STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION  

In the Matter of the Value of Distributed Energy Resources  

Case 15-E-0751  

REPLY OF JOINT UTILITIES TO CLEAN ENERGY PARTIES  
PETITION FOR DECLARATORY RULING  

The Solar Energy Industries Association, New York Solar Energy Industries Association, Coalition for Community Solar Access, Alliance for Clean Energy New York, Inc., Vote Solar, the National Resources Defense Council, and the Pace Energy and Climate Center (“Clean Energy Parties”) petitioned the Public Service Commission (“Commission”) regarding the environmental value (“E-Value”) of the Phase One Value of Distributed Energy Resources (“VDER”) tariff (“Value Stack Tariff”).1 The Petition asks that the Commission direct Department of Public Service Staff (“Staff”) to change three calculations of the E-Value of the Phase One of the Value Stack Tariff: (1) the applicable period over which to calculate the E-Value, (2) the discount rate to apply, and (3) the timing of updates.  

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 (together the “Joint Utilities”) urge the Commission to reject the Petition seeking to  

reverse the Commission’s direction for this calculation.\textsuperscript{2} The Petition should be rejected because it would unjustifiably increase the out-of-market compensation to many existing and all future resources receiving compensation under the Value Stack Tariff and exacerbate the bill impacts on non-participating customers.\textsuperscript{3} Instead, to the extent that the Commission considers any changes to the VDER Phase One Order, it should reaffirm the applicability of the guidance it provided in its *Order Establishing the Benefit Cost Analysis Framework* ("BCA Order")\textsuperscript{4} to this proceeding\textsuperscript{5} and direct Staff and the utilities to transition to the New York State Energy Research and Development Authority’s ("NYSERDA") Tier 1 clearing price for renewable energy credits ("RECs") as the sole measure of compensation for environmental attributes of Distributed Energy Resources ("DER").

The Joint Utilities support the State’s transition to a clean energy economy and are actively working to support that transition. The Joint Utilities believe, as does the Commission,\textsuperscript{6} that this transition should be achieved in a cost-effective manner for customers. As discussed herein, the Clean Energy Parties’ proposals would unnecessarily increase non-participating customer bills by layering on additional subsidies that would not be cost effective. The Joint Utilities note here that given New York State’s robust solar market, no increases in compensation appear to be necessary to further incentivize that market.

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\textsuperscript{3} The current environmental value of $27/MWh is $10 over the latest NYSERDA Tier 1 sale price, available at https://www.nyserda.ny.gov/All-Programs/Programs/Clean-Energy-Stanard/REC-and-ZEC-Purchasers/2018-Compliance

An additional increase in the E-Value would exacerbate the current trajectory, which is expected to easily exceed the Commission’s two percent bill impact level. VDER Proceeding, VDER Phase One Order, p. 35.

\textsuperscript{4} REV Proceeding, BCA Order, p. 18.

\textsuperscript{5} VDER Proceeding, VDER Phase One Order, pp. 147-150.

\textsuperscript{6} See id., p. 35.
The first methodological change the Clean Energy Parties seek is an increase in the term of the forecast used to calculate the E-Value from 20 years to 25 years.\(^7\) The Clean Energy Parties ignore that the Commission stated that the Clean Energy Standard (“CES”) mechanism should represent values that “could be avoided through DER resources”\(^8\) and only used the difference between the Environmental Protection Agency’s (“EPA”) Social Cost of Carbon (“SCC”) and the Regional Greenhouse Gas Initiative (“RGGI”) price as a “transition mechanism.”\(^9\) Staff proposed and the Commission approved an SCC 20-year analysis period to align with the energy price forecast in the New York Independent System Operator’s (“NYISO”) Congestion Assessment and Resource Integration Studies (“CARIS”) Locational Based Marginal Pricing (“LBMP”) model.\(^{10}\)

The Clean Energy Parties’ suggestion to extend the period used in the SCC analysis beyond the 20-year period used in the current E-Value methodology contradicts the Commission’s direction in the VDER Phase One Order that all values would be calculated using the BCA framework. As noted above, the Commission has previously determined that the Tier 1 REC price should be used going forward. To the extent the Commission continues to rely on the E-Value being the higher of the SCC minus RGGI price or the Tier 1 REC price, the Commission should not change its established calculation method.\(^{11}\)

Moreover, the Clean Energy Parties incorrectly conflate the ability for VDER projects to receive the E-Value for up to 25 years with the Commission’s direction to base the value on a

