GLREA
GREAT LAKES
RENEWABLE ENERGY
ASSOCIATION

Ms. Julie Baldwin
Michigan Public Service Commission
7109 W. Saginaw Highway
PO Box 30221
Lansing, MI 48909

November 3, 2017

Dear Ms. Baldwin:

This letter is being sent in response to the request from Michigan Public Service Commission Staff (PSC) for comments on the MPSC Proposed Distributed Generation (DG) Program Concept Tariff.

The Great Lakes Renewable Energy Association (GLREA) is a trade association of renewable energy businesses that install or provide component parts of renewable energy systems, mainly solar, wind and geothermal. The vast majority of our members are not large businesses but are small business that have been started and have grown as the market for renewable energy has expanded as homeowners, farmers and business have realized the financial and environmental benefits of investing in a renewable energy system.

These renewable energy businesses do most if not all of their work in Michigan, creating jobs and promoting economic development in the areas they operate within. They have seen steady growth in their business operation but are very concerned about the impact on their business and their customers if the distributed energy tariff that is designed and promulgated by the PSC, doesn't reflect the true benefits of solar energy to the owners of solar energy systems but also to rate payers across the State, and only serves to undercut the economics of solar and distorting the market demand for solar.

The Mission of the Michigan Public Service Commission as stated on the official website:

> *"[Is] to protect the public by ensuring safe, reliable, and accessible energy and telecommunications services at reasonable rates for Michigan's residents."*

But in testimony to the Michigan House Energy Policy Committee on February 4, 2015, former Chairman John Quackenbush stated that the Mission of the Michigan Public Service Commission is to:

> *"[Grow] Michigan's economy and enhance the quality of life of its communities by assuring safe and reliable energy, telecommunications and transportation services at just and reasonable prices."*

Across Michigan, the United States and around the World a fundamental transformation is occurring where our civilization is moving away from carbon based energy production to clean renewable energy that can be generated at less cost with virtually no harmful impact to the environment.

But not all stakeholders in the energy field fully understand or appreciate this transformation and are operating to undercut this change because they are thinking in the short-term and only within their self-interest and not the greater interest of our State or country as a whole.

This is why the work of the Michigan Public Service Commission is critical as it carries out the legislative directive in designing the Distributive Energy Tariff.

As one GLREA member, Rob Rafson stated in recent testimony to the PSC:

> "This is a watershed moment for the MPSC, who has been given a rare opportunity to pave a path forward to a more sustainable future…"

The operating legislative principle for designing this Tariff is to "conduct a study on an appropriate tariff reflecting *equitable cost of service* for utility revenue requirements for customers who participate in a distributive generation program."

GLREA urges the PSC as it develops the distributive energy tariff, to keep foremost in mind the definition of *equitable* – "fair to all parties as dictated by reason and conscience" as well as the role of this distributive generation tariff in promoting the PSC's Mission of 'growing Michigan's economy and enhancing the quality of life within its communities.'

Comments

Stakeholders have been asked to comment on a Proposed DG Concept Tariff. This is a difficult task for two reasons.

1. The Staff Concept Proposal is essentially a framework with very little detail. Staff want to use an 'Inflow-Outflow' billing mechanism where a DG Customer pays retail rate for inflow that "may need" to be adjusted to reflect the cost of service of a DG customer as compared to the residential rate class as a whole and would include a "distributive generation provision with an appropriate adjustment to power supply and distributive charges." The only indication regarding the credit for outflow is that the proposal would require a DG customer to always pay a 'monthly customer charge.'

This framework may work but it will depend on the allocated cost amounts that fill in this framework i.e. the cost of service for solar DG customers and the value or benefit to the utility that is attributed to solar energy generated by a DG customer.

2. This then leads us to the second reason why commenting is challenging. The 'Cost of Service' study has not been fully completed by PSC staff. We feel that even before we consider a framework for rate design, that Cost of Service should be completed and stakeholders have a chance to comment. We need to more fully understand how PSC Staff values what the cost and potential benefits are for a DG customer and to a Utility, where solar energy is generated and a portion is exported to the grid to be reused by the Utility.

But GLREA also recognizes that the PSC Staff may feel compelled to move forward on both the cost of service study and rate design concept simultaneously maybe because of time considerations.

With this in mind, GLREA makes the following additional comments regarding what we think the proper approach to cost and benefit allocation should be.

