

STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Case No. 17-5257

In re: review of the standard-offer program	
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COMMENTS OF VERMONT ELECTRIC COOPERATIVE, INC.

Vermont Electric Cooperative, Inc., (VEC) offers the following comments in response to the Order Re Notice of Proceeding issued on December 29, 2017 as to the effectiveness of the standard-offer program.

First and foremost, VEC urges the Commission to place a pause on locating any new standard-offer projects within the Sheffield-Highgate Export Interface (SHEI) until a solution can be developed to address the curtailments and pricing impacts that continue to occur, to the detriment of Vermont ratepayers. As the Commission noted in its Order, VEC and other Vermont distribution utilities are facing cost increases as a result of generation within the SHEI that exceeds the export limits of the electric grid in that area. The export constraint results in (1) the curtailment of the output of existing projects in the SHEI such as Kingdom Community Wind and (2) lower ISO New England energy market revenues for resources in the region such as imports from Hydro-Quebec through the Highgate interconnection, the Coventry landfill generating plant, Kingdom Community Wind, Sheffield Wind, etc.

Under current conditions, these market forces have caused significant economic impacts on VEC and other distribution utilities that have entitlements to existing generation resources in the SHEI. For VEC, congestion charges at each of the three delivery points (Highgate, the Kingdom node, and the Sheffield node) cost VEC approximately \$550,000 from October 1, 2016 to March 31, 2017 (compared to approximately \$4,000 from October 1, 2015 to March 31, 2016). From October 2017 to December 2017, congestion charges have cost \$78,000. This does not take into account the value of lost production from curtailments of

output, but only the impact of the reduction in location marginal prices on the actual output and deliveries.

Beyond current conditions, there are pending CPG applications for a number of large generation projects within the SHEI totaling an additional 4.7 MW, including a 2.2 MW standard-offer wind project and five 500 kW net metering solar projects. Four other 500 kW net metering projects have requested interconnection studies. In addition, smaller net metering projects continue at a pace that seems to be unaffected by the 2017 rule changes.¹ While it is difficult to quantify the exact extent of the harm caused by pending and future standard-offer projects, it is clear that new generation in the SHEI will exacerbate curtailments and electric rate impacts, causing further harm to Vermont ratepayers.

VEC expects these adverse effects to continue into the foreseeable future and is working with VELCO and other affected utilities to assess possible solutions. As the Commission is aware, there are no easy answers. Some of the possible solutions may involve significant investments in infrastructure upgrades, and there will be difficult policy decisions to be made as to whether the benefits to Vermont ratepayers from new renewable generation in this area justify such investments. VEC urges the Commission to place an indefinite pause on new standard-offer projects within the SHEI to allow time to identify the least-cost solution to this serious problem.

An additional issue is the cost of transmission of output for standard-offer projects located in service territories of utilities that have exceeded their pro rata share. This issue was raised at the inception of the standard-offer program and more recently in Docket No. 8492, concerning VEPP Inc.'s inquiry as to how to bill transmission charges, and in Docket No. 8693, which was opened specifically to explore alternatives to minimize transmission costs for standard-offer projects. After two workshops, it is clear that there are no easy solutions.

Though the issue is thorny, VEC believes that transmission costs should be addressed as part of a broader review of the standard-offer selection framework because such costs increase the overall cost of the program to Vermont ratepayers.

VEC responds to the specific issues raised in the Board's memo as follows:

¹ In 2017 VEC added more net metering capacity under the new program than it added in any year prior, with large projects (mainly 500kW) making up 62% of that capacity.

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- 1. Should the Commission be selecting projects in the RFP process using additional criteria besides price? For example, should the Commission develop a method for adjusting bid prices to reflect the costs or benefits associated with interconnecting a distributed energy resource at a particular location on the grid?**

In the event that the Commission continues to allow standard-offer projects within the SHEI, VEC believes that bid prices for such projects should be adjusted to reflect the fact that such projects increase costs for utilities and their ratepayers and therefore provide less value. VEC suggests that this would be a suitable topic to explore at a future workshop.