\(^7\) VDER Proceeding, Petition, pp. 1-2.
\(^8\) REV Proceeding, BCA Order, p. 18.
\(^9\) Id.
\(^{10}\) Id., pp. 14-15, 18-19.
\(^{11}\) VDER Proceeding, VDER Phase One Order, p. 106, n. 42.
20-year calculation of the SCC. In fact, the calculation, which gives equal weight to the escalating carbon values, and assumes level production, already overstates the net benefits from a solar project because production from any solar facility will decline over time due to normal degradation of photovoltaic (“PV”) panels. Effectively, this means that, under the current methodology, customers already compensate VDER projects for presumed environmental values that will not be fully realized over the anticipated 20-year operating period. Extending the calculation period to 25 years will only further inflate this subsidy and compound it if projects do not operate beyond 20 years. Contrary to the Petition, while the Commission stated that the components of the Value Stack Tariff could be fixed for up to 25 years, the Commission did not make any determination as to the expected useful life of projects taking service under the Value Stack Tariff.

The Clean Energy Parties’ second proposed modification is the use of an arithmetic average of all future SCC values (i.e., without application of a discount rate). As the case with all of these issues, the Commission explicitly considered this issue in its BCA Order, and ordered each utility to use its Weighted Average Cost of Capital (“WACC”) for discounting noting that “to use a rate other than the WACC would distort evaluation.” The Clean Energy Parties’ proposal would effectively require all customers to pay more now for the projected higher carbon value in a future period, with no guarantee that the VDER facilities will generate that amount of renewable power in the future.

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12 By compensating DER today for the escalating expected future environmental value of its exports, the calculation assumes that each kilowatt hour generated in year 1 will be generated every year in the future. As solar PV panels degrade, fewer kilowatt hours will be generated, resulting in a higher overall compensation in the early years than is warranted.

The Clean Energy Parties’ claim that the use of a discount rate amounts to “double
discounting” is incorrect. The discount rate embedded in the EPA’s SCC (e.g., three percent)
is used to derive the present value of all future societal damages resulting from carbon emitted in
a given year. Because these values change over time, it is inappropriate to apply the SCC rate
for a future year to emissions avoided today. Emissions avoided in 2030, for example, will
actually be more valuable to society as a whole because future emissions are expected to
“produce larger incremental damages as physical and economic systems become more
stressed.” To this end, even the current approach used to establish the value of the SCC for the
purposes of VDER Value Stack compensation is, at its base, problematic.

The Joint Utilities agree with the Clean Energy Parties that the approach adopted by the
Commission in the CES proceeding to value Zero Emissions Credits (“ZEC”) is a more accurate
mechanism for establishing an SCC value. The value of a ZEC is re-set every two years based
on the then-current SCC value minus RGGI. This approach means that only the present value of
the avoided emissions is paid out to the nuclear generator in any given year. In contrast, the
approach used by Staff to establish the SCC for the E-Value of the Value Stack compensation
forecasts the escalating value of avoided emissions in each of the coming 20 years and pays that
out to generators today, regardless of whether they actually do avoid emissions at that higher
SCC rate in a future year. The current approach then appropriately applies the utility WACC
discount rate to arrive at a levelized payment that captures the avoided costs of investing today to
realize this assumed future value. The difference in this approach is stark and has important

14 VDER Proceeding, Petition, p. 8.
15 See U.S. Environmental Protection Agency. EPA Fact Sheet, Social Cost of Carbon, available at:
consequences for customers. A 2018 ZEC is priced at $17.48, below NYSERDA’s $21.71 most-recent Tier 1 REC solicitation price, while the SCC value paid under the E-Value of the VDER Value Stack compensation is currently $27.14 and would increase to $32.19 under the Clean Energy Parties’ proposal, resulting in a $15 premium for a future value that may not materialize.

Finally, the Clean Energy Parties request that the Commission order the Joint Utilities to retroactively apply this proposed compensation methodology to all 2018 projects and to use the proposed methodology going forward with two updates each year. These proposals should be rejected. The BCA Order requires that Staff “calculate these figures each year and file them publicly for use in the BCA framework.”16 Requiring two updates per year (i.e., when NYSERDA runs Main Tier auctions and at the start of the each calendar year) would needlessly increase administrative costs and could create an incentive for developers to delay applications to align with the scheduled escalation of the SCC. Furthermore, applying these values retroactively to projects is not only inappropriate, but would result in an unnecessary windfall to existing projects, increased cost to non-participating customers, and no increase in renewable generation or corresponding environmental benefits.

16 REV Proceeding, BCA Order, p. 18.
For the reasons above, the Joint Utilities urge the Commission to deny the Petition.

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Respectfully submitted,

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