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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Investigation of the Costs and Benefits of PacifiCorp's Net Metering Program	**DOCKET NO. 14-035-114** **Utah Clean Energy – Reply Comments**

Pursuant to the *Notices of Comment Period and Scheduling Conference* issued by the Commission in the above-captioned proceeding on November 21, 2014, Utah Clean Energy submits these reply comments addressing comments filed on February 6, 2015 by Rocky Mountain Power, the Division of Public Utilities and the Office of Consumer Services.

RESPONSE TO RMP'S COMMENTS

The Company argues that traditional DSM tests should not be used to evaluate the net metering program because distributed generation is a "supply option" and should be compared to other utility resources using PURPA avoided costs methods.[1] The Company then argues that the current net metering statute indicates a policy shift and a new legislative intent for NEM customers to "pay their share of costs," and that this intent precludes using most DSM cost tests (total resource cost, participant cost and portions of the utility cost tests) because they do not adequately consider impacts on non-NEM customers.[2] In other words, the Company argues that

[1] RMP comments, pages 4-5.
[2] RMP comments, page 8.

the current statute does not allow the Commission to look at benefits and costs except through the narrow lens of PURPA avoided costs and direct program costs plus lost revenues.

Although the net metering statute requires an analysis of the costs and benefits of solar, which precedes "just and reasonable" rate design, the Company's comments begin with the Company's intended rate design proposal for residential net metering customers and suggest analysis accordingly, prejudicing the outcome of the statute's required cost/benefit analysis. In other words, the Company's comments are based not on the requirements of the net metering statute, which put analysis chronologically before rate design, but rather on the Company's desired outcome and work backward to select the method of cost/benefit analysis that will produce that outcome. This is directly contrary to the intent and requirements of the statute, and the purpose of this docket.

The Company argues against the use of traditional DSM cost-effectiveness tests, such as the Utility Cost Test, when evaluating distributed solar generation because the costs and benefits of this resource "*can* be directly compared to the costs and benefits of the electricity supplied by the Company."[3] Counterintuitively, the Utility Cost Test is, by definition, a test used to directly compare the costs and benefits of utility resources against distributed alternatives, such as rooftop solar or DSM resources, from the utility's perspective.

Apart from the Company's insistence that the NEM statute implicates PURPA avoided costs, it is not clear how the Company's proposal to compare distributed generation resources against the utility's supply-side alternatives is different from utilizing the Utility Cost Test, except that the latter is a more transparent and publicly accessible method. As far as using actual

[3] RMP comments, page 4 (emphasis in original).

or estimated values are concerned, those issues can be evaluated, discussed and determined within the current docket.

The Company argues that distributed generation should be compared to the utility's resources using PURPA avoided cost methods. In support of this, the Company asserts that distributed generation is a "supply option," and that there is "no difference between the output generated from rooftop solar resources and solar resources from small QFs."[4]

In the integrated resource planning context, the Company views distributed generation as a demand-side resource along with other DSM and energy efficiency resources, rather than as a supply option. Thus, in the 2015 Integrated Resource Plan (IRP), the Company chose to study and model distributed solar resources as a decrement to load, rather than as an electricity generation ("supply") option. This was a change from prior practice. In the 2013 IRP, the Company did treat distributed solar as a supply option, at the cost of the solar incentive program—the "utility's cost" (the same cost used in the Utility Cost Test).[5] The Company's deterministic economic capacity expansion model selected the maximum amount of distributed generation possible in every scenario (almost 300 MW over 20 years in Utah) as part of a least cost/least risk portfolio of resources.[6]

Whether there are meaningful differences between distributed solar resources and supply-side resources is a factual investigation; however, the statutory frameworks supporting Utah's net metering and QF programs are meaningfully distinct. In their post-hearing briefs in Docket No. 13-035-184 as well as in their initial comments filed on February 6, TASC and Sierra Club

[4] RMP comments, pages 4 and 6.
[5] PacifiCorp, 2013 Integrated Resource Plan Volume I (April 30, 2013), page 126.
[6] *See e.g. id.*, page 127 (Preferred Portfolio resource mix).

provided an overview of important distinctions between PURPA and net metering.[7] Utah Clean Energy will not review TASC's or Sierra Club's legal analysis or comments here, but urges the Commission to do so. PURPA, the federal program to encourage independent utility-scale energy production, was enacted into Utah Code as § 54-12-1, *et seq.* (Utah PURPA).

