



National Energy Marketers Association

STATE OF NEW YORK PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission as to the)
Reasonableness of the Rates, Terms, and Conditions) Case No.
For the Provision of Electric Standby Service) 99-E-1470

REPLY COMMENTS OF THE NATIONAL ENERGY MARKETERS ASSOCIATION ON "INITIAL COMMENTS OF ELECTRIC UTILITIES ON STAFF PROPOSAL FOR STANDBY RATE DESIGN PRINCIPLES"

The National Energy Marketers Association (NEM) hereby submits Reply Comments on the, "Initial Comments of Electric Utilities on Staff Proposal for Standby Rate Design Principles," (hereinafter "Utilities' Comments") in the referenced proceeding.

The Utilities argue in their Comments that the proper premise for standby ratemaking at this time is that the fixed costs of providing service on a standby basis are the same as the fixed costs of full requirements service. Relatedly, the Utilities argue that the variable "as-used" component of the demand charge should be eliminated and replaced with a utility-specific, fixed demand charge to recover all fixed costs attributable to delivery facilities, and they argue that stranded production costs should accommodate the recovery of fixed allocations of stranded costs from standby service customers where such recovery is established by the provisions of a utility's rate settlement and reflect the recovery other fixed costs. NEM strongly disagrees with the Utilities' Comments.

A. Standby Ratemaking

The Utilities recognize that, "the patterns of demand and volumetric usage exhibited by standby customers are expected to be fundamentally different from those of customers

purchasing electric delivery service on a 'full requirements' basis."¹ However, the Utilities go on to conclude that, "[u]ntil there is sufficient experience with standby service to provide an adequate body of data, and unless those data show some difference in fixed costs between service provided on a standby basis and full-requirements service, the Utilities must apply existing class-based cost allocations for the purpose of calculating utility-specific standby rates."² The Utilities' conclusion is essentially to ignore the different requirements of standby service customers in favor of maintaining the status quo.

NEM submits that the Utilities' own assertion that there are fundamental differences in patterns of demand and volumetric usage between standby customers and full service requirements customers belies their conclusions and recommendations. NEM agrees that there is a fundamental difference and for this very reason the proposed standby rate design should not apply to standby rate customers until and unless the data cited by the Utilities provides hard evidence that the costs to the distribution system for standby customers and full service requirements customers are the same and warrant similar rate treatment. NEM submits that the evidence when produced will prove just the opposite - that standby customers should not be charged the proposed standby rate and that such a rate design will be unjust and unreasonable given the difference in demand and usage between these classes of customers.

Additionally, before the strawman and its proposed rate structure are considered further, the "bottom up" unbundled cost of service studies, as ordered in Case 00-M-0504,³ must first be performed and the actual utility costs associated with serving the back up power

¹ Utilities' Comments at page 3.

² *Id.* at 6.

³ Case 00-M-0504, Order Directing Expedited Consideration of Rate Unbundling (March 29, 2001).

needs of customers that have invested in self generation and distributed generation must be identified, each class of customer properly segregated and associated costs quantified. As admitted by the Utilities, customers taking standby service have unique characteristics, and it is not proper to treat customers that have invested in distributed generation and require standby or back-up power service as if they were the same as other customers requiring transmission and distribution service 100 percent of the time.

B. Stranded Production Costs Surcharge

The Utilities assert that the proposed stranded production cost surcharge be restated such that it will be an addition to other utility charges rather than a properly identified portion of actual costs incurred by Utilities. The Utilities also argue the proposal should be expanded to include recovery of other fixed costs that may not be appropriate for this class of customer.

NEM asserts that investments in distributed generation should not be treated as a stranded cost. In several jurisdictions, distributed generation investors have been required to pay utilities for the above-market costs of generating units and contracts with qualifying facilities simply because they choose to invest in their own power generation. Stranded costs, if they exist, should be recovered from all consumers in a competitively neutral fashion. NEM also maintains that the fact that a customer invests in distributed generation technology does not strand costs, either generation or distribution.

All consumers in the State of New York will benefit from investments in new generation capacity and competitive investments in distributed generation. Reasonable standby rate structures are critical to permitting new investments in distributed generation to be made and in achieving the added system reliability and

environmental benefits such new power sources will provide. The State of New York is sorely in need of these generation investments, and it is clearly in the public's interest that customers be incented to make these investments as soon as practicable.

C. As-Used Demand Charges

The Utilities oppose the "as-used" demand charge component of the Straw Proposal maintaining that, "the costs of providing standby service are fixed: they are a function of the potential demand on the system, and of the fixed investment in delivery facilities incurred by the utility in order to be ready to serve that demand."⁴ To the contrary, NEM asserts that until a proper cost of service study is completed, reasonable standby charges based on actual usage of energy consumed by self generation or distributed generation is the appropriate way to reflect the value of this important resource provided by customers that invest in self generation or distributed generation assets. The standby charges should be designed to compensate the utility only for the energy used to provide back up or maintenance service of a customer's generation unit.

No regulation should be implemented that is based on the assumption that all distributed generation or self generation customers will require peak time demand on a continuous use basis without a properly documented cost of service study. The Utilities' Comments incorrectly assume that many small generating units will simultaneously trip off (due to an under-voltage situation) and that the distribution system must be over-sized to serve customer load absent any distributed generation. The likelihood that all standby

⁴ Utilities' Comments at page 7.

customers' will suddenly place 100 percent of peak demand onto the utility system is a completely erroneous assumption that is not supported by a scintilla of evidence.

For the foregoing reasons, NEM asserts that the Utilities' Comments be rejected.

Respectfully submitted,

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