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ACADIA CENTER COMMENTS ON STAFF MASS MARKET BILL IMPACTS STUDY DRAFT

Acadia Center submits the following comments in response to the New York Department of Public Service request for stakeholder comments on the Staff Mass Market Bill Impacts Study Draft (“Study Draft”) issued on September 21, 2017. Acadia Center is a non-profit, research and advocacy organization committed to advancing the clean energy future. Our approach is characterized by reliable information, comprehensive advocacy, and problem solving through innovation and collaboration.

Acadia Center participated in many of the earlier stages of Reforming the Energy Vision (“REV”), including the Track 2 process around rate design and net energy metering reform and full engagement in Phase One of the Value of Distributed Energy Resources (“VDER”) proceeding, Case 15-E-0751.

Acadia Center sees the enormous potential of REV to develop a more dynamic regulatory framework to advance a cleaner, more affordable, and reliable energy system in New York for the 21st century and beyond. The state’s energy future is dependent upon an ambitious, effective, and comprehensive response to historic challenges and opportunities.

Acadia Center agrees that mass market electricity rates can and should change over time, and this change should be guided by traditional rate design principles, as well as New York’s public policy goals and modern rate design principles. Analysis of potential bill impacts on customers is a crucial part of this equation. As explained in further detail below, Acadia Center’s key recommendations at this stage are:

- New York must commit to reforming and lowering residential customer charges, and explicitly identify the incremental cost of connecting a customer as the reasonable level for these charges.
- Since the purpose of more granular rate designs is to drive changes in customer behavior, customer response scenarios, tempered by realistic expectations for a response, must be placed on a level playing field with the “structural bill impacts” that assume no customer response. This response will begin to take place as soon as rate design reforms are implemented, but will be accelerated by customer-side capital investments.
- Since the purpose of more granular rate designs is to lower system costs in the medium- and long-term, revenue neutrality is not the best assumption and a reasonable estimate of system cost savings should be incorporated along with capital investments by consumers.

- The study should not assume that separate import rates will or should apply to the mass market DER customers under Phase Two of VDER.

Principles and the Need to Reform Residential Fixed Charges

Acadia Center supports the reform of mass market rate design, as well as reform for mass market DER customers in Phase Two of the VDER process, if key principles and public policy goals are met. Current mass market rate design has many positive features, but is a blunt and inefficient instrument in many respects. Changes in electricity rate design can help address a number of different issues, but rate design reforms may be necessary to address two issues in particular: (1) inadequate incentives for customers to help manage the cost of infrastructure driven by local and regional peak electricity demand and (2) potential under-recovery of distribution system costs from customers with distributed generation who typically still use the grid for deliveries at many times during the month. Of course, concerns about cross-subsidies to DER customers must be examined by analysis that takes into account the full range of costs and benefits.

Traditional rate design principles are well recognized in the introduction of the Study Draft, but can be summarized as:

- Simplicity, understandability, and feasibility;
- Effectiveness at yielding revenue requirements, revenue stability, and rate stability;
- Fairness in apportionment of costs and avoidance of undue discrimination; and
- Efficiency in discouraging wasteful use.

However, these principles are fairly general and do not provide much concrete guidance for 21st century regulatory questions. To provide a more concrete path forward, Acadia Center has developed four principles for reform:

- Monthly customer charges should be no higher than the cost of keeping a customer connected to the grid and related customer service;
- Other components of electricity rates can be reformed to align customer incentives with cost drivers and the value customers can provide to the electric system;
- Ratepayers must be able to understand significant reforms and have a basis on which to respond and manage bills; and
- Self-generation consumed on-site should be treated the same as reductions in energy usage.

To date, reforms to rate design have followed these principles in many respects, but there is one notable area where New York has fallen short historically – residential customer charges. Acadia Center does commend the Commission for declining to approve increases to residential fixed charges in recent years and we strongly support the listing of reduced customer charges on page 9 of the Study Draft.

However, principles for rate design from the Track 2 Order follow an approach that leads to inordinately high customer charges, which is both inefficient economically and regressive. The correct principle, used by many states, is that customer charges should be limited to the incremental cost of connecting a customer to the grid, including simple metering, billing, service line, and certain elements of customer service. The broader approach used by the Department sweeps a number of other costs inappropriately into the definition, such as general plant, administrative

costs, and perhaps even other portions of the distribution system. The inclusion of these additional costs inflates customer charges. However, these costs can and should be shared fairly based on customer size. This is also the more efficient choice, given the potential for uneconomic bypass and the many externalities that are not monetized in electric rates.

Acadia Center, along with many other partners, believes strongly that reforming and lowering customer charges is a key next step in New York. Acadia Center has done an analysis¹ that demonstrates that New York's customer charges are higher than all of the neighboring states, and even Wisconsin, a state that has been widely criticized for approving large fixed charge increases since 2014. High customer charges in New York are not primarily driven by ConEd and any special circumstances in New York City. Indeed, ConEd's residential customer charge reduces the overall state average.

Attached to these comments is a new statement on Joint Principles on Residential Fixed Charges in New York from a diverse array of 43 organizations that support reforming and lowering residential customer charges. AARP has also filed comments in the National Grid rate case in support of reforming and lowering residential customer charges. These reforms should be pursued simultaneously in the current rate cases as well as the forward-looking elements of the VDER process. New York should continue to lead by reforming these practices that were put into place long ago under a different, non-REV model of the distribution grid. In addition, Acadia Center testimony from the National Grid rate case is also attached to these comments, addressing key economic and equity questions about the reform of residential customer charges.

Customer Response and Electric System Cost Reductions

The general discussion of the framework for considering bill impacts is well thought out, but a few key improvements would make it even better. It is appropriate to consider the "structural bill impacts" without changes in customer behavior or changes in system costs. However, the explicit purpose of rate design reform is to change customer behavior and lower system costs, so there are additional scenarios that should be placed on an even footing with the "structural bill impacts" calculation. This includes short-term customer responses with low levels of customer-side capital investment, as well as medium- and long-term customer response with increased customer-side capital investment and reductions in system costs.

Joint Consideration of Mass Market Customers and Mass Market DER Customers

It is reasonable to add the consideration of Phase Two net energy metering reform to the scope of the bill impacts analysis. However, the determination of Phase Two NEM reforms is not a separate step from the determination of general mass market rate design reform. These reforms should be considered simultaneously. By default, mass market DER customers should pay the same import rates as non-DER customers and DER customers should not be treated as a separate rate class for cost allocation purposes. This leaves open a wide range of reforms, but stays aligned with key rate design principles.

¹ <http://acadiacenter.org/document/residential-fixed-charges-in-new-york/>

Conclusion

Acadia Center appreciates the opportunity to comment on the Study Draft and looks forward to further collaboration on these issues.

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