Comments Regarding Cost and Benefit Allocation

The work that must be done by the PSC in developing the distributed energy tariff, as stipulated by Public Acts 341 and 342 is really nothing new. This distributive energy tariff and its predecessor net metering is just the latest alliteration of the PURPA federal law that established a policy and legal framework for energy generation by a third party. The policy established by PURPA is to encourage third party generation of energy that can be uploaded to the grid that will reduce cost and save ratepayers money and in return third party energy producers are entitled to receive a fee for this energy that represents the avoided cost-price to the utility.

With these established policy principles, the distributive energy tariff should be designed to similarly encourage and support the expansion of third party energy generation on an individual basis by a residential homeowner, business or farmer.

One significant difference between this new generation of 'third party generators' and the ones that PURPA encourage is that these third party generators are primarily producing power for themselves and only exporting a portion of that power to the utility. This complicates the cost-of-service analysis and in determining the avoided cost-price but it still must be done and it must be done accurately and 'equitably.'

The challenge is to evaluate and measure the long-term impacts of distributive energy on the utility's cost of service. These must include the benefit to a utility from DG because future costs of service are avoided as well any additional cost to the utility for maintaining the grid as a result of DG.

As Douglas Jester stated in previous testimony "If rate design is based on charges for inflow and credits for outflow, then these bill elements should match the cost of service for inflow and outflow so that pricing signals are accurate and rate design scales to solar system size relative to customer consumption." This is critically important for the individual in deciding whether to invest in a renewable energy system but also on the macro-economic level in terms of 'growing Michigan's economy,' as represented by Chairman Quackenbush's statement of the PSC's Mission.

The continued market expansion of renewable energy is generating economic growth. But the market for solar will react to the "price signals" that this DG tariff establishes. The PSC must get this right to support the market expansion of renewable energy.

GLREA urges the PSC Staff to consider the following additional points as they determine the cost of service and the DG Concept Tariff.

Solar energy is the most productive during the long summer days when demand for energy is the highest. Excess solar energy that is generated and exported to the grid, should therefore be credited based upon the time of day and/or year produced. The savings to the utility through the direct reduction of fuel, labor and other costs during peak summer months of high demand reduces costs for the entire system and should therefore be allocated to the DG customers that generate those savings.

Distribution costs for the utility are greatly reduced by solar because solar produces power when the grid is most stressed. Solar energy reduces line losses, improves power quality and increases distribution capacity at critical times thus reducing the need by the utility for additional investments in distribution infrastructure thus lowering the distribution costs for all customers. This benefit or savings to the utility should be counted against the distribution charge for rate-payers with solar power.

The Service Charge for a DG customer grows as a proportion of their bill as their (in-flow) usage is reduced. An average residential DG customer often generates 100% of their own energy usage over the course of a year, with the result that the customer service charge is nearly their entire bill. Since the service charge is a fixed amount, GLREA contends that a DG customer is being overcharged. A more equitably approach is to levy this charge in proportion to energy used from the grid. DG customers provide grid support, improve power quality, reduce operating and environmental costs. These cost savings benefit all customers but these cost savings are not properly credited to DG customers. A credit against Service Charge should be allocated in proportion to the DG customer’s percentage of usage offset by solar generation.

Conclusion
GLREA recognizes the importance of the transition to increased renewable energy for the Michigan economy and jobs. More and more electric utility customers are demanding access to renewable energy to meet corporate, government or personal goals. GLREA believes it is in the best interest of Michigan utilities and their customers to encourage the use of renewable energy to meet the demands of existing customers and attract new customers. The Distributed Generation Program will be key to continuing the transition to increased renewables and should therefore be structured in a way that continued growth is encouraged.

As was stated in these comments, figuring out the various costs and benefits to both the utility as well as the DG customer is the key in whether the PSC Staff Concept Tariff Proposal meets the standard established by PA 341 and 342 of a tariff that reflects the ‘equitable cost of service…’

We hope that this Cost of Service study is completed soon and that GLREA as well as other stakeholders will have a chance to comment on how these costs and benefits have been evaluated and quantified.

We appreciate the opportunity to comment and look forward to our continual participation in the Distributive Generation Energy Tariff Workgroup.

Very truly yours,

David L Konkle

David Konkle
President, Great Lakes Renewable Energy Association