



October 15, 2018

Via Electronic Filing

TO:

Honorable Kathleen H. Burgess, Secretary to the Commission
New York State Public Service Commission
Empire State Plaza, Agency Building 3
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Email: secretary@dps.ny.gov

FROM:

Brandon Smithwood
Policy Director
Coalition for Community Solar Access (CCSA)
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RE:

- CASE 15-E-0751 - In the Matter of the Value of Distributed Energy Resources
- CASE 15-E-0082 - Proceeding on Motion of the Commission as to the Policies, Requirements and Conditions For Implementing a Community Net Metering Program.
- MATTER 17-01276 - In the Matter of the Value of Distributed Energy Resources Working Group Regarding Value Stack

Dear Secretary Burgess,

Please find the joint comments of the Alliance for Clean Energy New York, Coalition for Community Solar Access, the Natural Resources Defense Council, the New York Solar Energy Industries Association, the Pace Energy and Climate Energy Center, the Solar Energy Industries Association, and Vote Solar (referred to herein as the Clean Energy Parties, “CEP”) regarding the *Staff Whitepaper on Future Community Distributed Generation Compensation* released July 26, 2018.

/s/ Brandon Smithwood

Brandon Smithwood
Policy Director
Coalition for Community Solar Access (CCSA)

The Adjustments to Market Transition Credits and Payments Contained in the Staff Proposal Are Reasonable and Should be Adopted with a Couple Modest Improvements As Soon As Possible Given the Importance of Community Solar to New Yorkers and the State's Future

The Market Transition Credit (“MTC”) acts as a placeholder for sources of value that are being defined and refined in the development of a Phase 2 Value of Distributed Energy Resources (“VDER”) tariff. The stop-gap modifications to the MTCs for the Phase 1 tariff suggested in the *Staff Whitepaper on Future Community Distributed Generation Compensation* released July 26, 2018 (“Whitepaper”) make progress toward that end. The modifications to the MTC proposed in the Whitepaper do not necessarily reflect the full value of projects likely to be interconnected under these revised MTCs, may not be sufficient to drive development in all areas of the state, and do not, on their own, enable the volume of deployment needed for community solar and other large distributed solar to play its important role in meeting New York’s decarbonization goals. However, developer experience suggests these adjusted MTC levels, in concert with incremental improvements to Demand Reduction Value (“DRV”), would serve the practical need of ensuring minimal market continuity until a Phase 2 VDER tariff is developed that better reflects that full value. For this reason and the minimal cost impact of the proposals, we are supportive of Staff’s proposals for modified MTC values and adjusted tranches in National Grid, Rochester Gas & Electric, New York State Electric & Gas, and Con Edison, along with the creation of a one-time payment in lieu of MTC in Central Hudson Gas & Electric (“CHGE”) and Orange & Rockland (“ORU”) territories.

Given the current state of the market, we urge the Commission to adopt these proposed changes to community solar (“CDG”) compensation as soon as practicable. Developers across New York are deciding whether to make upcoming interconnection payments and commit to building projects whose economics are determined, in part, by anticipated MTC compensation. Ordering the Whitepaper’s proposed adjustments to MTC value and tranche capacity and the new payment mechanism in CHGE and ORU territories would help ensure the near-term viability of some of those CDG projects. Following an initial burst of tranche reservations once the VDER tariff was finalized in fall 2017 (after projects had been on hold since 2015 awaiting regulatory certainty regarding compensation), new CDG development has now been largely on hold again for months, as evidenced by the pace of VDER tranche reservations and confirmed by anecdotal developer experience. Some companies continue to pursue early stage development but are not able to make the investments to move further through the permitting and interconnection process without more certainty regarding VDER tariff improvements. Without the proposed MTC increases, new CDG development will remain stagnant in most if not all utility territories, representing a lost opportunity to make CDG available to hundreds of thousands of New Yorkers across the state.

We recommend three modest changes to the proposal. First, we recommend that the MTC be available to all customers in utility territories where tranche space is available. Second, we request clarifications of the net-present-value calculation. Third, we recommend the use of the full MTC value for the one-time payment in CHGE and ORU territories.

Finally, we encourage continued focus and support on soft cost reduction given its connection to the proposal, and also that work on the creation of a rational, sustainable, and accurate Phase 2 VDER tariff continue urgently, as it is the most stable, appropriate long-term solution.

