Department of Public Service Staff Proposal

Department of Public Service staff (DPS staff) recommends four modifications to the Decision Tree Methodology to address issues with the present Decision Tree Methodology identified by Con Edison, National Grid, AEEI, and NY-BEST, as described in the body of the Public Service Commission's (Commission) Order Establishing Updated Standby Service Rates and Implementing Optional Mass Market Demand Rates, issued in Case 15-E-0751 on October 13, 2023. DPS staff's first recommendation is intended to address the over-allocation of costs to the Local cost category by adding a new question to the Decision Tree. DPS Staff's second and third recommendations are intended to modify the Decision Tree to account for the new question. DPS Staff's fourth recommendation is intended to ensure that the updated Decision Tree and associated questions follow a logical flow to avoid confusion for future stakeholders. A fully updated set of Interconnection Voltage and Higher-Than Interconnection Voltage Decision Trees and a full explanation of the updated Decision Tree Methodology are included below as Attachment 2.

In addition, DPS staff recommends modification to guidance provided by the Commission in its Order Establishing an Allocated Cost of Service Methodology for Standby and Buyback Service Rates and Energy Storage Contract Demand Charge Exemptions, issued in Case 15-E-0751 on March 16, 2022 (March 2022 Order), which required utilities to set the Standby and Buyback Service Customer Charge to the same level approved for the Otherwise Applicable Service Class (OASC). This change would not require modification to the Decision Tree Methodology itself, but would instead modify how one of its questions is answered.

Regarding modifications to the Decision Tree Methodology, first, DPS staff recommends that a new Decision

Tree Question be inserted between Questions 3 and 4 (New Question). The New Question would read, "Does an increase in either (1) system coincident demand, or (2) local area demand not coincident with the system peak, increase the costs?" The New Question is intended to determine whether a demand-related asset cost is at least partially Shared. Answering "yes" to the New Question identifies a cost as being at least partially Shared, as the cost would be associated with meeting either the system-coincident demand peak or a local area demand peak, and would then lead to a subsequent Question to determine if the cost is either fully Shared or partially Local and should be allocated between the Shared and Local cost categories.¹ Answering "no" to the New Question identifies a cost as being fully Local, since the cost is a demand-based asset cost that is not used to meet the system coincident or local area demand peaks, and would then lead to a subsequent Question to determine if such costs should be recovered from Buyback Service customers.²

Second, DPS staff recommends that a "no" answer to Question 4 - "Does an increase in system coincident demand increase the costs?" - would result in a cost being allocated between the Shared and Local cost categories, but only if the recommended New Question is approved. In the present Decision Tree, a "no" answer to Question 4 identifies a cost as wholly Local. Several stakeholders identified issues with Question 4

¹ Using the existing Question numbers, answering "yes" to the New Question would lead to Question 4. These Question numbers would change if the Commission accepts DPS staff's fourth recommendation to re-number the Decision Tree questions.

² Using the existing Question numbers, answering "no" to the New Question would lead to Question 6. These Question numbers would change if the Commission accepts DPS Staff's fourth recommendation to re-number the Decision Tree questions.

in their comments prior to the March 2022 Order; however, such concerns were dismissed because "Question 4 considers only coincident peak demand by design, since Question 5 considers non-coincident peak demand."³ While it is reasonable to consider system coincident peak demands alone, since a cost being tied to the coincident system peak is a clear indication that the cost is Shared, Question 4 is problematic because a "no" answer allocates all non-coincident peak demand costs to the Local category before determining whether those costs could be at least partially Shared.

In combination with adding the New Question between Questions 3 and 4, changing what happens as a result of a "no" answer to Question 4 would more accurately flow costs to the Shared and Local categories than the present Decision Tree methodology. Demand-based asset costs would be first determined to be either fully Local or at least partially Shared by answering the New Question, and costs determined to be at least partially Shared would be examined to determine whether the cost is fully Shared by answering Question 4. Costs determined not to be fully Shared by answering "no" to Question 4 would be allocated between Shared and Local using the ratio of coincident peak demand to non-coincident peak demand, as approved by the Commission in the March 2022 Order.⁴ This new sequence of questions and answers should avoid the over-allocation of nonsystem coincident peak equipment costs to the Local category described above.

Third, DPS staff recommends that Question 5 be eliminated, but only if both the modifications to the Decision Tree regarding adding the New Question and modifying Question 4

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³ March 2022 Order, p. 63.

