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September 25, 2008

To: Carol Revelt, Utah Public Service Commission

Re: Docket 08-035-78, In the Matter of the Consideration of Changes to Rocky Mountain Power's Schedule No. 135 - Net Metering Service

The Utah State Energy Program (USEP) would like to formally submit comments for Docket 08-035-78, In the Matter of the Consideration of Changes to Rocky Mountain Power's Schedule No. 135 - Net Metering Service. USEP appreciates the opportunity to participate in the PSC docket. The two major topics of this Docket are:

- 1) Whether to establish a higher amount (aggregate generation limit) of generating capacity from customer generation systems than 0.1 percent of Rocky Mountain Power's peak demand during 2007 [Utah Code §54-15-103(3)].
- 2) Assess the appropriate value of excess customer-generated electricity credits [Utah Code §54-15-104 (3)(a)(i)].

1) Aggregate Generation Limit (AGL)

USEP understands that there is difference of opinions from stakeholders on this matter. While distributed generation (DG) advocates in Utah claim the AGL artificially constrains the DG market, Rocky Mountain Power (RMP) states that the demand is far from the current AGL. In previous stakeholder meetings, RMP said it would raise the AGL if net metering demand increases. However, what increased value would RMP choose for the AGL if this were to occur? And, how long would it take to make the policy change once the AGL was met?

This reactive policy behavior would create a slowing of DG projects and market in Utah. Further, it will create uncertainty for project development and investment in the DG market. Successful net metering programs with no AGL limit exist in twenty states, e.g. many of which are in the West. To allow for some flexibility, several states allow a Utility to set an AGL limit, but the Utility must justify the reason for setting a limit. Other states have increased the AGL to a larger level, e.g., Maryland (1500 MW limit), to allow for net metering programs room for future growth.

USEP recommends that the AGL be increased significantly, e.g. 3 percent of 2007 peak power demand or greater, or removed completely. However, USEP



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recommends that Utilities be able to request for a specific set level that may be lower or different from the set level. The request should justify why the utility cannot have an AGL greater than the proposed limit. This would allow for flexibility in dealing with unforeseen circumstances or unintended issues that may arise in the future.

As DG systems increase in size, USEP believes increasing the AGL significantly or removing the AGL will allow customer generators to plan more adequately for future development and will give the utility's net metering program a better chance for success.

2) Value of excess generation (EG) from customer-generated systems.

There are many positions from stakeholders regarding the valuation of EG from net metered systems. Some prefer that EG be given a value equal to, or greater than a utility's retail rate, while others feel that a DG system should be like other merchant and be given a wholesale rate for EG. Net metering is an economic incentive used as a demand-side management policy. It is used as a method of lowering customers' demand by decreasing net consumption of electricity. In addition, a significant majority of DG systems are solar photovoltaic (PV) technology, which has a value of providing power during peak demand for electricity. If this is the case, what is the value of power from DG systems?

USEP recognizes that in order for net metering policies to be successful, EG compensation must be priced correctly. If EG is priced too low, the participation level in a net metering program will not make a significant impact from a demand-side management perspective; low prices will not incentivise investment in DG systems. However, if the EG value is set too high you will have a subsidization taking place for DG systems. Subsidization of DG goes beyond what net metering is trying to accomplish, which is limiting consumption of electricity by the customer, not encouraging the creation of small merchant generation companies.

Currently avoided cost is the set price for EG. Avoided cost rates are an annual average of rates throughout the year. The majority of net metered systems are solar PV, which produce power at peak times of the day and therefore are not being compensated for the actual avoided cost.

USEP recommends that to be equitable and to make a net metering policy successful, cost for EG from a net meter system be valued at the kilowatt-hour (kWh) value of the customer's rate. USEP believes that net meter customers should still pay for base charges that cover a utility's transmission and distribution costs. This will eliminate the issue of subsidization that may occur. Further, net meter customers still receive the benefits from being connected to the grid and receive electricity from the utility and thus should pay for these services.

For residential net meter customers in Utah, this approach of compensation for EG is straightforward. However, non-residential customers (commercial and industrial) may have a more complex rate structure. USEP recommends that in order to keep the administrative oversight low for the utility and to be equitable to the generating customer a set rate for net

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metering should be established. USEP recommends a kWh credit rate for the specific rate schedule or allow EG at the avoided cost. The key is to allow the customer the option to choose either.

USEP thanks the Utah Public Service Commission for the opportunity to comment on this very important topic. If you have any questions or clarification on USEP comments please contact Jason Berry at 801-538-5413 or jasonberry@utah.gov.

Sincerely,

Jason Berry
Manager
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