

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
Albany on September 14, 2017

COMMISSIONERS PRESENT:

John B. Rhodes, Chair
Gregg C. Sayre
Diane X. Burman
James S. Alesi

CASE 15-E-0751 - In the Matter of the Value of Distributed
Energy Resources.

ORDER APPROVING MINOR TRANCHE ADJUSTMENTS

(Issued and Effective September 18, 2017)

BY THE COMMISSION:

INTRODUCTION

On March 9, 2017, the Commission issued the VDER Phase One Order, which included specific megawatt (MW) capacity allocations for three tranches in each utility territory.¹ Community Distributed Generation (CDG) projects interconnected after the issuance of the VDER Phase One Order are assigned to the first open tranche in the territory where they are interconnected; that assignment then determines their eligibility for Phase One Net Energy Metering (NEM) or a particular Market Transition Credit (MTC).

On June 8, 2017, New York State Electric & Gas Corporation (NYSEG or the Company) filed a Petition for Approval

¹ Case 15-E-0751, et al., Value of Distributed Energy Resources, Order on Net Energy Metering Transition, Phase One of Value of Distributed Energy Resources, and Related Matters (issued March 9, 2017) (VDER Phase One Order).

to Allow Minor Tranche Adjustments (the Petition), seeking approval to adjust the Tranche 0/1 MW limit up to 62 MWs, and to adjust the Tranche 3 MW limit downward to 77 MW in its service territory. NYSEG's Petition explains that it initially made an error in allocating Tranche positions by inadvertently omitting three individual projects from a single developer. These projects are rated at 2 MWs each, for a total of 6 MWs that the Company did not include in its original tranche assignments. NYSEG requests that the Commission permit it to expand Tranche 0/1 and reduce Tranche 3 by an equivalent amount, so that those three projects, as well as all projects initially assigned, can be included in Tranche 0/1 to address that error.

In this Order, the Commission finds that NYSEG's proposed resolution appropriately maintains a net annual revenue impact on non-participating customers of under two percent, while also avoiding imposing a negative impact on developers based on NYSEG's error. The Commission therefore grants NYSEG's Petition and adjusts the Tranche allocations as requested.

LEGAL AUTHORITY

As described in the VDER Phase One Order, the Commission has the authority to direct the treatment of Distributed Energy Resources (DER) by electric corporations pursuant to, inter alia, Public Service Law (PSL) Sections 5(2), 66(1), 66(2), and 66(3). Pursuant to the PSL, the Commission determines what treatment will result in the provision of safe and adequate service at just and reasonable rates, consistent with the public interest and the efficiency of the electric system.

BACKGROUND AND SUMMARY OF PETITION

As noted in the Reforming the Energy Vision (REV) Track Two Order,² Case 15-E-0751 was established to provide a process for determining the value of DER, for both planning and transactional purposes. After an extensive stakeholder outreach process, the VDER Phase One Order was approved. The VDER Phase One Order established a framework for the transition in compensation methodologies from net metering to a more granular appraisal of the value of DER in order to capture the temporal and locational values created by these resources.

To create a gradual transition from NEM to more value-based compensation, CDG projects are either eligible for Phase One NEM compensation or, if compensated under the Value Stack tariff, are eligible for an MTC for their residential and small commercial members, based on the difference between the "Base Retail Rate" and "Estimated Value Stack."³ The compensation methodology and amounts applicable to a project are based on its assignment to one of three tranches, which include MW capacity allocations in each utility territory. Tranche 0 constitutes the capacity allocation available in Phase One NEM for CDG projects. Any capacity remaining in Tranche 0 after the 90 business day deadline for determining eligibility for Phase One NEM is allocated to Tranche 1.

Projects in Tranche 1 receive Value Stack compensation with a per kWh MTC derived by subtracting the Estimated Value Stack from the Base Retail Rate such that compensation in Tranche 1 is approximately equal to compensation under Phase One NEM. Once the Tranche 1 allocation has been reached, projects

² Case 14-M-0101, Reforming the Energy Vision, Order Adopting a Ratemaking and Utility Revenue Model Policy Framework (issued May 19, 2016) (REV Track Two Order), p. 19.

³ VDER Phase One Order, p. 16.

are placed in Tranche 2 and receive Value Stack compensation with a reduced MTC. The per kWh MTC for projects in Tranche 2 are derived by subtracting the Estimated Value Stack from a number equal to 95% of the Base Retail Rate. Finally, when the Tranche 2 allocation has been exhausted, projects are placed in Tranche 3, which receive Value Stack compensation with a further reduced MTC. The Tranche 3 per kWh MTC is derived by subtracting the Estimated Value Stack from a number equal to 90% of the Base Retail Rate.

