STATE OF MICHIGAN
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
PUBLIC SERVICE COMMISSION

September 22, 2021

MPSC Commission Staff Comments on the DER Rate Design report

Commission Staff would like to take this opportunity to briefly comment on the Draft DER Rate Design Report, produced by the Regulatory Assistance Project (RAP). Staff's comments will include, feedback on working with RAP, the subject matter in the report, and Staff's preference for remaining with the Inflow/Outflow method which is currently being implemented for rate regulated utilities in Michigan.

It has been a pleasure to work with RAP on the production of this report. RAP was always exceptionally professional and very considerate of Staff's comments during the drafting of the report. While there may be differences in opinion about cost-of-service and rate design between RAP and Staff, those differences were always discussed in a way that would be considered courteous and professional. Staff would like to particularly thank Jessica Shipley, Mark LeBel, and Carl Linvill for their time and discussions with Staff.

The draft report demonstrates the complexity of cost-of-service and rate design. It also appropriately demonstrates how there can be a wide variety of perspectives on a topic, including tradeoffs, and that many perspectives can be reasonable simultaneously. There is another layer in that there is uncertainty in the future. Policy uncertainty could take DERs down similar and yet slightly different paths, as could the uncertainties associated with the wants and desires of customers. What decisions to make about rate design depend, at least in part, on where we as a society want to go. Staff acknowledges that there are tough decisions to be made between the complexities of cost-of-service and rate design, and the desire to send a straightforward, implementable, understandable, and efficient price signal to customers, including those who choose to have DERs.

Staff would also like to emphasize that subsidies within a rate class, for example, the residential rate class, have always existed. Absent individual rates for every customer, they cannot be avoided. Rates are based on averages and not all customers are average. This is not only related to how much electricity customers use, but also when and where they use electricity, just to name a few reasons. Rate design has always taken into account how much customers use. The ongoing implementation of time-of-use rates is beginning to account for differences based on when customers use electricity. At present there are few, if any, proposals in Michigan to account for where customers use electricity in rates. Removing subsidies within a customer class, while laudable, is extremely difficult to accomplish without sending complicated price signals. It could be considered reasonable therefore to examine if the subsidies that are alleged to exist are more substantial to the subsidies that are otherwise known to exist.

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One of the advantages of Inflow/Outflow is that it reflects the actual use of the system. Netting masks the actual use of the system and thus sends an inappropriate price signal. Staff remains unconvinced that a charge on outflow reflects cost-causation. Demand charges, even if applied only to advanced customers, could be similarly difficult to understand, though Staff does recognize that they may more closely reflect some aspects of cost-causation. Staff is similarly concerned that customers will not fully understand the idea of receiving environmental compensation in return for handing over renewable energy credits (RECs). Many residential customers install solar PV in order to claim they are helping the environment, but by selling the RECs to the utility, even if optional, they may not understand that it will be the utility and not the customer that would get to claim the environmental benefits. Furthermore, Staff asserts that the appropriate way to decarbonize, if that is a policy goal, is not to pay more for clean energy. The appropriate way is to internalize the externalities, making the generation that produces the externality reflect its true cost, so that the utility and customers opt for more clean energy due to the cost advantage. As to the amounts for some of these proposed values, such as the distribution surcharge, the different monthly charges, demand charges, or environmental credits, Staff would like to see stakeholder agreement as to the appropriate way to calculate these values, otherwise the tendency would be to evaluate the proposals solely based on whether they compensate more or less than the Inflow/Outflow method.

Giving consideration to everything stated thus far, Staff's preference is to remain with the Inflow/Outflow method for rate design of DERs. The Inflow/Outflow method removes many of the intraclass subsidies that existed with net metering. The stakeholder debate surrounding Inflow/Outflow has narrowed and the discussions surrounding remaining issues are professional. From a regulatory perspective, Inflow/Outflow has only been in place for a short time and the full impact of this change has not yet been fully determined. The price signal is straightforward, implementable, understandable, and efficient and there are likely ways the implementation can be improved when the appropriate data is available.

Once again, Staff thanks the staff at RAP for their efforts and looks forward to the comments submitted by other stakeholders.

Commission Staff