



November 3, 2017

Julie Baldwin
Michigan Public Service Commission Staff
7109 West Saginaw Highway
Post Office Box 30221
Lansing, MI 48909

Re: MPSC Staff Distributed Generation Concept Tariff

Dear Ms. Baldwin:

The Michigan Energy Innovation Business Council (Michigan EIBC) is pleased to submit comments to inform the Michigan Public Service Commission's implementation of 2016 PA 341 and PA 342 involving the treatment of new net energy metering (NEM) and distributed generation (DG) projects in Michigan. Comprised of a membership of more than 100 companies doing business in Michigan, Michigan EIBC's mission is to grow Michigan's advanced energy economy by fostering opportunities for innovation and business growth and offering a unified voice in creating a business-friendly environment for the advanced energy industry in Michigan.

Last year, on December 21, 2016, Governor Rick Snyder signed the PA 341 and PA 342 into law. As he said in a statement, "The bills protect our environment by making it easier for Michigan to develop its own energy sources, instead of buying coal from various states. Our energy will be more affordable, more reliable, and more green."¹ It is important that the legislation is executed in such a manner that we are able to follow through on this promise and foster the growth of renewable energy in Michigan. Specifically, subsection 6a(14) of PA 341 states: "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."² The Michigan EIBC and its members have been participating, along with other stakeholders, in the Commission's workgroup process to determine an appropriate DG tariff. Although the Michigan EIBC is pleased that the Commission is conducting an open and transparent stakeholder process, we are increasingly concerned with the current direction of the staff's proposed DG concept tariff.

Distributed generation, especially solar DG, is expanding across the country and in Michigan. This growth has been facilitated by NEM policies that make it simple for customers who deploy solar DG systems to directly offset their electricity usage and receive a credit for any excess electricity that they generate. According to the National Association of Regulatory Utility Commissioners (NARUC), NEM policies are simple, easily understood by ratepayers, and the least expensive means by which a utility can

¹ Statement of Governor Rick Snyder, December 15, 2016. http://www.michigan.gov/snyder/0,4668,7-277-57577_57657-399751--,00.html

² MCL § 460.6a(4). [http://www.legislature.mi.gov/\(S\(onkt5gfc2v4wg1tthjczp0\)\)/mileg.aspx?page=getObject&objectName=mcl-460-6a](http://www.legislature.mi.gov/(S(onkt5gfc2v4wg1tthjczp0))/mileg.aspx?page=getObject&objectName=mcl-460-6a)

implement a compensation methodology for a DG resource.³ Michigan EIBC members have similarly found that NEM policies are easily explained to customers, readily understood by those customers, and provide a simple method for calculating expected cost savings of a new DG system.

PA 341 does not require the Commission to end NEM or establish an entirely new rate design. Instead, the statute requires the Commission to determine “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.” This subsection of PA 341 clearly indicates that the Commission can keep NEM in place and establish an additional tariff, if necessary, to reflect cost of service principles and an accurate and equitable account of the costs and benefits of DG. In fact, the use of the term “tariff” in statute appears to be most reasonably interpreted to mean a rate design mechanism akin to a separate charge, if DG customers do not already cover their cost of service, or a separate credit, if DG customers cover more than their cost of service. Such an approach, unlike the current draft approach, would allow the nascent Michigan solar industry to grow while meeting the statutory requirements.

In contrast, the draft inflow-outflow rate design proposed by the Commission staff is concerning, especially as a proposal prior to the completion of the cost of service study. Specifically, by proposing a new rate design prior to completing the cost of service study, the Commission is proposing to solve a problem that may not exist in a manner that is not statutorily warranted. Not only is this an illogical approach, it contravenes a process the statute arguably requires the Commission to follow under PA 341: (1) determine cost of service and (2) if inequitable, create appropriate tariff.

