STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of the Value of Distributed Energy Resources	))	Case 15-E-0751
Proceeding on Motion of the Commission as to the Policies, Requirements and Conditions for Implementing a Community Net Metering Program	)))	Case 15-E-0082

JOINT UTILITIES' REPLY TO COMMENTS ON STAFF WHITEPAPER ON COMMUNITY DISTRIBUTED GENERATION COMPENSATION AFTER TRANCHE 3

I. Introduction

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. ("O&R"), and Rochester Gas and Electric Corporation (collectively, the "Joint Utilities") file this Reply[1] addressing comments of the Clean Energy Parties ("CEP")[2] on the *Staff Whitepaper on Community Distributed Generation Compensation after Tranche 3* ("Staff Whitepaper").[3]

The Joint Utilities continue to support the State's clean energy objectives and sustainable growth of the Community Distributed Generation ("CDG") market. As the New York Public Service Commission ("Commission") recognized in its *Order on Net Energy Metering Transition, Phase One of Value of Distributed Energy Resources, and Related Matters* ("VDER

[1] Reply comments are due November 13, 2017. Cases 15-E-0751 *et al.*, *In the Matter of the Value of Distributed Energy Resources* ("VDER Proceeding"), Notice Soliciting Comments on Staff Whitepaper (issued August 29, 2017).
[2] VDER Proceeding, Comments of the Clean Energy Parties (filed October 30, 2017) ("CEP Comments"). The Clean Energy Parties are the Coalition for Community Solar Access, Pace Energy and Climate Center, the Solar Energy Industries Association, and Vote Solar.
[3] VDER Proceeding, Staff Whitepaper on Community Distributed Generation Compensation after Tranche 3 (filed August 29, 2017) ("Staff Whitepaper").

Order"),[4] this growth must be balanced with customer bill impacts. The Clean Energy Parties offer recommendations that do not achieve this balance, specifically by advocating that: (1) the establishment of a Tranche 4 mechanism and closure of Tranche 3 should be delayed; (2) an auction process should not be used to set the Tranche 4 Market Transition Charge ("MTC"); and (3) when Tranche 4 is established, it should not be limited to 12 MW.

II. The Commission Should Act Quickly to Close Tranche 3 and Establish a Tranche 4 Mechanism

The Clean Energy Parties suggest that any decision regarding a Tranche 4 mechanism should be delayed until the VDER Phase One value stack tariff is proven financeable, and request that the Tranche 3 MTC be extended until more data regarding project attrition is available. The Clean Energy Parties suggest that this information may not be available until mid- to late-2018 when CDG projects currently under development begin construction. Their proposal would extend the *status quo* by another year.[5] As observed in the Staff Whitepaper, however, the lengthy delay and the continuation of Tranche 3 proposed by the Clean Energy Parties would "result in significant and unnecessarily high impacts on non-participant ratepayers" and should not be adopted.[6]

The Clean Energy Parties further argue that the extension (and corresponding expansion) of Tranche 3 is justified because the bill impacts anticipated by the initial tranches may not materialize. This argument implicitly and effectively requests rehearing of the VDER Phase One Order. The Joint Utilities note that a request for rehearing is out of time[7] and that the

[4] VDER Proceeding, Order on Net Energy Metering Transition, Phase One of Value of Distributed Energy Resources, and Related Matters (issued March 9, 2017) ("VDER Order"), pp. 17, 34-39.
[5] Interestingly, the Clean Energy Parties also appear to take the opposite view in their comments by implying that attrition may not be that significant ("[T]he strong pace of initial CDG development in O&R is evidence that consumers want CDG and that the Tranche 1-3 levels in O&R are attracting developer interest."). VDER Proceeding, CEP Comments, p. 7.
[6] VDER Proceeding, Staff Whitepaper, p. 4.
[7] 16 NYCRR Sec. 3.7(a) requires that petitions for rehearing be filed within 30 days of service of the order.

Commission already made an informed decision regarding the appropriate size of Tranche 3 that balanced support for the CDG market with customer bill impacts.[8] The Clean Energy Parties request would leave customers facing increasing costs from an unconstrained amount of CDG projects which Staff has concluded would "impose further, potentially unbounded, impacts on non-participating ratepayers without due consideration of whether similar benefits could be achieved at lower costs."[9]

The Clean Energy Parties' proposed approach does not recognize that O&R's non-participating residential customers are already projected to see bill impacts in the range of 2.5 percent. This is significantly above the two (2) percent target established by the Commission in the VDER Order.[10] Extending the Tranche 3 compensation to an additional 12 MW of projects would increase these bill impacts to 2.9 percent. The Clean Energy Parties do not offer any justification for increasing these bill impacts even further and their comments do not identify any new benefits of these potential projects that have not already been considered by the Commission. The Joint Utilities support the rationale and decisions adopted by the Commission in the VDER Order. Accordingly, they urge the Commission to act expeditiously to close Tranche 3 and establish a Tranche 4 mechanism with a customer bill impact as close as possible to the two percent threshold.

