



**VOTE SOLAR**



**ENVIRONMENTAL LAW & POLICY CENTER**

November 3, 2017

Julie Baldwin  
Michigan Public Service Commission  
7109 West Saginaw Hwy.  
Lansing, MI 48909

Re: Comments of the Environmental Law and Policy Center and Vote Solar on the Staff's DG Concept Tariff Draft

Dear Ms. Baldwin:

Thank you very much for the opportunity to comment on the most recent staff draft concept tariff for distributed generation in Michigan. This process is critically important as it will determine whether future solar customers in Michigan will be able to fairly and transparently be charged for electricity services and credited for their contribution to the grid.

The Commission has been charged with two discrete tasks regarding Michigan distributed generation programs. First, the Commission is charged with studying what type of tariff could reflect the equitable cost of service for customers participating in a distributed generation program. Second, the Commission is charged with approving a specific tariff in the context of rate cases filed after June 1, 2018.<sup>1</sup> Commission Staff ("Staff") convened a Distributed Generation (DG) Workgroup to undertake the study required by the statute. Presentations have been given on a variety of topics during Workgroup meetings, including presentations related to potential rate design concepts for implementation of the tariff. At this time, one key element of the analysis undertaken in service of this study remains outstanding.

The language of the statute is clear that the tariff should reflect the full "equitable cost of service." Cost of service reflects the cost that a utility incurs to serve a particular class of customers, and by necessity must take into account all factors that impact the cost of serving distributed generation customers. This includes factors that represent negative costs (benefits) to the utility and reduce the cost of service to distributed generation customers. Production, distribution and transmission costs must all be considered to adequately reflect cost of service.

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<sup>1</sup> 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. In any rate case filed after June 1, 2018, the commission shall approve such a tariff for inclusion in the rates of all customers participating in a net metering or distributed generation program under the clean and renewable energy and energy waste reduction act, 2008 PA 295, MCL 460.1001 to 460.1211.

Notably, the statute is silent as to the structure of any tariff adopted, requiring only that the tariff reflect the equitable cost of service for distributed generation customers. While moving away from net metering could be one way to accomplish this task, doing so is not required by the statute. Indeed, without additional information the Commission cannot currently conclude that net metering does not reflect the cost of serving distributed generation customers. It may well be the case that adopting a net metering tariff in the upcoming rate cases is the most equitable and transparent choice for customers and is a reasonable implementation of the statute in the face of limited data on the true cost of service for distributed generation customers. While we hope that Michigan will see accelerated uptake of distributed generation technologies due to their well-documented benefits to customers and the grid, current net metering customers represent well under one percent of load. Therefore, Michigan regulators have time to undertake the needed analyses and carefully design a successor to net metering that also meets the statutory standard of “reflecting an equitable cost of service” for those customers investing in distributed generation.

Staff’s proposed concept tariff is based on an inflow-outflow methodology, under which staff proposes to charge DG customers for inflows at the retail rate, but to credit outflows at the PURPA avoided cost rate. As we describe below, staff’s current proposed inflow-outflow concept tariff is likely to result in an inequitable distribution of costs and benefits among distributed generation and non-distributed generation customers in the residential customer class.

Specifically, the concept tariff as described in the workgroup presentation has four main drawbacks that should be mitigated before recommending as the successor to net metering in Michigan.

**1. To the extent that the cost of serving DG customers is lower than the cost of serving non-DG customers, the tariff may or may not reflect that lower cost.**

There is considerable evidence in staff’s analysis that the cost to serve distributed generation customers is lower than the costs to serve other residential customers. Staff’s production cost of service analysis concludes that distributed generation customers are 16% less costly to serve than non-distributed generation residential customers due to lower contribution to peak capacity needs. At this time, the companion analysis on distribution system costs that was expected on September 20, 2017, has not yet been shared. This leaves stakeholders in the position of commenting on a concept tariff whose analytical underpinnings are not fully understood. With respect to the findings in the production cost of service analysis, staff suggests that they may need to adjust rates for DG customers to account for the difference in cost of service. However, in that instance, it is not clear that the tariff itself would not reflect the equitable cost of service for DG customers, as required by the statute. Instead, the tariff’s inequities would be, potentially, mitigated by a rate schedule adjustment the significance of which would be litigated in each rate case, creating a new universe of uncertainty for current and prospective DG customers.

**2. To the extent that the test-year cost of serving *other* residential customers are lower as a result of the DG customer’s contribution to the grid, those negative costs (benefits) are not reflected in the concept tariff offered by staff.**

The conceptual cost of service analysis in the inflow-outflow model looks to inflow to establish the “cost” of serving a distributed generation customer. However, at the inflow level, the calculation of these costs are not netted by the near-term **cost reductions** (negative costs, or benefits) to the entire residential customer class attributable to the outflow of electricity from distributed generation systems. When a solar system generates excess power that is exported to the grid, that power flows to neighbors, the utility is paid full-retail for that power by the neighbors. Consequently, the utility cost to serve those neighbors is

reduced. If the tariff is to reflect equitable cost of service it must measure and net out these cost reductions.

