

# CLIENT NEWS BRIEF

## Solar Energy Gets Two Important New Year Boosts

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The future of solar energy projects for public agencies looks bright, as two important incentives expected to expire at the end of the year have instead been renewed. Specifically, the federal Solar Investment Tax Credit (ITC), which supports most power purchase agreements (PPAs), was set to expire December 31, 2016. In addition, by most estimates, the current Net Energy Metering program that the investor-owned utilities have up until now offered to their public agency customers (often called NEM 1.0) appeared likely to run out over the summer of 2016. Particularly in the latter half of 2015, school districts and other public agencies accelerated solar energy projects, and especially PPAs, in order to take advantage of these incentives before they expired.

These two pending expirations drove a veritable boom in solar projects planned for this year. However, Congress has now extended the ITC, and the Public Utilities Commission (the Commission) has created a successor Net Energy Metering program. These programs will continue to make the economics of new solar energy projects more attractive than ever to public agencies.

On December 18, 2015, Congress voted to extend the ITC for an additional five years. The ITC offers a federal tax credit of thirty percent of the total cost of qualified solar energy projects. Originally established by the Energy Policy Act of 2005, the ITC was set to expire at the end of 2016. However, as part of the Consolidated Appropriations Act of 2015 (H.R. 2029), Congress extended the thirty percent tax credit for projects beginning prior to January 1, 2020. The ITC will then be gradually phased out through 2022. In practical terms, the ITC makes it possible for a solar energy provider to offer low, fixed rates of energy through a PPA, because the solar energy provider can utilize the ITC to offset tax costs elsewhere in its portfolio. The extension of the ITC has been widely seen as a victory for clean energy projects nationwide.

Also in December 2015, the Commission issued a decision proposing to adopt a new Net Energy Metering (NEM) program. Under the current NEM 1.0 program, solar projects may receive a financial credit from the three investor-owned utilities (Pacific Gas & Electric (PG&E), Southern California Edison (SCE) and San Diego Gas & Electric (SDGE)) for unused power, to offset future energy bills. For instance, if a school district has installed a solar photovoltaic system on a school facility under NEM 1.0, it is able to sell unused power generated by that system (for instance, power generated during the summer when the facility is unoccupied) to its utility at the same rate at which the district would purchase power from the utility when its system is not generating sufficient energy for the facility's needs (e.g., during evening functions at the facility). NEM 1.0 is limited to a set number of megawatts of energy for each utility, and is forecasted to end sometime in 2016 once it reaches the program capacity.

On January 28, 2016, the Commission's proposed decision was adopted. As a result, many of the benefits of NEM 1.0 have been extended with NEM 2.0. Eligible solar energy projects will continue to receive a credit for unused power generated. The new NEM program also retains an annual net metering



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calculation which is particularly important to school districts and other agencies with a large seasonal variation in electricity usage. While the new NEM program retains many of the benefits of the original NEM program, it does allow utility providers to charge an interconnection fee and other nonbypassable charges. The Commission will review the new NEM program in 2019 to evaluate possible adjustments. You can read the decision [here](#).

NEM 2.0 will take effect for new NEM customers after the utilities' existing NEM program participation caps are met, or July 1, 2017, whichever comes first. Customers who enroll prior to the expiration of the existing NEM program will be eligible for NEM 1.0.

These two actions means that the economic conditions for solar projects remains favorable, but of course each project should be evaluated on its own merits. For more information on the legal landscape of solar energy projects, please contact one of our [nine offices](#) located statewide. You can also visit our [website](#), follow us on [Facebook](#) or [Twitter](#), or download our [Client News Brief App](#).

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