

Los Angeles  Department of Water & Power

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June 17, 2014

The Honorable City Council  
c/o Office of the City Clerk  
Room 395, City Hall  
Mail Stop 160

Attention: Councilmember Felipe Fuentes  
Chair, Energy and Environmental Committee

Honorable Members:

Subject: Los Angeles City Council Motion No. 14-0531 – Solar Incentive Program (SIP) Status and Feasibility of Developing a More Robust “Net Metering” Program that Reflects Current Solar Photovoltaic (PV) Market Conditions

This is in response to Council Motion No. 14-0531 which addresses a City Council request to report:

- The current status of the SIP;
- Feasibility of developing a more robust “net metering” program that reflects current solar PV market;
- Recommendations for SIP parameters and incentives; and
- Joint and distinct recommendations of the DWP and the Office of Public Accountability (OPA).

### **SIP Background**

Since 1999, the Los Angeles Department of Water and Power (LADWP) has had an SIP that helps customers offset the costs of installing PV solar systems.

In 2006, former Governor Arnold Schwarzenegger signed into law the California Solar Initiative (CSI) as outlined in Senate Bill (SB) 1, which provided the framework for the current LADWP SIP. The goal of the CSI is 3000 megawatts (MW) of net-metered solar

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energy systems over 10 years with expenditures not to exceed \$3,350,800,000 and with expenditures for local publicly owned electric utilities not to exceed \$784 million. The LADWP cap is \$313 million based on its serving 39.9 percent of the municipal load in California, representing 280 MW of the 3000 MW goal. Out of the \$313 million, \$288 million is for solar incentives and the remaining \$25 million is for outreach and administration of the SIP.

**SIP Status**

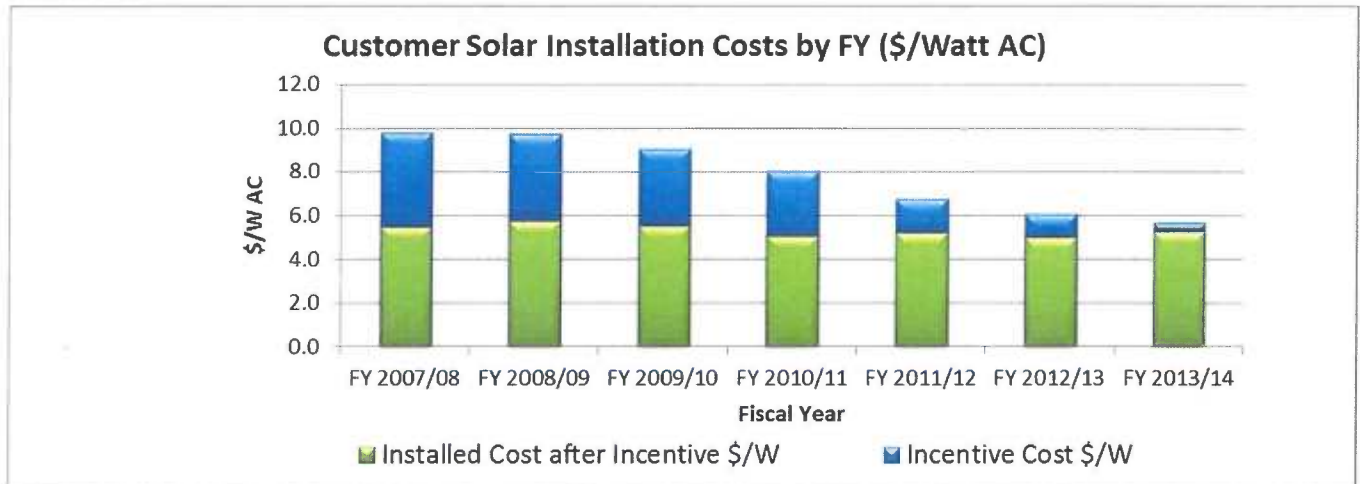
Figure 1 below shows a summary of the status of the LADWP SIP from 1999 through April 30, 2014.

