December 23, 2016

VIA ELECTRONIC FILING

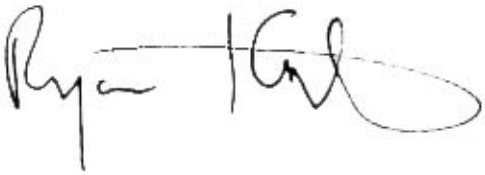
Hon. Kathleen H. Burgess
Secretary to the Commission
New York State Public Service Commission
Empire State Plaza, Agency Building 3
Albany, New York 12223-1350

Re: Case 15-E-0751 – In the Matter of the Value of Distributed Energy Resources

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, submit for filing these comments in response to the *Notice Soliciting Comments on Scope and Process for Phase Two of Value of Distributed Energy Resources*, dated November 18, 2016, in the above-referenced proceeding.

Respectfully Submitted,



Ryan Katofsky
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Comments on Scope and Process for Phase Two of the Value of Distributed Energy Resources Proceeding (Case 15-E-0751)

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

Introduction

AEEI, ACE NY, and NECEC are appreciative of the open and collaborative process that Staff facilitated in Phase One of this proceeding thus far. The three organizations have devoted significant effort and resources to this Value of DER proceeding as we see it as a critical step in the development of the market for DER, both in New York State and nationally, was well as for the successful implementation of REV goals. In response to the November 18, 2016 Notice[1] issued by the Department of Public Service (DPS), we have organized our responses below according to the three areas identified in the Notice. In broad terms, we recommend the following sequencing for the next phases of this work:

1. Pursue near-term refinements to the Phase One methodology, by expanding the applicability of the Phase One tariff to other suitable technologies and project sizes, and addressing how to apply the Phase One tariff to generation consumed behind the meter.
2. For the Phase Two tariff, refine the calculation methodology for the value stack and develop the means for applying the refined value stack to the full range of DER technologies and customer types, including non-generation DER. This Phase Two process should be integrated with other elements of REV and use an independent facilitator.
3. Following the design and implementation of the Phase Two tariff, the process should address the transition of the mass market.

1. Near-term refinements to the Phase One methodology

As we stated in our Initial Comments on the Phase One Report, if there are technologies that are viable with Phase One compensation, but were not included in the Staff Proposal due to Staff's focus on

[1] Notice Soliciting Comments on Scope and Process for Phase Two of Value of Distributed Energy Resources, November 18, 2106.

technologies included in existing NEM statute, why not allow them to participate? Immediate candidates are standalone energy storage (all sizes), combined heat and power above 10 kW, and solar, biogas, fuel cells, micro-hydro, and distributed wind projects that exceed allowed project size limits, which vary depending on the customer type, but are generally limited to 2 MW in size.[2] There may also be others. While a project size limits were provided in the original NEM legislation, the Commission should revisit whether there is a rational basis for excluding generation greater than these limits now that compensation is value based. These, and potentially other technologies should be included prior to implementation of Phase Two. Staff mentioned the possibility addressing standalone storage prior full implementation of Phase Two, and we fully support this, but we also recommend that such a process should address other technologies as well.

Similarly, in the event that the Commission limits the Phase One order only to compensation for exported energy and chooses to exclude the capacity and environmental benefits from generation that is consumed behind the meter, we recommend that the initial phases of the Phase Two process also address how to expand the Phase One tariff to generation consumed behind the meters so that the benefits of such projects are adequately recognized.

2. Topics to be addressed in Phase Two

2.1 Improvements to the value stack

There are several components of the Phase One tariff value stack that can be improved upon in Phase Two. We think the treatment of capacity, both for the bulk system and the distribution system, is an area where there is significant room for improvement in Phase Two. Line losses are another component that should be improved so that they increase as load increases instead of relying on a fixed average percentage. Environmental compensation could also be made more precise so that it reflects marginal emissions rates and compensates DER for avoiding the most polluting generation on the bulk system. The value of avoided transmission investments was also left out of the Phase One value stack.

2.2 Information access

As compensation becomes more closely aligned with performance and the services provided to the grid, timely access to data and information on system conditions will be critical for DERs to respond appropriately and to provide the value they are capable of providing. The Staff Proposal for Phase One

[2] While not an exhaustive list this includes: non-residential wind and micro-hydro larger than 2 MW and non-residential fuel cells larger than 1.5 MW.

will base capacity compensation for dispatchable technologies on exports during the top hour of NYISO load and during the top 10 load hours of the distribution utility. Yet data on when these hours occur is not readily available. Both the NYISO and the utilities should provide past load data and implement a system for posting warnings/notifications for when they project load will be close to peak. Providing this information will allow DER to perform when it is needed, and how to best provide this information should be given careful consideration in Phase Two.