⁴ March 2022 Order, p. 78.

are adopted. Question 5 would be rendered obsolete if both of DPS staff's recommendations above are adopted since the New Question would consider both system coincident and noncoincident peak demands, and a "no" answer to Question 4 would lead to allocating a cost between the Shared and Local categories.

Finally, if the Commission approves each of the above recommendations, Staff recommends that the Decision Tree questions be re-numbered to reflect a logical flow through the Decision Tree questions. The goal of the present recommendation is to finalize the Decision Tree Methodology for future use, and to ensure that the Decision Tree Methodology flows in a logical and self-explanatory way which would be understandable for all stakeholders, present and future. The Decision Tree Methodology, as updated, would first determine whether a cost is an asset cost or a non-asset cost. Second, the updated Decision Tree Methodology would determine if non-asset costs are customer-related costs or a general cost. Third, the updated Decision Tree Methodology would determine whether an identified general cost is an asset-based tax cost, and thus added to the underlying asset cost as that cost is considered in the Decision Tree, or are general, administrative, or non-asset tax costs which are allocated to the Customer cost category. Fourth, the updated Decision Tree Methodology would determine how to allocate asset costs and associated tax adders to the Customer, Shared, and Local cost categories. Finally, the updated Decision Tree Methodology would determine whether to set the Customer Charge to a specified level, and, if so, allocate "spillover costs" to the applicable Local or Shared cost category, as described in the March 2022 Order.⁵

⁵ March 2022 Order, pp. 15-17, 23, and 64-66.

Question 1 of the present Decision Tree - "Is the cost linked to a type of asset?" - would remain Question 1 of the updated Decision Tree. Question 2 of the present Decision Tree - "Are all the costs attributable to customer demand?" would be re-numbered to Question 4 of the updated Decision Tree. Question 3 of the present Decision Tree - "Would a decrease in demand result in entirely unused assets?" - would be re-numbered to Question 5 of the updated Decision Tree. Question 4 of the present Decision Tree - "Does an increase in system coincident demand increase the costs?" - would be re-numbered to Question 7 of the updated Decision Tree. Ouestion 6 of the present Decision Tree - "Could a kW of reverse power flow increase the costs?" - would be re-numbered to Question 8 of the updated Decision Tree. Question 7 of the present Decision Tree - "Does the cost apply to all cost categories?" - would be re-numbered to Question 2 of the updated Decision Tree. Question 8 of the present Decision Tree - "Should the Customer Charge be set to a predetermined level and any difference in costs and revenues be re-allocated?" - would be re-numbered to Question 9 of the updated Decision Tree. Question 9 of the present Decision Tree - "Is the cost a tax related to either a specific asset or cost which varies with customer demand?" - would be re-numbered to Question 3 of the updated Decision Tree. The New Question, described above, would become Question 6 of the updated Decision Tree.

Diagrams of the updated Interconnection Voltage Decision Tree and Higher-than Interconnection Voltage Decision Trees, a description of the updated Decision Tree Questions, and a full description of the updated Decision Tree Methodology are included below as Attachment 2.

Turning to modifications to guidance provided by the Commission to answer updated Decision Tree Question 9, DPS staff

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recommends that the Commission reconsider its requirement that the Standby and Buyback Service Customer Charge be set at the same level as the OASC's Customer Charge. This modification was considered as early as the November 25, 2020 Department of Public Service Staff Whitepaper on Allocated Cost of Service Methods Used to Develop Standby and Buyback Rates, which, as summarized on pages 15-16 of the March 2022 Order, "provides the option for the Commission to revise its guidance regarding how the Standby and Buyback Service Customer Charges should be set in the future without having to revise the ACOS Methodology itself."

On pages 22-23 of the March 2022 Order, the Commission states, "[t]he Commission's desire to implement a standardized approach also extends to our consideration of the ... proposal to set the Standby and Buyback Service Customer [C]harge at the same level as the Customer [C]harge for the otherwise applicable parent service classification. The level at which the [C]ustomer [C]harge should be set for mass market customers is often one of the most contentious rate design issues in utility rate proceedings, such that the [C]ustomer [C]harge is typically negotiated and is set below the level required to fully recover the customer costs identified in a cost of service study. The ... recommendation to set the Standby and Buyback Service Customer [C]harge to the same level as the otherwise applicable parent service class is reasonable as it will establish a consistent methodology for setting such charges statewide, even if the specific methodologies for developing Customer [C]harges differ from utility to utility."

