



September 2, 2016

Commissioner Travis Kavulla, President
National Association of Regulatory Utility Commissioners
1101 Vermont Avenue Northwest, #200
Washington, D.C. 20005

Re: Comments on NARUC Distributed Energy Resources Compensation Manual

Dear President Kavulla:

The Alliance for Solar Choice (TASC) respectfully submits these comments in response to the questions issued by the National Association of Regulatory Utility Commissioners (NARUC) regarding the recent draft of the NARUC Distributed Energy Resources Compensation Manual (draft manual). TASC appreciates the effort involved in developing the draft manual, as well as the opportunity to comment and participate in a process to create a document that will surely play a role in state regulatory proceedings across the country.

TASC was founded by the largest rooftop solar companies in the nation and is a leader in solar advocacy and protecting consumer energy choice. TASC maintains a diverse membership of national and local solar companies, including Convergence Energy, Geostellar, Inc., HH Solar, Horizon Solar Power, LGCY Power, Premier Solar Solutions, REPOWER by Solar Universe, SunTime Energy, Sunrun, Lightwave Solar, Palmetto Solar and Demeter Power. The rooftop solar market in the United States has been driven by customers' desire to assert control over their electric bills. TASC's members are committed to ensuring customers have a viable choice in energy providers that offer near-term, low-cost, and customer-based solutions to integrate renewable energy resources and improve operational efficiencies. These solutions will help preserve both the health of the solar industry and the public interest at large.

As customers increasingly become empowered to choose the source of their electricity and self-generate, levels of rooftop solar PV and other distributed energy resources (DERs) will continue to rise. A fair, balanced, and regularly updated draft manual can serve as a valuable tool for regulators, a helpful resource for utilities and solar providers, and a source of education for consumers. Indeed, the first draft is a promising start.

In its notice soliciting public feedback on the draft manual, NARUC staff expressed particular interest in the following questions:

1. Has the draft Manual addressed the issue in a comprehensive and useful manner?
2. Are there any other considerations not included in the draft Manual that impact Distributed Energy Resources?
3. Are there other compensation options not included in the draft Manual?
4. How could the Manual be written in a way that is more useful to regulators?
5. Should the draft Manual include a discussion of distribution system planning or distribution system operators?
6. Does the draft Manual provide sufficient discussion on considerations of equitable treatment between customers in the context of ratemaking?
7. Since the initial survey and request for information was released in March 2016, have there been any new developments that the Staff Subcommittee should take into account in this draft Manual?
8. Is the draft Manual missing any key technologies that should be included?

TASC will proceed by responding directly to the questions it feels are most in need of constructive feedback.

Question 1: Has the draft Manual addressed the issue in a comprehensive and useful manner?

The Draft Manual generally discusses DERs as burdens that impose costs on utilities or other ratepayers without acknowledging the opportunity these resources offer to defer expensive infrastructure projects, improve power quality, resilience and reliability, and reduce emissions in a cost-effective manner. While some benefits are acknowledged, they are discussed much more cautiously than the robust discussion of costs, presented as a definitive conclusion. While it is true that DERs *might* impose a net cost on the utility and its ratepayers if regulators do not ensure they are accounted for in utility planning and integrated into the electric grid, such a course of action would represent a lost opportunity to create a more modern electric grid that is cleaner, more reliable, and ultimately less expensive than the grid of the 20th century.

As we note in detail in the white paper, Rate Design for a Distributed Grid, which we jointly submitted into the record with SEIA, SolarCity, CalSEIA, Sierra Club, and TechNet, the overwhelming majority of independent studies conducted to date demonstrate that customer-owned resources on the distribution grid can produce net benefits for all utility ratepayers.¹ In addition to avoiding the need to generate power in the short run, these resources can also avoid the need for long-term infrastructure investments in generation and transmission capacity. Moreover, emerging resources like smart inverters and battery storage can maximize these benefits while providing additional benefits like ancillary services, flexible capacity and conservation voltage reduction.

¹ These studies are collected on SEIA's website at <http://www.seia.org/policy/distributed-solar/solar-cost-benefit-studies>.