Conflating Utah's net metering program with Utah's PURPA law may create additional legal and factual issues for the Commission to determine. For example, one purpose of Utah PURPA, expressed as legislative policy, is to promote a diverse array of *economical and permanently sustainable energy resources in an environmentally acceptable manner*."[8] The legislative inclusion of an environmental purpose suggests that it is proper, even necessary, for the Commission to consider the public's interest in the broader environment when making decisions in light of Utah's PURPA law. And because Utah's net metering program is not legally restricted in any way by federal regulations or state avoided cost pricing precedent, the Commission has wider flexibility to consider and account for sustainability and environmental benefits of net metering than in the context of QFs.

Furthermore, Utah's net metering statute requires "opportunity for public comment"—an opportunity which has been heavily utilized by members of the public in both the general rate case and thus far in Docket No. 14-035-114. The majority of public comments sent to the Commission to date in the current docket are consistent with the intent of promoting sustainable energy resources in an environmentally acceptable manner.

So far in this docket, the Commission has received 79 emailed public comments that are posted on the Commission's website.[9] Based on a review of these comments, it appears that the

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[7] Docket No. 13-035-184: TASC's post-hearing brief, pages 11-15, Sierra Club's post-hearing brief, pages 6-11. Docket No. 14-035-114: TASC's comments, pages 12-13; Sierra Club's comments, page 18.

[8] Utah Code Ann. § 54-12-1(2) (emphasis added).

[9] http://psc.utah.gov/utilities/electric/elecindx/2014/14035114indx.html.

primary concern among commenters is public health/air quality (80% of comments include this concern) followed by general environmental concerns (70% of comments). 42% of comments included specific statements about sustainability. Promoting a diverse array of sustainable energy resources in an environmentally acceptable manner is clearly a policy goal the public supports and associates with net metering.

Furthermore, UCARE, a group of Utah citizens who filed substantive comments proposing a number of technical conferences, has called for a comprehensive examination of externalized costs having to do with health, environment and economics, because of their real, felt impacts and the sustainability of our state.[10]

RESPONSE TO DPU COMMENTS

The Division is generally supportive of using the DSM cost tests, but cautions that modifications will likely be required to reflect unique attributes of net metered systems.[11] The Division also supports using technical conferences to identify specific costs and benefits.[12] Of the Total Resource Cost Test, however, the Division states:

> The Division believes that the Societal input in the PacifiCorp Total Resource Cost Test ("PTRC") should be excluded as too difficult to determine on a system basis for various reasons. These include the extreme subjectivity of values, the dispersion of benefits, and the reality that many of the benefits of displacing fossil fuel emissions are not directly enjoyed by PacifiCorp customers because of the remoteness of many generation assets from customer loads. In the absence of specific legislation or much more measurable, concrete values, these considerations weigh against inclusion of imprecise and indeterminate social costs.[13]

Utah Clean Energy disagrees with the foregoing assessment of the PTRC. First, the PTRC uses a 10% adder as a proxy value for social and environmental benefits, rather than

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[10] *See* UCARE comments, page 4.
[11] DPU comments, page 5.
[12] *See* DPU comments, page 5.
[13] DPU comments, page 6.

attempting to quantify "subjective values" or disbursed benefits. The Division has supported use of this test for many years and does not explain its sudden change of attitude.

With regard to other costs/benefits input into some versions of the Total Resource Cost Test (such as the societal cost test), it is not difficult to estimate values associated with displaced fossil fuel emissions—the EPA estimates and publishes values per pounds of avoided emissions regularly. Nor are displaced emissions attributable to distributed generation difficult to evaluate—experts in Utah are currently studying the ability of the GRID model to quantify real, verifiable and permanent emission reductions, consistent with EPA guidelines, associated with energy efficiency and distributed renewable generation. Furthermore, the Commission has specific legislation requiring consideration of social costs and benefits, in the form of the just and reasonable statute, § 54-3-1, among others.

