



Smart Rate Design for Distributed Energy Resources Comments on Draft Report

Introduction

The Michigan Environmental Council (MEC) appreciates the opportunity to provide comments on the draft report titled 'Smart Rate Design for Distributed Energy Resources'. We thank the Michigan Public Service Commission (MPSC) for their continued attention and dedication to these issues, and the Regulatory Assistance Project (RAP) for putting together such an in-depth and well thought out report. However, we are concerned that the report fails to provide the necessary context to the current statute in Michigan and the legislative debate that this report was born from, without which we worry the report could cause more confusion than clarity.

Detailed Comments

The draft report was created in response to House Resolution 142, which was introduced by the Chair of the Senate Energy and Technology Committee in September 2020 and requested that the MPSC to evaluate how costs for distributed generation customers and traditional customers are being allocated, and to ensure that there is no cost shifting from one customer class to another. This resolution resulted from a longstanding legislative discussion about eliminating or lifting the current one percent cap on distributed generation hookups, which has been in place since 2008 when Michigan had a net metering program. On page 4, the draft report does a good job of explaining the current inflow/outflow system that has been in place since 2016 and states that the inflow/outflow system does not result in any significant cost shifting at current DG penetration levels. However, this key statement is buried in technical jargon and, given that the question of cross subsidy was a key question of the legislative resolution, MEC suggests rewording this statement to make this more clear to the average reader.

On page 9 of the report, it is suggested that utilities who have 'approached' the cap have raised it. The utilities that already hit the cap only agreed to raise it in a rate case or another agreement with the MPSC, after customers were put on waiting lists for differing amounts of time. The draft report does not make this clear and suggests that the utilities who have raised their caps did so voluntarily and preemptively, which is misleading.

We are especially disappointed that the three different scenarios that make up the main body of the report are completely devoid of important Michigan specific context (i.e. the 1% cap). It is not useful to Michigan stakeholders, the MPSC, or the Legislature to present potential future rate designs without providing penetration level information. Clearly stating what level of penetration of DG systems would potentially cause a cross subsidy and

therefore a need to change rate design is critical information for why the MPSC and legislators should consider those rate reforms... If the current 1% cap is maintained, it's unclear whether there is any need to consider altered future rate design at all, seeing as the report affirms that there is no cost shift under the current system. One of the scenarios uses Hawaii as an example at one point, but solar penetration in the state of Hawaii and the state of Michigan could not be more different. The report's failure to clarify what is meant by 'high' and 'higher' penetration of distributed generation renders each pathway essentially meaningless. It must be clarified at what level of penetration of DG resources each of these new rate designs would be triggered by in the final report.

One possible way to incorporate this information would be to point out the goals that each example was trying to achieve when they changed their DG rates. Was it because they had low levels of DG penetration and were looking for rates to increase penetration levels? Was it because they had high levels of DG penetration and wanted to ensure there was no cross subsidization while still encouraging the DG market? This context is important for decision makers to have.

Finally, the Michigan Environmental Council is concerned that the draft report does not acknowledge the full non-energy benefits that come with the adoption of distributed generation resources. Figure 8 on page 23 lists a number of benefits from DERs, but doesn't mention bill reductions from reduced electricity cost and increased reliability from a more decentralized grid. If these benefits are included as part of the others listed, that should be clarified, and if they are missing, they should be added.

Thank you again for the opportunity to comment on the initial draft of "Smart Rate Design for Distributed Energy Resources" and we hope to see many of the concerns we voiced above addressed in the final report.