Consumer Power Advocates

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Honorable Kathleen Burgess
Secretary
New York Public Service Commission
Three Empire State Plaza
Albany, New York 12223-1350

RE: Case 14-M-0101- REV: DPS Staff White Paper on Ratemaking

Dear Secretary Burgess,

These are the comments of Consumer Power Advocates (CPA) on the Staff White Paper on Ratemaking filed on July 28, 2015 in the above captioned case. CPA congratulates Staff on its efforts to present a comprehensive description of the issues and policy considerations raised by REV. We are particularly gratified that Staff recognized the importance of equal treatment of customer side with centralized resources, and proposed a transition from cost based ratemaking based with emphasis on revenue and expense reconciliations to more organic incentives based on market opportunities.

We will limit our further comments to two issues of importance to our members that were not addressed in the White Paper. We believe that favorable resolution of these issues is necessary to support the REV goal of animating a robust distributed energy resource (DER) market.

Steam Standby Rates

One important issue not discussed in the White Paper is the barrier to entry for combined heat and power plants (CHP) created by Con Edison's steam standby rates. Unlike electric standby rates, the steam tariff includes no exemptions or any threshold that allows incidental amounts of on-site steam generation. The Contract Demand (CD) rate is particularly

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burdensome, and again unlike the electric rates, the steam tariff includes no possibility of earning a credit against the CD. In addition, CD exceedances are not limited to hours when the steam system is likely to be constrained, but are measured in all hours, even low electric load hours when increased steam use may make utility electric service more efficient because much of the steam supply is efficiently cogenerated with electricity.

The Commission should consider revisions to eliminate the barriers to efficient CHP created by the steam standby. These considerations should include, at a minimum,

- Elimination of CD exceedances in hours when the steam system is unlikely to be constrained,
- An earned CD credit appropriate for steam service,
- An on-site steam generation threshold below which standby rates would not apply, and
- Exemptions for efficient CHP projects that support REV goals.

Gas Delivery Rates for Clean Distributed Generators (DG)

Delivery rates for gas used in clean DG is another important issue that was not addressed in the White Paper. In current practice, the delivery rates, whether firm or interruptible, for gas used in clean DG are significantly higher than the rates paid by central wholesale generators, and much of this difference is due to the greater collection of utility fixed costs from retail customers. This increased fixed cost contribution means that, all else equal, clean DG will be more costly than central generation that receives gas delivery service at rates very close to marginal cost. If the potential of clean DG is to be achieved, it must be allowed to compete with large scale generators on an equal basis. This does not imply that retail rates should be identical to rates paid by wholesale generators, but it does mean that the difference between those rates must be justified by differences in marginal cost, and that DG rates not include excessive contributions to fixed costs.

Current Commission policy for interruptible gas rates refers to marginal cost only as a minimum rate, and encourages gas utilities to maximize interruptible revenue for the benefit of firm ratepayers. We expect some to argue that the reduction of fixed cost contributions by DG customers will cause unwarranted bill impacts on firm gas customers. We disagree. Almost all gas customers are also electricity customers, and we expect an unnecessary increase in electricity

prices if efficient DG customers are required to continue to pay gas delivery rates far in excess of marginal cost. This increase will affect all electricity prices, and will very likely be far greater than the contribution required of the relatively small number of clean DG customers.

Electricity prices will increase for two reasons. First, if clean DG customers bear gas delivery rates that are higher than the rates applied to gas used in central generation, DG customers will find fewer hours when it is cheaper to run their own machines and will purchase power in more hours. Building owners who are considering clean DG may forego that opportunity. In either event, there will be a reduction of electricity supply (or an increase in net load) that will cause prices to rise in compliance with the iron law of supply and demand.

Second, even if clean DG owners were inexplicably to provide more energy than is economically justified, electricity prices would still increase in those hours when a clean DG were the marginal generator, because the inclusion of gas system fixed costs in gas rates for clean DG effectively creates an additional marginal cost for that generation. Because wholesale electricity in New York is priced at the Location Based Marginal Price (LBMP), increasing the cost of the marginal generator increases the price paid to all generators in the market, including those who enjoy lower gas delivery rates, or even those who generate from non-fuel sources.

Eventually, even negotiated bilateral contrasts will be affected, because the best alternative to a negotiated agreement (BATNA) in this case is the LBMP.

This is not only economically inefficient and environmentally unfortunate, the increase in total amount of electricity payments is almost certain to be greater than the amount of fixed costs that may by recovered from clean DG customers under any circumstances, regardless of whether they are firm or interruptible.

In the Whitepaper, Staff recognized the importance of treating customer side resources on an equal basis with wholesale supply (p.81):

- *The customer end of the grid will be treated as a core resource on par with centralized resources; this elevates the need for better price signals.*

We believe those “better price signals” include marginal cost based gas delivery rates for clean DG customers.

Thank you for the opportunity to comment on these important issues.

Respectfully Submitted,

John J. Dowling

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