RESPONSE TO OCS COMMENTS

As a preliminary matter, the Office recommends that the Commission not consider externalities in the current docket, but rather open a docket to evaluate applying externalities more broadly in regulatory proceedings. It is Utah Clean Energy's position that it is well within the scope of the Commission's authority to evaluate externalities in the current docket. As mentioned in most parties' initial comments, the Commission has already approved the use of a DSM cost-effectiveness test that includes an externality proxy: the PacifiCorp Total Resource Cost includes a 10% adder in order to reflect social and environmental benefits that the public and ratepayers value but that are otherwise not considered in cost-effectiveness analysis. The IRP guidelines also explicitly direct consideration of externalities.[14]

[14] Docket No. 90-2035-01, Report and Order on Standards and Guidelines (June 18, 1992), page 49. "A range, rather than attempts at precise quantification, of estimated external costs which may be intangible, in order to show how explicit consideration of them might affect selection of resource options. The Company will attempt to

Without reference to the statute, the Office states that considering only "quantifiable benefits and quantifiable costs [is] consistent with the statutory definition and requirements of net metering."[15] The Office further states that net metering analysis must include recognition of the role of the IRP in determining resource needs and the value of specific resources to the system.[16]

The IRP is an important perspective to consider when evaluating the net metering program, but it does not follow that all costs and benefits must be evaluated solely on a quantitative basis. Particularly given the legislative mandate to develop a just and reasonable rate in light of the costs and benefits of net metering, it is the position of Utah Clean Energy that there is a proper role for qualitative analysis in the evaluation of net metering.[17] Qualitative analysis is certainly an appropriate and longstanding practice within the IRP process, as a component of Acquisition Path Analysis as well as broader risk analysis in general. (And it seems that qualitative analysis has a growing role in the IRP as the Company relies less on System Optimizer's deterministic and economic resource decision-making and more on its own judgment to plan compliance with the Clean Power Plan.)

Nevertheless, the IRP can provide important and quantitative information that is useful for net metering analysis. For example, the IRP can be used to establish avoided utility costs attributable to distributed generation resources: for example, the difference between the high and low distributed generation sensitivity scenarios is 635 MW of deferrable thermal resources by

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quantify the magnitude of the externalities, for example, in terms of the amount of emissions released and dollar estimates of the costs of such externalities." *Id.*

[15] OCS comments, page 7.

[16] OCS comments, page 7.

[17] *See also* TASC and Sierra Club comments, *passim* (describing the need for qualitative evaluation in addition to cost-effectiveness testing).

2034.[18] In addition to the avoided capital investments and rate of return associated with avoided natural gas plants, there are the added benefits of avoided fuel costs, avoided operations and maintenance costs, avoided fuel volatility risks and avoided environmental costs and risks—all attributable to varying levels of distributed generation.

The Office recommends that the Commission not use DSM cost-effectiveness tests for evaluating the Company's net metering program, because net metering is unlike DSM and because DSM tests lack "input sets" necessary to assess net metering.[19] The Office's arguments seem to be based on an assumption that it is not possible to adjust the input assumptions for DSM cost-effectiveness tests. However, as a number of states have done and are currently utilizing the DSM cost-effectiveness tests as the framework for net metering analysis, it may be worthwhile to investigate how input assumptions have been adjusted to account for unique net metering attributes.

Although the Office recommends not using the DSM tests, the Office does not provide a meaningful alternative.[20] The Office merely recommends that parties proposing inclusion of specific costs or benefits provide supporting evidence. The Office's recommendations, as they are, do not provide a workable path forward. In contrast, utilization of the framework established by existing cost-effectiveness tests will allow parties to focus more productively on technical considerations, such as the following (as outlined by TASC in its initial comments):

- How do we approach, as a technical matter, the question of whether a certain category of value can be determined and quantified? Is the approach consistent with how this category or analogous considerations are evaluated in industry practice?

