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June 10, 2016

Honorable Kathleen H. Burgess
Secretary
New York State
Public Service Commission
Three Empire State Plaza
Albany, NY 12223-1350

Re: Case 15-E-0751- In the Matter of the Value of Distributed Energy Resources – Notice Soliciting Comments and Proposals on an Interim Successor to Net Energy Metering and of a Preliminary Conference

Dear Secretary Burgess:

Enclosed are Reply Comments of Central Hudson Gas & Electric Corporation, Consolidated Edison Company of New York, Inc., New York State Electric & Gas Corporation, Niagara Mohawk Power Corporation d/b/a National Grid, Orange and Rockland Utilities, Inc., and Rochester Gas and Electric Corporation (the “Joint Utilities”) in the above-referenced matter.

If you have any questions, please contact me. Thank you.

Very truly yours,

Susan Vercheak

Enclosure

*Admitted only in New Jersey

**STATE OF NEW YORK
PUBLIC SERVICE COMMISSION**

In the Matter of the Value of Distributed Energy Resources)
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Case 15-E-0751

**REPLY COMMENTS OF THE JOINT UTILITIES ON THE NOTICE SOLICITING
COMMENTS AND PROPOSALS ON AN INTERIM SUCCESSOR TO NET ENERGY
METERING AND OF A PRELIMINARY CONFERENCE**

Pursuant to the *Notice Soliciting Comments and Proposals on an Interim Successor to Net Energy Metering and of a Preliminary Conference*,¹ issued by the New York State Public Service Commission (the “Commission”) on December 23, 2015 (“Notice”), Central Hudson Gas and Electric Corporation (“Central Hudson”), Consolidated Edison Company of New York, Inc. (“Con Edison”), New York State Electric & Gas Corporation, Niagara Mohawk Power Corporation d/b/a National Grid, Orange and Rockland Utilities, Inc. (“O&R”), and Rochester Gas and Electric Corporation (collectively the “Joint Utilities”), hereby file their reply to the responses of other parties to the *Questions on the Value of Distributed Energy Resources and Options Relating to Establishing an Interim Methodology* attached to the Notice.

I. Introduction

The Joint Utilities continue to support the sustainable growth of clean distributed energy resources (“DER”) across New York. As highlighted in the initial filings of the Joint Utilities² and the Solar Progress Partnership (the “Partnership”),³ clean DER provide multiple benefits to the State and customers, supporting the transition to a cleaner generation mix as well as enabling

¹ Case 15-E-0751, *In the Matter of the Value of Distributed Energy Resources* (“Value of DER Proceeding”), Notice Soliciting Comments and Proposals on an Interim Successor to Net Energy Metering and of a Preliminary Conference (issued December 23, 2015).

² Value of DER Proceeding, Comments of the Joint Utilities on an Interim Successor to Net Energy Metering (“Joint Utilities Comments”) (filed April 18, 2016).

³ Value of DER Proceeding, Comments of the Solar Progress Partnership on an Interim Successor to Net Energy Metering (“Solar Progress Partnership Comments”) (filed April 18, 2016).

customer choice.⁴ Notably, the Joint Utilities agree these resources will play an important role in meeting the Commission’s pending Clean Energy Standard goal of obtaining 50 percent of electricity from renewable energy resources by 2030.⁵ In order to continue realizing these benefits, the Joint Utilities agree with parties who support the State’s transition to a sustainable compensation structure that continues to encourage growth in this important sector while reducing the cross-subsidization inherent in existing net energy metering (“NEM”) policy.⁶

In their Initial Comments, the Joint Utilities highlighted the growth of NEM interconnection queues across the State, noting that they had more than doubled in the first three months of 2016.⁷ Since that filing, the interconnection queues have continued to increase, and stood at 4,637 Megawatts (“MW”) as of April 30, 2016, more than 560 MW higher than they were just one month earlier. This trend demonstrates continued interest in developing these resources in New York, but also highlights the uncertainty concerning future compensation rates.⁸ If these resources were to be built, existing policies would shift more than \$336 million in costs to residential customers who do not participate in NEM (“Non-Participating Customers”) across the State, raising these customers’ rates by more than 30 percent in some service territories.⁹ It is clear that action is urgently needed to prevent this outcome and provide

⁴ Value of DER Proceeding, Comments of the Solar Energy Industries Association and Vote Solar (“Solar Parties Comments”) (filed April 18, 2016), p. 7

⁵ Value of DER Proceeding, Joint Utilities Comments, p. 2.

