Acadia Center appreciates this opportunity to submit written comments regarding the Department of Public Service Staff (Staff) Draft Whitepaper regarding VDER Compensation for Avoided Distribution Costs in Case 15-E-0751. Acadia Center is a nonprofit, research and advocacy organization committed to advancing the clean energy future. Acadia Center is at the forefront of efforts to build clean, low carbon and consumer friendly economies. Acadia Center’s approach is characterized by reliable information, comprehensive advocacy and problem solving through innovation and collaboration.

Introduction
On July 26, 2018, Staff issued a draft proposal addressing VDER compensation for avoided distribution costs concerning two elements of the value stack: Demand Reduction Value (DRV), which is based on the distribution costs offset by DER injections, and Locational System Relief Value (LSRV), which is available only in locations that a utility has identified as having needs that can be addressed by DERs and based on the higher distribution costs offset by injections in those locations. In the draft proposal, Staff describes one of the foundational theories of the Value Stack tariff: that when optimally designed and located, DER technologies allow utilities to avoid certain infrastructure and O&M costs and that it is appropriate to compensate these resources for this value. However, Staff states that current DRV and LSRV values may represent an attempt to achieve greater granularity and precision than is reasonable at this stage of the VDER process and that a desire to compensate for precise grid values must be balanced with the risk that a more detailed tariff may not fully incentivize developers and customers to make decisions based on maximizing grid value. Staff therefore recommends changes to current DRV and LSRV rules as explained below. The draft proposal also addresses extending the Phase One NEM tariff to small demand-metered commercial customers who want to offset their energy usage through DER.

Acadia Center generally supports Staff’s draft proposals, with the following additional suggestions and comments:

- Staff should consider wider adjustment bands in its proposed Alternative 1 DRV;
- With respect to DRV Alternative 2, Acadia Center is not aware of any materials specifying that 7 years is an important threshold for vintaging and would support a shorter initial fixed value length (e.g. 4 years) or other measures to provide a better correlation between compensation and value;
- If the LSRV is eliminated, Staff should undertake a process to determine the future of locational delivery crediting and pricing. Taking a step backwards on this front may be understandable given current practical concerns, but doing so raises concerns about how to create a path towards the transactive markets envisioned in earlier stages of Reforming the Energy Vision.
Modified DRV Calculation and Compensation

With respect to DRV, Staff proposes to replace the existing DRV with the system-wide marginal cost estimates used for each utility’s energy efficiency benefit calculations, and that this value be updated no more than every two years as opposed to the current annual update. Staff further proposes to allow projects to choose between two options for compensation. The first option (“Alternative 1”) would spread the $/kW-year amount on a $/kWh basis to the 460 peak summer hours (2-7 PM, June-August) rather than each year’s top ten load hours. In addition, Staff proposes to apply a maximum adjustment of 5% as an upper and lower bound in each two-year adjustment period as a way to address future revenue uncertainty. The second option (“Alternative 2”), which is primarily designed for dispatchable resources, would apply the $/kW-year amount over a limited number of peak hours. However, rather than determining these hours after the fact, utilities would establish a call signal similar to the existing Commercial System Relief Program (CSRP) program call signal, which provides a 21-hour notice before a forecasted event in which the system nears 90 percent of its rated capacity. Resources would be compensated for performance during these high demand events. This value would be established and fixed for 7 years at the time a project qualifies for Value Stack compensation based on the current value, which would require tracking and compensating projects based on vintage. At the end of the initial 7-year period, the value would be updated to the current value and would thereafter adjust every two years. Staff further recommends that projects that have previously qualified under the existing Value Stack tariff be permitted to opt into one of these two options.

With respect to Staff’s “Alternative 1” DRV proposal, Acadia Center agrees with Staff that, as currently designed, DRV is too unpredictable and uncertain to support many DER projects. In particular, tying compensation to performance during the previous year’s top ten load hours is difficult for PV generators given that that these hours and generators’ response during them can be unpredictable. The net result of this is that the value stream is often too speculative for developers to rely on when deciding whether to finance a project. Staff’s “Alternative 1” DRV proposal would largely address this by spreading this compensation over 460 peak summer hours, greatly increasing the likelihood that solar PV projects would capture most, if not all, of this value. Spreading this amount over these peak summer hours rather than the top 10 load hours also better reflects actual distribution system needs. In addition, by making the performance period the same across the state, it also eliminates the issue of different peak hours in different networks within the same utility territory.

