

**STATE OF NEW YORK
PUBLIC SERVICE COMMISSION**

In the Matter of the Value of Distributed Energy Resources))	Case 15-E-0751
In the Matter of Rate Design Reforms Supporting the Commission’s Reforming the Energy Vision))))	Case 16-M-0430
Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision)))	Case 14-M-0101
In the Matter of the Value of Distributed Energy Resources Working Group Regarding Rate Design))))	Matter 17-01277

JOINT UTILITIES’ RESPONSE TO STAFF SCOPE OF STUDY TO EXAMINE BILL IMPACTS OF A RANGE OF MASS MARKET REFORM SCENARIOS

I. Introduction

On October 3, 2017, the New York Department of Public Service Staff (“Staff”) issued the *Staff Scope of Study to Examine Bill Impacts of a Range of Mass Market Rate Reform Scenarios* (“Staff Scope”).¹ 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 (collectively, the “Joint Utilities”) appreciate the opportunity to

¹ Cases 15-E-0751 *et. al.*, *In the Matter of the Value of Distributed Energy Resources* (“VDER Proceeding”), Staff Scope of Study to Examine Bill Impacts of a Range of Mass Market Rate Reform Scenarios (issued October 3, 2017) (“Staff Scope”). Staff requested that comments be filed by December 11, 2017. Letter to Secretary Kathleen H. Burgess from Ted Kelly, Esq. (dated October 3, 2017).

continue engaging in the development of policies to advance the objectives of Reforming the Energy Vision (“REV”).² The Joint Utilities provide these comments regarding the Staff Scope so that the evolution of rate design in New York remains focused on policy and equity objectives that include impacts on customers with and without distributed energy resources (“DER”) as well as low-income customers and other segments of electric utility customers. As a general matter, the Joint Utilities agree with much of the Staff Scope and these comments focus on the few remaining areas of concern.

The Joint Utilities remain committed to working with Staff and stakeholders on rate design changes that more accurately reflect costs based on the timeline specified in the VDER Proceeding. The Joint Utilities offer comments on findings that have the potential to impede the initial objective of developing a reasonable and timely VDER Phase Two rate design for customers who have the ability to generate or store electricity on site or have the ability to inject electricity into the electric delivery system. As described below, the Joint Utilities urge a holistic approach to rate reform for all mass-market customers, particular recognition of the rate design principle of cost causation, presentation of specific Staff recommendations for rate design options, use of utility-provided models for the bill impact study, and emphasis on review of short-term bill impacts.

II. Purpose of Bill Impact Study

This section of the Staff Scope accurately reflects the purpose of the bill impact study. Bill impact studies must be carefully designed to assess the impact of revised rate designs on customer bills to inform the Public Service Commission (“Commission”) regarding the pace of

² Case 14-M-0101, *Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision* (“REV Proceeding”).

implementation for rate design modifications.³ While the near-term objective is to develop a proposal for the Net Energy Metering (“NEM”) Successor Tariff by December 31, 2018, the Commission, Staff, and stakeholders must work together to ultimately address rate reforms holistically for all mass market customers. Ideally, the new tariff would be appropriate for all technology types and all mass market customers, not just those technologies and customers previously eligible for NEM. This approach means that equity concerns among all utility customers must continue to be addressed, and that rates must reflect the fundamental rate design principle of cost causation throughout the Joint Utilities’ electric distribution systems, as noted in the Staff Scope.⁴ Finally, the Joint Utilities note that the process for rate design development is being addressed through comments in another venue.⁵

III. Rate Design Structures to Be Considered

The new rates for VDER Phase Two must be designed to replace NEM. The Staff Scope presents the fundamental rate design principles adopted by the Commission and lists potential rate design options for consideration,⁶ but is silent on the prioritization of these principles and the specific rate design options for initial consideration.

Any future VDER Phase Two rate design (and rate designs that will eventually apply to all mass market customers) must be premised on the fundamental rate design principle of cost causation. While other principles such as gradualism may inform the pace of rate transition, the establishment of future rates based on an approach that does not reflect cost causation will encourage economically inefficient decisions by consumers.

³ The Staff Scope recognizes the “informative” role of the Bill Impact Study with respect to the pace of implementation and any modifications. VDER Proceeding, Staff Scope, p. 4.

⁴ VDER Proceeding, Staff Scope, p. 6.

⁵ Matter 17-01277, *In the Matter of the Value of Distributed Energy Resources Working Group Regarding Rate Design*, Joint Utilities’ Statement Regarding Clean Energy Parties Proposal (filed December 4, 2017).

⁶ VDER Proceeding, Staff Scope, pp. 5-7.

Rather than expressing a preference for specific rate design options for initial study, the Staff Scope notes that the “most promising options”⁷ should be considered. The Joint Utilities believe that the Staff Scope should provide specific recommendations to drive the work going forward and that the initial rate design options for consideration should include packages that include demand charges, grid access charges and fixed charge subscription services for delivery, and market-based options for recovery of electric supply costs.