As to the effective date of these proposed changes, the CEP agree that projects that have already received a tranche reservation prior to the date of the Whitepaper should not be entitled to any change in their compensation. However, projects have faced the decision to continue to move ahead through queue milestones even without a formal order on the proposed MTC changes from the Commission; this was based in large part by the recommendation by Staff that the Commission adopt the Whitepaper release date as the effective date. To that end, the CEP request that the Commission adopt Staff's proposal that those projects which made their 25% interconnection payment after the date of the Whitepaper but before the date of an Order on this matter, are eligible for the new tranche compensation rates or payment in lieu of MTC. In addition, any project that made its 25% interconnection payment reasonably anticipating to be awarded capacity in Tranche 4 in CHGE or ORU territory based on the publicly available queue data at the time (which is not updated in real time), but which did not receive a Tranche 4 reservation, should be eligible for the new payment in lieu of MTC in those territories. For example, if a project submitted its 25% interconnection payment during the period that publicly available queue data indicated there was open Tranche 4 capacity, but ended up not qualifying under Tranche 4 because other projects submitted payments earlier but before the queue data was updated, that project should be eligible for the new payment in lieu of MTC.

Market Transition Credits Should Be Available to all Customers in Utility Territories Where Tranche Space is Available, In Order to Expand Access

Until VDER is fixed through the development of a Phase 2 tariff, allowing all customers, including commercial demand-metered subscribers, to receive MTCs for the existing tranche capacity is a reasonable interim measure that promotes the underlying purpose of the CDG program to expand access to clean distributed generation to more customers. While CDG projects are theoretically able, under the state's regulations, to include a large demand-metered "anchor tenant" for up to 40% of a project's capacity, these larger customers are not currently eligible for the MTC. As a result, CDG projects are currently excluding large demand-metered subscribers. This means large commercial customers are, practically-speaking, unable to participate in CDG, and CDG operators are bearing higher costs due to the need to acquire and manage smaller subscribers for their full project capacity. This situation can and should be immediately corrected with no incremental costs to ratepayers beyond those already accounted for in the design of the CDG tranches. Enabling all customers to access the MTC would serve as a simple, logical, and necessary bridge to a more sustainable VDER tariff.

Enabling participation of demand-metered subscribers would also provide greater access and greater savings to CDG residential customers in the near term. As the Commission has recognized, enabling larger customers to participate as "anchor tenants" in CDG projects "could

facilitate project financing and the solicitation and organization of a membership.”¹ Mixed-subscriber class CDG projects would have lower financing costs associated with one creditworthy commercial anchor tenant, and lower acquisition and ongoing management costs from having fewer customers to manage per project. Reduced costs would enable a greater number of projects to go forward within current tranche capacity constraints, extending greater access to and providing greater savings for residential customers who currently cannot take advantage of distributed clean energy.

Instead of MTC, larger demand-metered subscribers are currently eligible for the DRV value, which by Staff’s admission in its *Whitepaper Regarding VDER Compensation for Avoided Distribution Costs* is currently inadequate and requires improvement. The Commission has also recognized the need for further improvements to the value stack, such as the addition of avoided transmission costs. Given that current rules undercompensate demand-metered customers for their participation in CDG, and CDG projects are therefore excluding those customers and bearing higher costs as a result, the obvious solution is to extend eligibility for the MTC for all customers until DRV and other value stack components are sufficiently improved.

Moreover, because costs associated with the MTC are recovered from the customer classes that actually participate in CDG projects, the MTC costs (which, again, are arguably less than the actual value that CDG projects presently provide to non-participating ratepayers) would be shared between residential and commercial classes. As a result, expanding MTC access to larger commercial customers likely would decrease costs for all non-participating residential customers relative to the current structure. Commercial customers, for their part, would have the opportunity to participate in clean distributed solar energy projects while a more financeable and accurate VDER tariff is developed. Given the limited amount of MTC capacity in the currently proposed tranches, the cost recovery effect on non-participating commercial customers, in any event, would be minimal.

Clarifications of the Net Present Value Calculation, and Use of Full MTC Value, are Needed for the One-Time Payment in Central Hudson Gas & Electric and Orange & Rockland Territories.

