STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of the Value of Distributed Energy Resources **Case 15-E-0751**

INFORMAL COMMENTS OF MULTIPLE INTERVENORS ON DRAFT STAFF WHITEPAPER REGARDING VDER COMPENSATION FOR AVOIDED DISTRIBUTION COSTS

PRELIMINARY STATEMENT

Pursuant to correspondence dated July 26, 2018, New York State Department of Public Service Staff ("DPS") solicited comments from interested parties in the above-captioned proceeding on the *Draft Staff Whitepaper Regarding VDER Compensation for Avoided Distribution Costs* ("Draft Whitepaper") of the same date. Multiple Intervenors, an unincorporated association of approximately 60 large industrial, commercial and institutional energy consumers with manufacturing and other facilities located throughout New York State, hereby submits its Informal Comments on the Draft Whitepaper.

In the Draft Whitepaper, Staff advances several proposals regarding modifications to the compensation paid to distributed energy resources ("DER") under the Value Stack. Those proposals entail: (a) modifying the calculations and the application of the Demand Reduction Value ("DRV") component of the Value Stack (Draft Whitepaper at 6-8); (b) eliminating the Locational System Relief Value ("LSRV") component of the Value Stack, with a ten-year phase-out for projects currently receiving the LSRV (*id.* at 8-9); and (c) expanding Net Energy Metering ("NEM") for a subset of "smaller demand-metered non-residential customers" (*id.* at 9-

10). For the reasons set forth below, Multiple Intervenors has some level of concern with all of Staff's proposals, and particularly the one advancing an expansion of NEM.

A. Proposed Modifications to the DRV

Initially, Staff asserts that "the contribution made by injections into the system by VDER resources is likely to be similar, on a $ per peak kW basis, to the contribution provided by the portfolio of Energy Efficiency (EE) resources." (Draft Whitepaper at 6.) There is no analysis proffered, facts identified, or citations advanced, that support this assertion, which may – or may not – be accurate.

Next, Staff proposes that calculation of the existing DRV be modified to utilize the same "system-wide marginal cost estimates used generically for each utility's EE benefit-cost calculations." (*Id.*) It is not clear whether such proposal is being advanced to increase the value of the DRV to DER developers and/or participating customers (at the expense of non-participating customers) or because Staff contends that it improves the accuracy of the DRV (and, if so, how it does so).

At this time, Multiple Intervenors withholds judgment on this specific Staff proposal pending further information and justification, which currently is lacking in the Draft Whitepaper. If such proposed modification truly would improve the accuracy of the DRV (and, therefore, presumably not create incremental rate impacts on non-participating customers), then it may be acceptable, if not appropriate. If, on the other hand, the primary motivation in advancing this modification is to make DER projects more lucrative financially, then Multiple Intervenors would oppose it as simply creating (or exacerbating) subsidies that ultimately will be borne by non-participating customers.

Staff then proposes two alternative methodologies for calculating the DRV: one approach reliant on a DER project's output during 460 summer peak hours, while the other is reliant on ten peak hours in response to a notice by the local utility based on system demand. (Draft Whitepaper at 6-8.) Staff further proposes that developers be accorded the choice of which DRV methodology would apply to their projects. (*Id.*) Multiple Intervenors disagrees with this buffet-style approach to DER compensation. The Value Stack should compensate DER projects for the economic value they provide to the electric system, not provide them with a menu of options to maximize compensation at the expense of non-participating customers. There should be one methodology for calculating the DRV, and it should be chosen based on its relative accuracy.[1]

B. The Proposed Elimination of the LSRV

Staff proposes that, based on its two alternatives for calculating DRV, "the LSRV should be phased out, with any existing qualified projects continuing to receive an LSRV for a 10-year term; no new projects would be eligible for an LSRV." Multiple Intervenors has several potential concerns regarding Staff's proposal.

First, there has not been any demonstration that the two alternate methodologies for calculating DRV (addressed *supra*) provide a more accurate level of compensation for the economic value provided by DER projects than the existing DRV plus the existing LSRV. Inasmuch as the whole purpose of the Value Stack is to provide an accurate level of

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[1] Multiple Intervenors acknowledges there exists some tension between maximizing certainty (for planning and financing purposes) by fixing values for some period of time versus maximizing accuracy (for equity and mitigating customer rate impacts purposes) by using only the most current values based on the most current performance. To the extent there needs to be some compromise along such continuum, that may be acceptable, within reason. Addressing such concerns, however, does not necessitate offering DER projects a choice of multiple compensation methodologies.

compensation to DER, such a demonstration seemingly should be a prerequisite to substantive modifications to the Value Stack. If and when such a demonstration is made, Multiple Intervenors might be willing to support the proposed elimination of the LSRV, subject to its second concern, addressed below.

