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## The Grandfathering Deadline for NEM 2.0 is Rapidly Approaching – What Does it Mean?

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While reading this client update, the first thing you need to do is keep in mind the date of April 14, 2023. As explained below, that is the last date to submit an interconnection application with your utility provider to grandfather a new solar system into the current net energy metering (NEM) program called NEM 2.0. A new system with an interconnection application submitted after April 14, 2023, will be enrolled into the new NEM 3.0 program which will pay customers a lower credit for exported electricity.

### ***What is NEM?***

California’s Net Energy Metering (NEM) was established in 1996 as way to incentivize Californians to install on-site renewable energy resources such as rooftop solar to serve part or all of their own electrical requirements. The NEM program allowed utility customers to receive a financial credit on their bills for the excess energy they generated and fed back into the utility’s grid. The program proved very successful in driving deployment of distributed generation. To date, it has enabled nearly 1.3 million customers to install approximately 10,000 megawatts of on-site renewable generation. In 2017, as the program was reaching caps on the amount of excess energy that could be sold back to utilities, the California Public Utilities Commission (CPUC) approved a successor program called NEM 2.0 which, among other changes, required solar owners to switch to time-of-use energy plans (which charge higher rates during hours when energy demand is high and lower rates during hours when energy demand is typically low).

### ***What is NEM 3.0?***

As explained in our previous [Net Energy Metering update](#), over the last several years, the CPUC has been trying to rework the program as California’s climate agenda has evolved. The goals of revising the program were to incentivize distributed storage, promote electrification, and address growing concerns that under the prior program costs of maintaining the grid were being shifted from participating NEM customers to nonparticipating utility customers – with a particularly disproportionate impact on low income customers. On December 15, 2022, the CPUC unanimously voted to adopt the reworked program (NEM 3.0).

### ***Credits for Exported Electricity Under NEM 3.0 Will be Lower than Credits Under NEM 2.0.***

One of the most significant changes between NEM 2.0 and NEM 3.0 is that NEM 3.0 reduces the compensation customers receive for sending their excess power to the grid. Under NEM 2.0, customers received one-to-one net metering – that is, the credit received for exported electricity was the same rate paid to use electricity from the grid. Under NEM 3.0, however, the structure has shifted from net metering to “net billing” in which the credit received by the customer for exported electricity is the “avoided cost” to the utility of buying clean electricity elsewhere. The exact rate will depend on the time of day, day of week, and time of year that energy is exported to the grid. The “avoided cost” rate will, however, be lower

than the typical retail rate (with some estimating that, on average, NEM 3.0 credits will be approximately 75% lower than NEM 2.0 credits). Those seeking to be grandfathered into NEM 2.0 credit rates will want to have submitted a completed interconnection application to their utility on or before April 14, 2023. Those that do will have three years to actually interconnect their system to the grid to be grandfathered in to NEM 2.0.

***What If You Can't Submit an Interconnection Application by April 14, 2023?***

If you currently have a system, you'll be grandfathered into your current NEM rate and regulations for a period of 20 years from the date you initially received Permission to Operate your system from your utility.

If you don't currently have a system, you'll be placed onto NEM 3.0. The new NEM 3.0 structure is designed to incentivize the installation of a battery storage system in addition to a solar system. That way, you can shift the use of electricity generated by your system to a time when retail rates you would pay are higher. Similarly, you can export electricity to the grid at times when the "avoided cost" to the utility is higher.

If you have questions or need assistance, please contact one of the attorneys listed below.



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