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The debate over California's rooftop solar policy is boiling over. Net Energy Metering (NEM), which pays homeowners retail rates for electricity their rooftop solar panels generate, was created decades ago to help a fledgling industry when Investor Owned Utility (IOU) rates were less than half of what they are today and solar panels cost more than twice as much. Today NEM pays solar customers at skyrocketing retail rates despite ongoing declines in wholesale electricity prices.

NEM payments are ten times the cost of new wholesale solar contracts and more than five times what rooftop solar electricity is worth. This calculation accounts for the value of reduced emissions and grid investments. NEM payments are based on retail electric rates that collect many grid and social program costs unaffected by the operation of a customer's solar panel. California's independent Public Advocates Office found that the NEM program resulted in excess payments of $3.4 billion dollars in 2021, more than 2.5 times the bill discounts to low-income customers. In 2019, the average residential customer in San Diego Gas & Electric's service territory paid an additional $230 just to cover this subsidy. Absent reforms, these payments will double by 2030.

The current system results in a reverse Robin Hood effect where the beneficiaries are generally wealthier homeowners who are subsidized by the 45% of Californians that rent, along with many lower and middle income households lacking the means or opportunity to install their own rooftop systems. If utility shareholders could be forced to absorb these costs, TURN and NRDC would be first in line to offer support. But regulated utilities recover government approved costs, including those associated with the NEM program, through all customers' bills. NEM participation doesn't lower utility profits, it raises bills for those without solar. That's why the Sacramento Municipal Utility District, a public non-profit utility, recently reformed its NEM program.

By placing significant upward pressure on electricity prices, today's NEM threatens affordability and creates headwinds for California's ambitious efforts to wean itself off fossil fuels through electrification of buildings and transportation. If swapping gas for electric appliances results in higher monthly bills, and if fueling a car with electricity is costlier than gasoline, it will be increasingly difficult to convince consumers to go electric. So long as customers are burning fossil fuels in their homes and vehicles, our transition to a carbon free future will remain out of reach.

TURN and NRDC are amongst the strongest supporters of California's commitments to transform the electricity grid, wipe out fossil fuel use, reduce air pollution, and lead the world in clean energy. This transition must be affordable and equitable. We need to prioritize least-cost solutions that provide benefits to all customers and protect our environment. These solutions include competitively priced distributed resources, smartly sited energy storage, cheap and smartly sited large-scale clean generation, and new community solar programs.

The California Public Utilities Commission (CPUC) recently proposed reforms to the NEM program. Although we don't agree with every detail, the proposed framework is sound and necessary to balance the interests of all customers while advancing clean energy. The proposal right-sizes NEM payments, prioritizes more valuable energy storage, and ensures that NEM customers pay their fair share of unavoidable grid costs. It also includes a $600 million equity fund focused on solar and storage for low-income customers and disadvantaged communities. The Governor and Legislature can assist these reforms by unlocking other sources of funding like our large budget surplus. Congress can help by passing expanded federal tax credits that reduce the cost of installing solar for homeowners.

Reforming NEM is not the only strategy for keeping electricity affordable. State regulators must hold utilities accountable for mistakes, make utilities more efficient, prevent excessive spending and reign in outsized shareholder profits. Although fixing NEM won't solve these problems, it's a necessary step to reduce upward rate pressure, achieve our decarbonization goals at least cost, and ensure that the clean energy revolution benefits all customers.

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