefit ratio if the cost of utility-scale solar decreased from $100 to $80 per megawatt-hour. E3's analysis showed that at $80 per megawatt-hour, there was no longer a benefit but instead a $222 million cost for non-net-metering customers. As of January 2016, the cost of utility-scale solar was approximately $48 per megawatt-hour. Using the same study, changing that one variable to $48 per megawatt-hour would result in a net cost to non-net-metering customers of over $600 million.

INCENTIVIZATION OF SOLAR IN NEVADA: The order finds that a cost-based approach to ratemaking will transition Nevada to a net metering framework that allows all customers to receive accurate price signals. The rooftop solar industry will no longer receive a hidden subsidy in the form of a discriminatory rate design that benefits net metering customers at the expense of other ratepayers, and it will therefore be able to respond to the market and gradually adjust its business model.

The order's net metering framework continues the policy goal of incentivizing the development of solar energy resources in Nevada, but it does so pursuant to SB 374, which requires reasonable and transparent cost-based rates and fair compensation for excess generation. The rates approved by the PUCN continue to provide a growing number of net metering customers the opportunity to offset their electricity usage and costs.

MORE INFORMATION: Information about the order and underlying applications can be found on the PUCN's website at puc.nv.gov. From the top navigational bar on the home page, select Dockets, followed by Electric Dockets. Scroll to Docket Nos. 15-07041 and 15-07042 and select View.

NEVADA POWER COMPANY Net Metering Rate Implementation				
Step	**Date**	**Basic Service Charge**	**Volumetric Charge (per kilowatt-hour)**	**Excess Energy Credit (per kilowatt-hour)**
	Rates Prior to Jan. 1, 2016	$12.75	$0.11289	$0.11289
1	Jan. 1, 2016	$17.90	$0.11067	$0.09199
2	Jan. 1, 2019	$23.05	$0.10845	$0.07429
3	Jan. 1, 2022	$28.21	$0.10623	$0.05747
4	Jan. 1, 2025	$33.36	$0.10418	$0.04157
5	Jan. 1, 2028	$38.51	$0.10179	$0.02649

SIERRA PACIFIC POWER COMPANY Net Metering Rate Implementation				
Step	**Date**	**Basic Service Charge**	**Volumetric Charge (per kilowatt-hour)**	**Excess Energy Credit (per kilowatt-hour)**
	Rates Prior to Jan. 1, 2016	$15.25	$0.08829	$0.08829
1	Jan. 1, 2016	$21.09	$0.08267	$0.07620
2	Jan. 1, 2019	$26.92	$0.07705	$0.06055
3	Jan. 1, 2022	$32.76	$0.07143	$0.04716
4	Jan. 1, 2025	$38.59	$0.06582	$0.03601
5	Jan. 1, 2028	$44.43	$0.06020	$0.02711

The above tables provide examples of the basic service charge, volumetric rate and excess energy credit for the 12-year transition period. The rates assume no changes (e.g. general rate cases) other than the transition to the PUCN-ordered new net metering rates. For the excess energy credit, the avoided cost of energy is certain to change in the future based on factors such as the price of natural gas and the price of energy produced by large-scale solar energy projects. For example, higher prices for natural gas or large-scale solar energy will likely result in higher compensation for excess energy produced by net metering systems.