III. Some Value Must Be Retained for Customers in Order for Customers to Benefit from Any CDG Policy

The Clean Energy Parties argue that an auction to set the Tranche 4 MTC should not be adopted because it "could result in compensation to CDG customers and projects that is lower

[8] VDER Proceeding, VDER Order, p. 34.
[9] VDER Proceeding, Staff Whitepaper, p. 4
[10] VDER Proceeding, VDER Order, pp. 17, 34-39.

than their actual value to the grid and society."[11] The Joint Utilities note that the opposite could just as easily be true, that an auction could result in compensation to CDG customers and projects at a rate that is higher than the projects' actual value to the grid and society. As noted in the comments of the Solar Progress Partnership, an auction would result in an MTC that is simply different than the value that might otherwise be calculated through a value-based compensation mechanism.[12]

As noted in the Joint Utilities' initial comments, competitive solicitations provide many benefits for customers when appropriately bounded.[13] While the Joint Utilities individually and with the Solar Progress Partnership suggested there may be alternatives to an auction to set the MTC for the limited 12 MW Tranche 4 in O&R's service territory,[14] the Joint Utilities continue to see value in using auctions and competitive procurements. Therefore, they support exploring these approaches in the VDER Phase Two proceeding for the benefit of customers. Regardless of the path ultimately chosen, Staff is correct in seeking a mechanism that achieves the maximum clean energy development possible for each customer dollar. Furthermore, all customers must be able to retain some of that value. The Clean Energy Parties effectively argue that they, and their participating subscribers, should retain 100 percent of the presumed grid and societal benefits, thereby imposing on non-participants all of the costs and no net benefits. The Clean Energy Parties contend that an auction is "incongruous with the VDER framework."[15] The opposite, however, is true in part because the majority of the MTC represents transition costs from NEM that are not value-based and therefore impose bill impacts on all customers.

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[11] VDER Proceeding, CEP Comments, p. 4.
[12] VDER Proceeding, Comments of the Solar Progress Partnership to Staff Whitepaper on Community Distributed Generation Compensation after Tranche 3 (filed October 30, 2017) ("Solar Progress Partnership Initial Comments"), *passim*.
[13] VDER Proceeding, Comments of the Joint Utilities to Staff Whitepaper on Community Distributed Generation Compensation after Tranche 3 (filed October 30, 2017) ("Joint Utilities Initial Comments"), pp. 6-8.
[14] *Id.*, pp. 6-8; Solar Progress Partnership Initial Comments, pp. 3-6.
[15] VDER Proceeding, CEP Comments, p.4.

Therefore, a competitive process, if properly conducted,[16] can reveal the actual MTC that CDG projects need to proceed and is most likely to result in lower costs and/or higher net benefits for all customers.

IV. Tranche 4 Must Limit Continuing Bill Impacts for O&R's Customers

The Clean Energy Parties argue that based on the level of interest in CDG within the O&R service territory, 12 MW is insufficient to provide for continued market development and could result in a "premature end to the CDG market in O&R."[17] The Clean Energy Parties further recommend that a Tranche 4 be followed by an unbounded Tranche 5 that continues to provide compensation significantly in excess of all values defined to date.[18] Adoption of such an approach could result in significant and extended (*i.e.*, 25 years) bill impacts for non-participating O&R customers.

In the VDER Order, the Commission established the MTC as a transition from NEM, not as an unbounded and ongoing subsidy for CDG developers. The Joint Utilities agree with Staff's recommendation for a limited 12 MW Tranche 4, which should have an MTC that represents a material discount from Tranche 3 levels.[19] Future CDG projects beyond the 12 MW Tranche 4 should continue to be eligible for Value Stack compensation without an MTC. The Staff Whitepaper notes that the "fact that the first three Tranches have been established so quickly suggests that the total compensation resulting from the Value Stack plus Tranche 3 MTC in O&R's service territory is still significantly above the compensation required to attract investment."[20] The Joint Utilities agree with this observation and suggest that the market

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[16] *See* note 17, *supra*.
[17] VDER Proceeding, CEP Comments, p. 7.
[18] *Id.*, p. 8.
[19] A reduction of the MTC by 50 percent for Tranche 4, in the absence of an auction, would recognize that the current amount is higher than is needed based on continuing developer demand in Tranche 3 at the current level.
[20] VDER Proceeding, Staff Whitepaper, p. 4.

dynamics in O&R's service territory support a faster reduction of compensation levels to avoid unnecessarily overcompensating projects at non-participating customers' expense. Finally, a meaningful reduction in the MTC for Tranche 4 is needed to transition NEM-eligible resources to the same value-based compensation that is being developed for other DER technologies.

V. Conclusion

The Joint Utilities respectfully urge the Commission to take action consistent with these comments.

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CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. and ORANGE AND ROCKLAND UTILITIES, INC.

By: */s/ Susan J. Vercheak*

Susan J. Vercheak*
Associate General Counsel
Consolidated Edison Company of New York, Inc.
4 Irving Place
New York, New York 10003
Tel.: (212) 460-4333
Email: vercheaks@coned.com
* Admitted only in New Jersey

CENTRAL HUDSON GAS AND ELECTRIC CORPORATION

By: */s/ Paul A. Colbert*

Paul A. Colbert,
Associate General Counsel
Regulatory Affairs
Central Hudson Gas & Electric Corporation
284 South Avenue
Poughkeepsie, New York 12601
Tel: (845) 486-5831
pcolbert@cenhud.com

NIAGARA MOHAWK POWER CORPORATION d/b/a NATIONAL GRID

By: */s/ Janet M. Audunson*

Janet M. Audunson
Senior Counsel II
National Grid
300 Erie Boulevard West
Syracuse, New York 13202
Tel: (315) 428-3411
Email: Janet.Audunson@nationalgrid.com

NEW YORK STATE ELECTRIC & GAS CORPORATION and ROCHESTER GAS AND ELECTRIC CORPORATION

By: */s/ Mark Marini*

Mark Marini
Director Regulatory
89 East Avenue
Rochester, NY 14649
Tel.: (585) 750-1666
Email: Mark_Marini@rge.com