Consumer Power Advocates

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February 25, 2019

VIA ELECTRONIC FILING

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

RE: Case 15-E-0751 – In the Matter of the Value of Distributed Energy Resources

Matter 17-01277 – In the Matter of the Value of Distributed Energy Resources Working Group Regarding Rate Design.

Dear Secretary Burgess,

Pursuant to the Notice Soliciting Comments issued December 21, 2018 in the above-captioned proceeding (the Notice,) Consumer Power Advocates (CPA) hereby submits its comments regarding the Staff Whitepaper on Standby and Buyback Service Rate Design and Residential Voluntary Demand Rates (the Whitepaper) issued December 12, 2018.

Consumer Power Advocates (CPA) is a coalition of not-for-profit commercial health care and educational customers in the Consolidated Edison (Con Edison or the Company) service territory that advocates on behalf of consumer interests before the Commission, NYISO and elsewhere. Most CPA members either already have, are considering installing, or both, distributed energy resources, such as combined heat and power (CHP,) energy storage, fuel cells, or other technologies. As such, they either take service under Con Edison standby and/or buyback rates, or may do so in the future. Thus, they have a direct interest in the outcome of these proceedings.

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The Staff Whitepaper

Continuing the Commission's ongoing development and refinement of standby and buyback rate designs in the context of its Reforming the Energy Vision proceeding, the Whitepaper addresses recent developments undertaken at the Company and other utilities and proposes a series of initiatives that generally seek to institute consistent changes across the state's utilities that build on recent utility-specific reforms undertaken in recent rate cases or otherwise.

While CPA is generally supportive of policy and rule consistency, it takes no specific position with regard to any recommendations concerning utilities other Con Edison, nor with respect to rate reforms applicable to classes other than those applicable to large commercial customers.

In addition, where a particular proposal applicable to Con Edison is not called out for specific comment, CPA should be considered to be generally supportive. Consolidated Edison at the urging of stakeholders has made some progress with respect to standby rates over recent years, with some of the reforms proposed for other utilities (e.g., more granular As-Used Demand Charges and Multi-Party Campus Offset) being based upon these initiatives. That said, the Company's standby and buyback rates can still be improved, something the Whitepaper would go some way toward accomplishing.

Below, CPA highlights specific suggested reforms and provides its comments on each.

Eligibility for Standby Service Rates

CPA supports Staff's statement that "(s)tandby rates are among the most theoretically pure rate designs available for aligning individual customers' contribution to system costs with the rates such customers pay and thereby sending accurate price signals to those customers" and supports the proposal that Con Edison propose (as part of its recently filed rate case) amendments that would allow customers to opt-in to the applicable standby service rates in lieu of their otherwise applicable rates, provided that the aggregate bill impacts to non-participating customers are reasonable.

Allocated Embedded Cost of Service Study

Staff proposes the use of Allocated Embedded Cost of Service study (ACOS) approach, originally developed by Niagara Mohawk in 2016 and eventually adopted in that company's most recent rate case, for both the initial development and subsequent review and updating of standby rates for all utilities. Noting that it builds upon the previous Embedded Cost of Service (ECOS) approach, the Whitepaper describes ACOS approach and notes its impacts on Niagara Mohawk, but highlights the fact that impacts on other utilities may differ and that resulting reallocation of costs between Contract Demand and Daily As-Used Demand charges, relative to current rates could be significant and need to be "carefully weighed." Con Edison is (and other utilities are) directed to conduct such an ACOS study and include rates based thereon in its next rate case. Comments are solicited on the extent of supporting data that should be provided. As this issue will be taken up in the context of the recently filed Con Edison rate case, CPA will not comment on it here.

However, CPA does have concerns with the Whitepaper's apparently unqualified endorsement of the ACOS approach and its summary and largely unsupported rejection of the use of any Marginal Cost-based approach, such as that used by Rochester Gas and Electric Corporation (RG&E.) The entirety of Staff's discussion resides in a mere footnote:

> "Given its complexity, we are not recommending the marginal-cost-based methodology used by RG&E. However, it may be reasonable to utilize marginal costs to inform the ACOS allocations percentages between shared versus local for the various items in each cost and service classification.[1] "

The proposition that use of marginal costs will result in greater allocative efficiency outcomes should be uncontroversial. CPA has long supported greater use of marginal cost of service (MCOS) studies in the development of more efficient rate structures. Where, as here, and, more broadly, within the Reforming the Energy Vision (REV) context generally, rate design decisions will influence or determine how customers choose to invest in and operate distributed energy resources (DERs) it is all the more important that those rate designs reflect cost allocations that are as efficient as possible, while still recovering associated costs and minimizing subsidies.

CPA is concerned that by rejecting, essentially out of hand, MCOS-based approaches, the

[1] / Whitepaper at 9, fn. 22.

Whitepaper may have hamstrung REV and its objectives. We are cautiously optimistic that the language quoted above will mean that the standby and buyback rate issues to be taken up in the 2019 Con Edison rate proceeding will not ignore marginal cost principles altogether, but we do believe that those discussions would benefit from additional Commission guidance[2]. To what degree, for example, should marginal costs "inform" the ACOS allocations?

Applicability of the Reliability Credit

Citing the possibility for double-compensation for the same service, Staff proposes that the utilities modify their respective standby tariffs to restrict eligibility for the Reliability Credit to exclude customers' grid- connected ("front of the meter") DERs that receive Value Stack compensation for exports to the system, including customers participating in an Offset Tariff option. CPA agrees. Customers should not be compensated twice for what amounts to the same service.

