

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission to Examine Utilities'
Marginal Cost of Service Studies.

Case 19-E-0283

**Reply Comments on Utility Marginal Cost of Service Studies by the Clean Energy Parties:
Solar Energy Industries Association, Alliance for Clean Energy New York, Coalition for
Community Solar Access, Natural Resources Defense Council, New York Solar Energy
Industries Association, and Vote Solar.**

Dated: January 9, 2020

Comments to New York State Department of Public Service
Regarding Marginal Cost of Service Studies Reply Comments

Case 19-E-0283

January 9, 2020

The City of New York (The City) and the Clean Energy Parties (CEP) submitted comments on the marginal cost of service (MCOS) filings on November 25, 2019 as part of Case 19-E-0283 - Proceeding on Motion of the Commission to Examine Utilities' Marginal Cost of Service Studies. On December 13, 2019, the Joint Utilities (JU) submitted a letter in response to the concerns and recommendations raised by the City and Clean Energy Parties. This letter is in response to the concerns raised by the JU in their reply comments.

1. Focus of the MCOS Proceeding

JU Concern: The JU's letter raises claims that the City and CEP "recommend that some of the information provided by the JU in this proceeding be immediately used to adjust the compensation for distributed energy resources (DER) through the Value Stack and other mechanisms."¹ The JU further claim that translating MCOS results into DER compensation is not the focus of this proceeding and, therefore, "the City and CEP's requests are beyond the scope."²

CEP Comments: The nature of the JU's concern is unclear. First, the CEP did not explicitly recommend that "...some of the information provided by the JU in this proceeding be immediately used to adjust the compensation for distributed energy resources (DER) through the Value Stack and other mechanisms."³ Instead, CEP provided recommendations intended to

¹ Joint Utilities Reply Comments, Case 19-E-0283, December 13, 2019, p. 1.

² Joint Utilities Reply Comments, Case 19-E-0283, December 13, 2019, p. 2.

³ Joint Utilities Reply Comments, Case 19-E-0283, December 13, 2019, p.1

improve the utilities' 2020 MCOS/Avoided T&D methodologies to more fully capture the value that DERs provide.

Second, CEP's comments regarding the MCOS/Avoided T&D methodologies are well within the scope of the proceeding, as the results have direct implications for DER compensation. CEP notes that this case was established by the Commission in its April 18, 2019 Order Regarding Value Stack Compensation in Case 15-E-0751 – In the Matter of the Value of Distributed Energy Resources. In its Order, the Commission stated that “[c]ompensation for the portions of the Value Stack related to avoided distribution system costs, the DRV and LSRV, is based on the results of utility Marginal Cost of Service (MCOS) studies,” and that “a thorough process is needed to examine the MCOS studies and determine what methodologies that lead to the most accurate results.”⁴

Subsequently, the Commission issued a Notice Announcing the MCOS stakeholder forum in June 2019. As part of this notice, the PSC specifically stated that the stakeholder forum would relate to the MCOS studies, which are also known as the avoided distribution cost studies.⁵ This notice reiterated, based on the VDER order, that “previously approved MCOS studies would continue to be used for calculating Value Stack elements until this proceeding has resulted in new MCOS studies approved by the Commission.”⁶

Based on this, it is CEP's understanding that the purpose of this proceeding is to arrive at marginal cost of service studies that accurately reflect the value that DERs provide to the transmission and distribution system. Certain utilities have recognized this concern. The marginal cost of service studies for Central Hudson & Gas (CHG&E) and National Grid were performed in the context of developing locational marginal values that would inform the DRV and LSRV for Value Stack compensation. More specifically, CHG&E and National Grid conducted Avoided T&D studies. As stated in CEP's comments submitted on November 25, 2019, the remaining utilities should be adopting similar Avoided T&D methodologies to capture

⁴ Order Regarding Value Stack Compensation, Case 15-E-0751 – In the Matter of the Value of Distributed Energy Resources, April 18, 2019, p.16

⁵ NY PSC, Notice Announcing Marginal Cost Study Stakeholder Forum, June 5, 2019, p. 1.

⁶ *Ibid.*

the avoided cost of transmission and distribution values by DERs to arrive at more accurate results that can inform DRV and LSRV in the value stack proceeding.⁷

In addition, CEP notes that the JU has not commented on the concerns raised in regard to the recommendation that utilities conduct an Avoided T&D study (as has been done by CHG&E and National Grid) as opposed to relying on a traditional marginal cost of service study and the applicability of such a study to value stack compensation.