⁶ Value of DER Proceeding, Joint Comments of Environmental Defense Fund and the Institute for Policy Integrity at New York University School of Law in Response to the Notice Soliciting Comments and Proposals on an Interim Successor to Net Energy Metering and of a Preliminary Conference (“EDF/NYU School of Law Comments”), p. 6; Natural Resources Defense Council Response to Notice Soliciting Comments and Proposal on an Interim Successor to Net Energy Metering (“NRDC Comments”)(filed April 18, 2016), p. 4.

⁷ Value of DER Proceeding, Joint Utilities Comments, p. 3.

⁸ Case 15-E-0082, *Proceeding on Motion of the Commission as to the Policies, Requirements and Conditions for Implementing a Community Net Metering Program*, Petition for Declaratory Ruling by Coalition for Community Solar Access (filed June 7, 2016).

⁹ Non-Participating residential customers in O&R’s service territory would face delivery rate increases of more than 30 percent if all of the resources currently in the interconnection queue were built. Non-Participating residential customers of Central Hudson would face delivery rate increases of more than 37 percent.

certainty to DER developers. The Joint Utilities agree with Department of Public Service Staff¹⁰ (“Staff”) that the transition envisioned by the Commission¹¹ must be implemented as soon as practicable, and that the Commission’s December 2016 deadline for an order on this matter should be met.

As the Commission, Staff, and stakeholders consider this transition, it is important to recognize that the vision of the ultimate end-state will change over time. The joint comments of the Advanced Energy Economy Institute, the Alliance for Clean Energy New York, and the Northeast Clean Energy Council (“AEEI/ACE-NY/NCEC”) and E3 Consulting¹² propose dramatic changes to utility rate designs that would enable more granular valuation of DER. TCR¹³ proposes establishing a new statewide distribution-level market mechanism for DER. While these proposals present an interesting perspective on a potential long-term approach, the reality is that more work is needed to better understand their practicality, suitability, and economic implications.

Through a variety of efforts, including Con Edison’s Brooklyn-Queens Demand Management Program,¹⁴ demonstration projects initiated under the Reforming the Energy Vision

¹⁰ Value of DER Proceeding, Technical Conference on May 10, 2016, Transcript, pp. 116-117.

¹¹ Value of DER Proceeding, Notice; Case 15-E-0407, *Orange and Rockland Utilities, Inc. – Petition for Relief Regarding Its Obligation to Purchase Net Metered Generation Under Public Service Law Sec. 66-j* (“O&R Net Metering Proceeding”), Order Establishing Interim Ceilings on the Interconnection of Net Metered Generation (issued October 16, 2015)(“Interim Ceiling Order”), pp. 14-15.

¹² Value of DER Proceeding, E3 [Energy+Environmental Economics], Full Value Tariff Design and Retail Rate Choices, Prepared for New York State Energy Research and Development Authority and New York State Department of Public Service(“E3 Proposal”),dated April 18, 2016; Value of DER Proceeding, Advanced Energy Economy Institute, Alliance for Clean Energy New York, and Northeast Clean Energy Council, Response to “Notice Soliciting Comments and Proposals on an Interim Successor to Net Energy Metering and of a Preliminary Conference” (“AEEI/ACE-NY/NCEC Comments”), p. 29.

¹³ Value of DER Proceeding, TCR [Tabors Caramanis Rudkevich], White Paper on Developing Electricity Markets and Pricing Structures, prepared for New York State Energy Research and Development Authority and New York State Department of Public Service, dated April 2016.

¹⁴ Case 14-E-0302, *Petition of Consolidated Edison Company of New York, Inc. for Approval of Brooklyn Queens Demand Management Program*, Order Establishing Brooklyn/Queens Demand Management Program (issued December 12, 2014).

proceeding (“REV Proceeding”),¹⁵ other Non-Wires Alternatives, and forthcoming market changes being contemplated by the New York Independent System Operator (“NYISO”), New York is just beginning to more thoroughly initiate the integration of DER into distribution and wholesale electricity systems and markets. Additionally, efforts under the Commission’s *Order Adopting a Ratemaking and Utility Revenue Model Policy Framework* (“Track Two Order”)¹⁶ have also just begun to formally evaluate utility rate structures and develop performance incentives. Utilities are also investigating technologies that may cost-effectively enable new rate structures and provide operational benefits, such as advanced metering functionality. Lessons learned through these activities can and should inform future policy decision-making on the appropriate end-state for utility rates and DER compensation. However, at this stage, it is premature to define the final outcome. Instead, the Joint Utilities concur with Administrative Law Judge Mullany’s direction that the focus of near-term efforts should be to develop an *interim* methodology for valuing and compensating DER.¹⁷

Several parties agreed with many elements of the LMP+D+E transition mechanism proposed by the Solar Progress Partnership¹⁸ in their initial comments.¹⁹ This approach should become the foundation for the Commission’s final NEM transition, with details to be discussed in the upcoming collaborative process.²⁰ Specifically, issues related to the transition to LMP+D+E and the length of time that existing NEM resources should continue to receive compensation under the current rate structure must be resolved. Ultimately, the Commission

¹⁵ See, e.g., Case 14-M-0101, *Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision* (“REV Proceeding”), New York State Electric & Gas Corporation’s Implementation Plan for the Community Energy Coordination Demonstration Project (filed February 4, 2016).