2.3 Rate design

We understand the reasons for focusing the Phase One tariff on exported energy so that issues relating to underlying rate design for consumption could be deferred in the interest of simplicity and expediency. For Phase Two, we feel strongly that rates for consumption must be addressed so that all DERs and their impact on modifying load are adequately valued, especially since it can be argued that DER that reduces load behind the meter is at least, if not more valuable than the same DER deployed in front of the meter. Without considering rate design more broadly, non-exported generation, energy storage and non-generating resources such as energy efficiency and demand response will be difficult to integrate into the Phase Two tariff. The Phase One tariff, as proposed, creates asymmetry at the meter, with energy pushed out to the system valued at "LMP+D+E" and consumption or generation that is consumed onsite valued at the utility retail rate. As we have discovered with the treatment of capacity from self-consumed generation and the avoidance of future utility costs, the Staff Phase One Proposal, if adopted as proposed, will result in many non-exporting behind-the-meter resources being undervalued.

We stand by our initial April 18, 2016, filing in this proceeding and believe it is a fair method that compensates DER based on an inclusive set of costs and benefits to the grid. To boil down our proposal, it was based on the following basic structure:

1. **Cost Causation:** Current and future costs to the system can be valued symmetrically with respect to consumption and exports. Consumption would be billed to the extent that it contributes to costs and exports would be credited to the extent that they avoid them.
2. **Embedded Costs:** The utility has made substantial investments in the system that are recovered in rates. While past infrastructure investments are unavoidable and need to be recovered, it does not follow that they should be recovered in a fixed portion of the customer bill. Rather, they should be seen as another opportunity to send signals to customers and encourage them to engage in beneficial behaviors, such as avoiding emissions and reducing peak demand through their own behavior and investments in DER. They can be recovered in a way that reinforces price signals to reduce peak demand and encourage efficiency.

3. Phase Two process and format

We continue to be concerned that the up to two-year stakeholder engagement process envisioned for Phase Two will represent a challenge for parties with limited resources. As such, to enable broad, equitable participation, the DPS should take steps to ease the burden and create conditions where all parties have access to timely, relevant data and analysis that will be critical to the development of the Phase Two tariff. The utilities have a distinct advantage as it relates to both resources and access to relevant data, and the DPS should take the following steps to address this.

3.1 Professional facilitation of the stakeholder engagement process

As we have stated previously, Staff did an admirable job at creating a collegial and productive environment at the stakeholder meetings, especially given the complex and controversial nature of the subject at hand. Nevertheless, for Phase Two, we strongly recommend that DPS hire a professional facilitator to manage the dialogue and make sure that all parties have an opportunity to engage in a fair, data-driven, and transparent process. Staff facilitation places Staff in the difficult position of moderating the discussion and giving everyone an equal chance to make their case while also being an interested party and representing a position of their own. While Staff will clearly play a leading role in determining the format and direction of the process, the facilitation would be better carried out by a neutral party with significant experience in managing complex stakeholder engagements.

We anticipate that the Phase Two process will be more complex and contentious than Phase One, and will involve multiple, parallel, interdependent deliberations and negotiations on different topics, thus requiring a more carefully planned and executed facilitation plan than was the case in Phase One. The external facilitator, working with DPS Staff, would be responsible for laying out a clear process and timeline, with clear milestones, and for continuously evaluating progress against these milestones and making adjustments as necessary.

Given that Staff expects to start the Phase Two process early in 2017, they should move forward expeditiously in developing the RFP for the scope of services to be provided by the facilitator. It would also be valuable to give parties the opportunity to comment on the proposed work plan, to make sure it covers all areas of interest and concern to stakeholders.

3.2 Independent consulting and analytical support

Throughout the Phase One process, proposals and issues were presented and evaluated without a firm understanding of their financial or other impacts. Discussions and evaluation of the various proposals would have benefited from quantitative analysis early in the process. Toward the end of the Phase One stakeholder discussions, Staff brought on consultants to estimate the impact of some of the proposals that were under consideration, but bringing them on sooner would have allowed stakeholders to evaluate and

validate the analysis earlier in the discussions. Thus, we strongly recommend that DPS retain a qualified technical consultant to supply timely information and analysis to support the process and all stakeholders. We expect that this will be a different consultant than the facilitator described above.

3.3 Transition of the mass market

The applicability of the Phase Two tariff to mass-market customers presents its own unique set of issues, as reflected in the decision of Staff to defer the transition of mass-market NEM until 2020 (or sooner, subject to a trigger that has yet to be established). We recommend that issues relating to the transition of new mass market DER installations onto the value of DER tariff be considered in a separate track or subsequent to the design of the Phase Two tariff. These issues are substantive enough that they warrant their own discussions to focus on the numerous related issues. Excluding the mass market from the design of the Phase Two tariff will simplify and focus the discussion, and allow both Staff and stakeholders to address the NEM transition in a stepwise fashion.

3.4 Alignment with other elements of REV

Development of the Phase Two tariff should take into consideration the timelines for developing the next iterations of the Benefit-Cost Analysis Handbooks and Distributed System Implementation Plans, as well as other Track 2 timeline issues, such as the development of the smart home rate and improved C&I rates. These interdependencies were acknowledged to a degree in Phase One, but due to time constraints, the Phase One tariff effectively sidestepped this important issue.

Conclusion

AEEI, ACE NY, and NECEC appreciate the opportunity to comment on the process and scope for Phase Two. We reaffirm our support for the goals of the Value of DER proceeding, and we look forward to supporting the effort as it moves into Phase Two.