The March 2022 Order relied heavily on establishing a consistent statewide methodology for setting Standby and Buyback Service Customer Charges that all utilities must follow, and avoiding contentious issues regarding the design and level of

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Customer Charges for mass market customers. However, in practice, this requirement has become problematic for large commercial and industrial Service Classes. DPS staff has become aware of several instances where the Customer Charge for large commercial and industrial Service Classes varies significantly from the levels recommended in Embedded Cost of Service Studies, which can in turn produce the unintended consequence of artificially inflating Contract Demand Charges since "overflow customer costs" are generally allocated to the Local cost category. Inflated Contract Demand Charges may disproportionately impact customers within a Service Class.

While the goal of maintaining a consistent methodology for setting Customer Charges for Standby and Buyback Service statewide is still important, consistency should not be achieved by sacrificing the goal of implementing Standby and Buyback Service rates that best reflect the underlying cost causation principles. Therefore, DPS staff recommends that the Commission eliminate the requirement that utilities answer "yes" to Question 9 of the updated Decision Tree, and instead allow utilities and stakeholders to recommend different answers to Question 9, potentially for each Service Class.⁶

Allowing different answers to Question 9 would potentially set a Standby and Buyback Service Customer Charge that is either: (1) set at the same level of the OASC, (2) set to fully collect all Customer costs, or (3) some level between those two bookends; and would allow greater flexibility in designing rates which balance accurate reflection of cost

⁶ For example, it may be reasonable to set the Customer Charge at the same level as the OASC for mass market Service Classes, at the level that fully recovers all Customer costs for the largest commercial and industrial Service Classes, and at a level somewhere in between for other commercial Service Classes.

causation, statewide consistency, and achievement of New York's policy goals. Standby and Buyback Service Customer Charges which do not fully collect revenue requirement sufficient to cover Customer costs - that is, those that result in "spillover customer costs" - would go through the same process of re-allocating the "spillover customer costs" to the Local or Shared categories, as described in the March 2022 Order.

PROPOSED REVISED DECISION TREE METHODOLOGY

Standby Service includes three charges - a Customer Charge, a Contract Demand Charge, and a Daily As-Used Demand Charge - whereas Buyback Service only imposes a Customer Charge and a Contract Demand Charge, if applicable. As described in the March 16, 2022 Order Establishing an Allocated Cost of Service Methodology for Standby and Buyback Service Rates and Energy Storage Contract Demand Charge Exemptions in Case 15-E-0751 (March 2022 Order), the amount of revenue to be collected through the Standby and Buyback Service rate components are determined by completing an Allocated Cost of Service (ACOS) study, which allocates system costs identified in a utility's Embedded Cost of Service study into three cost categories -Customer costs, Local costs, and Shared costs.¹ Costs allocated to the Customer cost category are intended to be recovered through the Customer Charge, costs allocated to the Local cost category are intended to be recovered through the Contract Demand Charge, and costs allocated to the Shared cost category are intended to be recovered through the Daily As-Used Demand Charge.² Standby and Buyback Service rates developed through the use of an ACOS Study are to be designed to be revenue neutral to the Otherwise Applicable Service Class (OASC).³

ACOS studies are performed for each combination of service class and interconnection voltage level, on an individual FERC Account basis, using a series of "yes" or "no" questions referred to as a Decision Tree.⁴ In determining the answers to Decision Tree questions, the characteristics of the

- ³ Id., p. 22.
- ⁴ Id., pp. 45-46, 49.

¹ March 2022 Order, pp. 9-17, 22.

² Id., pp. 15, 22.

typical usage of a piece of equipment are considered.⁵ In considering whether a cost is Local or Shared, Local costs are those designed to serve the non-coincident maximum demand related to a small group of up to 10 residential customers, or those designed to serve the non-coincident maximum demand of a single non-residential customer.⁶

ACOS studies are performed using two different Decision Trees depending on whether costs being considered are for the relevant system costs at the same voltage that a customer in the class interconnects to (Interconnection Voltage Decision Tree), or whether the costs being considered are for the system at higher than interconnection voltages (Higher Than Interconnection Voltage Decision Tree), if applicable.⁷ The Interconnection Voltage Decision Tree is intended to be very granular and precise, and requires that all costs flow through a series of nine questions to determine whether a cost at the voltage level a customer interconnects to should be allocated to the Customer, Local, or Shared cost category.⁸ The Higher Than Interconnection Voltage Level Decision Tree is somewhat simplified and includes a series of five questions to determine whether a cost at a voltage level higher than the customer interconnects to should be allocated to the Customer, Local, or Shared cost category.⁹ Both Decision Trees are provided below.

⁵ <u>Id.</u>, pp. 55, 60-61. Answers to the Decision Tree questions should not rely on unique or unusual uses of such equipment (<u>Id</u>., p. 60).