¹⁶ REV Proceeding, *Order Adopting a Ratemaking and Utility Revenue Model Policy Framework* (“Track Two Order”) (issued May 19, 2016).

¹⁷ Value of DER Proceeding, *Procedural Ruling* (issued May 25, 2016).

¹⁸ Value of DER Proceeding, *Solar Progress Partnership Comments*.

¹⁹ Value of DER Proceeding, *AEEI/ACE-NY/NCEC Comments*, p. 2; *EDF/NYU School of Law Comments*, p. 4.

²⁰ Value of DER Proceeding, *Procedural Ruling* (issued May 25, 2016).

will need to determine the acceptable level of the overall incentives embedded in utility rates and the corresponding total customer bill impacts associated with this transition.

The Joint Utilities support the Administrative Law Judge’s recent decision to advance this proceeding via a collegial process, and look forward to working with Staff and other parties to discuss aspects of the Solar Progress Partnership’s proposal in more detail. The Joint Utilities respectfully submit these reply comments as a first step in that process, offering perspectives on the initial comments and proposals of other parties in the interest of moving the collective dialog forward.

II. Net Energy Metering at the Full Retail Rate Must Be Reformed

The Joint Utilities agree with parties who highlight the challenges associated with NEM as currently implemented.²¹ Because NEM at the full retail rate allows participating customers to forego paying distribution charges, the policy contravenes the rate design principles adopted by the Commission in the Track Two Order.²² The comments of the Environmental Defense Fund and the New York University School of Law (“EDF/NYU School of Law”)²³ as well as those of the Natural Resources Defense Council (“NRDC”)²⁴ argue for elimination of the cross-subsidy inherent in existing NEM policy. AEEI/ACE-NY/NCEC further supports the importance of recovering distribution system investment costs from all customers.²⁵ The Joint Utilities agree with the Commission’s finding that “rates should reflect cost causation” and that rates should be designed to preserve “the ability to build markets independent of any particular technology or investment cycle,”²⁶ and disagree with parties who suggest that NEM as currently

²¹ Value of DER Proceeding, EDF/NYU School of Law Comments, p. 6; NRDC Comments, p. 4; Comments of the City of New York (“NYC Comments”), p. 5.

²² REV Proceeding, Track Two Order, Appendix A – Rate Design Principles.

²³ Value of DER Proceeding, EDF/NYU School of Law Comments, p. 6.

²⁴ Value of DER Proceeding, NRDC Comments, p. 4.

²⁵ Value of DER Proceeding, AEEI/ACE-NY/NCEC Comments, p. 31.

²⁶ REV Proceeding, Track Two Order, Appendix A – Rate Design Principles.

implemented should remain a permanent option for customers.²⁷ It is essential that the Commission develop an alternative to NEM that properly values both DER and the distribution grid, and provides for appropriate allocation of costs to all customers.

As discussed above, retaining NEM at the full retail rate would expose Non-Participating Customers to millions of dollars in shifted costs. Following the Commission's *Order Establishing Interim Ceilings on the Interconnection of Net Metered Generation*,²⁸ there are currently no safeguards to limit this effect. In addition to parties that would retain NEM in its current form, National Fuel Cell Research Center would have the Commission vastly expand NEM by allowing projects greater than 2 MW in size to participate.²⁹ This expansion of NEM should be rejected because projects greater than 2 MW have access to and should participate in wholesale markets and their inclusion in NEM would compound the problems discussed above.

Further, retaining NEM as is would contravene the Commission's goals under the REV Proceeding of providing more transparent market signals that incent economic DER development. EDF/NYU School of Law outlines a number of issues associated with NEM's flat volumetric pricing structure: it does not communicate time-varying values of energy, it fails to recognize the incremental value of DER that is located in areas of the grid that are congested, it creates incentives for DER customers to maximize total generation from the resource rather than to maximize overall system benefits, and it fails to differentiate activity based on emissions

²⁷ Value of DER Proceeding, Solar Parties Comments, p. 16; Comments of the New York Solar Energy Industries Association, (filed April 18, 2016) ("NY-SEIA Comments"), p. 3; Policy Statement of the Association for Energy Affordability, Citizens for Local Power, the Clean Coalition, the Nature Conservancy, the New York Public Interest Research Group, and Pace Energy and Climate Center (filed April 18, 2016)("CEOC Comments"), p. 3; NRDC Comments, p. 5.

