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DEPARTMENT OF COMMERCE
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Date: February 20, 2014

Subject: In the Matter of the Investigation of the Costs and Benefits of PacifiCorp's Net Metering Program. Docket No. 14-035-114

Introduction and Background

On February 6, 2015, in response to the Public Service Commission's (Commission) November 21, 2014, Notices of Comment Period and Scheduling Conference (Notice) parties filed comments expressing their views related to the net metering issues identified in the Notice. The Notice also provided for reply comments to be filed on February 20, 2015. Following are reply comments of the Office of Consumer Services (Office) to parties' comments submitted on February 6, 2015.

Discussion

The Office will not respond to every comment and recommendation made by each party but will make a few general observations regarding comments submitted on February 6, 2015 and provide recommendations related to the process going forward.

Cost and Benefit Tests

In the Notice the Commission invited parties to comment on "whether the traditional costs and benefits test equations (e.g., the utility cost test, the total resource cost test, the ratepayer impact measure test, and the participant test) and metrics (e.g., benefit to cost ratio) used to evaluate utility-sponsored demand side management programs can and should be applied to examining the costs and benefits of PacifiCorp's net metering program."

Although several parties indicated that the demand side management (DSM) tests could be helpful for the evaluation of net metering, no one asserted that the tests could be used as currently defined. Parties that support use of the DSM tests recognize that modifications would be required as they are not suitable in their current form. Some parties expressed their view that certain of the tests could be modified and used while other tests should not be used at all. Other parties, including the Office, advocated that the DSM tests are simply not appropriate for the required analysis of the costs and benefits of the net metering program.

However, the Office asserts that the salient issue for the Commission to consider is whether the DSM tests can comply with Utah Code Ann. § 54-15-105.1:
The governing authority shall:

> (1) determine, after appropriate notice and opportunity for public comment, whether costs that the electrical corporation ***or other customers*** will incur from a net metering program will exceed the benefits of the net metering program, or whether the benefits of the net metering program will exceed the costs; and
> (2) determine a just and reasonable charge, credit, or ratemaking structure, including new or existing tariffs, in light of the costs and benefits. [emphasis added]

The DSM tests are not designed to measure potential cost shifts (i.e. costs to other customers.) Although other parties have advocated selected and modified use of the DSM tests, none have demonstrated how such tests would satisfy the requirements of the statute. Thus, the Office recommends that efforts be focused on other forms of analysis.

Use of Prior Studies

Several parties point to studies that have been previously conducted in an effort to evaluate the costs and benefits of net metering programs in various states. The Office notes that while prior studies can be helpful and provide certain insights on items that may or may not be beneficial to use in evaluating Utah's net metering program it is important to remember that states and even regions have dissimilarities that must be accounted for in a cost benefit evaluation. For example, some states have a renewable portfolio standard (RPS) which requires that utilities acquire a set amount of renewable energy or renewable energy certificates (REC). Some states grant extra RECs for solar, which count toward the utilities compliance with the RPS. Other states have attributed a value to CO_2, other emissions, and social benefits allowing these types of items to be included in some of those cost benefit evaluations.

In particular the Office calls the Commission's attention to one study mentioned by parties as a potential source for valuing externalities that could apply to the net metering program

- “Co-Benefits of Energy Efficiency and Renewable Energy in Utah, Air Quality, Health and Water Benefits” (Synapse 2010 Study) which was published in 2010 by Synapse Energy Economics.

When the Synapse 2010 Study was presented in Utah there was significant interest and criticism with the findings from industrial customer representatives and the mining industry. The Office notes that neither of those groups is currently represented in this docket. The Synapse 2010 Study was never vetted, nor approved by any authoritative body in Utah. Thus, before relying on any inputs or outcome of the study it is important that it first be evaluated in a more comprehensive context rather than in the narrow scope of net metering.

For these and other reasons the Office reiterates our recommendation that the Commission institute a separate docket to evaluate the types and values of any externalities before it considers including them in the cost benefit analysis for net metering. All interested parties must be given the opportunity to participate in a robust evaluation with a clear understanding that the outcome would be applied consistently in all appropriate regulatory processes.

As previously stated, the Office believes that in the interest of efficiency and fairness, the Commission should identify up front its intentions regarding the evaluation of externalities and indicate the necessary steps required for any party to pursue the inclusion of externality values.

Use of an Independent Consultant

Some parties have suggested that an independent facilitator, moderator or consultant be hired to assist with the technical conferences and workshops that are scheduled for this docket. There is also a suggestion that an independent consultant be hired to conduct a cost benefit study. Parties offering these suggestions do not explain how the facilitator or consultant would be hired or the source of funding for those services.

Although the Office does not oppose the use of an independent facilitator we are concerned that the hiring process, creating and issuing an RFP, evaluating responses and contracting, could be somewhat lengthy and time consuming. If the Commission chooses to hire an independent facilitator the Office asserts that the Commission must retain responsibility for overseeing the facilitators work. All other parties in the docket (including the Division) will be appearing before the Commission to express their views and persuade the Commission to accept and implement specific recommendations. Only the Commission can serve the unbiased role of overseeing the facilitator.