Thus, in seeking to establish a compensation structure for DERs, regulators should study the value of the benefits that distributed resources provide, as well as the costs. Both costs and benefits will vary in different geographic regions. There is little dispute that at low levels of DER penetration, Net Energy Metering (NEM) works well to stimulate markets, and concerns that have been articulated such as impacts to utility revenues or rates are *de minimis*. The draft manual itself notes that “[f]or the jurisdictions with low DER penetration and growth, there is time to plan and take the appropriate steps to avoid unnecessary policy reforms simply to follow suit with actions other jurisdictions have taken. Reforms that are rushed and not well thought out could set policies and implement rate design mechanisms that have unintended consequences such as potentially discouraging customers from investing in DER resources or making inefficient investments in DER.” As DER penetrations increase, properly accounting for the full range of benefits provided by such resources can provide insight into whether policies like NEM fairly compensate DER owners, or whether, and how, those policies should be adjusted.

Question 4: How could the Manual be written in a way that is more useful to regulators?

TASC echoes calls from other industry members for NARUC to ensure adequate transparency. The public deserves fair, open, independent and comprehensive manual development process.² We agree that publicly sharing the comments NARUC has received in a timely manner would make the final product both more informed and a more credible source for state regulators. As stakeholders note, the manual is intended to provide guidance on issues that are the subject of real and protracted controversy in many states. Ensuring that the guidance is perceived as having been developed in an objective and transparent manner will make it more useful for the regulators who most need this kind of tool. TASC also feels that once the record is open and transparent, granting stakeholders the opportunity to reply to comments is an important part of the process improvements.

TASC asks that the manual be explicitly characterized as a living document. We support the request for NARUC to adopt a process for regular updates with stakeholder input to ensure that its recommendations remain current and sound, as policymakers, utilities and DER providers develop new products, new regulatory tools for quantifying values of DERs, and ways for consumers to exercise their choices in the marketplace.

Question 5: Should the draft Manual include a discussion of distribution system planning or distribution system operators?

In order to maximize the value of new technologies that are increasingly available to customers, utility regulators must *plan for* the adoption of these technologies and *integrate them* into the electric grid, such that they can be used to reduce or replace

² A number of industry stakeholders, including Sunpower, Vote Solar, SolarCity, and SEIA submitted a letter to Hon. Travis Kavulla on August 24, 2016.

infrastructure investments a utility might otherwise make. DERs should be included in long-term resource planning so that utilities are not building new infrastructure, such as power plants, transmission lines, or distribution upgrades that could be replaced or avoided by DERs at a lower cost.

With the increasing adoption of customer-sited resources that can offer services traditionally provided by regulated utilities, utilities may have fewer opportunities to deploy capital, and thus to earn revenue for their shareholders. As was noted in the summer meetings in Nashville, this sets up either conflict or an opportunity for collaboration. Evidence shows that DERs can, and often do, reduce peak demand, thereby helping avoid long-run generation, transmission, and distribution cost that would be measured in an IRP framework, in addition to helping to avoid short-run benefits measured by LMP analysis. In addition, there are benefits in the form of avoided fuel cost risk, fuel supply risk, and avoided externalities that should be considered.³

As penetration of both solar and other DERs reach salient levels, regulators should address this issue through utility business model reforms that make utilities less dependent on rate-based assets for shareholder return. Such reforms can serve the purpose not only of keeping utilities financially sound in an era of flat or declining sales, but they can also reduce the utility's inherent bias in favor of utility-owned infrastructure over customer-sited resources to meet the need for services such as generation or transmission capacity.

As TASC has been actively involved in regulatory proceedings across the country, we have seen proposals for regressive rate design that would slow or prevent new technologies from challenging the old paradigm. The purpose of regulation, however, is to protect consumers, not the utilities, and the trend in the American economy has been away from monopolistic markets and toward competition when possible. Rates should empower customers, and incentivize customer behavior that aligns with system needs. In the whitepaper referenced above, we put forth more detailed recommendations for rate design and other policy considerations in an era when energy resources are becoming increasingly distributed in response to increasing customer demands for choice.

³ Lazar, J. and Colburn, K. (2013). *Recognizing the Full Value of Energy Efficiency*. Montpelier, VT: The Regulatory Assistance Project.

Conclusion

Again, TASC would like to thank NARUC and its staff for their effort in developing the draft manual, and for the opportunity to comment on it. As more customers exercise the right to choose, our utility system will respond and become more distributed. Properly valuing these resources will be a critical exercise in avoiding inefficient compensation and other barriers to entry.

Respectfully submitted,

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*On behalf of The Alliance for Solar
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