



August 30, 2016

Hon. Travis Kavulla, President  
National Association of Regulatory Utility Commissioners  
1101 Vermont Ave., NW Suite 200  
Washington, D.C. 20005

Dear President Kavulla:

The National Black Caucus of State Legislators (NBCSL) sincerely appreciates the time and resources NARUC has invested in developing the *Draft Manual on Distributed Energy Resources Compensation* (Draft Manual). We also applaud the authors of the Draft Manual for acknowledging that Net Energy Metering (NEM) results in a cost shift and that there is a need to re-evaluate rate structures to ensure equitable recovery of grid costs. Indeed, the Draft Manual is well timed, as the time to update rate structures is now, before distributed energy resources (DER) penetrations increase any further, exasperating current inequities. We applaud the authors of the Draft Manual, as it does not recommend any one particular rate methodology but provides information and examples of a variety of rate options: fixed charges; demand charges; time of use pricing; value of solar; decoupling; etc. All options should be open for discussion.

NBCSL enthusiastically embraces the promise of cleaner and more affordable energy of all kinds, and supports the experimentation and innovation that is driving progress in the DER space. However, the prevailing approach of compensating DER at the retail rate has created a fundamentally inequitable dynamic, which shifts costs to those who cannot or choose not to install DER programs.

In our 2014 white paper, "The Need to Develop & Implement Equitable Energy Policies," NBCSL focused heavily on the inequities specific to net energy metering. The key message from the white paper is this: left unaddressed, policymakers risk the creation of an "energy divide" alongside the already established income gap where low and fixed income consumers

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and large swaths of minority consumers subsidize new distributed generation services for higher-income customers.

NBCSL is concerned with the assertion in the Draft Manual that Net Energy Metering (NEM) is the “least cost” option to administer. We disagree. The unfortunate irony is that those who would benefit most immediately and most profoundly from these programs – minorities, low-income households, and those on fixed incomes, who already pay a greater percentage of their income for electricity service – are disproportionately picking up additional costs. The cost savings advertised to customers come in the form of buying less electricity from the utility and via “net metering,” which measures any excess electricity produced by the DER system. The savings from buying less electricity is really no different than consumers being more efficient and effective stewards within their homes. The savings via “net metering,” however, are a result of the way electric rates were originally designed and essentially do not fully account for the infrastructure used to transport electricity to and from homes with DER.

We are concerned about the regressive nature of the cost-shifting that results from the net metering policies used to make DER appear to be a more attractive financial proposition. The end result is that households not able to afford DER systems are inadvertently left to pay more for the electric grid. These costs will continue to escalate as DER providers continue to market to more affluent households. The last in line will continue to share an increasingly larger financial burden. Electric utilities have an array of statutory and regulatory, non-avoidable, obligations to maintain the electric grid. Under the current policy framework, as the number of DER customers increases, the greater the burden on non-DG customers to support grid maintenance and enhancements.

The presence of cost shift has been established in states across the country. In Arizona, a study by [Navigant Consulting](#) for Arizona Public

Service, found that customers with DG are subsidized by those without it. The research firm E3 found similar results in a series of net metering studies it conducted for the Public Utility Commissions of [Nevada](#), [Hawaii](#), and [California](#). In Nevada, the Public Utility Commission changed its net metering policy to eliminate the unreasonable cost shift of approximately \$16 million annually between net-energy metering and non-NEM customers. In all three states, it found that NEM customers receive net benefits while non-NEM customers incur net costs. The California study found that NEM will result in a net annual cost of \$1.1 billion in 2020. In [Vermont](#) a study by the state's Public Service Commission found that a cost shift will persist from NEM customers to non-NEM customers through at least 2021.

There is also a deeper inequity taking place as a result of NEM. Multiple studies have found that NEM customers tend to be more affluent than non-NEM. All three of E3's state studies found the presence of income inequity between NEM and non-NEM customers. And a report from Acadian Consulting Group for the [Louisiana Public Service Commission](#) (LPSC) found that NEM customers within the LPSC jurisdiction had median household incomes of \$60,460 relative to the statewide median household income level of only \$44,673.

In response to the rise of NEM cost shift and value of solar discussions, policymakers and consumer advocates around the country are increasingly speaking out about the need for fair and equitable ratemaking, as well as fair and equitable means of compensating DG customers. As stated in our 2014 white paper, "Consumer protections... and safeguards are vital to ensuring that every utility customer has equal opportunity to reap the benefits of new services, while also paying their fair share of the costs."

Finally, we applaud the timeliness of the manual, and believe that now is the time for state utility commission action to re-visit rate

methodologies. Acting now, not later when DER penetration is high, will avoid creation of an energy divide, and will better facilitate the continued growth and development of distributed generation technologies in a fair and efficient manner. In fact, in June the President's Council of Economic Advisors issued a report on incorporating both renewables and DER technologies into the power grid highlighting the need for states to refine rate structures across the country in a timely manner.<sup>[1]</sup>

It is critical that the value of the grid be recognized, and that costs from all customers that utilize the grid be shared equally. Expedience in moving toward more fair and equitable rate design is key enabling ongoing investments in smart grid technologies such as sensors, smart meters, smart inverters, wireless and other to provide for our cleaner, safer, more reliable and resilient energy future.

Sincerely,

Sen. Catherine E. Pugh (MD)  
President  
National Black Caucus of State Legislators

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<sup>[1]</sup> President's Office of Economic Advisors, [Incorporating Renewables Into The Electric Grid: Expanding Opportunities For Smart Markets and Energy Storage](https://www.whitehouse.gov/sites/default/files/page/files/20160616_cea_renewables_electricgrid.pdf), [https://www.whitehouse.gov/sites/default/files/page/files/20160616\\_cea\\_renewables\\_electricgrid.pdf](https://www.whitehouse.gov/sites/default/files/page/files/20160616_cea_renewables_electricgrid.pdf).