Second, the purpose of the LSRV was to recognize that DER sited in one location may provide greater or less economic value to the electric system than a comparably-sized DER sited in a different location.[2] The proposed elimination of the LSRV would remove the only locational component to the Value Stack, which seems inconsistent with the Commission's prior rulings herein; for example: "An important aspect of the compensation methodology being adopted is the recognition of locational value, specifically that related to the distributed system … we must move expeditiously so that each individual kWh is assigned an individual value based on when and where it is generated."[3] Thus, while Multiple Intervenors opposes the over-compensation of DER at the expense of non-participating customers, it is not at all clear that the location-based component of the Value Stack should be eliminated, thereby rendering compensation under VDER tariffs wholly indifferent to the location of projects.

Third, Multiple Intervenors seeks clarification that, to the extent a DER project retains the LSRV under the proposed phase-out, it would not be eligible for the proposed

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[2] *See, e.g.*, Cases 15-E-0751, *In the Matter of the Value of Distributed Energy Resources*, and 15-E-0082, *Proceeding on Motion of the Commission as to the Policies, Requirements and Conditions For Implementing a Community Net Metering Program*, Order on Net Energy Metering Transition, Phase One of Value of Distributed Energy Resources, and Related Matters (issued March 9, 2017) at 20 (noting that "[e]ach DER will create different values for the electric system, and impose different costs on the electric system, depending on its individual characteristics and the nature of its use, <u>including</u> when and <u>where the DER is operated</u>"; emphasis added).

[3] *Id.* at 111.

alternative DRV methodologies advanced under the Draft Whitepaper. As Multiple Intervenors interprets Staff's proposal, it essentially seeks to replace (i) the existing DRV and the existing LSRV compensation methodologies with (ii) the alternative DRV methodologies, which presumably are approximately comparable in magnitude (although no analysis is provided by Staff to that effect). Consequently, if compensation under the DER is enhanced such that the LSRV can be eliminated, then it seemingly would overcompensate projects to be paid under the one of the proposed alternative DRV methodologies while still being allowed to retain the LSRV for up to ten years. Thus, Staff should clarify that, under its proposal, DER projects would not retain the LSRV if they elect an alternate DRV methodology. Clearly, additional clarity is needed on exactly what is being proposed by Staff and why.

C. The Proposed Expansion of NEM

In the Draft Whitepaper, Staff proposes to extend NEM to "smaller demand-metered non-residential customers" that satisfy certain criteria. (Draft Whitepaper at 9.)[4] Multiple Intervenors opposes this proposal, and any other proposal that would expand or further perpetuate NEM. Indeed, Staff should be seeking to protect non-participating customers from inequitable and unacceptable rate impacts by working to expedite the transition away from NEM, not expand its applicability.

NEM appears to result in subsidies from a very-large subset of non-participating customers to a much-smaller subset of DER developers and/or participating customers. Rather than discussing at length herein Multiple Intervenors' concerns related to the possible expansion

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[4] Specifically, Staff proposes that eligibility for NEM be expanded to encompass "projects that (a) have a rated capacity of 750 kW AC or lower; (b) are at the same location and behind the same meter as the electric customer whose language they are designed to off-set; and (c) have an estimated annual output less than or equal to that customer's historic annual usage in kWh." (*Id.*)

of NEM, it perhaps is more compelling simply to remind Staff of the Commission's conclusions from just last year:

