



April 20, 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: Case 14-M-0101 – In the Matter of Reforming the Energy Vision

Dear Secretary Burgess:

Advanced Energy Economy Institute (AEEI), on behalf of Advanced Energy Economy (AEE), Alliance for Clean Energy New York (ACE NY), Northeast Clean Energy Council (NECEC), and their joint and respective member companies, submits for the Commission's and Staff's consideration these informal comments on the utilities' Smart Home Rate demonstration proposals.

Advanced Energy Economy Institute, Alliance for Clean Energy New York, and the Northeast Clean Energy Council (collectively "we" and "our") strongly support the Commission's direction for utilities to develop Smart Home Rates that allow customers with the willingness and capability to respond to more accurate and granular price signals to benefit from their proactive behavior and DER deployment. Customers that participate will not only generate benefits for themselves, but will also provide grid and societal benefits to non-participants, and in the process, help New York achieve its energy policy goals.

As we have stated several times in the REV and Value of DER proceedings, we are a strong proponent of rates that more accurately price and compensate based on the customer's performance in providing benefits to the grid. We also support a gradual move to disaggregating the values and pricing them individually. This allows different technologies to compete on a level playing field as each provides a different mix of costs and benefits that would not be reflected in "averaged" rates. Accurate pricing of these values will drive technology to evolve to deliver greater value and will advance the forefront of what technology can provide to customers and society. Developing Smart Home Rates that allow interested customers to experiment with these more granular rate designs is an important step in this overall evolution of rates.

We in general support the direction of the utilities' Smart Home Rate proposals and recognize the work of the utilities in developing creative rate designs that attempt to accurately price the various costs and benefits to the grid of customer actions. We do not offer any endorsement or critique of a specific utility proposal, since as demonstration projects, the differences between the proposals should yield useful information on effectiveness and customer response that the Commission could use at a later date when considering broader rate reforms.

However, we do have one overarching concern regarding the proposals' treatment of embedded costs. Utilities should be able to fully recover their embedded costs, as they represent the utilities' past investment in infrastructure to serve customers. However, in recovering those imbedded costs, the utilities

have the opportunity to do it in such a way that reinforces beneficial price signals to customers. Instead, the embedded costs in some of these proposals are included as a fixed charge (or a variant, such as a subscription charge), which does not seem to meet the intent of a Smart Home Rate, and therefore fails to send the customer any price signals to engage in the sorts of beneficial actions and behaviors that are the end goal of these Smart Home Rates.

While the cost of past investments in transformers and feeder lines cannot be avoided, it does not therefore follow that the recovery of those costs should be in unchangeable, fixed portions of the bill. To continue to drive cost reductions from trimming peak demand, the embedded costs can be shaped to encourage peak shaving behavior. Those customers that reduce their peak could receive an additional benefit through a reduction in embedded cost related charges, while those customers that do not reduce peak demand could pay a higher contribution.

This can be justified when considering the benefits that the customers who reduce peak demand provide to non-participant customers. Customers that reduce energy consumption when energy prices are high and when there is a potential to drive up costly new capacity additions create benefits beyond their own bills savings. Since energy is valued at the marginal unit, as those marginal units decrease in cost as customers reduce peak consumption, all customers, including those that do not reduce their peak, benefit from a reduction in the market clearing price of energy. Likewise, if new demand peaks are avoided, all customers benefit from cheaper NYISO capacity prices and avoided distribution upgrades. If not for the participating customers' actions to reduce peak demand, these savings to non-participant customers would never occur. Therefore, it makes sense to reallocate some of the savings that would otherwise go to non-participant customers toward those customers that are driving the savings through proactive behavior and investment. Without this reallocation, the price signals may not be high enough to induce proactive customers to produce the savings in the first place.

Because embedded costs represent one of the largest components of the customer bill, we are concerned that the Smart Home Rate designs will not be effective if embedded costs are recovered as a large fixed charge. In addition to increasing payback periods for DER and removing the incentive for beneficial customer behavior, large fixed charges encourage customers to bypass the charge through the behavior that is the least beneficial to the system: disconnection. While the prospect of voluntary disconnection is low today, the ever-decreasing costs of DER and increasing electric bills bring us closer to this possibility. We strongly believe that this sort of behavior should not be incentivized.

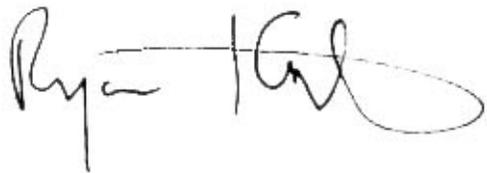
Two potential alternatives to recovering embedded costs other than through high fixed charges are coincident-peak demand charges and load-weighted volumetric rates.<sup>1</sup> Coincident-peak demand charges precisely target peak capacity costs and send a strong signal for customers to reduce peak demand. However, they can be difficult for customers to understand and can be difficult to respond to if the peak hour on the system is only known after the fact, as evidenced by the NYISO's system for setting the ICAP Tag. Alternatively, load-weighted volumetric charges, which could be established by plotting  $\text{¢/kWh}$  prices along a load duration curve, would be easier for customers to respond to but would send a weaker signal for peak demand reduction. In either case, revenue certainty for the utility could be ensured by periodically adjusting per unit prices (either per kW for the coincident-peak demand charge or per kWh for a load-weighted volumetric charge) to ensure that the utility always meets its revenue requirement. New York's Rate Decoupling Mechanism already does this for existing rates.

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<sup>1</sup> Other alternatives for recovering embedded can be found in our reply comments on the initial Value of DER proposals, filed on June 10 in proceeding 15-E-0751.

We strongly support the development of Smart Home Rates, and we encourage Staff to work with the utilities in their review of the Smart Home Rate proposals to find a reasonable mechanism for recovering embedded costs that supports the overall goals of the demonstration projects.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Ryan Katofsky". The signature is fluid and cursive, with a long horizontal stroke extending from the middle of the name.

Ryan Katofsky  
Vice President, Industry Analysis