STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of the Value of Distributed Energy Resources	)	Case 15-E-0751
Proceeding on Motion of the Commission to Examine Utilities' Marginal Cost of Service Studies	)	Case 19-E-0283

COMMENTS OF NEW YORK SOLAR ENERGY INDUSTRIES ASSOCIATION REGARDING DEMAND REDUCTION VALUE AND LOCATIONAL SYSTEM RELIEF VALUE PRICE SIGNALS FOR DISTRIBUTED ENERGY RESOURCES

I. Introduction

New York Solar Energy Industries Association (NYSEIA) is an active member of the Clean Energy Parties (CEP). NYSEIA offers the following brief comments in response to the Joint Utilities (JU) proposal for calculating Demand Reduction Value (DRV) and Locational System Relief Value (LSRV) from the Marginal Cost of Service (MCOS). Our comments also emphasize a few particularly important elements of the CEP comments submitted today on the same matter.

II. Response to the JU Proposal for Calculating DRV and LSRV

The JU propose setting DRV to 50% of the MCOS. This would be a dramatic reduction to the current DRV levels, which are 88% of MCOS in Con Edison territory and 92% of MCOS in National Grid territory. The JU falsely imply that reducing DRV compensation will result in increased ratepayer savings. NYSEIA disputes this logic on the following grounds; if DRV were arbitrarily reduced to significantly below its current levels, this would result in market disruption and ultimately fewer Distributed Energy Resources (DER) being constructed. Reduced VDER compensation and the corresponding reduction to DER deployment will result in: 1) less clean energy generation; 2) less utility bill savings for participating ratepayers; 3) higher electricity costs for all ratepayers due to the increased need for costly traditional distribution upgrades; 4) less utility bill savings for low- to moderate income customers via the new Statewide Solar for All program; and 5) increased reliance on ratepayer-funded capacity-based incentives through NYSERDA to support clean energy resources. Not only would a 50% reduction to DRV be arbitrary -- it would directly contradict the intent of the Commission’s 2024 Order in the MCOS proceeding, which directed utilities to include the avoided cost of transmission in MCOS.

III. Key Points from the CEP Comments Regarding DRV and LSRV

A. New York Should Protect and Build Upon its Existing Market for VDER-Compensated Resources

New York has built a robust market for large DER, and projects compensated via the VDER tariff constitute a multibillion-dollar industry. As such, it is critical that existing VDER compensation levels be considered a baseline, and that the Commission take care to ensure that resultant VDER compensation levels are not disruptive to the market in a manner that impedes New York's ability to leverage private capital and continue deploying DER at-scale. Preserving DRV is particularly important, because DRV is already an effective price signal that is resulting in billions of dollars of private investment to facilitate DER deployment.

B. The Commission Should Set DRV to be Equal to MCOS

The CEP comments provided a detailed description and analysis of what DRV would be using the "LSRV reference price" concept that the CEP described in a filing from November 2024. The illustrative example calculated using the dataset provided by DPS yielded a DRV value equal to 96% of MCOS. This is only a few percentage points higher than current DRV levels, and notably is also only a few percentage points lower than 100%. After careful consideration of the merits of such an approach and an analysis of compensation structures for Dynamic Load Management (DLM) programs, which regularly exceed MCOS, NYSEIA and the CEP contend that this is overly complicated. Setting DRV to be equal to MCOS is not only simpler; it is more accurate. The following bullet points explain why setting DRV to MCOS is appropriate:

- Historically, utilities have reduced DRV levels to be below MCOS regardless of whether LSRV resources are deployed and regardless of how they perform. In many cases, this has resulted in a weighted average VDER compensation that is below MCOS.
- MCOS is an underestimation of the true lifetime deferral value of DER, as MCOS does not account for resource needs after the 10-year planning horizon despite the fact that DERs have 20-25 year operating lives. Further, an analysis of utility capital projects demonstrates that final costs for traditional upgrades regularly exceed forecasts. Not only do DER defer forecasted upgrades; they also protect ratepayers from the future risk of utility capital cost overruns.
- Counterintuitively, increasing performance-based compensation for DERs will lower costs for ratepayers and protect ratepayers from performance risk. Currently, distributed solar and energy storage projects receive upfront capacity-based incentives with no corresponding performance obligation. Increasing performance-based compensation will enable NYSERDA to reduce capacity-based incentives, providing near-term relief to ratepayers by replacing upfront incentives with long-term pay-for-performance. A shift

toward performance-based compensation will also protect ratepayers from performance risk; ratepayers will only compensate resources that show up, reducing the risk of stranded DER assets that received ratepayer-funded incentives.

- Decoupling DRV and LSRV allows the Commission to establish optimal temporal and locational price signals without needing to worry about the unintended consequences of interactions between the two. This greater level of control will enable the Commission, utilities and DER providers to optimize the performance of a fleet of dispatchable and non-dispatchable DER across the diverse topology of New York's electric distribution system.
- KISS (Keep It Simple, Silly). Setting DRV to the value of MCOS replaces an opaque, utility-specific calculation with a simple methodology that can be easily replicated by impacted parties and provide stakeholders with transparency and predictability.

C. The Commission Should Revamp LSRV to Leverage Dispatchable Resources and Better Meet Utility Needs

While DRV is an effective temporal price signal that is resulting in DER deployment, LSRV is not currently an effective locational price signal. No new LSRV zones have been established since the inception of VDER, and limited dispatchable DER have been deployed in LSRV zones. There are multiple reasons for the limited success of LSRV to date. For one, the LSRV program was launched eight years ago, and energy storage technology and costs have improved dramatically in the intervening years. Additionally, the JU have not added capacity to the LSRV program nor have any improvements been made to the program's administration since launch. The JU have also highlighted legitimate concerns regarding their limited ability to rely upon LSRV resources using the current regime. Rather than eliminating the LSRV program, NYSEIA urges the Commission to improve upon it and address the deficiencies highlighted by the JU.

- NYSEIA strongly supports the CEP recommendation that New York establish a standard method for the utilities to identify LSRV zones.
- LSRV capacity should only be allocated to dispatchable resources that can respond to utility dispatch requests and granular price signals.
- LSRV resources should have performance obligations and penalties so the utilities can rely upon them. This can address the deficiencies highlighted by the JU. These enhanced reliability benefits warrant higher compensation, which is one of the reasons that it is justified for the combination of LSRV-eligible resource compensation and non-LSRV resources to be slightly more than MCOS.
- LSRV compensation levels should be adequate to attract dispatchable DER to LSRV zones.

D. The Commission Can Establish a Standard DRV Derivation Method Now While Allowing Time for Stakeholders and Staff to Develop a Modified LSRV Program

DRV revenue is foundational to all new VDER-compensated projects. However, LSRV is largely defunct and is not currently driving a meaningful amount of DER investment in New York State. Therefore, NYSEIA recommends that the Commission take swift action to improve and standardize DRV derivation method while granting the Department, utilities and stakeholders time to develop an optimized LSRV program that drives targeted DER deployment in high stress areas and that includes operational requirements that are both feasible for DERs and that achieve enhanced reliability objectives.

IV. Conclusion

Improving VDER compensation will enable New York to accelerate and optimized DER deployment in order to cost-effectively meet growing demand for energy. NYSEIA urges the Commission to maintain and strengthen DRV while advancing an enhanced LSRV program for dispatchable resources in parallel. NYSEIA thanks the Department for their efforts on this important proceeding and for working collaboratively with the CEP, the utilities and other stakeholders to drive continued progress.