FIGURE 1: Status of LADWP Solar Incentive Program 1999 through April 30, 2014

Fiscal Year	# of installations	MW (AC)	Incentives Paid (\$000s)
1999-2005	524	8.29	48,157
2005/06	72	0.67	2,108
2006/07	243	1.18	4,485
2007/08	297	1.50	5,754
2008/09	465	4.35	17,295
2009/10	793	4.97	18,301
2010/11	1,143	8.62	30,065
2011/12	1,981	22.83	59,814
2012/13	2,498	20.30	38,468
2013/April 30, 2014	2,188	13.83	15,103
<b>1999 – April 30, 2014</b>	<b>12,078</b>	<b>103.28</b>	<b>\$239,550</b>

The SIP reflects the current solar PV market. It was designed with steps of decreases in incentive levels to correspond to the anticipated decreases in solar installation costs throughout the life of the program. Figure 2 on the next page shows how the LADWP solar incentives have decreased along with the decreased costs of solar installations. Figure 2 also shows that the installed costs to customers after incentives has remained fairly constant (shown in green).

FIGURE 2



LADWP closely monitors the cost of solar system installations in order to adjust its solar incentive levels. In 2007, LADWP initially offered a solar incentive level (approximately \$4.28/W) much higher than other utilities (\$2.80/W) due to LADWP's energy rates being lower than other utilities.

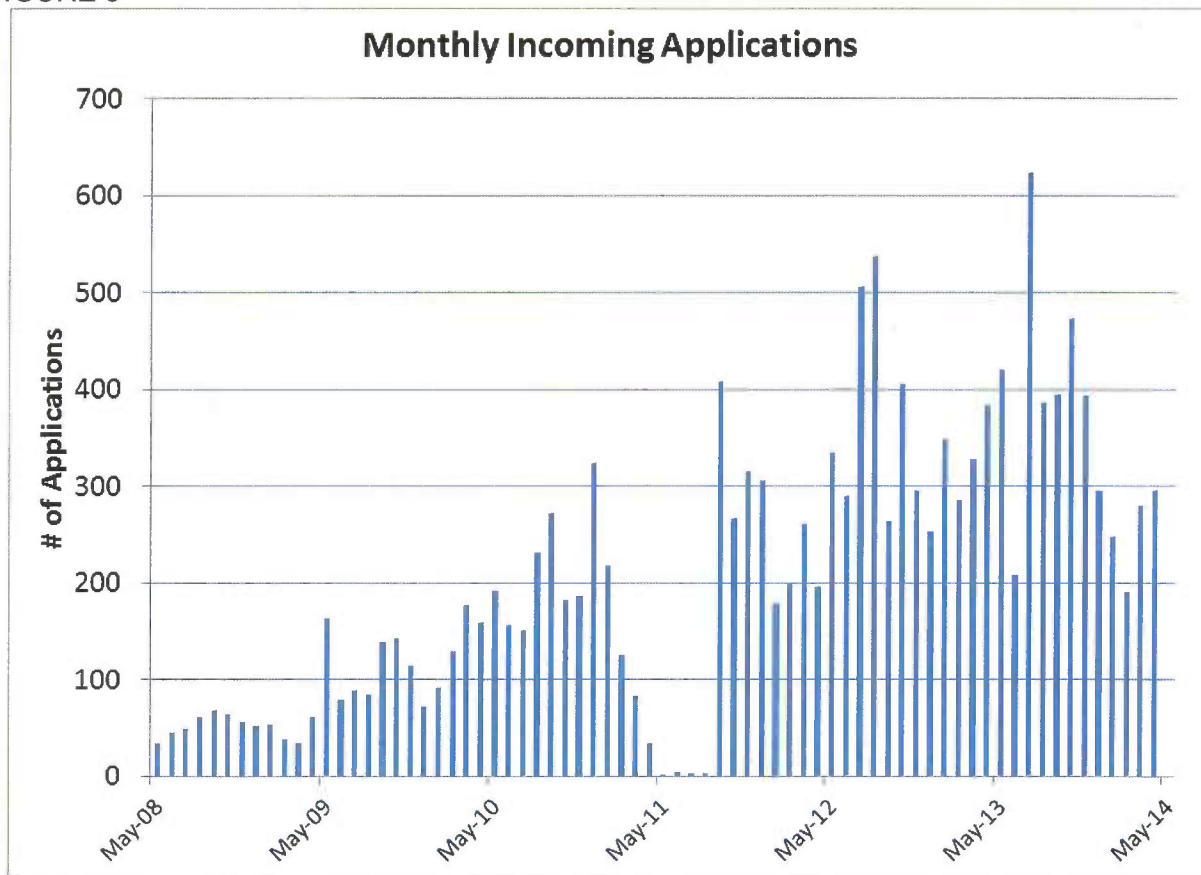
As the cost of solar installations dropped dramatically, LADWP twice received approval from the Board of Water and Power Commissioners (Board) to reduce the incentive rates much faster than the original plans set forth in 2007. In September 2011, LADWP reduced the incentive rate for residential systems by \$1.04/W (\$3.24/W to \$2.20/W), and for non-residential systems by \$0.32/W (\$2.27/W to \$1.95/W). In July 2013, LADWP dropped incentive rates by another \$0.35/W for both residential and non-residential installations. At these current levels LADWP is still seeing strong demand for the SIP; see Figure 3 on the next page which shows the monthly incoming solar incentive applications since May 2008.

