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Testimony to Senate Natural Resources and Energy Committee- March 23, 2017

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Thank you for the opportunity to share information on the status of net metering in VEC service territory. We hope the committee will help to ensure a system for net-metering that is cost effective for our Co-op members. Included here is information regarding the current status of net metering in VEC territory, as well as our perspective on the need for the proposed net metering rule. The legislature should ensure that our members are not forced to pay above market rates for renewable energy, all who use the grid contribute their fair share to the costs of maintaining the grid, and any unnecessary costs and cost shifts are eliminated. This will result in a more sustainable net metering program for our members and Vermont.

1. Status of Net Metering in VEC Service Territory

2017 to date (as of 3/31/17)	# of Applications	% of Applications	Total Capacity	% of Capacity	Av kW	% of 2016 Peak (82 MW)
Less than 15kW	120	92%	772	29%	6	
15kW to 150kW	6	5%	125	5%	20	
Greater than 150kW	4	3%	1,766	66%	441	
Total	130	100%	2,663	100%	20	3.2%

Consistent with our testimony last month, 2017 applications for net metering in VEC service territory have been brisk. In the last month alone the number of 2017 applications has more than doubled. 2017 applications currently total 2,663 kW which equates to 3.2 % of our (2016) peak. This pace is already greater than any prior year for VEC. If the remainder of 2017 keeps pace with the first 3 months of 2017, *the total capacity of applications in 2017 will exceed the total of all net metering capacity prior to 2017.*

In addition, the larger (> 150 kW) applications continue to comprise a disproportionate percentage of the capacity-- 3% of the applications but 66% of the capacity. Prior to 2017 the larger projects (>150kW) comprised only 26% of the capacity.

For 2017 applications to date, projects 15kW and larger comprise 8% of the applications and 71% of the capacity.

	Accounts	kW	Avg kW	% of 2016 Peak
Original Projects (pre-4/15/14)	354	3,304	9	4.02 %
2014-2016 (until VEC cap reached Nov. 2015)	404	7,016	13	8.53 %
2017 (as of 3/22/17)	139	2,633	19	3.20 %
Total	897	12,953	14	15.75 %

The draft net metering rules have not stifled the development of new net metering and continue to raise concerns for VEC that a cap may be necessary if the current pace continues. VEC has also seen an increase in businesses new to Vermont entering the Vermont net metering market which indicates that the 2017 program still offers an attractive business proposition.

2. Cost of Net Metering

When we testified to this committee a year ago, we estimated net metering was increasing costs to the Co-op at a rate of \$125,000 for every 1% of VEC's peak capacity. At the end of 2016, our total net metering applications were equivalent to 12.6 % of VEC peak. The net metering subsidy had grown to nearly \$1.6 million annually. Although some believe that net metering will bring system costs down, and therefore save the Co-op money, that is not our experience. While there is modest transmission savings, these are more than offset by the above market costs VEC is required to pay for the net metered power. Further complicating potential net metering benefits is that VEC is a winter peaking utility and during the summer our peaks are in the evening hours. These times are rarely positively impacted by solar generation.

3. Cost Shift and Upward Pressure on Rates

The additional costs of the net metering program result in a cost shift between members and an increase in cost for all members that are not participating in the net metering program. VEC's service territory is especially impacted by the cost shift because of the attributes of our service territory which includes 8 of the 10 Vermont towns with the highest poverty levels, and where 41% of our members are on fixed incomes. In order for the net metering program to be successful it must be economically sustainable for all members. Because the prices we pay for net metering are above market power, and we must take all generation, this is not a cost pressure we have control over. In 2018, we are projecting a need to increase our rates partly because of the increased costs from net metering.

4. Cost of Net Metering Relative to Other Renewables

VEC currently has three solar projects (TIER 2) that are in development or in service today. These projects are priced for 2017 between \$.105 to \$.124/kWh and also include capacity and REC's. These renewable energy prices are considerably better than the net metering prices for 2017. Our HQ contracts and the Sheffield project that qualify as TIER 1 renewables have pricing at less than \$.08/kWh.

As another example, in late 2015, VEC received a proposal for consideration of a 600 kWh project with a price of \$.129. So with the new net metering pricing for 500 kWh projects of \$.1692, we are paying a 31% premium over the price we could get on the market ourselves.

Lastly, VEC has a Co-op Community Solar program that provides members an opportunity to support and benefit from local renewable energy by sponsoring panels at the Alburgh solar facility. VEC's Community Solar Program virtually eliminates the cost shift that exists in the net metering program. During the first 4 months of the launch of the Alburgh project, 75 different Co-op members sponsored over half of the capacity of that project. VEC is demonstrating that it is possible to offer "off-site" cost effective community solar opportunities at a lower cost than the cost of net metering.

5. Issues of Specific Concern to VEC

VEC has a considerable amount of renewable generation in our territory relative to our load. Due to our rural nature and the relatively low cost of property in our territory, VEC has attracted a disproportionate share of in-state generation in our service territory. This development has created some system constraints in our Northwestern territory. The transmission area known as the SHEI interface is a particular problem. Generation added to this area has resulted in curtailments of existing renewables such as Kingdom Community Wind (KCW). By placing generation in this constrained area larger renewable projects displace existing renewable projects and leave the host utility with fixed costs and no incremental generation. Of particular importance are the larger net metering projects, as well as PURPA and Standard Offer projects.

6. VEC Position on Proposed Net Metering Rules

VEC's would like to see the proposed rule finalized provided there are no changes that would further accelerate the pace of net metering until we can get the pricing correct. Additionally, if the draft rule was to change now, we would be forced to redo months of custom programming to support the new billing structure. It would also create a chaotic and confusing situation for members who have begun the process of applying for net metering under our approved tariff.

The proposed rule, while better than the previous one, still requires VEC to pay more than what is necessary for renewable energy. VEC would prefer to have a program cap in order to limit our financial exposure, and we would prefer that the cost to the utility would be closer to what we pay for other renewables. Additionally, we believe net metering installations should be limited to smaller projects scaled to residential usage. As noted above, 71% of the 2017 net metering capacity in VEC territory thus far is for projects greater than 15kW. However, the PSB implemented a long and comprehensive public process that struck a delicate balance between competing interests. We are not challenging the outcome. We need clarity and certainty so we can support our members who want to install solar.

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