

**COMMENTS OF AMERICAN ELECTRIC POWER ON
THE NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS
DRAFT MANUAL ON DISTRIBUTED ENERGY RESOURCES COMPENSATION**

September 2, 2016

American Electric Power (AEP) appreciates the opportunity to provide comments on the National Association of Regulatory Utility Commissioners' Draft Manual on Distributed Energy Resources Compensation, crafted by the Staff Subcommittee on Rate Design. AEP is one of the largest electric utilities in the United States, delivering electricity and custom energy solutions to nearly 5.4 million customers in 11 states. AEP owns the nation's largest electricity transmission system, a more than 40,000-mile network that includes more 765-kilovolt extra-high voltage transmission lines than all other U.S. transmission systems combined. AEP also operates 223,000 miles of distribution lines. AEP ranks among the nation's largest generators of electricity, owning approximately 31,000 megawatts of generating capacity in the U.S. AEP also supplies 3,200 megawatts of renewable energy to customers. AEP's utility units operate as AEP Ohio, AEP Texas, Appalachian Power (in Virginia and West Virginia), AEP Appalachian Power (in Tennessee), Indiana Michigan Power, Kentucky Power, Public Service Company of Oklahoma, and Southwestern Electric Power Company (in Arkansas, Louisiana and east Texas. AEP's headquarters are in Columbus, Ohio.

AEP appreciates the time and energy NARUC expended in crafting this manual, which promises to be a useful tool for regulators across the nation. Without making any concluding recommendations, the manual is a comprehensive primer of various rate treatments and cost recovery methodologies to facilitate sustainable treatment of Distributed Energy Resources (DER.) AEP believes the manual, on the whole, is balanced and well-researched. We are supplying a redline version of the draft Word document to offer specific suggestions that we believe will further improve the product.

Additionally, we largely support the comments submitted by Edison Electric Institute (EEI), the trade organization for investor-owned utilities. However, we do wish to take this opportunity to expound upon some points that EEI did not cover. On page 34 of the NARUC manual, in Section 14.C., the draft states: "Utilities, however, have been using various justifications to attempt to get increases in fixed charges for a century. Their claims related to fixed charge increases and DER should be taken in that context and also with an eye toward authorized return if larger portions of revenue recovery shift to add more fixed components, making the utility potentially less risky, all else remaining neutral."

AEP would like to offer several thoughts on this statement. First, while we applaud the efforts of the subcommittee to create a balanced analysis of various DER regulatory treatments, this statement fails to meet the same high bar of objectivity noted throughout the rest of the document. As noted in EEI's comments, the average U.S. residential electric customer accounts for roughly \$60 per month in fixed charges, although the highest fixed charge on a monthly electric bill is about \$25 per month. The average is about \$10 per month.¹ The implication of the wording in the draft manual seems to suggest that electric utilities have spent 100 years attempting to be compensated for more than they should be. Clearly,

¹ Lisa Wood, et. al., *Recovery of Utility Fixed Costs: Utility, Consumer, Environmental and Economist Perspectives*, Lawrence Berkeley National Laboratory (June 2016.) https://emp.lbl.gov/sites/all/files/lbnl-1005742_1.pdf

the statistics would indicate otherwise. Utilities have proposed increases in the fixed charges and corresponding decreases in variable charges to more closely align the rates charged to customers with the types of costs incurred to serve those customers.

Additionally, we believe this same statement is incorrect as it relates to perceived risk and equitable return on investment for that risk. Increasing fixed-cost recovery, and conversely lowering volumetric recovery, may indeed reduce the potential for a downside financial outcome for utilities. However, it equally reduces the potential for upside financial outcomes for them as well. Therefore, all else remaining equal, risk is unchanged in this zero-sum equation.

The second point AEP would like to make in relation to this discussion is of a philosophical nature. Electricity, as evidenced by a utility's obligation to serve, provides significant societal benefits. The role of a utility regulatory commission, then, is to ensure those benefits are being provided in the most just and reasonable manner possible. But beyond rate structures and accounting practices, commissions also consider other public policy objectives of energy and, more specifically, the utilities that provide it. For instance, commissions often are charged with ensuring that electricity is available to low-income customers on an affordable basis.

All other things being equal, when DER customers are able to avoid the charges that support these public-purpose policies, the commissions concede their ability to effectuate those policies. Therefore, the rate designs associated with DER must be assessed in a holistic manner to ensure a balanced approach in order to meet the demands of all customers served by the electric grid. All factors, from DER to low-income programs to grid operations and maintenance, must be considered in juxtaposition.

Finally, the manual discusses "value based" approaches to compensate DER customers. A key element of regulated rates is the concept that retail electricity service is priced based upon the cost of providing that service and not the value that the customer or society realizes. Any calculation of "value" should be limited to quantifiable amounts that either reduce actual financial costs that would have been incurred by the utility or can be monetized by the utility to offset the cost of providing service.

With these points offered for consideration, AEP again applauds the Staff Subcommittee on Rate Design for its willingness to tackle an important but complex topic. How to appropriately address the challenging rate design issues associated with Distributed Energy Resources has created angst on all sides. Now that we have increased efficiencies and related reduced costs in DER technologies coupled with direct government subsidies, we see a rising penetration level of DER into the U.S. electric grid. It is AEP's view that this evolution also indicates a reduced need to further subsidize some DER resources with additional financial incentives through opaque subsidies such as those represented by net metering tariffs. As the level of DER continues to increase, the impacts of an inequitable rate structure will be compounded, with fewer non-DER customers left to absorb the impacts. Therefore, ultimately, the current situation is unsustainable.

Each of these points is submitted as an attempt to contribute in a meaningful way to the dialogue surrounding DER compensation. AEP thanks the subcommittee on this opportunity to provide input and stands ready to assist in whatever further ways may be beneficial.