January 21, 2020

VIA ELECTRONIC FILING

Hon. Michelle L. Phillips, Acting Secretary
New York State Public Service Commission
Empire State Plaza, Agency Building 3
Albany, NY 12223-1350

Re: Case 15-E-0751 - In the Matter of the Value of Distributed Resources

Dear Acting Secretary Phillips:

Please find enclosed the joint comments of the Coalition for Community Solar Access (CCSA), New York Solar Energy Industries Association (NYSEIA), and Solar Energy Industries Association (SEIA), referred to herein as the Clean Energy Parties ("the CEP"), on the Petition submitted by the New York State Energy Research and Development Authority ("NYSERDA") on Nov. 1, 2019, in the above referenced case. The CEP has actively participated in multiple dockets affecting community distributed generation ("CDG") and distributed energy resources in recent years in New York, and we look forward to continued engagement to ensure policy and regulatory outcomes that are in line with the state's ambitious clean energy goals.

Respectfully submitted,

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STATE OF NEW YORK

PUBLIC SERVICE COMMISSION

In the Matter of the Value of Distributed Energy Resources	Case 15-E-0751

COMMENTS OF THE COALITION FOR COMMUNITY SOLAR ACCESS, NEW YORK SOLAR ENERGY INDUSTRIES ASSOCIATION, AND SOLAR ENERGY INDUSTRIES ASSOCIATION

Dated: January 21, 2020

I. Introduction

In its Nov. 1 Petition, NYSERDA requests that the New York Public Service Commission (the "Commission") issue an Order (1) reallocating CDG capacity from canceled projects in the MTC tranches to a new, subsequent Community Credit tranche; and (2) authorizing NYSERDA to use uncommitted NY-Sun funds to support a Community Adder incentive in utility territories where the Community Credit is no longer available. The Coalition for Community Solar Access (CCSA), New York Solar Energy Industries Association (NYSEIA), and Solar Energy Industries Association (SEIA), referred to herein as the Clean Energy Parties ("the CEP"), are supportive of the spirit of both requests given that as of January 6, 2020, the Community Credit has been exhausted in both NYSEG and National Grid service territories, and given the need to ensure robust – and uninterrupted – development of CDG projects to enable consumer access to solar and meet state clean energy goals. Overall, the CEP finds the request for temporary relief in the Nov. 1 Petition reasonable and warranted and is grateful for ongoing collaboration between NYSERDA and the solar industry as the state works to deploy 6 gigawatts (GW) of distributed generation by 2025, as required by the Climate Leadership and Community Protection Act ("CLCPA"). However, the industry is extremely concerned about the immediate step-down being proposed from the current Community Credit level ($0.0225/kWh) to $0.18/Watt DC – a roughly 45% decrease in value – and urges a more moderate decline in line with market realities, as discussed below.

II. NYSERDA Proposals

<u>Reallocate Cancelled Capacity and Create a New Community Credit Tranche</u>

In its April 2019 Value Stack Compensation Order[1], the New York Public Service Commission made important improvements to the Value of Distributed Energy Resources ("VDER") Value Stack and established a Community Credit for new CDG projects in place of the Market Transition Credit ("MTC"). The Community Credit framework has been a substantial improvement over the MTC construct because of the Community Credit's availability to larger customers, which removes a disincentive for the participation of anchor tenants. This allows larger businesses, local governments, and institutions to participate in CDG projects, which can help reduce financing and customer acquisition costs and creates opportunities for innovative partnerships. Due to the Community Credit and pent-up demand among relatively mature projects, the Community Credit tranches have filled quickly. NYSEG reported to the Commission on Nov. 18, 2019, that all 125 megawatts (MW) of its allocated capacity had been exhausted, and National Grid reported on Jan. 6, 2020, that its 525-MW tranche had closed. As of Jan. 1, 2020, NYSERDA's most recent update, 29 of 80 MW of Rochester Gas & Electric's (RG&E) allocated capacity had also been filled.