Purchase of Installed Capacity from Buyback Service Customers

The Whitepaper notes that the utilities provide disparate treatment to customers with onsite generation that sell power to the utilities and who seek to obtain capacity value for those sales. Some specify that utilities may be obliged to enter negotiations for capacity sales under certain conditions, while others, including Con Edison are allowed, but not required to do so. In addition, the maximum amount of capacity that may be purchased differs among utilities. In Con Edison's case, even if the Company chooses to negotiate (which it may well not) the maximum amount it will purchase is limited to 2 MW of unforced capacity (UCAP.)

Staff proposes that utilities be required to purchase up to 5 MW of UCAP from eligible resources through their buyback rates at the prevailing New York Independent System Operator (NYISO) six-month seasonal Strip Auction price. The 5 MW limit is based upon the current limit on compensation through the Value Stack.

In addition, Staff notes a concern that large amounts of power purchased by the utilities through their buyback tariffs at NYISO prices, rather than sold into the NYISO-administered markets, where their offers would directly participate in the price formation process, could result

[2] / On January 31, 2019, the Company filed for new electric and gas rates in cases 19-E-0095 and 19-G-0096. A preliminary review of that filing has not revealed any obvious mention or use of the ACOS approach in the ECOS study.

in a distortion in the strip auction price formation process. Comments are solicited on whether utility-specific aggregate UCAP limits should be imposed on buyback tariff purchases.

As noted in the Whitepaper, Con Edison's persistent reluctance or outright refusal to negotiate capacity sales with buyback customers creates a barrier to participation, hampering the achievement of REV objectives. This is particularly true for technologies, such as CHP, for whom compensation through the Value Stack continues to be prohibited. Projects that provide incontrovertible capacity value to the system are prohibited from fully realizing that value, or are faced with the requirement to undertake the laborious and complex requirement to directly participate in the NYISO markets. Confronted with such a choice, most such customers (whose projects are generally intended primarily for their own use, not export to the grid) will simply choose not to size their facilities for export, thereby depriving the system of what could be very cost-effective incremental capacity and energy resources.

CPA therefor supports the recommendation that Con Edison be required to purchase capacity from all projects up to 5 MW UCAP. To the extent that the Commission increases the size limitation on Value Stack-eligible projects, the limit of maximum UCAP sales should be adjusted in identical fashion and the Commission should so state in its final Order.

CPA recognizes Staff's concern regarding price formation, but ultimately finds it uncompelling. The fact is that all capacity used and sold within New York is ultimately reflected in the price formation process through bids, offers and the operation of the demand curve, whether it participates directly or not. To the extent that a utility purchases less capacity because its net load during the peak hour when capacity tags are set is lower due to retail generation offsetting load, or even to the extent that a utility were to resell into the NYISO markets customer-owned generation that it purchases under its buyback tariffs, the generation still appropriately contributes to price formation. The only difference is the price at which it does so. The effect of both scenarios noted above is that the generation is effectively acting as a price taker. Yet this is entirely appropriate in the context of buyback tariff sales, for customers selling under the buyback tariffs are indeed offering their capacity and energy on a "must run" non-dispatchable, and thus price-taking basis.

To the extent that customer-provided capacity is compensated at the strip auction price, but is effectively being reflected in the price formation process as either a load modifier or as a utility-offered sale of capacity, it is possible that there could be a mismatch between Strip payments and which of the three capacity markets in which the buyback capacity effectively participates (Strip, Monthly or Spot.) However, in either case, it is within the utility's power to ensure that there is alignment, either by purchasing an appropriate amount of capacity in the Strip auction, or selling an appropriate amount of purchased capacity into the Strip auction. In either case, the pricing of the purchased capacity at zero is appropriate, given the basis on which it is required to be offered and sold through the buyback tariffs.

Modification of Con Edison Buyback Contract Demand Charge

The Whitepaper notes that Con Edison has proposed to eliminate the portion of substation costs included in the Contract Demand Charge for buyback service customers taking service at the primary voltage level because it is unlikely that such sales would place additional demand on substation facilities. Staff agrees and recommends that Con Edison's proposed change be directed. CPA agrees and supports the change for the reasons provided by Staff.

Grid Access Demand Charges for Energy Storage Systems

Because energy storage systems, like other customer-sited distributed energy resources, continue to rely upon the existence of the distribution system to both charge, discharge and receive service, it is appropriate that such systems contribute to relevant grid costs. Since those costs would otherwise not disappear, the alternative would be shifting them to other customers. The Whitepaper notes the recent history in the Value Stack proceeding which led the Commission to reject proposals to exempt energy storage systems from grid access charges imposed through standby and buyback tariffs. Staff proposes that that the Commission continue to require energy storage systems to pay the applicable delivery service rates, in particular the applicable standby and buyback service Contract Demand charges. CPA concurs for the reasons enumerated by Staff.

However, the Whitepaper goes on to say that "there may be instances where such charges do indeed create uneconomic conditions for energy storage systems in a way that would be unreasonably or inconsistent with the State's policy goals. Stakeholders are requested to describe, in their comments, use cases or instances where application of standby and buyback service charges create an unreasonable barrier to adoption of energy storage systems. The comments should also recommend reasonable alternatives to the existing standby and buyback service charges until such time as energy storage systems under such use cases become economic."

It is unclear what circumstances or use cases Staff is envisioning might arise that would justify what would amount to the subsidization of customers with energy storage systems by those without. Presumably, examples will be provided by parties supporting such treatment in their comments being filed concurrently with these comments. As such, CPA reserves the right to respond to any comments that might propose or support such treatment.

Conclusion

As noted previously, CPA generally supports the goals of the Whitepaper in developing improved, more efficient standby and buyback rates. With few exceptions the changes proposed are salutary and should be adopted. Where we do not agree, CPA appreciates the opportunity to provide its views and urges the Commission to adopt the recommendations provided herein.

Respectfully Submitted,

/s/
Aaron Breidenbaugh
Director of Regulatory Affairs