²⁸ O&R Net Metering Proceeding, Interim Ceiling Order.

²⁹ Value of DER Proceeding, Opening Comments of the National Fuel Cell Research Center (filed April 18, 2016), p. 10.

reductions.³⁰ The Joint Utilities agree that NEM as currently structured is a blunt tool and must be reformed for New York to cost-effectively integrate DER.³¹

For these reasons, the Commission should carefully consider the timing of transitions as well as the length of time that existing NEM resources should continue to receive compensation under the existing rate structure. Extensive “grandfathering” provisions proposed by certain parties³² would prolong this needed transition, unnecessarily increasing customer bills, and therefore should be rejected.

III. LMP+D+E Should Become the Foundation for the NEM Transition

AEEI/ACE-NY/NCEC,³³ EDF/NYU School of Law,³⁴ and the comments of the Association for Energy Affordability, Citizens for Local Power, the Clean Coalition, the Nature Conservancy, the New York Public Interest Research Group, and Pace Energy and Climate Center (“CEOC”)³⁵ support elements of the Solar Progress Partnership’s LMP+D+E proposal in concept. While they may refer to aspects of the proposal using different terminology, and drawing different conclusions on some matters, this general agreement speaks to the strength of the proposal as a foundation for future discussion to establish NEM transition mechanisms.

Certain parties recommend the inclusion of a variety of externality payments, beyond carbon dioxide (“CO₂”) emissions reductions, based on values that have not yet been established.³⁶ The Joint Utilities disagree. These issues have already been considered and

³⁰ Value of DER Proceeding, EDF/NYU School of Law Comments, p. 6.

³¹ Value of DER Proceeding, NYC Comments, p. 18.

³² *E.g.*, Value of DER Proceeding, Solar Parties Comments, p. 16.

³³ Value of DER Proceeding, AEEI/ACE-NY/NCEC Comments, p. 2.

³⁴ Value of DER Proceeding, EDF/NYU School of Law Comments, p. 4.

³⁵ Value of DER Proceeding, CEOC Comments, p. 3.

³⁶ *E.g.*, Value of DER Proceeding, Solar Party Comments, p. 12; Acadia Center Policy Statement on the Value of Distributed Energy Resources and Options Related to Establishing an Interim Methodology (filed April 18, 2016)(“Acadia Comments”), p. 4; NRDC Comments, pp. 10-11.

decided by the Commission's *Order Establishing the Benefit Cost Analysis Framework*.³⁷ Re-opening this decision within the context of this proceeding at this time will unnecessarily detract from the important task at hand. The Joint Utilities recommend that these issues be considered over the coming years as more experience is gained with integrating DER in New York.

Additionally certain parties advocate for the creation of credits that would value certain resource attributes, such as a west-facing solar credit.³⁸ The Joint Utilities argue that the LMP+D+E mechanism, coupled with other utility programs, could be structured to capture this value by passing through higher wholesale electricity market revenues and distribution-level benefits to DER that align their output with statewide or local peaks.

IV. Transition Should Maintain Simplicity for Customers; Rate Design Questions Should Be Addressed in the Broader REV Context

The Joint Utilities agree with parties who recommend an approach to the NEM transition that retains simplicity for retail customers.³⁹ E3 Consulting proposes highly complex approaches and rate designs that have not yet been tested or vetted.⁴⁰ As discussed above, the Joint Utilities emphasize that the immediate task before Staff and the Commission at this stage is to establish a NEM *transition* mechanism only. The Joint Utilities expect the end-state vision to evolve as lessons are learned from the variety of ongoing initiatives such as pilots and demonstration projects that will explore these topics. The Commission should not allow theoretical debates about possible end-state outcomes to establish artificial goals or otherwise derail the important effort of establishing a near-term transition.

The NEM transition mechanism itself must also adhere to the guiding principle of simplicity. Certain parties recommend that a variety of rate options become available to

³⁷ REV Proceeding, Order Establishing the Benefit Cost Analysis Framework (issued January 21, 2016), p. 17.

³⁸ Value of DER Proceeding, Acadia Comments, p. 13; EDF Comments, p. 11.

