National Energy Marketers Association

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of a Proceeding on Motion of the Commission as to the Reasonableness of the Rates Terms and Conditions for the Provision of Electric Standby Service	**)** **)** **)** **)**	**Cases 99-E-1470**

SUPPLEMENTAL COMMENTS OF THE NATIONAL ENERGY MARKETERS ASSOCIATION ON REVISED STRAW PROPOSAL

The National Energy Marketers Association (NEM) hereby submits Supplemental Comments on the revised Straw Proposal entitled, "Guidelines for the Design of Standby Service Rates," pursuant to the email notice circulated by Administrative Law Judge Harrison on September 4, 2001.

NEM recently issued, "***National Guidelines for Implementing Distributed Generation and Related Services***," (a copy of which is attached hereto and incorporated herein) recommending that utility tariffs, back-up rates, demand charges and interconnection policies and practices reflect the value of distributed generation to the reliability of distribution system and incent investments in distributed generation as an alternative to system expansion. These Policy Guidelines form the basis for NEM's supplemental comments in this proceeding.

NEM is encouraged that a number of the modifications to the revised Straw Proposal have the potential of allowing distributed generation to become a more economic investment in New York. However, NEM reiterates that the standby

rate structure must be based on operating history and adequate actual cost data, and the "bottom up" unbundled cost of service studies, as ordered in Case 00-M-0504,[1] must first be performed and the actual utility costs associated with serving the back up power 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.

NEM offers the following comments on specific modifications set forth in the revised Straw Proposal:

1) Applicability

The Straw Proposal has been modified at Section I.A.4 to provide that, "[a]dditional charges *and/or credits* may also apply to standby customers to reflect other costs and *and/or savings* that are uniquely attributable to standby customers (emphasis added)." NEM supports this modification. Tariffs must be designed to reflect the significant value that distributed generation provides to the distribution system, including enhancing the reliability of the system, reduction of distribution system losses, deferral of distribution upgrades, provision of voltage support and enhancement of power quality.

The Straw Proposal was further modified at Section I.B.2 to provide that the, "contribution to stranded costs by Standby Delivery Service customers should be established through a uniform percentage mark-up of the applicable rate components established for Standby Service." As an initial matter, NEM

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

maintains that the fact that a customer invests in distributed generation does not strand costs, either for generation or distribution. Additionally, if stranded costs are deemed to exist they should be recovered from all similarly situated consumers in a competitively neutral manner.

2) General Rate Design Principles

The Straw Proposal was modified at Section II.A to provide as follows:

> The nature of standby service is sufficiently different from that of other customers appropriately to reflect the unique service needs of wholesale and on-site generators in tariffs for standby service.
>
> Sufficient data may exist to base rates for wholesale generators on this group's own load characteristics. However, because many aspects of the utilities' provision of standby service for customers with on-site generation mirror those of other customers, fully separate service classifications are not required. To the extent standby service has cost causation characteristics that differentiate it from the balance of the customers in the otherwise applicable service classification, rates reflective of those differences should be developed within each classification and applied to customers taking standby service.
>
> Pending appropriate cost of service analyses, costs now allocated to each standard service classification will serve as the basis for the design of revenue-neutral, class specific standby service delivery charges.

NEM submits that this section is an improvement from the prior version of the Straw Proposal but is still flawed. In particular, NEM is supportive of the requirement that cost causation characteristics unique to standby customers be reflected in rates, including benefits engendered by distributed generation investments.

NEM is concerned about the requirement that rates be instituted prior to the performance of fully unbundled embedded cost of service studies. It is an absolute

necessity that the utilities fully unbundle competitive services from monopoly services and provide consumers with credits equal to the historical embedded costs to shop for competitive products, services, information and technologies, including distributed generation.

3) Distribution Rates

The revised straw proposal sets forth changes to the provisions on Contract Demand Charges as well as As-Used Demand Charges. The Straw Proposal provides at Section II.E.3.d that, "Contract (Fixed) Demand Charges should apply to the customer's maximum *anticipated* annual metered demand (emphasis added)." The provision on As-Used Demand Charges has been changed such that standby customers' intermittent and shared use of certain distribution facilities is to be reflected as a Daily As-Used Demand Charge that, "should apply only to the customer's daily maximum metered demand that occurs during the utility's peak periods."

NEM asserts that rate designs that collect generation and distribution costs based on a continuous use model that assumes that a distributed generation unit will never be running and will always be using the utility for its peak demand create excessive demand charges. Utility rates should be based directly on the size, configuration and actual demand of a unit. Rates should be implemented that only require distributed generation investors to pay for the actual energy used and only when it is used. Furthermore, given the significant system benefits of distributed power, demand charges should be offset or eliminated to reflect these benefits.

In conclusion, NEM urges that standby rates be designed consistent with today's need to enhance competitive energy options, lower costs and enhance reliability. Utility tariffs, operating practices and procedures must reflect that distributed generation can increase energy supplies, enhance system reliability and lower energy costs to both the utility and the consumer.

Respectfully submitted,

Craig G. Goodman, Esq.
President,
National Energy Marketers Association
3333 K Street, NW
Suite 425
Washington, DC 20007
Tel: (202) 333-3288
Fax: (202) 333-3266
Email: cgoodman@energymarketers.com
Website-www.energymarketers.com

Dated: September 13, 2001.

cc: Secretary Deixler
ALJ Michael Harrison (via email)
Active Parties (via email)