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## Fitch renews warning of utility 'death spiral'

By Michael Copley

A policy that has helped boost the U.S. residential solar market could threaten the creditworthiness of investor-owned utilities, Fitch Ratings said July 18.

Net-energy metering, which requires utilities in many states to pay customers retail prices for their excess solar power, is often criticized as subsidy that shifts the cost of electric service on to nonsolar customers. While the solar market is still small, accounting for only about 1% of U.S. power generation in 2015, the fear is that problems associated with net metering could become acute if the residential sector continues to expand rapidly.

Fitch, which suggested increasing fixed utility charges, warned that inaction could lead to a "death spiral" in which utility revenues erode as ever-increasing power bills lead more customers to install rooftop solar panels. "Most in the industry at this point recognize that rate restructuring is something that needs to happen, that net metering at full retail rates is unsustainable from a utility business model perspective," Andy Lubershane, principal researcher at IHS Inc., said recently at the Intersolar North America conference in San Francisco.

In rate cases during the past two years, state regulators allowed investor-owned utilities to increase fixed charges by about 12% on average, well below the approximately 50% increase companies had sought, according to Kelly Crandall, senior rates and research analyst at EQ Research LLC. Crandall expects the push to continue, with about 40 utility rate cases filed so far this year.

Last year, the Hawaii Public Utilities Commission cut the value of net-metering credits for new solar customers by more than half. The change was "constructive from an IOU credit perspective," Fitch said. For the state's solar market, however, the move created a gloomy forecast, the Hawaii Solar Energy Association said.

In Nevada, solar advocates are trying to reverse a net-metering ruling that all but killed that state's solar market in 2015. Moody's said the ruling, which increased net-metering service charges while reducing the value of credits, was credit positive for NV Energy Inc., a subsidiary of Berkshire Hathaway Energy that owns Nevada Power Co. and Sierra Pacific Power Co.

"The conundrum for regulators and utilities from an energy policy point of view is facilitating development of distributed ... solar and its clean energy attributes without unduly burdening [non net-metering] customers with higher bills due to cross-subsidization," Fitch said in a report, "Net Energy Metering: A Secular Credit Challenge for IOUs."

Crandall said no utility has successfully transitioned away from net metering. There is "a lot of value to the laboratories-of-democracy approach and exploring it in different states, but it's also going to create a lot of conflict and variation, and we don't know how it will really end up," she said at the Intersolar conference.

While some solar companies have shown a willingness to work with utilities on alternatives, others are clinging to existing policy, insisting that the value of rooftop solar outweighs any costs associated with net metering.

The problem for regulators is that a lot of the benefits solar advocates cite are difficult or impossible to measure, said Ed Randolph, director of the California Public Utilities Commission's energy division. "[That] doesn't mean those other benefits don't exist, but when you start getting into those then you can spend years and years arguing over what the economic value of those is," Randolph said at the conference. "And instead, the policymakers ... have to admit there is an unquantifiable social good that we should pay for, and there is nothing wrong with calling that a subsidy."

For utilities, the challenge is finding the right tariff structure that can sustain their business in the face of new technologies. A "low probability risk" is that ratepayers one day could "economically and permanently disconnect from the grid."

Widespread grid defection has yet to hit Hawaii, but the loss of net metering is having an impact, said John Berdner, vice president of regulatory and policy strategy at Enphase Energy. "[We're] ... seeing the size of the residential systems increase sharply, because the cost of solar is still low enough [customers] want to offset all of their load during the day even if they can't export it," he said.