Central Hudson Gas & Electric Corporation (“Central Hudson”), Consolidated Edison Company of New York, Inc. (“Con Edison”), New York State Electric & Gas Corporation (“NYSEG”), Niagara Mohawk Power Corporation d/b/a National Grid (“National Grid”), Orange and Rockland Utilities, Inc. (“Orange and Rockland” or “O&R”), and Rochester Gas and Electric Corporation (“RG&E”) (collectively, the “Joint Utilities”) submit these comments on the

Staff Whitepaper on Future Community Distributed Generation Compensation ("Whitepaper").

Integral to its effort to transition from net energy metering (“NEM”) to market signals that reflect the actual system benefits of distributed energy resources (“DER”), the Public Service

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Cases 15-E-0751 et al., In the Matter of the Value of Distributed Energy Resources ("VDER Proceeding"), Staff Whitepaper on Future Community Distributed Generation Compensation (filed July 26, 2018)(“Whitepaper”). Publication of notice seeking comments on the Whitepaper by October 22, 2018, in the New York State Register, I.D. PSC-34-18-00011-P, p. 21, superseded the requested comment date of October 15, 2018 within Staff’s filing letter for the Whitepaper.
Commission ("Commission") established a system of tranches in the VDER Proceeding. In this system the Market Transition Charge ("MTC") scales down in each tranche, allowing the subsidy funded by the utility’s other customers to decline until it is no longer needed. The tranches for some of the utilities have rapidly filled while for other utilities this is less so. To address the current state of the tranches, the Whitepaper recommends a combination of extending and increasing the MTC for utilities with available tranche space and ending tranches for utilities with filled tranches but substituting, with no end date or limit, a proxy MTC to be paid for by all utility customers from uncommitted New York State Energy Research and Development Authority ("NYSERDA") funds.

The Joint Utilities have steadfastly supported the State’s clean energy goals, but they find it particularly concerning that the Whitepaper lacks substantiation for its recommendations and urge the Commission to (1) reject expansion of customer-funded subsidies to the solar industry in the absence of a demonstrable need; and (2) confirm the principle that the MTC and its proxies should only decline in value and ultimately phase out in recognition that the defined components of the Value Stack should be the only customer-funded support for solar development.

I. Background

A brief NEM review is merited. Following the 2005 legislative establishment of NEM with an initial cap of one percent of each utility’s 2005 peak load, the Commission raised the cap

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to three percent in June 2013.\textsuperscript{3} To again address that some utilities were reaching their cap, in December 2014 the Commission raised the cap to six percent.\textsuperscript{4} Within six months, in July 2015, Orange and Rockland reached its six percent cap and notified the Commission.\textsuperscript{5} In addressing that notification, in October 2015, the Commission ordered that the NEM cap be “floated” on an interim basis and directed notice for a new regulatory process to value and design alternative compensation structures for DER.\textsuperscript{6}

Two months later, in December 2015, the VDER Proceeding began with a notice seeking comments on an “interim successor to net energy meeting.”\textsuperscript{7} After public process, the Commission in its VDER Phase One Order\textsuperscript{8} started the transition from NEM to compensation mechanisms that “accurately reflect and properly reward DER’s actual value to the electric system and that ensure all customers pay their fair share of the cost of grid operation.”\textsuperscript{9} The

\begin{itemize}
\item\textsuperscript{3} Cases 12-E-0485 \textit{et al.}, \textit{In the Matter of Net Metering Limitations in Consolidated Edison Company of New York Inc.'s Service Territory Pursuant to Public Service Law §66-j and §66-l}, Order Raising Net Metering Limits (issued June 13, 2013).
\item\textsuperscript{7} VDER Proceeding, Notice Soliciting Comments and Proposals on an Interim Successor to Net Energy Metering and of a Preliminary Conference (issued December 23, 2015).
\item\textsuperscript{8} VDER Proceeding, VDER Phase One Order.
\item\textsuperscript{9} Id., p. 3.
Commission also emphasized the need to limit customer bill impacts and acknowledged that the MTC would extend those bill impacts during the transition. In an effort to balance market development with customer bill impacts, the Commission set discrete megawatts (“MW”) tranches for CDG projects eligible for a declining MTC in each tranche, which were specifically designed for each utility’s service territory. The goal of the tranche system was to limit bill increases to no more than two percent, the level that the Commission found “reasonably balances the potential rate impacts with the need to provide market opportunity.”

