

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 15-E-0751 – In the Matter of the Value of Distributed Energy Resources

POLICY STATEMENT

The Association for Energy Affordability, Citizens for Local Power, the Clean Coalition, The Nature Conservancy, the New York Public Interest Research Group, and Pace Energy and Climate Center

Dated: April 18, 2016

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I. Introduction

Pursuant to the Notice Soliciting Comments¹ in the above captioned proceeding dated December 23, 2015, the Clean Energy Organizations Collaborative (“CEOC”)² submits the following principles and methodologies³ to guide both the selection of an interim successor to net metering, as well as the long-term task of developing rates to compensate distributed energy resources for their locational and environmental benefits.

The Association for Energy Affordability, Citizens for Local Power, the Clean Coalition, The Nature Conservancy, the New York Public Interest Research Group, and Pace Energy and Climate Center⁴ welcome the opportunity to offer these principles. CEOC strongly support the New York Public Service Commission’s (“the Commission”) effort to more precisely articulate

¹ Case 15-E-0751. In the Matter of the Value of Distributed Energy Resources. Notice Soliciting Comments and Proposals on an Interim Successor to Net Energy Metering and of a Preliminary Conference (“Notice Soliciting Comments”). December 23, 2015.

² The Pace Energy and Climate Center and the Alliance for Clean Energy New York co-convene an independent group called the Clean Energy Organizations Collaborative on REV-related matters. This collaborative is made up of national and state-based environmental organizations, clean energy companies and organizations, renewable energy industry trade associations, consumer groups, energy efficiency providers, and academic centers. CEOC seeks to ensure environmental outcomes that are consistent with New York’s overall pollution reduction goals; break down existing barriers to clean energy services; and inform its members on market and rate design issues.

³ Pursuant to the Notice Soliciting Comments, CEOC submits these principles and methodologies as a “Policy Statement” not subject to discovery in the instant proceeding. *See* Notice Soliciting Comments, p. 5.

⁴ The Pace Energy and Climate Center will file additional comments individually in this proceeding.

the full value of distributed energy resources (“DER”). Calculating the full value of DER is a critical element of New York’s Reforming the Energy Vision (“REV”)⁵ process, and we applaud the Commission for instituting the instant proceeding and its foresight in tackling both the interim and full valuation methodology at once. By tying the question of what interim successor to net metering may be appropriate to the long term task of how to develop and continually reassess the value of DER to the grid, the Commission has integrated the short and long-term transition to the REV market into a cohesive inquiry. DER has long provided latent value to an increasingly costly distribution system. This proceeding is a critical step to capturing that value and incentivizing continued investment in distributed energy resources.

Our approach in this policy statement is divided into two sections: first, a set of principles that guide the process of developing post-net-metering rates; and second, proposals for the structured timeline that should guide this proceeding forward.

II. Principles for Development of Interim Successor and LMP+D Rates Generally

CEOC has developed the following general principles to guide both the development of an interim successor to the net metering rate, as well as the long-term task of deriving LMP+D rates for DER. These principles stand outside of and inform our discussion of a specific process that may best guide the development of rates in section III.

- 1) Until a value of D that accounts for all the categories of value that the Commission has identified can be fully developed, the Commission should err towards **preserving the status quo** for net metering customers.

The Commission has set out an ambitious scope of value components that will inform the ultimate “value of D,” including “load reduction, frequency regulation, reactive power, line loss avoidance, resilience and locational values as well as values not directly related to delivery service such as installed capacity and emission avoidance.”⁶ This broad mandate will require

⁵ Case 14-M-0101. Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision.

⁶ Case 15-E-0407. Orange and Rockland Utilities, Inc. - Petition For Relief Regarding Its Obligation to Purchase Net Metered Generation Under Public Service Law §66-j. Order Establishing Interim Ceilings on the Interconnection of Net Metered Generation, p. 9. October 16, 2015.

substantial study into the various component values, facilitated by utilities aggressively investigating and making data available for stakeholders to critique the value of DER in each category.

The CEOC recognizes that this full study process will continue to take shape beyond the issuance of an interim value order in 2016. To ensure that DER markets are not disrupted during this interim, the Commission should ensure that interim rates roughly preserve or improve on the status quo for DER customers.