LADWP's SIP, as governed by SB1, will cease accepting incentive applications on December 31, 2016, or when the \$288 million in incentive payments is reached, whichever occurs first.

By participating in the SIP, customers automatically participate in the Net Meter Program and, therefore, receive the Net Energy Metering (NEM) rate benefits. When the SIP ends in 2016, LADWP will continue to inspect solar systems and install net meters for customers who wish to be connected to LADWP's grid. The program will then be called a pure Net Metering Program rather than a Solar Incentive Program/Net Metering Program. Through the SIP and the Net Metering Program, LADWP plans to reach a goal of 310 MW by 2019.

Renewable Energy Credits (RECs) from the SIP are classified as Portfolio Content Category (PCC) 3 per the California Energy Commission's regulations implementing the California Renewable Energy Resources Act effective December 10, 2011; only 10 percent of LADWP's renewable portfolio may be in PCC 3. The current SIP/Net Metering Program would fully exhaust this limit. Instead of acquiring RECs from SIP/Net Metering Program beyond 310 MW, it is prudent for LADWP to purchase RECs from the LADWP Feed-in Tariff Program – where the energy is bundled with the RECs and are classified at PCC 1 (valued typically 10 times higher than PCC 3 RECs). The 310 MW amount represents 5 percent of LADWP's expected peak load. The Public Utility Commission (PUC) limits Investor Owned utilities' Net Metering Program to 5 percent in order to limit the financial impact on all non-Net Metered ratepayers. Net Metered Residential customers who offset their entire electrical load pass all fixed electrical infrastructure cost to other ratepayers.

FIGURE 3



### **Recommendation for the Current 310 MW SIP/Net Metering**

To keep the SIP/Net Metering Program robust, staff recommends that the solar incentives and parameters maintain its designed course based on the following:

- LADWP solar incentives are set to drop along with solar installation cost projections.
- The historical drop in LADWP solar incentives is similar to drops in other state/utility incentive programs.
- The LADWP SIP/Net Metering Program continues to see robust participation.
- LADWP must limit PCC 3 REC purchases at the 310 MW level to comply with RPS requirements and be consistent with PUC rulings.

### **Necessary Changes for Net Metering to Expand Beyond 310 MW**

- An expanded Net Metering Program may have many benefits for achieving RPS compliance that should be evaluated. However, there are some key policy issues that need to be addressed.
- RECs from Net Metering will need to be classified as PCC 1 by the California Energy Commission rather than its current PCC 3 classification. There is no limit to the amount of PCC 1 RECs that can be applied for RPS compliance.
- Reformation of residential rates is needed to accurately reflect the true cost of utility service. Current electric residential rates will need to be 'unbundled' to reflect energy generation, distribution, and transmission costs associated with providing service. Currently, residential Net Metered customers receive full retail rate (including energy generation, distribution, and transmission components) bill credit for the excess 'green' energy generation they export to the grid during the day. By unbundling the electric residential rate – credit for the 'green' energy generation component from the Net Metering can be given in an appropriate manner. This will ensure utility cost for servicing Net Metered customers is not shifted to non-Net Metered customers.
- An expanded Net Metering Program should have compatible pricing as other alternatives for local solar development such as Feed-in Tariff. LADWP recommends studying the costs and benefits of expanding Net Metering Program as compared to other alternatives to provide customers with more business options to further promote local solar.

