VDER Tariff Design Proposal for Mass Market Customers

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Agenda

• Review principles

• Review approach and design features to VDER Tariff Design for evaluation

• Set structure for evaluation in the Bill Impact and other studies
1) Principles: Principles Established by Commission

- Cost Causation
- Encourage outcome
- Policy transparency
- Decision-making
- Fair value
- Customer-orientation
- Stability
- Access
- Gradualism
- Economic sustainability
Key Principles to Emphasize

a) Simplicity: design should be understandable for mass market customers/ clearer signals leads to action and are fairer to customers

b) Reflect utility system and social costs: customer is rewarded based on value of RE/EE action and pays for impact of energy use

c) Keep eyes on the policy goal: Design should support New York’s stated goal of a cleaner, more advanced, diverse, cost reducing energy system
2) Design Elements

a) Key Element is Time of Use Energy Rate

b) Introduce Critical Peak Pricing (CPP)

c) Make a Variable Peak Pricing Tariff Available to Customers on an Opt-In Basis

d) Customer Charge review

e) Seasonal Rates

f) Utility Revenue Stability and Cost Shifting Issues

g) Concerns with Demand Charges

h) Review on Ongoing Basis for Effectiveness and Customer Reaction
a) Key Element is Time of Use Energy Rate

• The single largest cost component is wholesale energy (including fuel and its environmental impacts), and certainly the most important from a policy perspective: TOU energy charges capture this

• Use same time duration for delivery and commodity: simplicity, and both occur during on-peak period

• ISO forward on and off-peak energy prices reflected in energy rates

• Reflect distribution, transmission and generation capacity in on-peak charges

• VDER value stack should inform the design of energy rates

• Assign delivery costs to on and off-peak energy charges
b) Introduce Critical Peak Pricing

• Opt-in: a fixed extra peak charge reflecting historic and forward energy prices on NYISO Event Days, as well as value to distribution system

• Future consideration of opt-out after lessons learned

• For purposes of this tariff, Event Days are called on a day-ahead basis
c) Make a Variable Peak Pricing Tariff Available to Customers on an Opt-In Basis

- Rewards customers with greater load control, technology and awareness for their response during extra cost/reliability threatened periods
- Short notice (4 hours) and actual NYISO prices
d) Customer Charge

- Should reflect cost of meter, service drop and allocated share of customer service

- Cost causative approach

- Fairer to low income and smaller use customers

- Consistent with Commission’s goals especially energy efficiency

- Utility financial stability can be addressed through other mechanisms that are more consistent with cost causation and policy goals (discussed below)
e) Seasonal Rates

• Maintain seasonality of rate design; better reflects costs
f) Utility Revenue Stability and Cost Shifting Issues

• Utility distribution sunk fixed costs and commodity costs should be recovered:
  • Consistent with Commission’s REV vision, the utility role as platform to support growth and new technologies

• The above framework may lead to under or over recovery depending on customer reaction/elasticity and level of charges

• Tariff should include annual true-up, to maintain utility sunk fixed cost distribution revenue requirement
  • Revenues collected through the above tariff design would be reconciled annually against fixed cost distribution revenue requirement and incurred generation and transmission costs.
  • True-up would be by customer class, i.e., not from individual customer (counter productive to Commission goals) and not system wide (unfair to individual customer classes)
  • Commission oversight review for reasonableness
g) Concerns with Demand Charges

• Mostly unknown to mass market customers (leading to steep learning curve and potential backlash)

• Not flexible enough to reflect cost

• Not effective in inducing behavioral changes and energy efficiency investments

• Issue of revenue/risk to utilities with residential demand charge is unknown: is fluctuation of billed demand more than fluctuation of billed energy use?
3) Next Steps

• Discussion and clarification with Working Group

• Review utility cost of service studies and other data to develop indicative tariffs around the above design framework

• Collaborative process with stakeholders reviewing data and having access to model development and models

• Work with Utilities and other Working Group members on the performance of Bill Impact and other Studies

• Evaluate results of studies; determine if adjustments are needed