The Value Stack Compensation Order expressly provided for the Commission to monitor Tranche 0-4 cancelations for the purpose of a potential future reallocation. NYSERDA's request to reallocate the

[1] See Case 15-E-0751, *Order Regarding Value Stack Compensation*, April 18, 2019.

canceled capacity in a new Community Credit tranche would address the demonstrated need for additional capacity in NYSEG, National Grid, and RG&E service territories, helping avoid unnecessary market disruptions and providing a measure of market certainty for the CDG industry. It is not clear exactly how much canceled capacity is available for reallocation, but there would be no adverse ratepayer impact in creating a new Community Credit tranche because the canceled capacity was previously allocated to MTC tranches. **The CEP strongly supports reallocating unused capacity from canceled projects to new projects.**

Furthermore, in addition to capacity that has already been formally canceled, the Commission should consider capacity within the MTC "budget" that would be made available as a result of Commission action on the issue of Community Credit availability to anchor tenants for projects that reserved MTC capacity prior to July 26, 2018.[2] Should the Commission grant the joint petition by CCSA and NYSEIA to extend the 1-cent Community Credit eligibility to anchor tenants of those projects[3], we can expect a reduction in net revenue impacts to utilities as the owners of some of those projects shift from 100% residential subscriptions to more of a 60% residential-40% commercial subscriber approach[4]. Alternatively, should the Commission deny the 1-cent Community Credit for large commercial customers, some projects with MTC reservations may be forced to stop development and drop out of the interconnection queue entirely or proceed under the traditional remote net metering construct with only a single large commercial offtaker and receive no MTC. That outcome would similarly have the effect of creating more space within the MTC "budget" for reallocation to new Community Credit tranches.

With respect to the Community Credit level, NYSERDA proposes a step-down from the current $.0225/kWh to $.020/kWh. The CEP does not oppose this specific proposed decrease but, as a general principle, cautions against stepping down compensation rates too quickly because of the negative effect it can have on the industry's ability to deploy CDG. As discussed below, the proposed $0.18/Watt DC Community Adder is a much more significant step-down for the industry to bear in the immediate term. Depending on implementation, the savings NYSERDA anticipates from consolidated billing also may not fully materialize or may not materialize in the timeframe that the program transitions to the upfront incentive.

<u>Create a More Moderate Community Adder Bridge until Consolidated Billing is Available and Costs and Savings are Known</u>

In its April 2019 Value Stack Compensation Order, the Commission authorized NYSERDA to fund a Community Adder incentive from previously collected but uncommitted ratepayer funds for CDG

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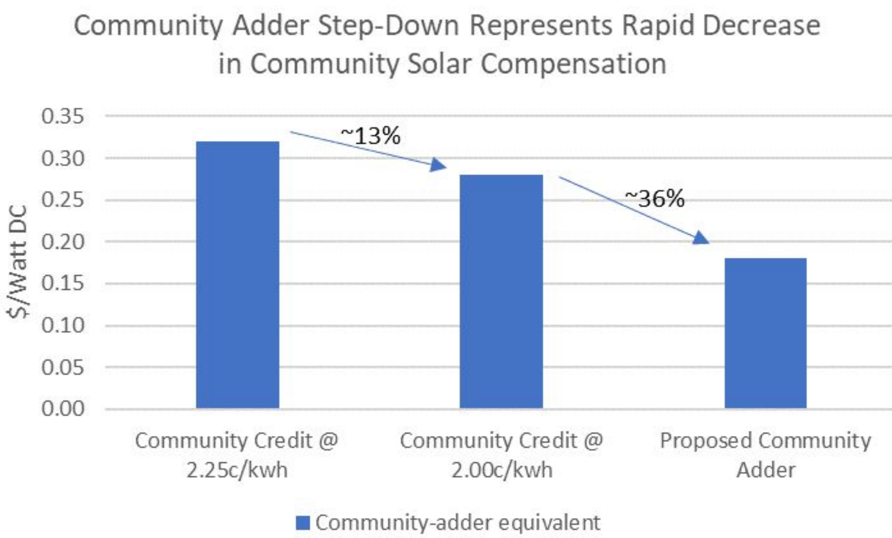
[2] See Case 15-E-0751, *Petition for Rehearing and/or Reconsideration of the Coalition for Community Solar Access and New York Solar Energy Industries Association*, May 20, 2019.
[3] See Case 15-E-0751, *WhitePaper Regarding Future Value Stack Compensation, Including for Avoided Distribution Costs*, Dec. 12, 2018.
[4] As Commission staff indicated in its Dec. 12, 2018, whitepaper, encouraging anchor customer participation in CDG projects in MTC Tranches 1-4 with a 1-cent Community Credit for non-mass-market participants, at a cost lower than the MTC, would help <u>decrease</u> overall CDG costs.