Furthermore, this new rate design would be difficult to explain, confusing to customers, and produce unpredictable economic returns. The inflow-outflow method requires the accurate measurement of inflow of electricity and outflow of electricity, rather than a simple measurement of net electricity use. Not only does this require the use of Advanced Metering Infrastructure (AMI), it also requires utility billing systems that are capable of making and reporting those data. Current NEM customers have experienced significant difficulty in accessing those data through their utility service providers. In addition, according to the staff proposal, the outflow credit would be based on each utility’s avoided cost case. Avoided cost is not the same as cost of service and does not accurately take into account all of the components included in the cost of service. Using avoided cost would decrease customer’s outflow credits and would not follow the statutory requirements of PA 341 because it would result in unfair and incomplete compensation for the values DG provides to the grid. The staff proposed rate design also appears to contravene statutory language in PA 342 requiring “the eligible customer” to “be credited by their supplier of electric generation service for the excess kilowatt hours generated during the billing period.”⁴

Finally, the proposed rate design would produce uncertain economic results for customers both because the credits may be regularly revised and because the accounting depends significantly on the netting interval, the size of the customer’s load

³ National Association of Regulatory Utility Commissioners (NARUC) Staff Subcommittee on Rate Design, *NARUC Manual on Distributed Energy Resources Rate Design and Compensation*, 2016, available at <http://pubs.naruc.org/pub/19FDF48B-AA57-5160-DBA1-BE2E9C2F7EA0>.

⁴ MCL § 460.1177(4). [http://www.legislature.mi.gov/\(S\(y5vaqqo42fcb15nyt0umc3io\)\)/mileg.aspx?page=getObject&objectName=mcl-460-1177](http://www.legislature.mi.gov/(S(y5vaqqo42fcb15nyt0umc3io))/mileg.aspx?page=getObject&objectName=mcl-460-1177)

relative to the size of their DG system, and the customer's load profile. As a result, Michigan EIBC member companies may not be able to provide customers with an accurate accounting of the economic benefits of DG systems and may not be able to accurately predict a customer's payback period. It would be difficult to demonstrate the value of investing in solar DG systems under such conditions. Adopting a new rate design at this stage in the development of the State's solar industry puts that industry in jeopardy.

It is entirely possible, as described below, that a full and accurate cost of service study will show that NEM customers are currently paying above their equitable cost of service and are, therefore, being over cost allocated. As reported by Commission staff at a workgroup meeting in August 2017, the production-related costs to provide electricity to a residential DG customer are 16 percent lower than the costs to serve a residential non-DG customer. In addition, as modeled by Chart House Energy, a Michigan EIBC member, DG customers are allocated higher costs as compared to non-DG customers for all rate classes and rate structures. Based on these calculations, DG customers should be allocated an additional negative tariff (i.e., credit), and NEM should be left in place. With additional data, if the Commission instead finds that NEM customers are paying their equitable cost of service through current fixed charges, no adjustment tariff needs to be established and NEM can still be left in place. Even if the Commission determines that previous analyses are incorrect, and NEM customers are paying less than an equitable cost of service, NEM can be left in place and an additional tariff can be assessed on NEM customers. Michigan EIBC emphasizes that it is unnecessary and likely damaging to customers and businesses for the Commission to move to an entirely new rate design, especially prior to completing a complete and accurate cost of service study. The new rate structure would actually increase the inequity between DG and non-DG customers, thus having DG customers subsidizing the non-DG customers. The goal of the tariff is to level the cost allocation between DG and non-DG customers, not make it worse and more complicated.

NARUC recently released a manual to guide the process of how DG resources should be compensated.⁵ This manual finds that:

*“...a growing number of parties involved in the [distributed energy resource] DER debate acknowledge DER can provide material benefits beyond just those enjoyed by the customer behind whose meter the DER is sited... Some jurisdictions, utilities, researchers, and advocates have also concluded or posited that responsible encouragement of other types of DER adoption leads to positive cost benefit results. **In this respect, when using the traditional model for rate design, which does not compensate (or charge) particular customers for producing particular benefits (or costs) for the grid... a regulator would be missing that portion of the cost benefit analysis for DER... At the very least, neglecting DER benefits could represent a lost opportunity to meet customer needs on a more cost-effective basis. To put it another way, if a regulator conducted a detailed planning process beyond the distribution grid using today's technology, theoretically, some level of DER (beyond [energy efficiency]) could be used in a targeted basis throughout the grid to reduce costs.**”*