Proper Scope of Evaluation

Several parties have asserted[1] that the Commission should only evaluate "excess generation" or "exported energy" and have cited the Commission's order in Docket No. 13-035-184 as well as statute in support. However, the Office notes that the portion of the statute that addresses a cost benefit analysis, Utah Code Ann. § 54-15-105.1, addresses the entire net metering program, and does not define the evaluation to be limited to excess generation. As the heading indicates, it addresses the broad topic of "determination of just and reasonable charge, credit, or ratemaking structure."

However, in light of the oft-quoted Commission statement in its Order in Docket 13-035-184, this current docket may be best served if the Commission solicits legal argument on the question of proper scope. In that regard, the Office is supportive of the suggestion made by TASC[2] to separate legal and factual issues to move forward on a parallel path.

Response to Specific Cost and Benefit Categories Proposed by Other Parties

Several parties have proposed specific benefit types, which are similar in nature. The Office has summarized these categories below and provides a brief response:

- Avoided Energy

  This is a clear benefit that should be included. The evaluation of the benefit should be based on how the costs are incurred by the Company and recovered from other customers, not market costs that bear no correlation to customer rates.

- Avoided Line Losses

  This is a benefit that should be included to the extent it is properly calculated.

- Avoided Generation, Transmission, Distribution Capacity

  The Office agrees that potential benefits in these categories should be evaluated. However, the evaluation needs to incorporate both avoided costs from the perspective of the Company and shifted costs from the perspective of other customers. In other words, fixed costs that are already incurred must be paid by some set of customers. Such costs must be included in the category of "costs to other customers" mandated by the statute to be considered.

- Avoided Grid Support & Ancillary Services

  The comments primarily indicated that these are potential future benefits. The Office notes that intermittent net metering resources may actually increase the Company's grid support and ancillary services costs. However, benefits or costs that are theoretical and not currently measured should not be included. The Office anticipates that net metering charges/credits will change over time, just as all rates do. Therefore, any cost benefit formula should be flexible to reflect any new benefits (or costs) that become quantifiable at a later date.

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[1] See for example, February 6, 2015 comments of Utah Clean Energy, page 16; TASC, Summary List of Recommendations; Sierra Club pages 27 - 28.

[2] TASC comments February 6, 2015, Summary of Recommendations.

- Fuel Price Hedge, Market Price Response, Grid Reliability & Resiliency

The Office urges caution regarding these three categories of potential benefits. In our view, these are not clearly externality values like those we discuss below. However, the Office asserts they are benefits that are highly speculative and difficult to quantify. The Office believes that these types of benefits should only be included if they are demonstrable and quantifiable.

- Environmental/Health/Social/Economic Development Benefits

All of these categories of potential values are externalities. The Office has spoken at length regarding its view of the inclusion of externality values. In short, if the Commission would like to consider externality values, the only way to maintain just and reasonable rates would be to ensure that externality values are applied consistently across all applicable regulatory processes.

Parties have also addressed a few categories of specific types of costs to be considered. The Office provides some brief responses below.

- Lost Revenue vs. Utility Costs

Most parties framed this evaluation as likely to look at either lost revenue or utility costs. Others suggested that lost revenue should be strictly excluded from any evaluation. The Office has not fully evaluated these issues and anticipates doing so over the course of the docket. However, we will provide some initial thoughts. The statute requires an examination of both utility costs and costs to other customers. Thus, to the extent that the recovery of fixed utility costs is shifted to "other customers," these costs must be included in the evaluation.

- Administrative Costs

We agree with commenters who urge caution toward accepting administrative costs as initially put forward by the Company. As with all Company-asserted costs, the Office advocates for an evaluation of whether the costs are prudent and reflect industry standards (including trends toward automation and other innovation.)

- Interconnection Costs

The cost to connect a net metering customer's generation resource to the Company's system is the responsibility of the net metering customer. The Office agrees with other commenters that any costs paid by the individual customer should not be included in a cost benefit analysis.

- Integration Costs

The Office agrees with other commenters that integration costs should be based on current circumstances, and not on unrealistic future penetration levels. As stated above, the Office believes that only quantifiable, current costs (and benefits) should be included.

To the extent the Office has not addressed any specific proposed costs or benefits, absence of such comment should not be construed as the Office's support or opposition.

Request for Commission Guidance

It is already clear that this docket will require significant time commitments and work from parties. Therefore, the Office asserts that the Commission should provide guidance at the beginning of the process and answer the questions that have been posed to them by the Office and other parties so that precious resources and time are productively employed. This will enable parties to concentrate efforts where the Commission is interested and allow for the contracting of expert consultants where necessary to better respond to Commission interests and concerns.

Office Recommendations

The Office's recommendations as expressed in our February 6, 2015 comments remain unchanged as follows.

To assist parties in providing more meaningful input the Office recommends that the Commission:

1) Consider only quantifiable costs and benefits and require that the parties who propose the inclusion of any particular cost or benefit provide supporting evidence.
2) Do not evaluate externality costs within this docket. Such evaluation must be done in a standalone evaluation that provides opportunity for all interested parties to participate in a robust evaluation with a clear understanding that the outcome would be applied consistently in all appropriate regulatory processes.
3) Provide its view on the authority required to apply externality costs to this docket as well as other resource decisions.
4) Do not continue the practice of using DSM cost benefit tests to evaluate solar or net metering resources.
5) Ensure that any analysis is consistent both with the requirements of the net metering statute as well as existing regulatory processes in place.

In addition, the Office supports the recommendation made by TASC for the Commission to evaluate legal issues on a separate, parallel track from the factual issues.