Acadia Center believes that DRV, as well as other elements of the Value Stack, should strike a balance between accurate valuation and reasonably predictable price trajectories for developers and customers. As indicated in previous comments, Acadia Center strongly agrees that the current DRV is far too unpredictable and is otherwise suboptimally designed. As a result, Acadia Center strongly supports measures to improve the DRV along the lines discussed in the draft whitepaper.

While it is understandable that the current method of updating DRV every three years based on new marginal cost studies without any guarantee on the size of the change makes it difficult to estimate this value over the useful life of an asset, limiting the adjustment to 5% in either direction may be too restrictive. For example, it may be the case that current MCOS values are too low. Thus, limiting this increase to 5% in any two-year period would mean that these values would continue to be lower than they otherwise should in the near term. To ensure the proper balance between accuracy and predictability, Acadia Center believes that Staff should not limit adjustments to 5% in any two-year period and should consider wider adjustment bands.
With respect to Staff’s “Alternative 2” DRV proposal, Acadia Center supports a change that would determine peak load hours by requiring utilities to establish a call signal to provide advance notice before forecasted high demand events. Such advance notice would allow dispatchable DER, including solar plus storage, to take steps to ensure that they are able to perform during these events and is a significant improvement over determining these hours after the fact. However, Acadia Center is not aware of any materials specifying that 7 years is an important threshold for vintaging, and believes that establishing and fixing this value for an initial seven-year period at the time the project qualifies for Value Stack compensation may add unnecessary expenses and complications over time. Acadia Center would support a shorter initial fixed value length, such as four years, or other measures to more closely reflect the actual value of these projects over time.

Sunsetting of LSRV

With respect to LSRV, Staff proposes to phase it out. Existing qualified projects would continue to receive the LSRV credit for the 10-year term, but new projects would not be eligible for the credit going forward. As Staff notes in its proposal, although the LSRV is designed to provide short-term, above-average price signals to DER that relieve temporary congested networks, it has been difficult to design a stable tariff that ties compensation to locational-specific needs. Staff points out that other measures, such as the utility DSIP process, NWAs and demand response programs are currently more effective tools and that the two proposed DRV options will produce a stable tariff value that comprises the distribution values associated with DRV and LSRV.

Acadia Center understands that the practical concerns noted by Staff may justify the sunsetting of the LSRV. It is worth noting that this would establish a two-tiered distribution value system, consisting of the DRV generally applicable across a service territory and NWA procurements in specific locations of need. This is a step backwards in granularity from the three-tiered system that included the LSRV. This raises bigger questions about the future of granular pricing and crediting for delivery, which was originally a significant goal of the broader Reforming the Energy Vision proceeding. Acadia Centers believes that Staff should therefore undertake a process to determine the future of locational delivery crediting and pricing.

Extension of Phase One NEM to Small Commercial Customers

Finally, Staff proposes to make Phase One NEM available for small commercial customers that have a rated capacity of 750 kW AC or lower; are at the same location and behind the same meter as the electric customer whose usage they are designed to offset; and have an estimated annual output less than or equal to that customer’s historic annual usage in kWh. Like other Phase One NEM-eligible projects, it would apply to small commercial projects that qualify before January 1, 2020, for a 20-year term from each project’s in-service date.

As Staff describes in its proposal, the Value Stack is a new compensation model and that it is useful to consider opportunities under VDER for smaller demand-metered non-residential customers who wish to offset their own usage with onsite DER. Currently, these customers are prohibited from participating in Phase One NEM, which is limited to residential and small non-residential customers who are not demand metered.

Acadia Center supports extending Phase One NEM to these customers. Doing so would encourage greater

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1 The draft whitepaper is ambiguous about the specific proposal and whether it would be limited to 10 hours’ worth of calls, or otherwise limited to 10 hours in another manner. Acadia Center supports a minimum of 10 call hours, with some programmatic discretion to maximize the likelihood that the actual peak periods are covered.
participation and investment in DER statewide. In addition, these customers share many of the same usage characteristics as residential customers who are currently able to participate in Phase One NEM.

Respectfully submitted,

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