³⁹ Value of DER Proceeding, AEEI/ACE-NY/NCEC Comments, p. 9; Solar Party Comments, p. 8.

⁴⁰ Value of DER Proceeding, E3 Proposal.

customers.⁴¹ For example, the Joint Utilities count more than fifteen different rate variations that would be concurrently available to NEM customers under the AEEI/ACE-NY/NCEC proposal, which would allow customers to switch back and forth among rate variations based on the date of DER interconnection, the type of DER installed, and the DER configuration.⁴² Such an approach would add unnecessary confusion, raise the possibility of inequitable rate arbitrage among rate classes, and is simply unworkable. The Commission should establish a clear and easily understandable NEM transition approach that prevents rate arbitrage, and reduces complexity for customers, DER providers, and the utilities that must ultimately manage and implement billing solutions for each option available.

The Joint Utilities support the NEM transition mechanism they proposed as part of the Solar Progress Partnership, which would maintain simplicity for customers while managing the shifting of costs to Non-Participating Customers. The proposal appropriately focuses on Community Distributed Generation (“CDG”)⁴³ and Remote Net Metered (“RNM”)⁴⁴ projects, which make up the majority of the increase in interconnection queues across the State. The Solar Progress Partnership proposes to use a graduated step-down or “tranche” approach that would adjust the differential between NEM at the full retail rate and LMP+D+E in MW blocks for CDG and RNM projects. Under this model, participating customers would continue to receive NEM credits at the full retail rate on their utility bills. Project developers would pay the utility a fee for the use of the distribution system, and thereby reduce cost shifting to Non-Participating

⁴¹ AEEI/ACE-NY/NCEC Comments, pp. 18-32; NRDC Comments, p. 4-8.

⁴² Value of DER Proceeding, AEEI/ACE-NY/NCEC Comments, pp. 18-32.

⁴³ Case 15-E-0082, *Proceeding on Motion of the Commission as to the Policies, Requirements and Conditions for Implementing a Community Net Metering Program*, Order Establishing a Community Distributed Generation Program and Making Other Findings (issued July 17, 2015).

⁴⁴ *E.g.*, Cases 14-E-0151 *et al.*, *Hudson Valley Clean Energy, Inc. – Petition for an Increase to the Net Metering Minimum Limitation at Central Hudson Gas & Electric Corporation*, Order Granting Rehearing in Part, Establishing Transition Plan, and Making Other Findings (issued April 17, 2015).

Customers that currently occurs under the existing NEM approach. This approach provides a reasonable transition and should be adopted.⁴⁵

V. The Integrity of Current Rate Designs Should Be Retained in the Near-Term

The Joint Utilities agree with parties who recommend retaining existing rate designs in the near term.⁴⁶ Potential changes to demand-based rate designs, including AEEI/ACE-NY/NCEC's proposal to eliminate demand billing for NEM customers,⁴⁷ and those that would reinstate monetary crediting,⁴⁸ would be in direct conflict with prior Commission orders⁴⁹ and the rate design principles established in the Track Two Order.⁵⁰ Any future changes to these rate designs would require further study, and should be addressed through the work streams established in the Track Two Order to evaluate both commercial and industrial customer delivery charges, as well as time varying rate options for mass market customers.⁵¹ Attempting to resolve broader rate design issues within the context of this proceeding is inappropriate and will only introduce unnecessary delays.

⁴⁵ Value of DER Proceeding, Solar Progress Partnership Comments, pp. 6-12.

⁴⁶ Value of DER Proceeding, NRDC Comments, p. 19.

⁴⁷ Value of DER Proceeding, AEEI/ACE-NY/NCEC Comments, p. 36.

⁴⁸ Value of DER Proceeding, AEEI/ACE-NY/NCEC Comments, p. 36; NY-SEIA Comments, p. 2; Acadia Comments, p. 2; NYC Comments, p. 14.

⁴⁹ Cases 14-E-0151 et al., *Hudson Valley Clean Energy, Inc. – Petition for an Increase to the Net Metering Limitation at Central Hudson Gas & Electric Corporation*, Order Granting Rehearing in Part, Establishing Transition Plan, and Making Other Findings (issued April 17, 2015).

⁵⁰ REV Proceeding, Track Two Order, Appendix A – Rate Design Principles.

⁵¹ REV Proceeding, Track Two Order, pp. 123-125, 130, 134, 137.

VI. Conclusion

The Joint Utilities appreciate the opportunity to submit these reply comments for the Commission's consideration, and look forward to further dialog on this matter.

Dated: June 10, 2016

Respectfully submitted,

**CONSOLIDATED EDISON COMPANY
OF NEW YORK, INC. and ORANGE
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