⁵ National Association of Regulatory Utility Commissioners (NARUC) Staff Subcommittee on Rate Design, *NARUC Manual on Distributed Energy Resources Rate Design and Compensation*, 2016, available at <http://pubs.naruc.org/pub/19FDF48B-AA57-5160-DBA1-BE2E9C2F7EA0>.

The Michigan Institute for Energy Innovation recently released a report detailing these benefits of solar DG,⁶ which the Michigan EIBC submits as an Appendix to these comments. The report finds that:

- The majority of studies conducted to date find that customers participating in NEM programs represent a net benefit to the grid.
- While NEM customers receive credits that reduce or eliminate their monthly utility bills, solar DG provides measurable and monetizable benefits to the power system that should be considered when evaluating the true impact of solar DG and NEM on all ratepayers.
- Solar DG both reduces demand for power from the utility and provides power to the grid when the systems generate more power than is used at a residential or commercial site. This surplus power is generated at or near peak times when the cost to the utility of procuring additional power is most expensive.
- Net energy metering represents an attempt to balance the true costs and benefits of the energy being produced and that which is consumed in a way that is simple, fair, and convenient for both the utility and its customers. Therefore, any tariff should fully compensate solar DG customers for the value their systems provide.

As Rob Rafson pointed out at the DG workgroup meeting on October 18, 2017, there are at least four components that should be included in a DG tariff that reflects an equitable cost of service: 1) energy, 2) demand, 3) distribution, and 4) service.

- 1) *Energy*: Energy created by a DG customer should offset their energy cost directly. Excess energy generated should be credited based on its value (e.g., based on the time of day and load).
- 2) *Demand*: Solar DG reduces costs for the entire system because it generates power when demand is highest. That reduced generation capacity should be allocated to DG customers.
- 3) *Distribution*: Solar DG produces power when the grid is most stressed, reducing line losses and increasing distribution capacity at critical times. It also therefore reduces the need for additional distribution infrastructure and benefits the grid by reducing distribution of power during peak times.
- 4) *Service*: The service charge for a DG customer in proportion to a non-DG customer increases as usage decreases. As a result, these customers are overpaying in service charges.

It is essential that the Commission complete a full cost of service study including an accurate accounting of the costs and benefits provided to the grid by DG customers. Michigan EIBC urges the Commission to complete such a study prior to proposing any new rate design that would be potentially harmful to Michigan businesses, customers, and rate payers. Based on the evidence presented to date, Michigan EIBC strongly believes that solar DG customers are currently paying more than their fair share of costs and that any future tariff should reflect that as a credit in addition to maintenance of NEM. Michigan EIBC also requests that the Commission not finalize and approve a cost of service study and/or any other new tariffs that the utilities would utilize in 2018 electric

⁶ Institute for Energy Innovation, *Solar Energy in Michigan: The Economic Impact of Distributed Generation on Non-Solar Customers*, 2017, available at <https://www.instituteforenergyinnovation.org/impact-of-dg-on-nonsolar-ratepayers>.

rate cases outside of either a rule-making process or contested case proceeding in accordance with the Administrative Procedures Act, 1969 PA 306.

Michigan EIBC urges the Commission to adhere to the plain language of the statute – and the legislative intent behind it – in developing the renamed Distributed Generation program. Our organization – and the over 100 companies doing business in Michigan that we represent – look forward to continuing close engagement with the Commission and other stakeholders on this and other issues related to the implementation of 2016 PA 341 and 342.

Thank you for the in-depth work of the staff on this very important issue.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Liesl Eichler Clark', with a long horizontal line extending to the right.

Liesl Eichler Clark
President
Michigan EIBC