projects in Central Hudson and Orange and Rockland (O&R) territories, in place of an MTC or Community Credit delivered through the VDER tariff. The Staff-recommended approach to convert the MTC to an up-front adder was to calculate the Net Present Value (NPV) of the 25-year production-based incentive and divide by project size to create a $/W adder.[5] The Commission noted "it would be appropriate to consider extending the Community Adder to projects in other utility territories not receiving an MTC or Community Credit, as well as to extend its availability in Central Hudson and O&R," pending further Commission review of funding and incentive levels. In line with that Order, NYSERDA's Petition seeks to authorize up to $35 million of uncommitted NY-Sun funds to support a Community Adder in utility territories that have fully exhausted the existing Community Credit or Community Adder tranches. As the Petition notes, the requested funding is expected to serve as a bridge to ensure continued market activity and CDG deployment while the Commission considers a separate NYSERDA Petition[6] proposing a significant expansion of NY-Sun. Project activity has continued in upstate NY at a steady pace under the reasonable assumption that the eventual Community Adder from NYSERDA would be closer to the 25-year NPV calculation approach that was approved by the Commission in the April Order for O&R and Central Hudson, and that any declines in the adder would be justified by actual improvements in costs. Project sponsors have invested significant capital (millions of dollars) in developing projects based on these expectations, and this capital would be placed at significant risk without a more gradual transition to the Community Adder level proposed by NYSERDA.

The CEP supports the use of uncommitted NY-Sun funding for the purpose of administering a Community Adder, as needed, to support robust CDG development. However, NYSERDA's proposed Community Adder compensation level of $0.18/Watt DC is insufficient to allow for financing of 2020 projects that will not realize consolidated billing cost savings during this transition period before consolidated billing is in place. Specifically, using the NPV approach recommended by Staff and the Commission in the April 2019 VDER Order, default assumption[7] in the latest NYSERDA VDER calculator, and an average discount rate of 7%, the $0.0225/kWh Community Credit is equivalent to an upfront Community Adder-equivalent value of approximately $0.32/Watt DC, which is significantly higher than the proposed $0.18/Watt DC. **The step-down to $0.18/W would represent a roughly 45% reduction in value, an aggressive step-down that conflicts with the Commission's embrace of gradualism in rate-setting.** The graphic below shows the equivalent adder value for the $0.020/kWh Community Credit step-down as well.

[5] As referenced in Case 15-E-0751, *Order Regarding Value Stack Compensation*, April 18, 2019.
[6] See Case 03-E-0188, Petition Requesting Additional NY-Sun Program Funding and Extension of Program Through 2025, Nov. 25, 2019.
[7] Using a default fixed-tilt 5MW AC/7.25MW DC system size and an Albany area default weather file.



The assumptions used by NYSERDA, and by the Commission, in setting these compensation rates are critical. While we understand that NYSERDA expects significant cost savings to be realized from consolidated billing, we caution against overvaluing those anticipated cost savings. The CEP commends the Commission for embracing a voluntary streamlined billing model in its Dec. 12, 2019, Order Regarding Consolidated Billing[8] and looks forward to working with Staff and NYSERDA to implement the Net Crediting model over the next year and beyond, should full implementation take longer. The Commission's Order states that "the implementation of the net crediting model will create a substantial cost savings for participating CDG sponsors by essentially eliminating their billing and collections costs."[9] However, it is important to emphasize the following factors, causing market uncertainty related to the final impact on costs of consolidated billing:

1. The Commission-approved 1% fee for the utilities does not represent the only customer management cost that projects will bear as the scope of service provided at 1% is minimal. The management offering today typically includes a customer-friendly software platform through which subscribers can visualize their savings and their specific solar farm's output.[10] The CEP's understanding is that the utilities' 1% fee would not include such an offering and, therefore, a project sponsor would continue to separately incur management costs associated with customer engagement and reporting.
2. Without further clarification from the Commission, the December 12 Order leaves open the strong likelihood that the utilities will increase the 1% fee through rate cases. Specifically, the Order states: "After the implementation of the net crediting model, and based on actual data about costs and recovery, a utility or utilities may file a proposal for a change to the discount rate. The costs associated with the program and the discount rate may also be reviewed in

[8] See CASE 19-M-0463, *Order Regarding Consolidated Billing for Community Distributed Generation*, Dec. 12, 2019
[9] See p. 18.
[10] CDG servicing also includes credit quality control, allocation management, customer replacement, customer support, and monthly and annual customer reporting.

utility rate cases." While we applaud the Commission for beginning implementation at the low end of the ESCO range (1-5%), financiers will take the perspective that the fee will likely increase given that the rate is not fixed.