2. Inclusion of policy-based electrification and accounting for extreme weather scenarios.

JU Concern: The JU outline concerns regarding CEP’s recommendation to establish “policy-based EV [electric vehicle] and building electrification forecasts to be used in the [MCOS] studies going forward” and “develop a methodology accounting for investments related to extreme weather scenarios.”⁸ Although the JU agrees that increased electrification and extreme weather conditions should be in consideration for the forecasting process, the JU claim that such an approach is premature. Regarding EV and building electrification impacts, the JU state that it is unclear how these impacts should be factored into future forecasts before the Department of Environmental Conservation adopts its rules regarding emission limits and compliance requirements.

CEP Comments: CEP appreciates the JU acknowledgement of the future need to include appropriate electrification and weather assumptions in load forecasts. Based on the VDER order, DER compensation is based on marginal cost of service studies at the time the specific DER qualifies for DRV and LSRV. The DRV \$/kW-year value will be locked in for the first ten years.⁹ For example, any MCOS/Avoided T&D study conducted in 2020 will inform those values for DERs for the next ten years and must accurately reflect the expected load growth for the next ten years to establish the correct price signals for incentivizing cost-effective DER investments.

⁷ CEP MCOS Comments, Case 19-E-0283, November 2019, p. 23

⁸ Joint Utilities Reply Comments, Case 19-E-0283, December 13, 2019, p.2

⁹ Order Regarding Value Stack Compensation, Case 15-E-0751 – In the Matter of the Value of Distributed Energy Resources, April 18, 2019, p. 21

CEP is not clear what is meant by the JU's comment that the utilities "are obligated to develop forecasts that reflect current conditions."¹⁰ Forecasts are specifically intended to reflect future conditions, not current conditions. Moreover, the Commission has directed all of the utilities "to consult the most current data to evaluate the climate impacts anticipated in their regions over the next years and decades, and to integrate these considerations into their system planning and construction forecasts and budgets."¹¹

In addition, New York's climate targets are not speculative. The Climate Leadership and Community Protection Act (CLCPA) was signed into law and requires a specific reduction in GHG of 40 percent by 2030, while the ZEV memorandum represents a commitment by the State to achieve measurable goals by 2025 and 2030. While the exact impacts on electricity load are unknown, the overall impacts can be estimated and integrated into forecasts, and CEP maintains that plausible scenarios should be considered by the utilities when developing their load forecasts. For example, CHG&E acknowledged these ZEV goals and has outlined its intent to include them in its 2020 Avoided T&D study.¹²

3. Inclusion of Feeder Level Costs

JU Concern: The JU note their concern related to CEP's recommendation to include feeder level costs in the MCOS studies. Per the JU, the incremental costs related to feeders can be "relatively small" and these costs are "generally developed and incurred on a short time horizon." Therefore, the JU argues, these investments may not be avoided by DER.

CEP Comments: The value of DERs is not simply the ability to avoid specific, planned investments – it is also the ability to avoid costs that would otherwise be incurred if the DER was not present so that the need for such investments never even materializes. For example, DERs may reduce load below critical thresholds so that a secondary distribution project is avoided or delayed, but this may not be apparent without a counter-factual load forecast that shows what

¹⁰ Joint Utilities Reply Comments, Case 19-E-0283, December 13, 2019, p. 2

¹¹ New York Public Service Commission, Order Approving Electric, Gas and Steam Rate Plans In Accord With Joint Proposal, Case 13-E-0030 *et al*, February 21, 2014, p. 72

¹² Central Hudson Gas & Electric Corporation, Case No. 19-E-0283, Response to Interrogatories, Request No: 3a, Filed July 2019

investments would have been needed but for the DER.¹³ The JU has not addressed the fact that DERs may prevent a project ever being identified because the need did not materialize due to DERs.

In addition, the JU has not addressed CEP's concerns regarding inconsistencies among utilities in addressing feeder level costs. As outlined in CEP's preliminary comments, Consolidated Edison and Orange & Rockland have recognized the potential that DERs offer to defer or avoid feeder level investments and have included feeder level investments in their studies. Furthermore, for these two utilities, these feeder-level costs represented a significant portion of total marginal cost estimates (over 80 percent for ConEdison). There is no sound rationale to attribute a zero value to the ability of DERs to defer or avoid secondary distribution system costs simply because a utility does not plan for these investments more than one year in advance.