LADWP has discussed this report with the Office of Public Accountability (OPA) in order to understand and address each agency's perspectives. This report only represents LADWP's viewpoint and respects the OPA's need for independence.

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If you have any questions or if further information is required, please call me at (213) 367-1338, or you may have your staff Ms. Winifred J. Yancy, Director of Intergovernmental Affairs and Community Relations, at (213) 367-0025.

Sincerely,



Marcie L. Edwards  
General Manager

PL:nsh/ps

- c: The Honorable Bob Blumenfield, Vice-Chair, Energy and Environment Committee
- The Honorable Tom LaBonge, Member, Energy and Environment Committee
- The Honorable Jose Huizar, Member, Energy and Environment Committee
- The Honorable Paul Koretz, Member, Energy and Environment Committee
- Frederick H. Pickel, Ph.D, Executive Director/Ratepayer Advocate, City of Los Angeles Board of Water and Power Commissioners
- Ms. Winifred J. Yancy

APR 25 2014

14-0531  
Related CF 10-1789  
10-1789-51, 10-1789-53

ENERGY & ENVIRONMENT

MOTION

The Los Angeles Department of Water and Power (DWP) provides rebates to retail electric customers who install solar photovoltaic (PV) systems through its Solar Incentive Program (SIP). In addition, the DWP offers a "net metering" component for both SIP and non-SIP customers installing solar under 1 MW.

Rebate programs under the SIP include one-time payments that offset a portion of the solar PV installation costs. In contrast, the "net metering" component, which refers to netting the power flows to and from the customer, enables the customer to offset energy consumption by using energy generated from their solar PV systems. Therefore, the effect on a customer's decision to install a solar PV system depends on the rebate levels available and how the "net metering" component reduces bill cost over time.

According to the Department, about 11,600 solar PV systems totaling 100 MW have received a SIP rebate as of March 2014. The Pacific Gas and Electric Company, which has roughly three times the number of customers as the DWP, currently has a "net metering" program that is approximately ten times the size of the City's PV program.

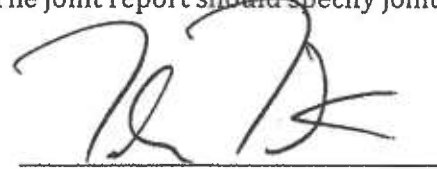
The DWP has a stated goal of providing a total of 280 MW of solar PV energy through the SIP by 2016. That goal was adopted before significant changes in PV costs over the last two years. Currently, approximately \$38 million in rebates remains to be distributed in the program.

As the final program credits prepare to be distributed, the DWP should assess its existing solar PV program and determine if it can be adjusted to reflect the current and mature "net metering" market. In addition, this review should include an assessment if rebates should be continued or adjusted.

In this manner a more efficient, effective and up-to-date SIP can be provided to best serve the interests of the City and residents.

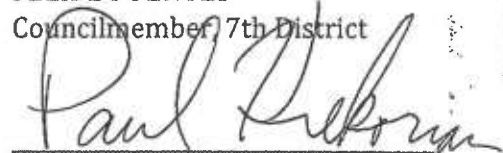
I THEREFORE MOVE that the Department of Water and Power (DWP) and the Office of Public Accountability (OPA)/Ratepayer Advocate be requested to provide a joint report to the Council in 30 days on the status of the Solar Incentive Program (SIP) and the feasibility of developing a more robust "net metering" program that reflects current solar PV market conditions; including recommendations for program parameters and incentives. The joint report should specify joint and distinct recommendations of the DWP and the OPA.

PRESENTED BY:



FELIPE FUENTES  
Councilmember, 7th District

SECONDED BY:



ORIGINAL



APR 25 2014