**3. To the extent that the long-term costs of serving all customers are reduced by virtue of the investment made by DG customers in, those benefits are not reflected in the tariff.**

Michigan has long acknowledged the long term system benefits of energy efficiency and has embedded these benefits in its cost-effectiveness analysis for its customer-funded energy efficiency programs. Those benefits are no less real in the context of distributed generation. While traditional cost of service analysis does not take these long-term benefits into consideration, an appropriate tariff reflecting equitable cost of service should include reasonable efforts to take these benefits into account and compensate distributed generation customers accordingly.

Nor are these cost reductions accounted for in the proposed outflow credit that is based on PURPA avoided costs. While PURPA avoided costs should include measurements of avoided transmission and distribution costs, reductions in line losses, reduced fuel-price risk, avoided environmental compliance costs, avoided costs for renewable energy standard compliance, and any other real costs avoided by the utility, the avoided cost methodology currently in place in Michigan does not measure any of those avoided costs. Moreover, the Commission recently explained in its order in U-18090 that there was no need to identify and quantify long-term Value of Solar (VOS) benefits in that proceeding in part because it would be duplicative to the subject matter of this proceeding.<sup>2</sup>

Another potentially fatal problem with using PURPA rates to compensate outflows is that PURPA rates do not accurately reflect the embedded cost of service, which is the basis for cost of service used in every other context in Michigan. To depart from this practice in order to set a lower compensation rate for DG exports would be inequitable and discriminatory.

Given the Commission's current delay of a final order in the PURPA cases, and the Commission's previous order deferring the analysis of VOS related issues to the DG tariff process, it is unreasonable to rely on the inclusion of those cost reductions in avoided cost for purposes of the distributed generation tariff. Nor can these cost reductions be dismissed as immaterial.

If the Commission concludes that it currently does not have enough information to set an export compensation rate that accurately and fairly reflects either the short term or the long-term negative costs (ie benefits) to the distribution system created by virtue of the distributed generation, it must chart a course that does as little harm as possible to the nascent distributed generation market so as to avoid putting these benefits out of reach. Specifically, in this instance, the commission should (1) Defer changes to NEM until such time as this analysis can be conducted; (2) Create interim values that reflect reasonable estimates of those values. To omit this analysis assigns a value of zero to these long term benefits, an outcome that is inaccurate, inequitable and counterproductive to achieving the benefits.

**4. The negative impact of the above listed inequities would be compounded by the additional complexity and uncertainty for customers regarding the utility bill impacts of prospective investment in DG.**

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<sup>2</sup> U-18090 at p. 29: "The Commission also finds that ELPC's recommendation that a VOS analysis be undertaken is potentially duplicative, given the directive under the new energy legislation, which requires the Commission to create a distributed generation program and examine costs associated with distributed generation and net metering. MCL 460.1173 and MCL 460.6a(14). Accordingly, the Commission anticipates that VOS issues, as well as other avoided costs associated with distributed generation generally, will be examined as part of these proceedings, which will be completed before the next PURPA review."

Achieving the benefits in each of the three categories enumerated above entirely depends upon individual customers doing the math to determine how an investment in DG will impact his or her energy costs, and making a decision to invest in those resources. As staff pointed out in its March 22 workgroup presentation, the basic principles of ratemaking emphasize simplicity, such that the normal customer can understand how his or her behavior will impact the monthly bill.

If inflow-outflow is chosen, the Commission must mitigate the potential for creating such a complex formula that customers cannot with reasonable certainty calculate the value proposition of a DG system. Those problems will be compounded dramatically if the inflows and outflows are netted on a smaller time interval as opposed to monthly, as staff has suggested. Even worse, if the Commission were to approve a three-part rate under which the customer would need to understand how a demand charge for distribution system costs would impact the DG value proposition, and attempt to discern multiple price signals and adjust behavior accordingly. The levels of added complexity may result in the opposite of the affect intended – rather than motivating customers to use energy efficiently, it may result in customers disengaging from the effort to predict and affect their energy bills at all.

In conclusion, we urge the Commission staff to carefully rethink its current direction. It has not performed cost of service analysis in a way that reflects the embedded cost of service for DG customers, it has omitted key short-term and long-term benefits from its formula, and therefore its inflow-outflow proposal would be inequitable, jarring and confusing for DG customers.

ELPC and Vote Solar appreciate the opportunity to engage with stakeholders in this process and to comment on staff's concept tariff.

Sincerely,

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