



December 11, 2017

**VIA ELECTRONIC FILING**

Hon. Kathleen H. Burgess  
Secretary to the Commission  
New York State Public Service Commission  
Empire State Plaza, Agency Building 3  
Albany, New York 12223-1350

Re: 15-E-0751, 16-M-0430, 14-M-0101, 17-01277 – In the Matter of the Value of Distributed Energy Resources Working Group Regarding Rate Design

Dear Secretary Burgess:

The Advanced Energy Economy Institute (AEEI), on behalf of Advanced Energy Economy (AEE), the Alliance for Clean Energy New York (ACE NY), the Northeast Clean Energy Council (NECEC), and their joint and respective member companies, submits for filing these Comments in response to the Staff's October 4, 2017, request for comment on their *Staff Scope of Study to Examine Bill Impacts of a Range of Mass Market Rate Reform Scenarios*.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Ryan Katofsky", with a stylized flourish at the end.

Ryan Katofsky  
Vice President, Industry Analysis

# **Comments on the *Staff Scope of Study to Examine Bill Impacts of a Range of Mass Market Rate Reform Scenarios***

## **(Cases 15-E-0751, 17-01277, 16-M-0430, 14-M-0101)**

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**Advanced Energy Economy Institute  
Alliance for Clean Energy New York  
Northeast Clean Energy Council**

### **Preface**

In order to respond to Staff’s October 3, 2017 request for comment on the *Staff Scope of Study to Examine Bill Impacts of a Range of Mass Market Rate Reform Scenarios* (“Scope of Study”), Advanced Energy Economy Institute (AEE Institute) is working with Advanced Energy Economy<sup>1</sup> (AEE) and two of its state/regional partners, the Alliance for Clean Energy New York (ACE NY) and the Northeast Clean Energy Council (NECEC), and their joint and respective member companies to craft the comments below. These organizations and companies are referred to collectively in these comments as the “advanced energy community,” “advanced energy companies,” “we,” or “our.”

### **Introduction**

We appreciate the efforts of Staff to develop an evaluation framework in advance of developing new mass-market rate designs. The Scope of Study will help inform the development of new rate design options and will guide the efforts of the Rate Design Working Group through providing, in advance, the methods by which the impacts of rates will be evaluated. However, we are also concerned that since the Scope of Study is being developed well before specific proposals for a VDER Phase Two Rate and opt-out mass-market rates are available, the Scope of Study should not place constraints on the design of these rates. Instead, we encourage Staff and the Commission to revisit the Scope of Study and contemplate

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<sup>1</sup> AEE is a national business association representing leaders in the advanced energy industry. AEE supports a broad portfolio of technologies, products, and services that enhance U.S. competitiveness and economic growth through an efficient, high-performing energy system that is clean, secure, and affordable. ACE NY’s mission is to promote the use of clean, renewable electricity technologies and energy efficiency in New York State, in order to increase energy diversity and security, boost economic development, improve public health, and reduce air pollution. NECEC is a regional non-profit organization representing clean energy companies and entrepreneurs throughout New England and the Northeast. Its mission is to accelerate the region’s clean energy economy to global leadership by building an active community of stakeholders and a world-class cluster of clean energy companies.

revisions based on the proposals for the VDER Phase Two and opt-out mass market rates once they are ready. Or in other words, the goals and design of new rate structures should take priority over a pre-existing Scope of Study and should primarily inform the Scope of Study rather than vice versa.

### **Responsibility for Performing Bill Impact Studies**

The Scope of Study alludes to, but does not directly state, that utilities are responsible for performing the bill impact studies. We ask for that to be clarified in the Scope of Study. Regardless of who performs the study, all assumptions and methodologies employed should be transparent and provided in detail. As decisions on how this Scope of Study is applied can substantively change the results, all bill impact studies should be subject to stakeholder review and comment before their conclusions are relied upon by the Commission.

### **Clearer Focus on Future Costs and Market and Policy Outcomes**

The potential of a rate design to reduce future wholesale and utility costs and promote REV-related policy outcomes should be a key focus of all bill impact studies. As such, the Scope of Study should include requirements to look at bill impacts over multiple years and not just the first-year impact. The most significant benefits of driving down peak demand will occur in future years as utilities adjust their capital budgets and wholesale markets adapt to reflect decreases in long-run costs. As the impact on future costs and REV-related policy outcomes are the reason new rate designs are being developed, the Scope of Study should provide more direction on how these specific impacts will be quantified in the bill impact studies.

### **Presumption of Revenue Neutral Rates**

We agree that rates should provide utilities with their full revenue requirements as approved by the Commission. Doing so is in the interest of both utilities and customers. However, as rates and customer behavior change, the allocation of the revenue requirement among customer classes or among customers within the same customer class but on different rates may change. Those customers that are contributing the most to lowering future costs and the revenue requirement should receive the most benefits from their actions.

While we fully agree that any new rate designs should treat all customers -- both participating “prosumers” and non-participating customers -- fairly, we do not believe that this necessarily requires a standard allocation of the revenue requirement among customer classes. Take for example a situation where a rate design has a strong signal to reduce demand at peak, and those customers who participate in this rate successfully drive down both bulk system and distribution level peaks. This would result in reductions in wholesale market capacity costs, utility investments in new distribution capacity, and potentially wholesale energy prices as well. Those cost reductions would not only benefit the prosumers

on the new rates that are driving the cost reductions, but also non-participating customers, who would see their bills decrease. In this scenario, it may make sense to provide a greater share of the benefits from the cost reductions to the prosumers rather than the non-participating customers as an incentive to continue reducing system costs and to reduce them even further. This does not treat the non-participating customers unfairly as they would still have lower bills, but the decreases in their bills would not be quite as large as if the rates had been designed with revenue allocated according to standard practice.

## Rate Design Principles

Below, we provide brief comments on two of the rate design principles that were listed on page 6 of the Scope of Study.

- Cost Causation: The Scope of Study states that “[f]ixed charges should only be used to recover costs that do not vary with demand or energy usage.” We recommend that any fixed charges should be applied more narrowly than described above. A reading of the above definition could lead to a fixed charge for embedded costs – the cost of investments based on past demand and energy usage – which do not vary based on *current* demand and energy usage. As such, it could be argued that embedded costs are fixed. Such a reading could lead to very large fixed charges that would limit the ability to send price signals to customers to engage in behaviors that are beneficial to the system and are supportive of REV-goals. Instead, fixed charges should be limited to a narrower definition of customer-specific costs that do not vary based on past or current energy and demand usage.
- Stability: The Scope of Study states that “[c]ustomer bills should be relatively stable even if underlying rates include dynamic and sophisticated price signals.” We recognize the importance of bill stability, particularly for customers who are on constrained budgets that do not allow for large changes in their energy bills. Nevertheless, we are also concerned that the principle of stability may run counter to sending effective price signals to customers. As energy and capacity prices rise seasonally and during specific hours of the day, limiting the impact of these prices can also limit beneficial changes in behavior. We recommend balancing the principle of stability against the other goals of these new rate designs. Options exist to help achieve this, such as carrying forward a large variance in one month’s bill and smoothing it across future billing cycles.

## Conclusion

We appreciate the opportunity to respond to Staff's Scope of Study and your consideration of our comments.