⁶ <u>Id</u>., p. 52.

⁷ <u>Id.</u>, pp. 34-35. There may be instances where only the Interconnection Voltage Decision Tree may be applicable for a service class if the interconnection occurs at the highest voltage level served by distribution utility equipment.

⁸ Id., p. 34.

⁹ <u>Id</u>., p. 35.

Question 1 asks, "Is the cost linked to a type of asset?" Question 1 is designed to determine whether the cost in question is an asset cost or is otherwise a Customer or General cost. Answering "no" to Question 1 identifies the cost as a non-asset cost - either a General cost or a Customer cost - and leads to Question 2 to further determine how such cost should be allocated. Answering "yes" to Question 1 identifies a cost as an asset, and leads to Question 4.

Question 2 follows Question 1 and asks, "Does the cost apply to all cost categories?" Question 2 is designed to determine whether non-asset costs are General or Customer costs by testing whether the cost applies to all cost categories or only to the Customer category. Answering "yes" to Question 2 identifies a cost as General, which is further broken out between asset-based taxes and other general costs by answering Question 3. Answering "no" to Question 2 identifies the cost as a Customer cost.

Question 3 follows Question 2 and asks, "Is the cost a tax related to either a specific asset or cost which varies with demand?" Question 3 is intended to test whether a General cost falls into the administration and general subcategory, or if it is instead a tax on specific demand-related assets that should instead be allocated similarly to the asset the tax is based on. Answering "yes" to Question 3 identifies a General cost as an asset-based tax cost, and results in that cost being added to the asset costs such taxes are associated with, leading to Question 4. Answering "no" to Question 3 identifies a General cost as being not asset-based, and are therefore allocated to the Customer cost category.

Question 4 asks "Are all the costs attributable to customer demand?" Question 4 is designed to determine whether some or all of an asset cost should be allocated to the Customer

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cost category by testing whether the asset costs are primarily driven by increases in the number of customers or an increase in customer demand. Answering "yes" to Question 4 identifies a cost as a demand-based asset cost, and leads to Question 5 to further examine how the cost should be allocated among the Shared and Local cost categories. Answering "no" to Question 4 identifies the cost as a customer-based asset cost and allocates the cost to the Customer cost category.

Question 5 asks, "Would a decrease in demand result in entirely unused assets?" Question 5 is designed to determine whether an asset should be considered entirely Local by testing whether the asset would become stranded if an individual customer or small group of Residential customers' decrease in demand would result in the asset being stranded. Answering "yes" to Question 5 identifies the cost as fully Local, and leads to Question 8 to determine if such costs should be recovered from Buyback Service customers. Answering "no" to Question 5 leads to Question 6 to further determine if a demandrelated asset cost is either fully Local or at least partially Shared.

Question 6 asks, "Does an increase in either (1) system coincident demand, or (2) local area demand not coincident with the system peak, increase the costs?" Question 6 is designed to determine whether a demand-related asset cost is at least partially shared due to the costs under consideration increasing with increasing system-coincident or load area non-coincident demands. Answering "yes" to Question 6 identifies a cost as being at least partially shared, as the cost would be associated with meeting either the systemcoincident demand peak or a local area demand peak, both of which are associated with the combined demand of multiple customers. Partially shared costs identified by answering "yes"

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to Question 6 are further examined in Question 7 to determine if the cost is either fully Shared or should be allocated between the Shared and Local cost categories. Answering "no" to Question 6 identifies a cost as being fully Local, since the cost is a demand-based asset cost that is not used to meet either the system coincident or local area demand peaks, and would then lead to Question 8 to determine if such costs should be recovered from Buyback Service customers.

Question 7 asks, "Does an increase in system coincident demand increase the costs?" Question 7 is designed to determine if a cost should be considered entirely Shared or allocated between the Shared and Local cost categories. Answering "yes" to Question 7 identifies the cost as fully Shared, since the cost is associated with meeting systemcoincident peak demands of many customers. Answering "no" to Question 7 identifies the cost as one that cannot be determined to be either fully Shared or fully Local, since the cost is associated with some level of combined demands of multiple customers, but also may be substantially influenced by the requirements of a single customer or small group of residential customers. Costs which cannot be identified as fully Shared by answering "no" to Question 7 are allocated to the Shared category in same proportion as the ratio of a service class's Coincident Peak (CP) demand to its Non-Coincident Peak (NCP) demand, with the remainder being allocated to the Local cost category.¹⁰ Local costs identified in this way are thereafter examined using Question 8 to determine if such costs should be recovered from Buyback Service customers.

