

NET METERING: FIXING THINGS SO EVERYONE BENEFITS

Testimony of Avram Patt

Definition

30 V.S.A §219 a (3)

“Net metering system” means a facility for generation of electricity that:

...

(C) is intended primarily to offset the customer’s own electricity requirements

My 2011 testimony

- Net metering customers need a reliable distribution utility.
- Net metering will affect different utilities and their ratepayers very differently based on demographics and load characteristics, causing more or less tension with utilities.
- Program changes being considered would eventually expose “have” and “have not” issues, as net metering becomes a measurable factor in energy supply. There are many reasons why someone may be a “have not.”
- The line between “own use” and commercial generation is getting blurred, which could result in more subsidy and incentives than needed.

What I realized a year ago, and since

- WEC crossed the 4% cap (followed shortly by other consumer-owned utilities) not because it is a small utility, but because it serves a rural, overwhelming residential territory. System peak is far lower in relation to number of customers, so the threshold is reached sooner. For those Vermont utilities hitting the cap, the amount of cost shifting starts to matter, and the shift is primarily to other residential customers. There is very little large industrial or commercial revenue to cushion the impact.
- Net metering customers, even in the same community, may be treated differently based on which utility they are served by. They may be prevented from installing net metering, or there may be a different value for the generation. While this may seem “discriminatory,” it is the statute that forces this discrimination, not the utility.
- Some net metering customers are probably being over-subsidized beyond what is needed, especially if their installations are being sized to zero out the bill. Also, as the installed cost of solar continues to drop, basing the value on the retail electric rate in effect increases the subsidy as the cost decreases.
- Homes and farms that were among the first to be connected to WEC in 1939-40 and that had been contributing their share to WEC’s system since then are now receiving service without paying bills.

- The predictions in my 2011 testimony (see above) are happening sooner than I would have thought.
- Of the WEC members I've talked to who are recent or prospective net meterers, none would be deterred if they had to pay a customer charge. A few expressed surprise and were even troubled by the fact that they wouldn't be paying their share to their Co-op.

Incentives, subsidies and fairness

- We need to convert to renewable sources, for electricity and other uses, quickly and comprehensively. Significant and continuing subsidies and incentives are needed to accomplish this. For incentives/subsidies accomplished through mandates to utilities and energy providers, this increases energy costs for end-users, electric ratepayers, transportation, industry, etc.
- The level of subsidy/incentive should be high enough to accomplish objectives, but no higher. Subsidies need to be evaluated and adjusted as installed costs for renewables drop.
- Mandated utility-based subsidy is inherently regressive to some degree, and more so in a rural residential demographic. As a matter of economic fairness, it is not the best way to finance public policy initiatives, although it is often the most politically do-able.
- Current rate structures include a small customer charge, and energy charges. While the customer charge allows some fixed costs of a utility to be recovered, most of the fixed cost are recovered in the energy rate. Net-metering customers who get the benefit of zeroing out their bill do not contribute anything to the fixed cost of the utility whose system they benefit from. The rate impact of resulting lower utility revenue is therefore not borne across the board by all ratepayers, as is the case for declining revenue resulting from energy efficiency. (Ratepayers who use less still pay bills.) In Vermont, there is both a declining revenue impact from net metering due to declining energy usage, *as well as* a cost shift among ratepayers.
- When generation over and above a customer's actual own use is valued at the utility's fully-loaded retail rate, the over-subsidy and cost shift is significantly elevated. The customer is no longer just a customer, but is now in business and making a profit, and the economics of that transaction should be set accordingly.

Improvements and problems resulting from the draft bill (draft 1.7)

- It eliminates an arbitrary cap that is not based on a meaningful threshold calculation
- It makes some corrective adjustments in the economics.
- It assures that all Vermonters will continue to be able to choose net metering
- It perpetuates and embeds inequities that will be harder to fix the longer we wait.
- It perpetuates and in some way extends the "discriminatory" effect of the present statute.
- In partially addressing issues faced by some utilities, it further "balkanizes" the state and adds new layers of distinction (discrimination) among utilities. It adds further complexity to the program.

What do other states do?

Last summer, a national study showed that Vermont was ninth in the nation in solar generation per capita (including commercial as well as self-generation). Of the eight states ahead of Vermont:

- The “top three” limit the size of net meter installations to the customer’s energy usage.
- Four states credit net excess generation at wholesale market rates.

Recommendations

- Net meter customers should pay a customer charge or other wires charge. Generation should be credited against energy charges only.
- Net metering should be shared or pooled statewide, like the standard offer program. All Vermonters should get the same deal, and the aggregated generation should be pooled among utilities. The net metering deal should not depend on what town the installation is built in, or where within the town. This would allow for rational valuation of the generation while maintaining sufficient subsidy to promote continued program expansion. It would resolve almost all the issues and tensions that have arisen since the statute was changed in 2011. It would simplify an overly complex program.
- Utilities that have already accomplished Vermont’s renewable energy goal should not be unduly burdened by additional cost.
- In achieving Vermont’s ambitious renewable energy goals, the Legislature and regulators need to be more careful in distinguishing between the broad public interest and industry and trade group interests. Both are valid and important interests, but they are not always the same.
- The fundamental goal is achieving the renewable goals *quickly and comprehensively*, and with the economic impact on Vermonters shared *fairly*. That needs to be front and center and should have first priority. There are secondary goals: economic development and support of Vermont-based renewable energy businesses, and the satisfaction that many Vermonters get from generating their own renewable power. These goals are important, but they are secondary.

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