Staff proposes that there will be no further MTC Tranches for CHGE and ORU, both of which currently have no remaining tranche space. Instead, new CDG projects in these utility territories would receive an additional upfront, per-kW payment directly from NYSERDA. This payment would equal the net present value (“NPV”) of the MTC those projects would have received if further tranches of \$0.030 and \$0.025 had been created, minus the expected compensation projects will receive through DRV payments. Staff also proposes that the new payment would be expected to allow an additional 50 MW in CHGE and 45 MW in ORU territories.

While we support this additional MTC-equivalent proposal of a one-time, upfront payment for the CHGE and ORU territories as a pragmatic effort to provide for market continuity while the

¹ CDG Order at 8.

Phase 2 tariff is put in place, clarifications are needed to address how the NPV calculation for the upfront payment will be performed, and expected DRV revenues should not be subtracted from that payment.

First, clarifications are needed for how the NPV calculation is performed. Specifically, the Whitepaper does not state what discount rate will be used to calculate the upfront payment. We recommend using a discount rate derived from the most recent utility-specific weighted average cost of capital published in the Benefit-Cost Analysis (“BCA”) handbooks for ORU (7.06%) and CHGE (6.44%), respectively.² This is a widely-used, transparent rate that Staff has referenced to calculate NPV for other VDER values in the past, and that utilities use to evaluate the net benefits and costs of projects to society as a whole under the BCA’s Societal Cost Test. It is thus the appropriate discount rate to represent the net present value of the benefits that CDG projects will provide (reflected in MTC payments) over the term of the VDER tariff.

Second, NYSERDA should treat the upfront payment in the same way that capacity is allocated in the MTC Tranches. Currently, projects that qualify for the MTC reduce the available MTC capacity by their full Alternating Current (“AC”) nameplate capacity, regardless of what customer mix the project may ultimately achieve (e.g., a 2 MW_{AC} project qualifying for the MTC reduces the available MTC capacity by 2 MW, regardless of whether the project intends to bring on subscribers who would only qualify for the DRV). In calculating the one-time payment that a qualifying project would receive, NYSERDA should likewise assume that the project would otherwise have received the MTC for 100% of the project’s capacity allocated to subscribers. As a general matter, CHGE and ORU projects should not be treated differently than projects in other utility territories only because they are receiving their MTC payment all at once rather than over the span of 25 years.

Finally, the Commission should not assume that projects will receive anywhere near 100% of the DRV value due to the DRV’s current problematic structure. We recognize that if the DRV truly reflected all of the avoided transmission and distribution costs DERs provide and was delivered through a fair and financeable tariff, then it would make sense to subtract expected DRV revenues from the one-time upfront payment. However, as the CEP have noted throughout this proceeding, the DRV is unfinanceable in its current form. The backward-looking top ten hour performance requirement is difficult for projects to meet reliably, and because the DRV could decrease to zero after three years, financiers heavily discount all future DRV revenues beyond that point. The proposed creation of 460-hour or day-ahead options, the bounding of the impact of possible updates to the marginal cost of service (“MCOS”) used and modifications to the MCOS underlying the DRV payment would make the DRV values more financeable. However,

² See Orange and Rockland Benefit Cost Analysis Handbook (July 31, 2018) pg. 343 (Appx. A, Table A-1); Central Hudson Gas & Electric Benefit-Cost Analysis Handbook, v. 2.0 (July 31, 2018), pg. 74 (Appx. A, Table A-1).

financeable DRV values are dependent on two orders that will presumably follow the order modifying MTC values:

- 1) An order adopting stop-gap modifications to DRV and LSRV in the current tariff that may include the proposals from Staff on the 460-hour and day-ahead options and bounding of the impact of possible updates to the MCOS used; and
- 2) A Distribution System Implementation Plans order that will, potentially, adopt changes to the underlying values calculated through MCOS studies.

Because of these uncertainties, the payment-in-lieu of MTC must initially exclude any reductions for presumed DRV revenue. Projects receiving the payment-in-lieu-of-MTC calculated in this way would forgo receiving the DRV, which would avoid any risk of double-counting compensation. (If the Commission adopts changes to the DRV that result in significant anticipated DRV revenues over the project lifetime that can be reliably modeled, this approach could be revised.) For these reasons, we encourage the Commission to initially require the payment-in-lieu-of-MTC to be based on the NPV of the otherwise expected MTC revenues.

Continued Focus on Soft Cost Reduction is required.

