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## **Net Metering**

Western Indiana Rural Electric Membership Corporation (WIN Energy REMC) is a rural electric distribution cooperative located in southwestern Indiana. On August 8, 2005, the Energy Policy Act of 2005 was signed into law. Under this new law, electric utilities that sell in excess of 500 million KWH in retail electric sales are required to consider the standard under PURPA Section 1251. The clear intent of this law is to promote renewable energy and energy efficiency.

Net metering refers to service to an electric consumer under which electric energy generated by the consumer from an on-site renewable energy generating facility is delivered to the utility through an interconnection with local distribution or transmission facilities and is used to offset energy that would have been provided to that consumer from the utility during a billing period. With net metering, a consumer may “run the meter backward” during times when the consumer-owned generator is supplying more energy than the consumer is using at that time. Under some interpretations of net metering, consumers can be paid for energy returned to the electric distribution system through net metering or credited for energy to create a savings bank that offsets future power costs. Net metering can provide an additional offset to costs a consumer incurs when they elect to generate power.

Net metering rules should strike a balance among providing an incentive to a participating consumer, protecting the legitimate financial and safety interests of the utility involved and avoiding unwarranted subsidies born by non-participating consumers.

Cross subsidies and rate equity are commonly cited concerns about net metering. Net metering policies that provide for netting customer generated kilowatt hours (kwh) with utility delivered kwhs, on a one-for-one cost basis, require utilities to effectively pay consumer-generators the retail price for wholesale power. Such policies result in utilities paying consumers for services the consumer-generator is not providing including distribution and transmission capital costs, operating and maintenance expenses, administrative and general

expenses, as well as other costs. The policies shift the costs to other customers creating cross subsidies that favor the distributed generation owner. Net metering also results in higher meter, administrative, billing, and other transaction costs that can further add to cross subsidies if these expenses are not recovered from consumers that install distributed generation for net metering or net billing purposes.

In this discussion, the difference between “net metering” from “net billing” should be noted. Net metering typically uses a single meter. When a customer uses more power than is being generated at any moment, the dial on the meter rolls forward. When the customer generates more power than is being used, the dial on the meter rolls backwards erasing previously recorded usage. Kilowatt hours provided by the utility are valued at the same price as kilowatt hours provided by the customer leading to the cross subsidy concerns cited above.

Net billing typically uses two meters or a single more sophisticated meter that can separately record flows of energy in each direction. Net billing permits the rate each party pays the other to be set at different levels. Dollars a utility owes a customer for on-site generation can be netted against dollars owed by the customer to the utility for retail service. If the customer has a positive balance, the customer pays the utility. If the customer has a negative balance, the customer receives a credit on the bill. An important potential advantage of net billing is that it creates an ability to pay a consumer a rate which more closely reflects the actual avoided costs of the utility.

In order to address these issues, many states that have adopted net metering or net billing plans have addressed rate equity issues by limiting customers eligible to participate in net metering or billing programs, limiting the type of on-site generation allowed to participate in net metering programs, and restricting or capping system wide capacity that can be provided through net metering or net billing. In addition, limiting the capacity of the connected generation alleviates the issues that can arise from the interconnection of generators that are larger than the capabilities of the facilities available at the site of interconnection.

For these reasons WIN Energy REMC intends to limit the nameplate capacity of qualifying facilities to no more than 10 (10) kilowatts (KW).

Creation of specific special rates are both time consuming and costly. At this time WIN Energy REMC has had no requests for this type of rate. Since costs change over time, it not a prudent use of resources to create a rate for a non-existing member. The above dissertation outlines WIN Energy REMC's ideas on how a rate design would be accomplished based on the information available at the time of this writing. If and when WIN Energy REMC is approached concerning this type of service, WIN Energy REMC is willing to work with the member within the guidelines stated above and the regulatory obligations applicable at that time.

Links to this document and to the Library of Congress website will be available on the WIN Energy REMC website at:

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