4. Transmission Costs

JU Concern: The JU argue that NYISO-procured transmission costs are already reflected in locational-based market prices, and therefore developing a standard methodology for calculating these costs is unnecessary.¹⁴

CEP Comments: CEP agrees that the short-run marginal costs for transmission are accounted for in the locational based market prices. However, as outlined in CEP's comments, there are additional long run transmission costs that can be avoided by DERs that are not being accounted for. These costs are related to transmission investment decisions based on processes administered by NYISO. CEP has provided examples of such projects such as the recently approved Empire State Line in Western New York.¹⁵

As noted by CHG&E, the NYISO process allows for a mix of resources to be utilized to solve reliability needs identified through its planning processes either through the Transmission Owners as a Backstop Solution, through the solicitation of a Market Solution, or as a Gap

¹³ CEP MCOS Comments, Case 19-E-0283, November 2019, p.41

¹⁴ Joint Utilities Reply Comments, Case 19-E-0283, December 13, 2019, p. 3

¹⁵ CEP MCOS Comments, Case 19-E-0283, November 2019, p.40

Solution. For example, in 2016, a Gap Solution was solicited related to a proposed generator retirement, that specifically allowed for generation, transmission, and energy efficiency solutions.¹⁶

Avoided transmission costs should be calculated using the counterfactual load forecast net of forecasted future DERs. A regression methodology similar to that used by the National Economic Research Associates (NERA) can be used as a preliminary step towards calculating a system wide value of avoided transmission costs until a more precise, location-specific valuation methodology has been determined. The regression develops a relationship between the cumulative planned capacity (kW) and the capital expenditure/investment (\$) to obtain a marginal investment value in \$/kW. In the longer-term, a more sophisticated methodology could be developed in collaboration with NYISO to quantify the avoided cost of transmission investments. The analysis could utilize appropriately-designed load-flow modeling (including but not necessarily limited to assessment of N-1 violations) under a counterfactual scenario in which no new DERs are implemented, and then would estimate the cost of transmission upgrades required under the counterfactual relative to the base case.

To this extent, the JU have not sufficiently addressed the concerns raised by CEP regarding the avoidance of NYISO related transmission costs by DERs.

5. Other Relevant Cost Categories

JU Concern: The JU oppose CEP's recommendation to include "proxy adders" and other "unsubstantiated benefits" in the MCOS computation,¹⁷ arguing that such items are "unrelated to the marginal cost of avoiding distribution infrastructure" and "without analytic support" from the MCOS studies.¹⁸ Instead, the JU suggest that the value of DER to the electric system should be assessed in the associated VDER Proceeding. In these two suggestions, the JU claim that the CEP urges compensation for DER without analytic support from the MCOS studies for the services provided.

¹⁶ Central Hudson Gas & Electric Corporation, Case No. 19-E-0283, Response to Interrogatories, Request No: 4c, Filed July 2019

¹⁷ Joint Utilities Reply Comments, Case 19-E-0283, December 13, 2019, p.2

¹⁸ Joint Utilities Reply Comments, Case 19-E-0283, December 13, 2019, p.2

CEP Comments: CEP disagrees with the JU based on the same concerns outlined in CEP’s comments submitted on November 25, 2019. CEP understands the purpose of the proceeding as a refinement of the MCOS studies (or avoided transmission and distribution studies) to better inform the DRV and LSRV values. In the respective MCOS studies, specific utilities have recognized the value of reliability provided by DER. Particularly, CHG&E’s Avoided T&D Study states that a “small subset of reliability-based projects can be avoided by DERs or demand management.”¹⁹ In addition, National Grid included reliability projects for which DER provided a suitable solution in its 2018 MADC study.²⁰ CEP disagrees with the comment made by JU that these are “unsubstantiated benefits.” CEP used the term “proxy adder” to represent values that may be difficult to quantify but are clearly non-zero. We specifically recommend defensible methods that could be used to support the use of a proxy adders again with the goal of creating efficient market signals to encourage cost-effective investments in DERs.

Please contact David Gahl at dgahl@seia.org or at (518) 487-1744, on behalf of the CEP, with any questions about this submission. Thank you.

Respectfully submitted,

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¹⁹ Central Hudson Gas & Electric Corporation, Avoided T&D Study, 2018, p. 4

²⁰ National Grid, Case No. 16-M-0411, Information Request No: SEIA-1-24(Gahl) DG-1-24, Pg. 7, Response to Question 11, filed November 2018

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