S T A T E O F M I C H I G A N

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter, on the Commission's own motion, to implement the provisions of Sections 173 and 183(1) of 2016 PA 342, and Section 6a(14) of 2016 PA 341.[1]	)))))	Case No. U-18383

At the February 22, 2018 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. Sally A. Talberg, Chairman
Hon. Norman J. Saari, Commissioner
Hon. Rachael A. Eubanks, Commissioner

ORDER AND NOTICE OF OPPORTUNITY TO COMMENT

On December 21, 2016, Governor Rick Snyder signed 2016 PA 341 (Act 341) into law. Section 6a(14) of Act 341, MCL 460.6a(14) requires the Commission to conduct a study on the appropriate tariff for customers who participate in the net metering program or the distributed generation (DG) program within one year of the effective date of the Act.[2] Section 6a(14) specifically provides:

> Within 1 year after the effective date of the amendatory act that added this subsection, the commission shall conduct a study on an appropriate tariff reflecting equitable cost of service for utility revenue requirements for customers who participate in a net metering program or distributed generation program under the clean and renewable energy and energy waste reduction act, 2008 PA 295, MCL 460.1001 to 460.1211. In any rate case filed after June 1, 2018, the commission

[1] The case caption has been updated to include the requirements with respect to DG contained in Act 341.

[2] Act 341 became effective April 20, 2017.

> shall approve such a tariff for inclusion in the rates of all customers participating in a net metering or distributed generation program under the clean and renewable energy and energy waste reduction act, 2008 PA 295, MCL 460.1001 to 460.1211. A tariff established under this subsection does not apply to customers participating in a net metering program under the clean and renewable energy and energy waste reduction act, 2008 PA 295, MCL 460.1001 to 460.1211, before the date that the commission establishes a tariff under this subsection, who continues to participate in the program at their current site or facility.

In response to this mandate, the Commission Staff (Staff) convened a Distributed Generation Workgroup (DG Workgroup) and held an initial meeting in March 2017. Six additional meetings were held over the remainder of 2017, with the workgroup process culminating in a report and proposed DG tariff as required under Section 6a(14). DG Workgroup participants included representatives from utilities, environmental policy and advocacy groups, and business and technical organizations.

<u>Staff Distributed Generation Study and Report</u>

The Staff identified three general tasks for the DG Workgroup: (1) investigate the grid-balancing functions of smart inverters as required under Section 173(6)(b) of 2008 PA 295 (Act 295); (2) develop and implement a DG program within 90 days of the effective date of Act 342, as required under MCL 460.1173; and (3) complete a study to determine an appropriate DG tariff as required under Section 6a(14) by April 20, 2018. The smart inverter investigation is ongoing, and the Commission approved an interim DG program in an order issued on July 12, 2017 (July 12 order) in this case. The efforts to develop a DG tariff culminated in a draft report and proposed tariff circulated to stakeholders for comment on December 15, 2017, and a final report (DG Report) and proposed DG tariff filed in this docket on February 21, 2018.

After evaluating several different approaches to formulating an equitable, cost-of-service-based DG tariff, the Staff recommended that an Inflow/Outflow billing mechanism be implemented.[3] Under the Staff's proposed mechanism, inflow (i.e., customer energy purchases from the utility) would be priced at full retail rate, while power outflows to the grid from the customer's generator would be valued, at least initially, at the utility's avoided cost. According to the DG Report:

> In bringing its study to a close, Staff is recommending a conceptual tariff based on a new approach to billing DG customers called the Inflow/Outflow billing mechanism. The method separates power inflows from power outflows, relying on two distinct and independent sets of meter data to establish consistent and appropriate cost-of-service (COS) allocators and billing determinants, rather than netting the two as is done for net energy metering (NEM). This is a fundamental attribute of the Inflow/Outflow billing method.
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> The separation of power inflows from power outflows readily allows for rate designs that incorporate traditional cost of service study (COSS) methods, thus ensuring that DG customers are assessed for their fair and equitable use of the grid. It also provides an independent framework for equitably compensating DG customers for excess power injected into the grid.

DG Report, pp. 1-2.

The Staff explained that the Inflow/Outflow method is a conceptual framework designed to replace both the true net metering and modified net metering approaches that were authorized under Act 295. The Staff further observed:

> The framework is simple, accommodates a wide array of potential future rate designs, such as those including demand charges, dynamic pricing, and dynamic credits. In addition, the Inflow/Outflow billing mechanism is transparent in effecting clear and accurate pricing signals, and thus can form the basis for future load-control and demand-response programs that target DG customers. It also provides a pricing platform for future implementation of customer-sited advanced energy-storage technologies, small-scale combined heat and power systems and potential new emerging technologies.

DG Report, p. 10.

[3] In addition to the Inflow/Outflow billing mechanism, other approaches that were evaluated or discussed included net metering and modified net metering (with a grid charge), and a Buy-All Sell-All billing method.