- 2) Final LMP+D values should be **inclusive of locational, environmental, and time-dependent values.**

While the CEOC does not take a position on which values must be incorporated to adjust the retail foundation of an interim rate (pending what values the Commission determines can be made known and measurable in the limited calendar), we advocate that the final iteration of an LMP+D rate construct should account for the following long-run values provided by DER:

- Time-dependent values
- Locational values, including for deferred investment, and feeder-level congestion relief
- Resiliency value
- Reduction in line loss
- Market Price Response
- Reduction in fuel price risk
- Avoided energy costs
- Avoided cost of resource adequacy
- Avoided transmission and distribution capacity costs
- Social cost of pollutants including carbon, sulfur dioxide (“SOx”), and nitrogen oxide (“NOx”)
- Compliance costs associated with pollutants including carbon, SOx, and NOx.
- Ancillary services including reactive power, blackstart, frequency and voltage regulation

Some of these values may be partly or fully addressed in other emerging markets going forward, such as the distributed service provider (“DSP”), and the CEOC is mindful that LMP+D

rates will have to be harmonized with these structures as they evolve in order to avoid double-counting.

- 3) The inclusive value of D should be developed on a **procedural continuum**, rather than a single, static interim value followed by a static final value.

The many variable locational, environmental, and time-dependent components of an LMP+D rate suggest that an iterative, incremental process may be most appropriate to deriving the value of D.

This process should move on a continuum towards increasingly granular methodologies for measuring the value of D. This incremental regulatory process may evolve with the changing DER on the grid. The CEOC parties urge the Commission to implement such a process.

In harmony with principle (4) below, however, the CEOC is careful to note that this process of refining methodologies does not suggest constantly fluctuating rates for individual customers. While the process for developing methodologies may be fluid, these methodologies must be predictable in their application to a project in order to create a sound investment climate.

- 4) To encourage investment, customers under the LMP+D rate should have the right to lock-in a given D value over a long term.

The value of D will be in considerable flux in early years, both from developing methodologies for deriving the value itself, as well as from the substantive value shifts resulting from increasing penetration densities of DER resources on the grid. Customers must be able to hedge against this risk with levelized, locked-in prices over a reasonable term. A proper evaluation process to determine which portions of the D rate should be fixed for these purposes and which may float is appropriate. As valuation methodologies settle and the market matures, the risk premiums embedded in these long-term rates will adjust as well.

- 5) To the extent that LMP+D rates rely on utility calculations to determine specific locational values, this process must be open and subject to **oversight and public critique**. These values should be subject to regular challenge or revisiting through an appropriate administrative process, such as rate cases or DSP filings.

It is vital that all parties engaged in the instant proceeding have access to the data necessary for determining the value of D. The Commission should ensure that utilities provide all information that is necessary to calculate the locational value of DER. Accurate information—and a rigorous review of the information—is critical to an appropriate accounting of the locational value of DER. Utility standards for a value of D should default to the best supported value, while DER developers or customers must retain a procedural pathway to challenge the listed D value. As these determinations are iterative, they must be evaluated on a regular basis.

- 6) While the long-term objective of the LMP+D proceeding is to assign *actual* value for all DER, during the transition it is appropriate to use expected performance values (or “deemed savings”) for different technologies, especially non-dispatchable intermittent generation. To this end, we encourage the Commission to **prioritize analysis of non-dispatchable intermittent generation.**

As the value of D is developed, it will involve technology-specific inquiries into value inputs, and the first values developed should benefit from existing best practices around the country. There is already a great deal of national experience in determining the locational value of intermittent, non-dispatchable resources from which we may learn, including value of solar proceedings in Maine and Minnesota, and methodology guides in Iowa and Michigan.

- 7) To protect the investment expectations of currently installed or qualifiedly pending DER projects, these projects should be **grandfathered** into the LMP+D framework.

Many existing net metering customers have made investments on the assumption that the retail rate would allow them to recoup their investment over the life of the project. To avoid disrupting these customers, the Commission should allow them to stay on their current net metering rate for the life of the project (or a reasonable expectation for project life, e.g., 20 years for solar). A further review process should focus on what time and investment criteria should apply to a “qualifiedly pending” project for these purposes.

