

Consumers Energy (the “Company”) appreciates the opportunity to provide comments on the Regulatory Assistance Project’s (RAP) draft *Smart Rate Design for Distributed Energy Resources* Report (the “Report”). The Company also appreciates Staff’s efforts in leading this workgroup.

The Company supports the use of Distributed Energy Resources (DER) as part of its broader transition to clean energy resources. Proper rate design is needed to ensure the right rate structures are in place to support beneficial DER expansion while ensuring that the rate structures are fair to all customers. The Company appreciates the time that went into this Report to outline the key issues in DER rate reform, including fair cost allocation, efficient customer price signals, customer understanding and acceptance, and administrative feasibility. The comments submitted by Consumers Energy are divided into three key areas targeted at providing information to better inform the Report.

I. The Company appreciates the Report’s recognition that fixed charges and demand charges could be effective tools for a future DG program.

As highlighted in the Report, utility rates need to evolve as technology changes. Technology is evolving quickly, and regulatory structures need to keep pace. The distribution grid is transforming to meet the new demands that customers have regarding electricity use. As the Report points out, a DER customer taking power from the grid needs the grid to have reliable service. The same customer also needs the grid to export. The non-coincident demand charge, distribution flow charge, and grid access charge discussed in the Report are rate design solutions that help ensure fair recovery of grid costs.

II. The Report fails to distinguish Michigan’s rate and regulatory nuances.

The Report fails to recognize the DG-cost shift that is taking place under today’s regulatory paradigm. The Report states that the inflow/outflow model removes most reasonable arguments about significant cost shifting from participating DER customers to non-participating customers. However, the numerous recommendations on rate design and cost allocation highlight the cost shift issues that persist in the current DG Tariff design. While the Company believes the inflow/outflow method is an improvement over a net metering rate design, a rate design approach based primarily on volumetric charges does not fully address the shifting of costs. There are different methodologies that can be used to calculate the cost shift. The Company provided an estimated subsidy of around \$25 per customer per month in response to discovery and audit requests in Case No. U-20963 (audit response U20963-SA-CE-306 and discovery response U20963-ELPC-CE-1036).

In addition to ignoring the cost shift that still exists, the Report discards the progress that has been made with inflow/outflow by suggesting two rate design pathways that rely on net metering. Going back to a DER rate design that relies on net metering, either time of use based netting or monthly netting, is a step in the wrong direction.

Implementation of many of the concepts presented in the Report is subjective. The “devil is in the details.” Views on fair cost allocation and what drives costs often differ. One example provided in the Report is the cost of meters, which the Report states is no longer 100% customer related since advanced meters can collect data that can be used for purposes other than billing (page 22). However, the Report also notes that cost causation is still the foundational principle of cost assignment and that a broader principle of costs follow benefits may be applied to categories of costs that do not have a direct cost causation basis (page 52). Meter costs have a direct cost causation basis with the number of customers driving the investment/installation of meters. The existence of other benefits does not change the fact

that the addition of a customer requires a meter. In fact, the Commission recently stated in the Company's last electric rate case (Case No U-20697) that the entire cost of the meter should be included in the customer charge even if the meter provides some additional benefits beyond energy metering (Case No. U-20697, December 17, 2020 Order, page 285).

The Report also suggests recording and tracking data with more granularity will lead to better allocation of costs. But data tracking granularity must be appropriately balanced with the administrative capability to obtain, maintain, functionalize, and classify such data. Regarding load study data, the Company already relies on load study data for cost allocation today and in recent years has significantly expanded its residential sample size in its load study. The Report also recommends the MPSC work with utilities to break out investment by voltage level (page 55); however, the Company already breaks out certain distribution costs by voltage level today. Additional detail or data may be explored in the future. However, in some instances, additional detail may add little value with significant cost and should be considered on a case by case basis.

III. Market prices are more straightforward, transparent, and easier to utilize than the Report's pathway considerations.

The Report makes multiple suggestions around the use of time of use based cost allocation and pricing. Page 56 states, "Instead of dividing up shared system costs between the demand related classification and the energy related classification, more granular time-based classification methods could be adopted." Page 34 states, "Netting periods could be based on the smallest interval that the metering and billing system can handle or any aggregation of those time periods." Two of the pathways for DER Rate Design Reform rely on time of use production and distribution charges. While the Company has transitioned the majority of its residential customers to the Residential Summer On Peak rate, which charges higher production rates during the hours of 2 PM to 7 PM in the summer months, caution should be taken in designing time of use rates and sending the appropriate price signals. Given the relatively recent implementation of the broad residential time of use rate, evaluation still needs to be performed to see how the price differentials impacted customer behavior.

An excessive reliance on price signals can lead to significant bill volatility for customers and increased utility revenue risk. This is impacted heavily by both forecasting uncertainty and the strong potential for a mismatch between a time of use design and wholesale market pricing as we move toward more intermittent resources on the system. The application of time of use pricing in the draft Report seems to be focused on creating a synthetic "rate market" for third party behind-the-meter products. The Report failed to consider giving third party behind the meter access to the existing market prices rather than creating a separate, administratively complicated market for behind the meter products. It would be much more straightforward and reasonable for future rate design to rely on the existing MISO market which is transparent and has been approved by regulators in other rate applications.