After issuance of the VDER Phase One Order, by June 1, 2017, Orange and Rockland notified the Commission that it had fully allocated its capacity in all of its tranches. That indicated a robust and profitable market for developers in the O&R service area even at the lowest MTC in the last tranche. Department of Public Service Staff (“Staff”) issued a whitepaper that concluded that the total compensation for the last Orange and Rockland tranche was “significantly above the compensation required to attract investment.” Staff further found that “[c]ontinuing compensation at that level, without a MW cap, could result in significant and unnecessarily high impacts on non-participating ratepayers.” The Joint Utilities agreed and urged the Commission to quickly close Tranche 3.

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10 Id., p. 35.  
11 Id.  
12 VDER Proceeding, Orange and Rockland Compliance Filing Letter (filed June 1, 2017).  
13 VDER Proceeding, Staff Whitepaper on Community Distributed Generation Compensation after Tranche 3 (filed August 29, 2017) (“Staff Tranche 3 Whitepaper”), p. 4.  
14 Id.  
15 VDER Proceeding, Comments of the Joint Utilities to Staff Whitepaper on Community Distributed Generation Compensation after Tranche 3 (filed October 30, 2017), p. 3.
When the Commission addressed this capacity exceedance issue in its *Order Regarding Compensation of Community Distributed Generation Projects*, Orange and Rockland’s third tranche already contained at least 28 MW more than its original MW cap and Central Hudson’s third tranche exceeded its original 19 MW cap by 10.7 MW. The Commission responded by establishing a new fourth tranche with different utility-specific caps, and administratively set a further declining MTC for the new fourth tranche. Looking beyond Tranche 4, the Commission expressed concern about the 25-year impact of the MTC on non-participating customers of Orange and Rockland and other utilities and ruled that “once the capacity limit is reached in Tranche 4 in a utility territory, no further projects will be enrolled in Tranche 4 in that utility territory.” Finally, the Commission directed Staff “to work with stakeholders, as well as NYSERDA, to develop and present recommendations for addressing the issue of compensation for projects once Tranche 4 is full.” Five months later, Orange and Rockland had filled its Tranche 4. Central Hudson’s Tranche 4 is also now filled.

The Whitepaper that is the subject of these comments recommends modifications of the MTC for existing tranches with available capacity and extending a new proxy MTC for Orange and Rockland and Central Hudson. The Whitepaper urges models for future CDG compensation.

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16 VDER Proceeding, Order Regarding Compensation of Community Distributed Generation Projects (issued January 18, 2018) (“CDG Compensation Order”).
17 *Id.*, p. 3.
18 The Commission expressed particular concern about the pending decision to expand DER eligibility to projects up to 5 MW as a factor in its decision to cap Tranche 4. See VDER Proceeding, CDG Compensation Order, p. 15. Subsequently, the Commission expanded the size of eligible projects from 2 MW to 5 MW. VDER Proceeding, Order on Phase One Value of Distributed Energy Resources Project Size Cap and Related Matters (issued February 22, 2018).
19 VDER Proceeding, CDG Compensation Order, pp. 11-15.
20 *Id.*, p. 15.
21 *Id.*, pp. 15-16.
23 VDER Proceeding, Whitepaper, p. 5.
that differ by utility and by amount of CDG participating within each utility’s tranches and proposes:

1. For NYSEG, RG&E, and National Grid, allocate remaining capacity within each territory and division between two new tranches (Tranches 5 and 6) with increased MTC values to encourage participation;

2. For Con Edison, significantly increase MTC values of all three existing tranches (Tranches 1, 2, and 3); and

3. For Orange and Rockland and Central Hudson, create no further tranches or MTC, but instead pay new CDG projects an “additional up-front incentive”24 funded by uncommitted NYSERDA funds paid by customers of all the utilities.25

II. Discussion

The Commission has determined that continuing NEM is inconsistent with Reforming the Energy Vision (“REV”), Commission policy, and the public interest,26 and established the MTC as a core component to transition from NEM to Value Stack compensation for CDG resources.27 Central to REV and the Commission’s policies are clean energy and cost-effectiveness.28 Since

24 Id., p. 6.
25 Id., p. 9.
26 VDER Proceeding, VDER Phase One Order, p. 23.
27 The Commission established CDG before initiating the VDER Proceeding. See Community NEM Proceeding, CDG Order, supra, note 5.
initiating REV, the Commission has launched a series of complementary proceedings focused on these goals, including the *Comprehensive Energy Efficiency Proceeding* and the *Electric Vehicle Supply Equipment Proceeding*. These efforts are aimed at honing in on programs that will cost-effectively help the State meet its clean energy goals while mitigating cost to customers.