The Staff pointed out that although net metering coupled with a fixed grid charge would be possible under Act 341, this approach was rejected:

> First, it is difficult to accurately calculate a grid charge on a COS basis, since bidirectional power flows needed for a COS analysis are generally not available from NEM programs. This deficiency significantly impacts the accurate quantification of such grid charge. Secondly, NEM is unable to accommodate transparent and accurate price signals, since the billing determinants are nearly invariant to a customer's actual grid usage. These two issues are intrinsically linked.

DG Report, p. 13.

Given the small number of DG customers currently enrolled in the program, coupled with inherent class-load diversity, the DG Report does not recommended creating a separate class for DG customers at this time. "As a result, the new cost-based DG program should be implemented through retail rate-schedule riders, as was done for the NEM program, rather than creating new and separate DG rate schedules." DG Report, p. 2.

Finally, the DG Report makes three recommendations going forward:

> (1) In any general rate case filed after June 1, 2018, utilities should be instructed to file the attached concept tariff-rider, which includes an Inflow/Outflow pricing mechanism as a foundational framework. The utilities may file additional proposals if desired. Any existing NEM tariff-riders would be amended to indicate that the NEM program is closed to new DG customers upon the effective date of the new tariff.
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> (2) Upon approval of the Inflow/Outflow concept tariff (on or before April 20, 2018), a new contested proceeding should be established by the Commission to set a uniform outflow compensation method for all regulated utilities.
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> (3) If the Commission adopts the Inflow/Outflow concept tariff as recommended by Staff, all rate regulated utilities should be ordered to file a report, within 60 days, describing their ability to meter and bill according to the Inflow/Outflow mechanism, and incorporate time-based rates for both power inflows and power outflows. Utilities should provide an estimate of the cost to modify billing infrastructure, if necessary, to accommodate the new tariff.

Discussion

After review of the final DG Report, and comments to the draft report, the Commission agrees that the Staff's proposed Inflow/Outflow method for developing a DG tariff is cost-of-service based and that it otherwise comports with the requirements of Act 341. Nevertheless, electric providers and other interested parties will still have an opportunity to propose alternative DG tariffs, along with an Inflow/Outflow approach, in electric rate cases filed after June 1, 2018. In the interim, the Commission agrees with the Staff's recommendation that a contested case be opened to address appropriate inputs to calculate the outflow credit.

While the DG Report is comprehensive and addresses most key issues, the Commission would nevertheless like to provide interested parties with an opportunity to comment on the following:

- Are there any concerns with the recommended process for developing and approving a DG tariff as discussed above (i.e., an interim case to develop a uniform outflow compensation method, coupled with a rate case to finalize the DG tariff)?

- The DG Study relied primarily on the language in MCL 460.6a(14) to develop a method and tariff "reflecting equitable cost of service for utility revenue requirements" for DG customers. This method would replace net metering and modified net metering for customers who enroll after the tariff is approved. Are there any legal limitations to the implementation of the Inflow/Outflow method and tariff as proposed in the DG Report? Specifically, does adoption of the Inflow/Outflow billing method conflict with Sections 177(4) and (5) of 2008 PA 295, MCL 460.1177(5)?

- Do any providers anticipate any technical limitations with respect to measuring and billing/crediting under the Inflow/Outflow method?

- In the July 12 order, the Commission found that the current net metering program should continue as the DG program until new DG tariffs are approved in rate cases filed after June 1, 2018. In addition, under MCL 460.1183 and MCL 460.6a(14), any customer "participating" in a net metering or DG program before the new DG tariff is approved may continue net metering for 10 years, or may opt to receive service under a DG tariff.

> At what point should a customer be considered to be "participating" in a net metering program?

Any person may submit written or electronic comments and reply comments regarding the development of a distributed generation program tariff. Comments must be filed with the Commission and must be received no later than 5:00 p.m. on March 12, 2018. Reply comments must be received no later than 5:00 p.m. on March 26, 2018. Written comments should be sent to: Executive Secretary, Michigan Public Service Commission, P.O. Box 30221, Lansing, MI 48909. Electronic comments may be e-mailed to mpscedockets@michigan.gov. All comments should reference Case No. U-18383. All information submitted to the Commission in this matter will become public information available on the Commission's website and subject to disclosure.

THEREFORE, IT IS ORDERED that interested parties may file written or electronic comments on the distributed generation study and tariff. Comments must be received no later than 5:00 p.m. on March 12, 2018, and reply comments must be received no later than 5:00 p.m. on March 26, 2018.

The Commission reserves jurisdiction and may issue further orders as necessary.

MICHIGAN PUBLIC SERVICE COMMISSION

Sally A. Talberg, Chairman

Norman J. Saari, Commissioner

Rachael A. Eubanks, Commissioner

By its action of February 22, 2018.

Kavita Kale, Executive Secretary