

**Comments of DTE Electric on the Draft
“Smart Rate Design for Distributed Energy Resources” Report
September 22, 2021**

DTE Electric (DTE or Company) would like to first extend its appreciation for the work of the Michigan Public Service Commission Staff (Staff) in facilitating the discussion and the Regulatory Assistance Project (RAP) for developing the “Smart Rate Design for Distributed Energy Resources” Report (report). The report highlights the many elements of ratemaking generally and distributed energy resources (DER) rate design in particular. DTE would like to take the opportunity to provide a set of targeted comments in response to the draft report published on September 2nd.

Michigan context. The report provides a broad view of the key ratemaking principles and rate design options available for addressing DER rate design, utilizing examples from other jurisdictions to illustrate the topics and concepts. DTE supports leveraging applicable best practices and lessons learned from other jurisdictions, however each state operates under a distinct set of statutes, regulatory decisions and history, and judicial precedent. As a result, it may be difficult for readers to clearly identify which examples and discussions are purely illustrative, and which might directly inform DER rate design discussions in Michigan.

- *Cost-based ratemaking.* The report captures many of the key legislative and regulatory developments related to distributed generation, but it does not highlight the statutory requirement in Michigan that all rates are cost-based¹. This key requirement of ratemaking in Michigan is absent from the summary review of utility regulation in Michigan (Section 2.A). In addition, the content of the report does not highlight or reflect this condition when discussing the approaches taken elsewhere in the country. For example, the discussion of outflow credit approaches from around the country includes various Commission approaches which call for environmental credits (NY, Austin) or other non-cost-based considerations (e.g. “community credits” in NY). While DTE appreciates that there are a wide variety of methods available to credit distributed generation outflow, they are not all currently supported by statute in Michigan.
- *Metering and billing frameworks.* The report describes several structures that are available for metering and billing distributed generation customers, including monthly netting, time-of-use netting, virtual net metering, inflow/outflow, and buy all/sell all. PA 341 of 2016 directed the MPSC to conduct a study of “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”. The resulting Study established the role of inflow/outflow as a cost-based successor to net metering. In addition to the legislation’s acknowledgement that net metering is not cost-based, the Study added “NEM is unable to accommodate transparent and accurate price signals, since the billing determinants are nearly invariant to a customer’s actual grid usage”. As such, and as reflected in multiple Commission Orders subsequent to the Study including in successive DTE Electric rate cases², the

¹ PA 286 of 2008 (MCL 460.11)

² See U-20162 and U-20561

structural role of inflow/outflow in Michigan has been well established and does not need to be revisited.

Rate design approaches. The report describes several approaches to inflow rate design, including volumetric time of use rates and demand charges. DTE agrees that different costs drivers suggest different rate designs, but the discussion of time of use and demand do not robustly address these nuances and are not substantiated. For example:

- There is no specific support provided for the assertion that TOU pricing is either more efficient or fairer than demand rates, as indicated by the report when it states “Time-varying rates, including TOU rates and critical peak pricing, are typically more efficient—and fair—than peak window demand charges”.
- Demand-based rates are widely used across the country, with state regulators, including the Michigan Public Service Commission, consistently supporting demand pricing for industrial customers. DTE acknowledges the need to develop clear customer education associated with any residential advanced rate design, however the perspective that “there have long been questions about whether they are an efficient form of pricing” is not substantiated in the report and runs counter to a long history of Commission orders approving the use of this mechanism.

Pathways for New Rate Designs. The report offers three illustrative pathways, which it then assesses on four criteria. DTE recognizes that these pathways are not offered as recommendations but as “coherent frameworks to illustrate key principles and tradeoffs”.

- *Pathways.* The report does not offer a framework or design criteria that guided the development of the pathways. It is not clear why the specific groupings of rate design and programmatic structures were selected and combined over other available options.
- *Assessment criteria.* The report seems to suggest that the four criteria (fair allocation, efficient price signals, customer understanding, administrative feasibility) should be considered when making rate design choices. However, the discussion of these criteria is limited to the three selected pathways and the criteria are not applied to each of the rate design elements discussed in the body of the report. When specifically discussing the pathways, the report does not provide a robust assessment of either the administrative and operational complexity, or the potential customer impacts and perspectives of each choice. Taken together, it is difficult to understand the full context of impacts and tradeoffs that should be considered among the many possible design elements.
- *Legislative and regulatory environment.* The pathways describe a variety of options; however, they do not appear to have been tested against statutory requirements or regulatory precedent in Michigan and what changes would be required to adopt the pathway.

Distributed Generation (DG) Subsidy. DTE continues to strongly believe that there exists a DG subsidy that is paid for by all non-DG customers. This subsidy is mainly driven by the following:

- DG customers are currently being overcompensated for the excess energy they send to the grid (“outflow”) since current compensation is not based on the avoided costs of that outflow; in other words, DG customers are paid more for their excess energy than it is fairly valued at
- DG customers are able to lower their bills without the utility realizing a similar amount of savings, effectively shifting costs to non-DG customers

The report does not acknowledge this subsidy or assess the ability of the individual rate design options or pathways to reduce or eliminate it.