As the Commission stated, the declining MTC is intended to limit the adverse financial impact to non-participating customers during the transition to VDER compensation. The decline in the MTC value from one tranche to the next reflects the expected diminished need for additional support due to declining costs as the market develops. Moreover, as the Commission has recognized, a declining MTC sends a clear signal that the incentives will end and align with the Commission’s goal to have these technologies rely on market-based compensation. As to the MTC itself, the Commission described it as “limited in availability, both by eligibility rules and by MW allocations to Tranches, to balance the interest of CDG subscribers and non-participating ratepayers.”

The robust interconnection queue of distributed generation projects that continues to grow in various regions in New York State, as shown in the chart below, suggests that the

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29 REV Proceeding, Initiation Order.
32 VDER Proceeding, VDER Phase One Order, p. 35.
existing Value Stack compensation methodology with its declining MTC has been more than sufficient to make new project development attractive (i.e., profitable).

<table>
<thead>
<tr>
<th>Utility</th>
<th>2018 CDG Interconnection Queue Additions (to 10/15/2018)</th>
<th>Total Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHG&amp;E</td>
<td>24 projects</td>
<td>66 MW</td>
</tr>
<tr>
<td>CECONY</td>
<td>53 projects</td>
<td>41 MW</td>
</tr>
<tr>
<td>National Grid</td>
<td>157 projects</td>
<td>621 MW</td>
</tr>
<tr>
<td>NYSEG</td>
<td>55 projects</td>
<td>156 MW</td>
</tr>
<tr>
<td>RG&amp;E</td>
<td>20 projects</td>
<td>64 MW</td>
</tr>
<tr>
<td>ORU</td>
<td>28 projects</td>
<td>105 MW</td>
</tr>
</tbody>
</table>

Developers must see an opportunity to develop profitable projects without increased compensation from an elevated MTC. Further, the Commission’s recent approval of interzonal crediting for projects subject to Value Stack compensation will soon go into effect.\(^35\) This policy change, coupled with the Commission’s decision increasing the allowable size of CDG projects from 2 MW to 5 MW\(^36\) is likely to increase CDG development statewide by both reducing CDG customer acquisition costs and enabling development of more cost-effective projects. These changes justify lower, not higher, subsidies.\(^37\)

Even with a declining MTC, the Joint Utilities’ customers provide solar projects with levels of compensation over and above the value of the solar projects’ injections to the electric

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\(^{35}\) VDER Proceeding, Order on Value Stack Eligibility Expansion and Other Matters (issued September 12, 2018).


\(^{37}\) In addition to interconnections to the utilities’ distributions systems, the current New York Independent System Operator’s queue includes 2,104 MW of projects with a 2018 vintage out of 3,749 MW of projects with one project dating back to 2014. http://www.nyiso.com/public/markets_operations/services/planning/planning_resources/index.jsp
grid. In addition to the MTC, the current environmental value of $27/MWh is $10 over the latest NYSERDA Tier 1 sale price\(^{38}\) and represents a continuing subsidy for solar resources. Yet the Whitepaper proposes significantly increasing the above-market compensation for utility customers where development has been comparatively slower. Additionally, while the Whitepaper reflects some calculation of MTC subsidy amounts, the basis for broad assertions regarding what encourages or does not encourage solar project development is, at best, unclear.\(^{39}\)

The Whitepaper’s recommendations appear to be predicated on the need to continue to subsidize the solar industry to meet New York State’s policy goals even though installed costs for commercial and utility-scale projects have declined by 10 and 16 percent respectively in the two years since the MTC was established.\(^{40}\)

More specifically as to Con Edison, there is no basis for the Whitepaper’s proposal to “significantly” increase the Con Edison MTC by 4 cents/kWh. Due to the lack of suitable space for solar installations, the proposed increased MTC in Con Edison’s service territory is more likely to increase the subsidies paid to solar developers than to increase the amount of solar generation. Moreover, Con Edison currently has 35 CDG projects representing 39 MW in the queue that have not yet signed an interconnection agreement and could receive a significant

\(^{38}\) See [https://www.nyserda.ny.gov/All-Programs/Programs/Clean-Energy-Stanard/REC-and-ZEC-Purchasers/2018-Compliance](https://www.nyserda.ny.gov/All-Programs/Programs/Clean-Energy-Stanard/REC-and-ZEC-Purchasers/2018-Compliance)

