



INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

September 2, 2016

Commissioner Travis Kavulla, President
National Association of Regulatory Utility Commissioners
1101 Vermont Avenue NW Ste 200
Washington, DC 20005

Dear President Kavulla:

I am writing to offer comments on the recently released draft of a NARUC Distributed Energy Resources Compensation Manual ("Draft Manual").

First, let me compliment you on having the vision to request that this Draft Manual be prepared. Advancements in technology have made it feasible for small scale generation and other resources to serve the needs of individual customers and/or put power onto a grid whose designers did not expect such developments. With distributed resources being added in recent years, more in some states than in others, this is a good time to provide support to state commissions in thinking about appropriate regulatory responses.

Because the rise of distributed resources is relatively recent, there is still disagreement as to what those responses should be, and the Draft Manual does a commendable job of explaining different positions on issues pertaining to DER compensation. It does not generally take positions on the choices facing commissions other than to rule out positions that are clearly not appropriate, which is a good approach for the Draft Manual because the same approach may not work in every state. However, while specific policy options should not be advocated in the Draft Manual, it is important that the Manual present a view of the choices in the context of the statutory charge that every commission has in one form or another—the long-run public interest in each state.

Second, while there are short run considerations that a Commission must take into account, such as ensuring that providers have the financial wherewithal to provide reliable service, commissions have to keep their eyes on the goal of ensuring that those short run considerations do not prevent true efficiencies from emerging over time. Distributed resources present new opportunities for the advancement of states, their citizens and their economies. Although we may not know the exact role that distributed resources will play in the future, it is important to set rules that allow for their economically efficient potential to be realized to the greatest degree reasonably possible. It is in that context of focusing on the long-run public interest that I offer some limited specific comments on the Draft Manual.

I. Rate Design and Fixed Customer Charges

Rate design for electricity consumers can help or hurt the development of an efficient system for the provision of electricity in the long run. While short run considerations cannot be ignored (as mentioned earlier), designing rates that ignore long run considerations will not allow DER to reach its appropriate level of implementation.

My staff and I were especially heartened to see the Draft Manual's sophisticated analysis of fixed charges (Section V.D.). The discussion there walks through a logical progression showing that inappropriately high fixed charges

run the risk of encouraging an inefficient level of consumption and related overinvestment in generation, transmission and distribution capacity. It also potentially leads to a lower-than-efficient level of distributed energy resources by lowering the value of electricity consumption avoided through conservation or self-generation.

Other aspects of rate design such as time-of-use rates seem to be reasonable principles for encouraging long-run efficiency (as well as fairness) because customers will not be charged based on a characteristic of their use over which they have little or no control. Efficiency requires that people be able to respond to the incentives presented to them; otherwise, such “innovative” rate designs provide complexity without any commensurate benefits.

II. Compensation for Distributed Generation

Most of the discussion in the electricity policy environment seems to be a reaction to the use of “net metering” for compensating Distributed Generation. “Net metering” may overcompensate DER generation, which is the typical complaint, but it must also be remembered that net metering will not always overcompensate. Depending on the characteristics of the power provided, the value of distributed generation may be higher than a utility’s embedded rate. Is it an imprecise measure for the value of distributed generation? Yes. But sometimes a simple approach is needed in order to get a new initiative started.

As a general matter of policy for encouraging long-run efficiency, it seems reasonable to have a goal that distributed generation should be compensated based on the value that it provides to the electricity system. Setting that rate will probably not be easy in most situations, but having an appropriate goal is an important starting point.

III. The Value of a Deliberate Approach to Change

“Net metering,” while imperfect, has helped to develop the market for distributed resources. Some states are at a point where DER penetration has reached a level where state commissions feel a need to try changes in that approach. That does not imply that every commission has to be in a hurry to make those changes. States that do not have the high levels of penetration have the luxury of waiting to see what happens in other states while their DER market develops further.

Clearly my comments here are not intended to be comprehensive in reviewing the Draft Manual. Again, I believe the manual represents a commendable effort to present the pros and cons of various compensation options and, as such, will be a valuable resource for commissions. Other parties surely will have specific comments and proposals for changes to the draft. In the course of sorting through those comments, I hope that the subcommittee will hold firm to its scientific approach to the subject and, to the extent changes are considered, that the principles I have presented here will be helpful in guiding any changes.

Sincerely,

A handwritten signature in black ink, appearing to read "A. David Stippler". The signature is fluid and cursive, with a long horizontal stroke at the end.

A. David Stippler
Indiana Utility Consumer Counselor