

Comments of Katrina McMurrian on the NARUC Draft Manual on DER Compensation

September 2, 2016

Thank you for the opportunity to comment on the Draft NARUC Manual on Distributed Energy Resources (DER) Compensation. As a former state commissioner and current Executive Director of the Critical Consumer Issues Forum (CCIF), the issues addressed in the Draft Manual have been and remain of particular interest to me, and I hope the following feedback is constructive.

It is important to first recognize NARUC for the formation of the Staff Subcommittee on Rate Design. Not surprisingly, NARUC identified an area that is an integral part of state commission work and has taken action to facilitate that work while remaining mindful that states must ultimately address rate design issues based on their particular set of facts and circumstances. Certainly, engagement among state commissions – and among state commission staff in particular – has become more challenging due to limited state resources. Formation of the staff subcommittee has provided a great opportunity for state commission staff to share perspectives and ideas for addressing these critical issues with each other. Additionally, through dialogue about, and ultimate publication of, a NARUC Manual on DER Compensation, decisionmakers and the broader stakeholder community are better informed.

The members of the Staff Subcommittee on Rate Design should also be recognized for their work on the Draft Manual. The Draft Manual properly recognizes the importance of these issues and is on track to serve its designated purpose to assist jurisdictions in navigating the challenges, considerations, and policy development related to compensating DER.

Regarding the substance of the Draft Manual, I submit the following three main points for consideration:

I. State commissions should timely and proactively address the challenging issues that accompany DER adoption, including rate design, regardless of the rate of DER adoption in the state.

One of the most important lessons learned from states that have already experienced significant DER adoption is that addressing complex compensation issues after customers become accustomed to certain compensation mechanisms is far from ideal. Recognizing that customer interest in new energy products, services, and technologies is likely to continue to grow and challenge certain aspects of the regulatory paradigm, state commissions would benefit from addressing these issues in a proactive manner. Finally, while collaboration among stakeholders is positive, it should be used to support timely action at the state level and *not* as a means to delay NARUC's efforts to assist the states or to delay the rate design or other changes that state commissioners deem necessary to support fair, just, and reasonable rates going forward.

II. Rates should be designed to recover the cost of service from customers, with those costs properly allocated to the cost causers, consistent with longstanding ratemaking principles.

With the advent of new technologies like DER that provide benefits to the customer who chose to invest in the DER and also provide benefits to the system, determining fair, just, and reasonable rates becomes more challenging. Because the grid enables DER and the DER customer continues to benefit from the grid,

however, utilities should recover from DER customers the costs associated with being ready to provide the DER customer with electric service at any time.

III. CCIF's work on the subject of DER is relevant.

In my role with the Critical Consumer Issues Forum (CCIF), I have had the opportunity to work with state commissioners, consumer advocates, and electric utility representatives (our "three core groups") from across the country on the complex issues associated with DER. The following CCIF reports touch upon issues addressed in the Draft Manual:

- *DG: A Balanced Path Forward: Providing Customer Choice While Ensuring Reliability*, Critical Consumer Issues Forum (CCIF), July 2014 (<http://www.CCIForum.com/wp-content/uploads/2014/07/CCIF-DG2-Balanced-Path-Forward-Report-July2014.pdf>)
- *The Evolving Distribution System: Helping Consumers Navigate Access to Products, Services and Technologies*, Critical Consumer Issues Forum (CCIF), July 2015 (<http://www.CCIForum.com/wp-content/uploads/2015/07/CCIF-2015-EDS-Report.pdf>)
- *Consumer Solutions: Meeting Consumer Needs On All Levels*, Critical Consumer Issues Forum (CCIF), July 2016 (<http://www.CCIForum.com/wp-content/uploads/2016/07/CCIF-Report-on-Consumer-Solutions-July-2016.pdf>)

The July 2014 report on Distributed Generation, which represents two years of work by participants from the three core groups, is perhaps the most directly relevant to NARUC's efforts on the Draft Manual. The ten most relevant consensus principles developed by CCIF participants on these issues are listed below, as excerpted from the "Financial & Regulatory Issues" section of the July 2014 principles:

Financial & Regulatory Issues

1. Regulatory policies with respect to DG should balance the following objectives:
 - Facilitating opportunities for customers to choose DG options;
 - Minimizing customer bill impacts;
 - Protecting the interests of non-participating customers, including those least able to afford any increased costs;
 - Recognizing the appropriate benefits and costs of DG technologies;
 - Acknowledging federal and state energy, environmental, and economic policies; and
 - Recovering prudent costs of integrated grid services in rates.
2. To the extent that state commissions evaluate new regulatory policies and procedures in light of increased emphasis on DG, they should take into account the interests and concerns of all stakeholders.
3. Utility investments required to accomplish DG deployment should be consistent with state policies and recovered in a manner consistent with state laws and regulatory policies.
4. Policymakers, regulators, consumer advocates, utilities, DG owners and operators, and others should work collaboratively, and in formal proceedings as necessary, to assess various approaches to facilitate equitable and sustainable policies for DG integration and operation, respecting regional and state diversity.