\(^{39}\) The Whitepaper observes that “[i]n order to spur CDG development at Con Edison, increased compensation is necessary.” VDER Proceeding, Whitepaper, p. 8. The Whitepaper also states that “[e]liminating the MTC without providing any replacement, however, would likely result in complete elimination of viable economic opportunities for further development of CDG in O&R’s and Central Hudson’s service territories, at least in the short term.” Id., p. 9.

windfall from the Whitepaper’s proposals. Similarly, the proposal would pay CDG significantly more than mass market projects\textsuperscript{41} which are also active in the Con Edicon territory.\textsuperscript{42}

Finally, the unspent, uncommitted NYSERDA funds proposed for use as a proxy MTC should instead support the most cost-effective and beneficial approaches to achieving the Commission’s clean energy policies. This is particularly true when doing so may not be needed for CDG to thrive in the O&R and Central Hudson service areas.

GHG emissions goals cannot be cost-effectively met primarily through increases in distributed solar subsidies. As noted above, other programs such as energy efficiency as well as the procurement of large-scale renewables inclusive of offshore wind are, in most cases, more cost-effective.\textsuperscript{43} Furthermore, exclusively targeting GHG reductions in the energy sector will both overlook and likely undermine emerging opportunities in the transportation, space heating, and other industry sectors that must also make meaningful contributions to emissions reductions to meet the State’s ambitious 40 percent reduction in GHG emissions goal by 2030.\textsuperscript{44}

Indeed, efforts to support the solar industry, if not done cost-effectively, will divert customer funds from more productive applications. For example, the Whitepaper’s proposal to implement higher MTCs will increase electricity prices, potentially harming the business case for

\textsuperscript{41} The proposed 40 percent increase would establish an MTC that is 23 percent higher than the Con Edison SC1 delivery rate of 11.8 cents/kWh.

\textsuperscript{42} Con Edison’s Phase 1 NEM has 44 MW of installed mass market projects and another 23 MW in the queue.

\textsuperscript{43} \textit{E.g.}, a recent Massachusetts contract award prices offshore wind below $70/MWh, roughly one-quarter as much as the Value Stack compensation for CDG projects in Con Edison’s service territory with the MTC increase proposed in the Whitepaper.

\textsuperscript{44} This 40 percent reduction in GHG emissions from 1990 levels targets the energy sector (\textit{i.e.}, power generation, industry, buildings, and transportation). The State has established a longer-term goal of decreasing total carbon emissions 80 percent by 2050.
beneficial electrification. The result is a concentration of financial support in programs that will be less effective at meeting New York’s emissions goals, in contrast to the Commission’s directive that “all of the State’s clean energy efforts need to become more efficient and strategic so that each dollar of clean energy spending achieves greater savings.” Extension of the MTC also places a strain on customer electricity bills overall, creating tension with another key REV objective: providing customers with tools and opportunities to lower their bills.

The Whitepaper’s proposed approach for the MTC extension will translate into higher costs to non-participating customers. Raising the MTC without a thorough analysis that demonstrates such an approach is necessary to sustain the market for CDG projects creates additional impacts to customers that may not be appropriate nor consistent with the two percent bill impact cap adopted by the Commission. More importantly, Central Hudson and Orange and Rockland customers are already facing revenue impacts significantly higher than the Commission’s two percent target due to the previously ordered adjustments to the MTC, the E-Value exceeding the market value of renewable energy credits (“RECs”), the increased MW within Tranche 3, and the impact of the new Tranche 4.

Furthermore, the Whitepaper’s suggestion to prevent existing projects in the interconnection queue from pulling out and then being re-registered under higher MTC rates is not practical as developers are likely to find new ways to be eligible for the higher MTC.

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45 Cases 14-M-0094 et al., Proceeding on Motion of the Commission to Consider a Clean Energy Fund, Order Authorizing the Clean Energy Fund Framework (issued January 21, 2016), p. 3.
46 REV Proceeding, Order Initiating Proceeding, p. 2. The first enumerated policy goal is the development of “[e]nhanced Customer knowledge and tools that will support effective management of their total energy bill” (i.e., to lower and manage total costs).
III. Conclusion

For the reasons set forth above, the Joint Utilities urge the Commission to reject changes in the MTC and tranche system in the absence of supporting analysis and re-affirm a declining MTC with a termination point. Such an approach is intended to strengthen the opportunity to achieve progress toward New York policy objectives related to both GHG emissions and customer bill impacts.

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Respectfully submitted,

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