

VDER Tariff Design Proposal for Mass Market Customers

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Agenda

- Review principles
- Review approach and design features to VDER Tariff Design for evaluation
- Set structure for evaluation in the Bill Impact and other studies

1) Principles: Principles Established by Commission

- Cost Causation
- Encourage outcome
- Policy transparency
- Decision-making
- Fair value
- Customer- orientation
- Stability
- Access
- Gradualism
- Economic sustainability

Key Principles to Emphasize

- a) Simplicity: design should be understandable for mass market customers/ clearer signals leads to action and are fairer to customers
- b) Reflect utility system and social costs: customer is rewarded based on value of RE/EE action and pays for impact of energy use
- c) Keep eyes on the policy goal: Design should support New York's stated goal of a cleaner, more advanced, diverse, cost reducing energy system

2) Design Elements

- a) Key Element is Time of Use Energy Rate
- b) Introduce Critical Peak Pricing (CPP)
- c) Make a Variable Peak Pricing Tariff Available to Customers on an Opt-In Basis
- d) Customer Charge review
- e) Seasonal Rates
- f) Utility Revenue Stability and Cost Shifting Issues
- g) Concerns with Demand Charges
- h) Review on Ongoing Basis for Effectiveness and Customer Reaction

a) Key Element is Time of Use Energy Rate

- The single largest cost component is wholesale energy (including fuel and its environmental impacts), and certainly the most important from a policy perspective: TOU energy charges capture this
- Use same time duration for delivery and commodity: simplicity, and both occur during on-peak period
- ISO forward on and off-peak energy prices reflected in energy rates
- Reflect distribution, transmission and generation capacity in on-peak charges
- VDER value stack should inform the design of energy rates
- Assign delivery costs to on and off-peak energy charges

b) Introduce Critical Peak Pricing

- Opt-in: a fixed extra peak charge reflecting historic and forward energy prices on NYISO Event Days, as well as value to distribution system
- Future consideration of opt-out after lessons learned
- For purposes of this tariff, Event Days are called on a day-ahead basis

c) Make a Variable Peak Pricing Tariff Available to Customers on an Opt-In Basis

- Rewards customers with greater load control, technology and awareness for their response during extra cost/reliability threatened periods
- Short notice (4 hours) and actual NYISO prices

d) Customer Charge

- Should reflect cost of meter, service drop and allocated share of customer service
- Cost causative approach
- Fairer to low income and smaller use customers
- Consistent with Commission's goals especially energy efficiency
- Utility financial stability can be addressed through other mechanisms that are more consistent with cost causation and policy goals (discussed below)

e) Seasonal Rates

- Maintain seasonality of rate design; better reflects costs

f) Utility Revenue Stability and Cost Shifting Issues

- Utility distribution sunk fixed costs and commodity costs should be recovered:
 - Consistent with Commission's REV vision, the utility role as platform to support growth and new technologies
- The above framework may lead to under or over recovery depending on customer reaction/elasticity and level of charges
- Tariff should include annual true-up, to maintain utility sunk fixed cost distribution revenue requirement
 - Revenues collected through the above tariff design would be reconciled annually against fixed cost distribution revenue requirement and incurred generation and transmission costs.
 - True-up would be by customer class, i.e., not from individual customer (counter productive to Commission goals) and not system wide (unfair to individual customer classes)
 - Commission oversight review for reasonableness

g) Concerns with Demand Charges

- Mostly unknown to mass market customers (leading to steep learning curve and potential backlash)
- Not flexible enough to reflect cost
- Not effective in inducing behavioral changes and energy efficiency investments
- Issue of revenue/risk to utilities with residential demand charge is unknown: is fluctuation of billed demand more than fluctuation of billed energy use?

3) Next Steps

- Discussion and clarification with Working Group
- Review utility cost of service studies and other data to develop indicative tariffs around the above design framework
- Collaborative process with stakeholders reviewing data and having access to model development and models
- Work with Utilities and other Working Group members on the performance of Bill Impact and other Studies
- Evaluate results of studies; determine if adjustments are needed