> The Commission also recognizes that existing DER business models are well-established and based largely on net energy metering (NEM). These business models reflect the capabilities and needs of the electric system at the time they were designed and they appropriately served to open up markets and drive initial development. But <u>such business models and NEM in particular are inaccurate mechanisms of the past</u> that operate as blunt instruments to obscure value and are incapable of taking in to account locational, environmental, and temporal values of projects. <u>By failing to accurately reflect the values provided by and to the DER they compensate, these mechanisms will neither encourage the high level of DER development necessary for developing a clean, distributed grid nor incentivize the location, design, and operation of DER in a way that maximizes overall value to all utility customers. As such, they are unsustainable. To the degree that they over-compensate DER providers by transferring their fair share of fixed costs onto other customers, they operate now in a manner that will not sustain wide-scale deployment as the inherent subsidies reach a level that is oppressive to non-participants.</u> While it is natural for the existing DER businesses to want to maintain the business models and financial support that they have enjoyed, <u>the public interest requires the development of and prompt transition to more accurate valuation and compensation mechanisms for DER</u>, particularly for project types currently compensated through NEM, that accurately reflect and properly reward DER's actual value to the electric system and that ensure all customers pay their fair share for the costs of grid operation and benefit from the value they provide.[5]

Based on the Commission's recent ruling, Multiple Intervenors is puzzled, and troubled, by Staff's proposal to expand eligibility for NEM, a mechanism the Commission found explicitly to: (a) be "inaccurate"; (b) "obscure value"; (c) be "unsustainable"; (d) "over-compensate DER providers by transferring their fair share of fixed costs onto other customers";

[5] Cases 15-E-0751 and 15-E-0082, *supra*, Order on Net Energy Metering Transition, Phase One of Value of Distributed Energy Resources, and Related Matters at 3 (emphasis added). *See also id.* at 23 (finding that "*continuation of NEM is inconsistent with REV, Commission policy, and the public interest*"; emphasis added).

(e) contain "inherent subsidies" that will "reach a level that is oppressive to non-participants"; and (f) warrant a "prompt transition" away from its use. (*See id.*) The Draft Whitepaper fails to reference, or attempt to explain, why a proposal to expand NEM should be considered given the Commission's recent, strong conclusions about the importance to transition away from NEM.

Staff should reevaluate its proposal and, upon so doing, refrain from advancing it formally. The primary focus of this proceeding should be on eliminating NEM – or at least transitioning away from its application – as soon as possible and, instead, compensating DER based on the actual economic value it provides to the system, without subsidies funded by non-participating customers.

CONCLUSION

For all the foregoing reasons, Multiple Intervenors urges Staff to reevaluate and then modify its Draft Whitepaper in accordance with the positions espoused herein. While Multiple Intervenors understands the desire to promote the expansion of DER, such expansion should not come at the financial expense of non-participating customers. Staff should focus on removing artificial barriers to DER, and truly applying the Value Stack in a technology neutral manner, while eliminating financial subsidies being borne by captive customers.[6] As noted

[6] Customers already are being forced to fund a litany of discretionary programs that are not needed for the safe and reliable provision of electric service, including, but not limited to: (a) $5 billion of more towards the Clean Energy Fund; (b) subsidizing selected nuclear generation facilities under the Clean Energy Standard ("CES"), estimated to cost well in excess of $6 billion; (c) subsidizing new renewable generation facilities under the CES at an estimated cost well into the billions of dollars and possibly into the tens of billions of dollars; (d) subsidizing existing renewable generation facilities under the CES, including facilities that previously were subsidized under the Renewable Portfolio Standard; (e) utility energy efficiency programs of increasing cost; (f) Earnings Adjustment Mechanisms to be paid to utility shareholders over and above Commission-approved revenue requirements; (g) new offshore wind subsidies of substantial (but unknown) magnitude; (h) a new initiative to subsidize storage investments; and,

previously by the Commission, "to the extent that a failure to offer proper compensation by recognizing values leads to the installation of DER that creates lower benefits or greater costs for the electric system than would otherwise be the case, all utility customers, and in particular non-participants, suffer the impacts of those greater costs and lower benefits."[7]

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possibly, (i) a proposal to implement carbon pricing into the State's wholesale energy markets. The ability of customers to fund discretionary policy initiatives, with ever-increasing aggregated rate and price impacts, should not be assumed. Multiple Intervenors urges Staff to focus on protecting non-participating customers from unnecessary costs, rather than constantly modifying the Value Stack rules primarily to maximize financial benefits to DER providers and/or a small subset of participating customers at the expense of other customers.

[7] Cases 15-E-075 and 15-E-0082, *supra*, Order on Net Energy Metering Transition, Phase One of Value of Distributed Energy Resources, and Related Matters at 21.