A total amount of capacity was allocated to the Tranches in each utility based on a mechanism designed to ensure a combined incremental net annual revenue impact in each utility service territory of approximately 2% or less from the Tranches plus a separate allocation for mass market on-site projects. The total capacity allocated to CDG projects built during Phase One NEM was divided among these Tranches as follows: For utilities with a total capacity allocation for CDG projects greater than 100 MWs, 25% of that allocation was placed in Tranche 0. For utilities with a total capacity allocation for CDG projects less than 100 MWs, 50% of the total incremental MWs were placed in Tranche 0. The portion of the Tranche 0 capacity allocation that was not exhausted during the 90 business day period for determining eligibility for Phase One NEM, if any, was assigned to Tranche 1. The remaining capacity allocation was allocated approximately evenly to Tranche 2 and Tranche 3, rounded to whole MW numbers.

In NYSEG's territory, 56 MWs were assigned to Tranche 0/1, 84 MWs were assigned to Tranche 2, and 83 MWs were assigned to Tranche 3. This total tranche allocation, combined with the allocation for mass market on-site projects, was expected to cause an incremental net annual revenue impact of 1.38% if fully subscribed.

According to the Petition, following issuance of the VDER Phase One Order, the Company determined the tranche assignments for Tranches 0/1, 2, and 3, for projects in its service area pursuant to the criteria established in the VDER Phase One Order, and thereafter advised developers of their tranche assignments. The Company explains in the Petition that it subsequently discovered that it had inadvertently omitted three individual projects of a single developer, which should have been assigned to Tranche 0/1 based on the criteria established in VDER Phase One Order. These projects are rated at 2 MWs each, for a total of 6 MWs that the Company did not include in its original tranche assignments.

In its Petition, NYSEG explains that if it were to simply add those projects back to the allocation calculations, 6 MWs associated with other projects would be bumped from Tranche 0/1 to Tranche 2. However, the developers of those projects may have made planning decisions based on the tranche information initially reported to them by NYSEG. Requiring the impacted developers to now move to Tranche 2 to accommodate the additional 6 MWs, the Company maintains, could unreasonably impact these planning decisions. Therefore, to avoid prejudicing those developers while also assigning the three omitted projects to Tranche 0/1, consistent with the VDER Phase One Order, NYSEG requests that the Commission permit it to expand Tranche 0/1 and reduce Tranche 3 by an equivalent amount.

NOTICE OF PROPOSED RULEMAKING

Pursuant to the State Administrative Procedure Act (SAPA) §202(1), a Notice of Proposed Rulemaking was published in the State Register on July 26, 2017 [SAPA No. 15-E-0751SP7]. The time for submission of comments pursuant to the Notice expired on September 11, 2017. No comments were received.

DISCUSSION AND CONCLUSION

A determination on this matter requires consideration of what outcome would be equitable for the impacted developers and for non-participating ratepayers. Because the developer of the three projects that were initially, and erroneously, excluded from consideration met all the criteria for placement in Tranche 0/1, any resolution that did not place those three projects in Tranche 0/1 would unreasonably harm that developer based on the Company's error. However, as NYSEG notes, placing those projects in Tranche 0/1 without expanding the size of Tranche 0/1 would require bumping three or more other projects to Tranche 2. The developers of those projects were informed in March 2017 that their projects were included in Tranche 0/1 and likely made decisions and investments based on that representation. To bump them to Tranche 2 at this point would frustrate those good-faith actions.

Moving 6 MWs from Tranche 3 to Tranche 0/1, as NYSEG suggests, would allow both sets of developers to remain in Tranche 0/1. However, it would increase the incremental net annual revenue impact of the Tranches and therefore impact non-participating customers. Table 5 of the VDER Phase One Order calculates the combined incremental net annual revenue impact of the tranches as authorized in that Order and the mass market on-site project capacity allocation, if fully subscribed, to be 1.38%. Moving 6 MWs from Tranche 3 to Tranche 0/1 would increase that impact to 1.42%, if fully subscribed. This increase of .04% is relatively minimal and retains an incremental net annual revenue impact well below the targeted maximum of 2%.

NYSEG's proposed resolution appropriately maintains a net annual revenue impact on non-participating customers of under the 2% target, while also avoiding imposing a negative

impact on developers based on NYSEG's error. Moreover, the total incremental CDG MWs available through the tranches is unchanged. The developers whose projects were originally assigned to Tranche 0/1 will not be adversely impacted. At the same time, all projects that are properly included in Tranche 0/1 will be placed in the correct Tranche pursuant to the terms of the VDER Phase One Order. The Petition ensures that impacted developers and non-participating ratepayers are treated equitably, and is therefore approved.

The Commission orders:

1. New York State Electric & Gas Corporation (NYSEG) shall modify the sizes of Tranche 0/1 and Tranche 3 in its service territory, as established in the March 9, 2017 Order On Net Energy Metering Transition, Phase One of Value of Distributed Energy Resources, and Related Matters in Case 15-E-0751, to 62 MW and 77 MW, respectively, as discussed in the body of this order.

2. This proceeding shall be continued.

By the Commission,

(SIGNED)

KATHLEEN H. BURGESS
Secretary