The CEP recommends a more modest decrease in the Community Adder-equivalent incentive value during the transition period to consolidated billing to protect reasonable investments that will not benefit from consolidated billing and to ensure that investment does not slow dramatically, as it did during the NEM to VDER transition period. Then NYSERDA can adjust the adder as consolidated billing becomes available and acquisition and management costs have adjusted.

Depending on the amount of capacity available for reallocation, the state could otherwise be faced with an immediate transition to the upfront adder, whereas the utilities, with the exception of National Grid, are not expected to implement consolidated billing until the beginning of 2021 at the earliest. National Grid is expected to implement consolidated billing available by mid-2020 at the earliest. Many projects qualifying now or in the near future will become operational before next year. The result is that CDG projects could be in the position of being compensated at a Community Adder level assumed to incorporate expected savings from consolidated billing even before the details of consolidated billing implementation are known or consolidated billing is fully implemented and actual savings are known. Even if consolidated billing is implemented on time, a gap should be expected as a probable outcome. However, the fact that some utilities have questioned their ability to meet the 2021 timeline should prompt the Commission to proceed with caution regarding a dramatic step-down in compensation.

In order to avoid a wide-spread 2020 slow-down in the investment that is critical to New York reaching the clean energy goals in state law, the CEP recommends the following:

1. Create as much capacity as possible under MW reallocation under the $0.020/kWh proposed step-down Community Credit. A step-down from $0.0225/kWh to $0.020/kWh is a modest decline and at a level the industry can bear despite not yet having consolidated billing in place. Projects that are not on schedule to proceed through interconnection should be removed from the queue quickly. The Commission should request a review of the interconnection queues in mid-2020 to determine whether another recycling of MWs is possible. The ability to put interconnection deposits on hold has likely led to significant bloating in the Community Credit queue from projects that will ultimately be unable to secure permits or tax agreements that allow the projects to move forward. To maximize NYSERDA's budget and minimize the amount of "lost" capacity from future attrition in the Community Credit tranches, the CEP also recommends that utilities:
    a. Create, in coordination with the Interconnection Policy Working Group, a waitlist for projects that were unable to secure a Community Credit based on the date of 25% payment; and
    b. Review their queues periodically, such as monthly, and reallocate any forfeited Community Credit budget to projects on the waitlist. Such projects would be required to relinquish any Community Adder award if they wish to take the Community Credit.

2. Create a bridge Community Adder block at a more modest rate of <u>at least</u> $0.26/W so that CDG development does not halt in 2020 while consolidated billing progresses. As discussed above, the current $0.0225/kWh Community Credit calculates to an upfront Community Adder-equivalent value of approximately $0.32/Watt DC. The CEP recommends a rate much closer to the NPV of a 25-year $0.020/kWh incentive.

Although the industry looks forward to seeing new savings from consolidated billing, it is also important that NYSERDA and DPS understand that the solar industry faces other headwinds, most importantly, increasing interconnection costs due to grid saturation. An unfortunate consequence of the growth in solar PV in NY, combined with generally limited utility investment in upgrades to facilitate DG, is a sharp decrease in available hosting capacity on circuits and substations. As existing capacity reaches its limit, projects will face greater upgrade costs. Additionally, as seen in Massachusetts most recently, grid saturation may soon trigger transmission studies, which could further increase costs for CDG projects. The economic situation will also worsen as the federal Investment Tax Credit steps down. Without additional improvements to the VDER tariff and other policy changes, sufficiently high MW block incentive anad adder rates are critical to maintain the robust solar market required to achieve the state's 6 GW goal.

III. The Need for a Timely Commission Ruling

At the time of this filing, the Community Credit has been exhausted in both NYSEG and National Grid service territories, leading to a period of uncertainty in the solar development industry regarding compensation values and project economics and a temporary pause in development activities by many firms in these territories. The CEP therefore requests that the Commission move forward with an Order relating to this petition incorporating the recommendations above without delay, providing the solar industry with much-needed certainty regarding the structure and magnitude of compensation available to this segment and the timely resumption of CDG development activity in National Grid and NYSEG territories.

IV. Conclusion

Once again, the CEP appreciates the opportunity to comment on NYSERDA's Petition. We believe NYSERDA's request reasonably addresses the demonstrated need for additional Community Credit tranche capacity in the upstate utility territories, and we support using uncommitted funding to support a Community Adder incentive where needed. However, we urge a more modest reduction to the incentive during the transition period to consolidated billing, especially in light of the transmission and ITC reduction headwinds.

We would be happy to answer any questions or discuss our comments in greater detail.

Yours sincerely,

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