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[18] 2015 IRP Public Input Meeting 6 (January 29-30, 2015), slide 77. These preliminary IRP results indicate that creating a disincentive for rooftop solar could harm all ratepayers.

[19] OCS comments, page 4.

[20] *See* OCS comments, page 7. "Thus, the Office recommends to the Commission that metrics should be developed within this docket to evaluate Net-Metering and the use of the DSM cost benefit tests should be discontinued." *Id.*

- What data or information is needed to determine whether there is a positive or negative value for this category?
- What is the confidence level in the quantification from an industry perspective, given the data (or lack thereof) and the method of calculation, if based on projection, modeling or estimation?[21]

CONCLUSION

Utah Clean Energy supports the initial comments filed by TASC and Sierra Club. These parties made sound substantive and procedural recommendations. Additionally, both TASC and Sierra Club raise an important issue: namely, the role of additional (cost of service) analysis, beyond the development of an "analytical framework," in a proper net metering evaluation.

Utah Clean Energy joins TASC's caution against "rely[ing] on the analytical framework mechanically as a proxy for what is just and reasonable."[22] TASC recommends that the Commission consider how the analytical framework might be applied to cost of service analysis.[23] Sierra Club further calls into question whether the Commission will be able to gather necessary information, based solely on the requirements of the net metering statute, to establish rates specifically for net metering customers (as the Company intends to do for residential net metering customers) that are just and reasonable, without additional analysis.[24]

TASC and Sierra Club raise fair concerns, particularly given that we currently lack evidence that residential net metering customers are in any way deserving of unique rate treatment, or have impacts that are meaningfully different from the impacts imposed by large residential customers with numerous air conditioners or customers who have completely converted to LED lighting, for example.

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[21] TASC comments, page 40.
[22] TASC comments, page 29 and note 35.
[23] TASC comments, page 29.
[24] Sierra Club comments, page 29.

In the general rate case, Utah Clean Energy's witness, Sarah Wright, testified about the growing complexity of setting just and reasonable rates for all customers, not just those with on-site generation:

> In order to facilitate the Company becoming an energy services utility and to promote smart residential energy consumption, we need to address residential cost recovery issues in a new way. The Company's actions, including the rates it sets and the rate designs it implements to recover costs, need to be consistent with the utility's objective of being an energy services utility while valuing and rewarding smart customer choices. This is a new frontier for this utility and should be investigated seriously, without the time constraints associated with rate cases. That is why I am recommending a Commission investigation into residential rate components designed to recover, in an equitable manner, the fair value of the Company's services while also allowing residential customers to receive the fair value of the benefits their energy choices bring to the Company and ratepayers. If residential bills are headed in the direction of greater complexity, it should not be at the expense of clarity, fairness or accuracy.
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> The Company should be able to recover the costs of its prudent investments through just and reasonable rates that encourage smart energy consumption. Smart and engaged energy efficient and rooftop solar customers are the type of customer we want to encourage, rather than undermine, in order to reduce long run costs and risks. This type of customer is increasingly important as we transition to a cleaner, smarter energy future and as the utility transitions to an energy services utility. That is why I am recommending a Commission investigation into residential rate mechanisms designed to reflect and recover costs while maintaining consistency with fairness, cost causation, reducing risk and promoting efficiency and conservation.[25]

This advice is becoming more important. Customers with on-site generation are but one type of customer among a vast array of diverse electricity consumers in a changing electricity system. Utah Clean Energy cautions the Commission and parties against becoming so focused on establishing an analytical framework that the objective of setting just and reasonable rates for all customers gets lost. This docket must not be used solely as a means to gather evidence to justify discriminatory rate treatment for a single customer activity (net metering). Such a result would

[25] Docket No. 13-035-184, Direct Testimony of Sarah Wright for Utah Clean Energy, lines 287-307.

be a gross abuse of the public and regulatory process and a waste of an opportunity to seriously consider what just and reasonable rates look like going into the future, for all customers.

Dated this 20th day of February, 2015.

RESPECTFULLY SUBMITTED
Utah Clean Energy

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