5. To the extent state policymakers or regulators determine incentives¹ for DG are justified based on societal benefits, the costs of those incentives should be transparently distributed among all relevant consumers within that state.
6. Any incentives, through ratemaking practices, taxes, or otherwise, should be fair, transparent, and appropriate.
7. DG incentives should be based on clear policy objectives and periodically reevaluated based on market conditions. Once the underlying policy objectives are met or as the technologies become cost-competitive or cost-prohibitive, such incentives should be modified or discontinued.
8. Generally, DG costs imposed on utilities should be borne by those who cause the costs. For example, backup or standby utility costs (particularly regarding intermittent DG technologies) should be borne by the operator of the DG.
9. Any required allocation of costs to others should be rational, transparent, based on benefits received, and not unduly burdensome.
10. While net metering is intended to be a relatively simple mechanism to provide an incentive for DG, it can over- or under-compensate DG customers depending on the underlying rate design. To ensure that net metering and other mechanisms to facilitate DG do not result in a misallocation of costs among customers or impose undue costs on utilities, regulators must ensure that rates reflect equitably the benefits and costs of DG.

I trust that these excerpted principles are helpful and note a few key concepts that are worthy of emphasis in the Manual. As referenced in Principle #1 above, an area of particular interest to CCIF participants was protecting the interests of non-participating customers, including those least able to afford any increased costs. Another area of emphasis was the need for transparency, as referenced in Principles #5, 6, and 9.

While not addressed in the list of principles, the July 2014 report separately addressed another issue (see page 8) that also merits discussion in the Manual. CCIF participants encouraged states to consider the potential unintended consequences of certain DG-related policies on the collection of funds for various public benefit programs and standards (such as low-income or energy efficiency). If, for example, monies are collected to fund such programs and standards on a variable basis and if DG customers avoid all their variable charges, those programs lose that incremental revenue.

Finally, one other excerpt from the July 2014 report is particularly relevant to the Manual. Throughout the process that led to the July 2014 report, CCIF participants discussed a number of regulatory approaches to DG integration, including rate design and other regulatory tools. The group did not attempt to develop consensus around any one set of options, but they decided it would be helpful to identify some of the potential approaches. The following excerpt is the alphabetical list of the potential approaches identified by CCIF participants:

- Buy All-Sell All: Utility provides services to DG customers at utility rates and purchases all DG output from DG customers at avoided cost or wholesale rates.
- Decoupling: Fixed cost recovery not linked to usage.
- Demand Charge: Charge that varies by amount of demand used by customers.

¹ For purposes of this discussion, participants considered “incentives” as benefits received by or cost reductions to a DG project, such as tax subsidies, rebates, subsidized financing, any net metering arrangement that provides benefits exceeding the underlying value of the energy received from that DG, etc.

- Feed-In Tariffs: Utility pays DG customers a contracted amount for a specific type of generation.
- Fixed Customer Charge: Charge intended to recover fixed infrastructure costs that are not tied to volumetric usage.
- Minimum Monthly Billing: Regulatory-determined amount is chosen as a minimum bill amount which pays for an equivalent amount of usage. Customers must pay at least the minimum, regardless of usage.
- Net Metering: Customer pays for power based on meter reading which subtracts self-generation from customer usage.
- New Rate Group for DG Customers: Separate tariff for DG customers that reflects their usage characteristics.
- Three-Part Rates: Customer charge + demand or capacity charge + volumetric charge.
- Time-of-Use Pricing: Rate varying by time period allowing for potential cost savings by shifting usage off-peak; may require advanced metering technology.
- Two-Way Rates: Each party compensated for the services it offers the other.
- Value of Solar: Value of solar DG determined by valuation studies. Value can differ by type of DG.

Similarly, I believe it is important that the Manual include a wide range of rate design options and that those options are presented in as balanced a manner as possible. While NARUC has a well-established process for taking positions on regulatory issues, I believe the purpose of the Manual is better served by presenting a balanced overview of the options available.

In closing, thank you again for the opportunity to share these thoughts. I encourage NARUC to proceed with its plans to complete the Manual in accordance with the schedule announced at the July 23, 2016 Town Hall in Nashville. I believe the Manual will be a helpful resource to states in dealing with the complex issues involving DER compensation and appreciate NARUC's work on this important tool for state commissions.