IV. Bill Impact Study

The Bill Impact Study section of the Staff Scope recognizes that there are significant differences among the members of the Joint Utilities in areas such as geography, system designs, customer types, and weather. Staff envisions a process in which each utility develops individual bill impact analyses based on a consistent approach. This process avoids inefficiency associated with the “potential for multiple stakeholders developing parallel bill impact models and analyses that would be difficult to reconcile.”⁸ The Joint Utilities generally support Staff’s proposal for each utility to develop its own bill impact model within a consistent framework to promote clear understanding and transparency for stakeholders. The Joint Utilities will support the review process through the Rate Design Working Group and provide the models and data using aggregated and anonymized methods in order to maintain customer privacy and security.

The Joint Utilities also note that the Staff Scope states that “the Commission should require that all underlying data sources are provided in an easily used electronic format and that all assumptions are carefully documented along with supporting documents.”⁹ This statement could be read in isolation to suggest that stakeholders would be able to analyze the data using

⁷ VDER Proceeding, Staff Scope, p. 6.

⁸ VDER Proceeding, Staff Scope, p. 9.

⁹ VDER Proceeding, Staff Scope, p. 8.

their own proprietary models. As noted above, this would create potential for confusion. As a result, the Joint Utilities recommend the Staff Scope specify that the provision of this information is for the purpose of assessing results of the utility-provided models.

The Bill Impact Study section also addresses the calculation of structural bill impacts and the performance of sensitivity analyses.¹⁰ While the Joint Utilities agree with the structural bill impact discussion, the Staff Scope proposal regarding sensitivity analyses has the potential for becoming overly complicated thereby delaying progress.

The Staff Scope envisions two applications of sensitivity analysis -- one for short-term effects where changes in customer behaviors have little impact on utility, customer, or customer investment decisions and a second for long-term effects where changes in customer behaviors have a significant impact on utility or customer capital investments. The Joint Utilities agree that short-term bill impacts associated with changes in customer usage due to shifts in behavior and not requiring significant investments are an important element of any sensitivity analysis. As the Staff Scope notes:

Short-term impacts look at what shifts in behavior might occur with little or no capital investment by the consumer, typically impacted by customer education, utility supported programs (e.g., efficient appliance subsidies, removal of old refrigerators, thermostat swaps, optional rate designs that require direct utility control of appliance's such as water heaters or air conditioners), third party solar installations and short-term price elasticity. This stage of the analysis requires assumptions of customer behavior based upon studies (wherever they may have been performed) that indicate customer adoption rates, appliance penetration rates and short-term price elasticity. The use of publicly-available reports and information drawn at least in part from other sources, such as consultants and stakeholders, should be used to assess the behavioral impacts of rate design changes on customer bills.¹¹

¹⁰ VDER Proceeding, Staff Scope, pp. 9-10.

¹¹ VDER Proceeding, Staff Scope, pp. 10-11.

The work required to identify the range of potential changes in short-term customer behaviors as the result of rate design changes is potentially the most important element of the bill impact analysis. As explained below, getting the analysis right will require time, effort, and research.

The Joint Utilities also recognize that rate design changes can have an impact on utility and customer investment decisions in the long-run. As the Staff Scope states:

The bill impact study should consider investments such as onsite generation, storage or building energy management systems. The longer-term should see additional customer behavioral changes as enabled by capital investments. This sensitivity could also consider the avoided utility capital costs that changes in consumer and prosumer behavior would enable.¹²

This second feature of the proposed sensitivity analysis introduces additional complexities. The Joint Utilities are uncertain whether it will be possible at this time to address longer-term impacts in a reasonable manner given existing time constraints and whether such impacts would be regarded as credible given the uncertain nature of the assumptions to be made. The Joint Utilities are concerned that work on this topic could detract from progress on the fundamental short-term impacts of alternative rate design approaches. This is of particular concern regarding Staff's suggestion that a sensitivity analysis could also consider the avoided utility capital costs that changes in behavior would enable. This analysis is of limited value due to its speculative nature. Given these considerations, the Joint Utilities recommend that the focus of the sensitivity analysis be on the shorter-term impacts.

The Joint Utilities note that the bill impact and sensitivity analysis should draw on lessons learned from other jurisdictions. Additionally, for a manageable and effective process, the bill impact analysis should prioritize and define a relatively small number of customer segments or prototypical customers to provide key insights on bill impacts. As noted above, part

¹² VDER Proceeding, Staff Scope, p. 11.

of the prioritization should include an emphasis on short-term bill impacts that do not require significant investments by utilities or customers.

Finally, the amount of work required to understand, illustrate, and coordinate the impact of rate design changes and behavioral impacts on customer bills is significant. The Joint Utilities may require consulting support to develop this analysis and would seek recovery of the costs associated with these efforts.

V. Conclusion

The Joint Utilities appreciate the opportunity to provide these comments in response to the Staff Scope.

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Respectfully submitted,

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