The Whitepaper's proposed MTC revisions incorporate step-downs in anticipation of reductions in costs for developers and project owners. However, in many areas – interconnection and property taxes, for example – costs are actually increasing. The Commission has appropriately identified soft cost reduction as a priority and has taken successful steps to reduce soft costs, including increasing the project size limit. Continued laser focus on these soft cost reductions is critical in order to justify the MTC step-downs and lower costs across the board for developers, project owners, customers, and all ratepayers. We urge the Commission to aggressively pursue soft cost reductions through interconnection reform, billing automation, and consolidated billing, and we commit to working in earnest with all stakeholders on smooth implementation of those critical improvements.

Staff's Whitepaper Highlights the Need to Fix VDER.

We applaud Staff for recognizing the need to revise the MTC levels to shore up the market for CDG projects in the very near term. However, though the Whitepaper's proposed changes are a welcome improvement, they alone are not sufficient for VDER Phase 1 to be a bridge to the future, and thus other iterative improvements to the E Value and DRV value are also needed in the coming months and in the final Phase 2 tariff.

Because of its MW limits and values in some areas, the MTC risks becoming a bridge to nowhere unless the VDER tariff is more fundamentally improved, and this risk underscores the

urgent need to improve the other values in the Phase 2 Value Stack. For instance, the DRV value available under the Phase 1 Value Stack (which is one of the VDER values that the MTC stands in for) is not being calculated over the right timeframe using appropriate load forecasts, and also does not accurately include all of the avoided costs provided by DERs. For example, on the latter, avoided long-term transmission expenditures, which could total in the billions of dollars, are not accurately measured or accounted for in the current DRV/LSRV methodology. Likewise, the Phase 1 environmental value or “E Value” does not begin to accurately reflect the true amount of environmental damages that DERs avoid over the 25-year tariff term (or even just the cost of abatement to avoid them). Those would include, among other things, the avoided damage from local pollutants such as particulate matter, NO_x, and SO_x, which injure and kill thousands of vulnerable New Yorkers each year,³ as well as changes to the selected discount rate and parameter around climate sensitivity the Commission currently uses from the 2016 Federal Social Cost of Carbon to estimate the avoided costs of GHG emissions.

Specifically, the value of non-carbon avoided damages alone in certain areas could well exceed the current E-value, or for that matter the enhanced MTC values, especially for downstate regions.⁴ DERs in operation today are displacing generation that emits these local pollutants – literally saving lives – but receive zero credit for this category of avoided damages under the VDER Phase 1 tariff. In addition, using a more appropriate social cost of carbon discount rate and parameter around climate sensitivity and assumptions regarding catastrophic damages would also result in a fairer and more accurate E value that compensates DERs, including CDG projects, for the benefits they provide.

Again, the Whitepaper’s proposed changes are a necessary and welcome interim fix and they should be adopted by the Commission forthwith. However, the creation of a rational, sustainable, and accurate VDER tariff is the most stable, appropriate long-term solution, and the one that the CEP seek urgently given the capacity-limited nature of the MTC proposal put forward by staff and the critical need for distributed solar to contribute to New York’s rapid decarbonization and resiliency. Adopting a true, accurate value of DER approach would help to put New York on a stronger path to meeting its energy and climate goals, in addition to attracting more serious long term DER industry investment in the state. The CEP look forward to working in good faith with policymakers and stakeholders to achieve that ultimate objective.

We thank you in advance for your consideration of these comments.

³ See New York City Department of Health and Mental Hygiene, *EPI Data Brief* (April 2017, No. 88) (“It is estimated that PM_{2.5} [fine particulate matter] exposures are associated with thousands of respiratory and cardiovascular disease emergency department visits, hospitalizations, and deaths in NYC each year.”); <https://www1.nyc.gov/assets/doh/downloads/pdf/epi/databrief88.pdf>.

⁴ See NYU Policy Integrity, “How States Can Value Pollution Reductions from Distributed Energy Resources,” (July 2018), https://policyintegrity.org/files/publications/E_Value_Brief_-_v2.pdf.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Brandon Smithwood', is written over a light blue rectangular background.

Brandon Smithwood
Policy Director
Coalition for Community Solar Access (CCSA)

On behalf of the Clean Energy Parties: Alliance for Clean Energy New York, Coalition for Community Solar Access, the Natural Resources Defense Council, the New York Solar Energy Industries Association, the Pace Energy and Climate Energy Center, the Solar Energy Industries Association, and Vote Solar.