Question 8 follows a "yes" answer to Question 5, a "no" answer to Question 6, or a "no" answer to Question 7, each

¹⁰ <u>Id</u>., p. 78.

of which result in costs being allocated to the Local cost category. Question 8 asks, "Could a kW of reverse power flow increase the costs?" The purpose of Question 8 is to determine which Local costs should be recovered through Buyback Service rates, since the injections provided to the system through Buyback Service may not contribute to system costs in the same way as demands drawn from the grid under Standby Service. Answering "yes" to Question 8 identifies a Local cost as one that should be recovered through both Standby Service rates and Buyback Service rates. Answering "no" to Question 8 identifies a Local cost as one that should not be recovered from Buyback Service customers. In effect, Question 8 allows all costs allocated to the Local cost category to be subject to examination to determine if it is reasonable to recover such costs from Buyback Service customers.¹¹

The Higher Than Interconnection Voltage Level Decision Tree is somewhat simplified and includes a series of five questions. The questions posed by the Interconnection Voltage Decision Tree and the Higher than Interconnection Voltage Decision Tree overlap. Of the nine questions that must be answered as part of the Interconnection Voltage Decision Tree, the Higher than Interconnection Voltage Decision Tree requires answering Questions 1, 2, 3, 4, and 9.¹² Using the Higher than Interconnection Voltage Decision Tree, Customer-related costs and general costs are allocated among the cost categories in the same way as a result of answers to Questions 1, 2, 3, and 9 as under the Interconnection Voltage Decision Tree. Using the Higher Than Interconnection Voltage Decision Tree, non-Customer-

¹¹ Id., p. 64.

¹² Question 9 is described below. Question 9 is presented "out of order" since it requires that all costs be allocated to the Customer, Local, and Shared cost categories before answering.

related asset costs determined to be demand-related by answering "yes" to Question 4 are allocated entirely to the Shared cost category, while answering "no" to Question 4 results in costs being allocated to the Customer cost category.

Once all costs have been initially allocated to either the Customer, Local, or Shared cost categories, revenues from collection of reactive power charges are netted out from the total revenue requirement to be collected from Standby and Buyback Service customers. Reactive power revenues are deducted from each cost category in proportion of that cost category's contribution to total costs - for example, if the Customer cost category is 20 percent of total costs, then 20 percent of reactive power revenues would be deducted from the Customer cost category.¹³

Question 9 is the last Decision Tree question to be asked, as it requires all Customer costs to have already been identified through application of both Decision Trees. Question 9 asks, "Should the Customer Charge be set to a predetermined level and any difference in costs and revenues be re-allocated?" Answering "no" to Question 9 leaves all identified Customer costs within the Customer cost category. Answering "yes" to Question 9 allows the Customer Charge to be set at a specified level and allocates any difference between the Customer Charge revenues and identified Customer Costs. Where the Customer Charge of the OASC is insufficient to recover the full amount of the identified Customer costs, any "spillover Customer costs"

¹³ Id., pp. 14-15, 22.

are allocated to the Local cost category.¹⁴ Where a Customer Charge results in revenues in excess of the Customer costs, any overage is first deducted from the Local cost category, and then any remaining overage is deducted from the Shared cost category only once the Local costs have been fully eliminated.¹⁵

Following application of Question 9, all costs and associated revenue requirements have been allocated to the Customer, Local, and Shared cost categories, and typical rate design procedures can commence.

¹⁵ <u>Id</u>., pp. 16-17.

¹⁴ "Spillover Customer costs" are any costs that are allocated to the Customer cost category which are not recovered through the Customer Charge, and must therefore be recovered through some other charge (Id., pp. 15-17, 22). Any "spillover Customer costs" are excluded from recovery from Buyback Service customers (Id., pp. 64-66).

INTERCONNECTION VOLTAGE LEVEL





HIGHER THAN INTERCONNECTION VOLTAGE LEVEL

LEGEND



Question Number	Question Text
1	Is the cost linked to a type of asset?
2	Does the cost apply to all cost categories?
3	Is the cost a tax related to either a specific asset or cost which varies with customer demand?
4	Are all the costs attributable to customer demand?
5	Would a decrease in demand result in entirely unused assets?
6	Does an increase in either (1) system coincident demand, or (2) local area demand not coincident with the system peak, increase the costs?
7	Does an increase in system coincident demand increase the costs?
8	Could a kW of reverse power flow increase the costs?
9	Should the Customer Charge be set to a predetermined level and any difference in costs and revenues be re- allocated?