- 8) Value attributed to sheer **load reduction should not discriminate** between customers who provide that load reduction via storage, on-site generation, energy efficiency, or load shedding.

Among the many categories of benefits that may apply across different technologies under an LMP+D construct, the value attributed solely to load reduction should not discriminate by the type of resource that provides that load reduction.

- 9) Rates must be designed to **avoid double-counting** of interconnection costs.

Many costs associated with safely and reliably interconnecting DER to the grid are one-time costs that are accounted for through the interconnection process. The LMP+D framework must be careful not to deduct from the value of D any interconnection costs.

- 10) Both interim and LMP+D rate design should **emphasize transparency and simplicity** to encourage customer engagement.

In developing both interim and ultimate LMP+D rates, the Commission should emphasize that, in the midst of many complex value components, appropriately simple and accessible presentations of the rate must be developed in order to effectively engage customers in understanding and adjusting their energy profile.

III. Timeline for Developing Interim Successor and LMP+D Valuations

The instant filing deadline represents the beginning of a process that, in order to properly develop consensus around valuation methodologies, must provide sequenced opportunities for stakeholder information gathering and critique. It is vital that a procedural pathway is roadmapped by the Department of Public Service (“DPS”) Staff or the Commission so that stakeholders understand the process available to them for developing this docket, as well as the appropriate inflection points where they must engage. At this point, the open-ended invitation to propose new DER rate valuation methodologies should cede to a structured timeline to ensure parties are approaching this ratemaking process with common objectives at each juncture. The CEOC would like to make the following process oriented suggestions:

- **Scoping conference** (June): Following a period for parties to engage in discovery around each other's proposals (which may continue throughout), it will be vital to narrow the scope around what components of benefit and cost should inform an interim successor rate, beginning by excluding those values that cannot be made known and measurable without a clearly time-prohibitive degree of further study. This process may best be accomplished by a scoping conference, wherein utility representatives and stakeholder experts will be tasked with summarizing the existing available data that might inform each component value. The conclusion of the scoping process should be that some categories of value are excluded from incorporation into an interim rate, while other values are demonstrated to be determinable by one or more established methodologies. Those values that can be made known and measurable in time to inform an interim rate should be addressed in a further methodological comparison process.
- **Methodological comparison** (July): Among the values that may inform an interim rate, several competing methodologies may be available for assessing these values. Parties should be invited to propose a universe of valuation methodologies for each value component, and critique these in an interactive manner (either through conference or filings). Utilities should be engaged to provide illustrative examples of the type of customer and system data that may inform select methodologies. The outcome of this process should be to select valuation methodologies for each component of an interim rate, and understand the sources of information that inform each methodology.
- **Data sharing and application** (September): Once value components and methodologies have been selected, a technical conference should be held to present applied examples of the selected components of the interim rate. Parties should be able to see the bottom-line impact that an interim rate would be likely to have on different classes of customers. Utilities should be invited to propose appropriate methods by which this data will be subject to public disclosure. The outcome of this process should be to release examples of selected rates with the valuation methodology explained and documented. Parties should be invited to comment on technical as well as policy concerns related to the developed, proposed interim value methodology.
- **Adoption of further study timeline** (October): Having explored and settled on interim rate structures, having informed the process by which values unaccounted for in the

interim rates might be further studied, and having identified any high-level policy concerns created by the proposed interim rate, staff with stakeholder input should be invited to propose incremental study plans to further develop the final LMP+D valuation. These plans should be prioritized by what can be best accomplished over the near term, what might inform broader DSP efforts in a timely fashion, and what might alleviate any potential policy concerns posed by interim rates.

This suggested timeline is not intended to be strict in its prescription, but illustrative of the discrete, structured process forward that might best inform stakeholder engagement. It deliberately does not stretch until December, so as to allow some flexibility in case parties realize that some part of this process must be revisited to avoid an unintended consequence.

IV. Conclusion

The Clean Energy Organizations Collaborative applauds the Commission for its vision in setting this vital track of the REV proceeding into motion, and looks forward to working with DPS Staff and Commission and other stakeholders in developing a record that supports a much-needed reevaluation of the rates offered to DER.

Thank you.

Respectfully submitted,

[Signatures to follow.]

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