In addition, to minimize transmission costs, the Commission should also consider a selection methodology that reduces the amount to be paid for projects that locate in service territories of utilities that have already met their pro rata share.

- 2. What data should the Vermont distribution utilities be making available to ensure that standard-offer projects are proposed in areas that do not result in additional costs to the system or that provide the greatest benefit to the system?**

As to information that would assist developers in avoiding placement of standard-offer projects within the SHEI, this really is a circuit by circuit analysis and does not lend itself to a circle-on-the-map designation. Electrical one-lines may provide useful information, but the best course is to contact the utility directly before planning a project.

To inform decisions based on concerns about transmission costs, it would be useful for project developers to know (1) which utilities have exceeded their pro rata share and hence must wheel power outside their service territory, and (2) which utilities have transmission tariffs in place. Information as to pro-rata share is dynamic and changes as new standard-offer projects come on line. VEPPI may be in the best position to update this information.

- 3. Should the Commission alter its process for identifying projects that would offer “sufficient benefits” pursuant to Section 8005a(d)(2)? For example, should the Commission develop a method for determining the value of a proposed distributed energy resource and offer contracts where the estimated value of benefits offered by a project exceeds the cost of the project? The Benefit Cost Analysis Framework adopted by the New York Public Service Commission is one example of a method to value the costs and benefits of distributed energy resources.**

Conceptually, VEC supports any changes to the standard-offer program that promote least cost principles. VEC has not analyzed the New York approach in sufficient depth to comment on it at this time.

4. Should the Commission develop criteria to allow distributed generation projects with storage capacity to participate in the standard-offer program?

VEC believes that storage should not be part of the standard-offer program. First, there does not seem to be statutory authority to expand the standard-offer program in this way. Second, allowing the location of the storage to be subject to auction and/or allowing the time of charging /discharging to be determined by the developer will likely result in an inefficient deployment of battery storage, and such an approach has the potential to impose additional expense on ratepayers. VEC agrees with the position taken by the Department of Public Service in its November 15, 2017 Act 53 Report on deploying storage. The report recommends against developing a pilot within the standard-offer program for solar (or other generation)-plus-storage. The Department noted:

The Department's primary concerns with using the Standard Offer program for storage is (1) it does not contain the locational considerations that are necessary for optimal deployment of storage; and (2) there is currently no mechanism to ensure that the charge and discharge of a storage device is timed in a manner that ensures a benefit to ratepayers.

The Department's concerns are well-placed. Vermont utilities have already begun deploying storage installations, often on a pilot basis, and are learning how to bring the most value to ratepayers from batteries. Location of the battery and the timing of discharge are keys to harvesting that value, and the utilities are in the best position to assess these two variables. The standard-offer program is not the appropriate avenue for encouraging storage development.

5. In certain circumstances, the program incurs transmission service costs (also referred to as "wheeling") because the output of standard-offer projects must be allocated to several of the Vermont electric distribution utilities. Should the Commission adopt

program requirements to reduce the cost of transmission service associated with standard-offer projects?

As noted above, VEC believes that the auction process should take into account all of the costs to ratepayer of a standard-offer project, including costs for transmission service. Standard-offer generation has been located disproportionately in VEC's service territory. Given VEC's relatively small pro-rata share, the location of so much standard-offer generation in its service territory has resulted in the generation of power far in excess of VEC's pro-rata share which must then be wheeled to other service territories, under VEC's FERC-approved tariff. These additional costs should be considered as part of the auction process and the Commission should establish a mechanism to discourage projects from locating in territories where a utility has exceeded its pro rata share.

6. Are there any statutory changes that the Commission should recommend to the Legislature to improve the standard-offer program? For example, what recommendations should the Commission make regarding the ability of distribution utilities to seek exemptions from the program pursuant to 30 V.S.A. §8005a(k)(2)(B)?

VEC understands that the legislature has tasked the Commission with preparing a report concerning the provision in the current law that allows a utility to be exempt from the program (which VEC discusses below). VEC urges the Commission to expand its inquiry and consider other legislative changes in light of how circumstances have changed since the standard-offer program began.

VEC believes that it is time to reconsider the need for the standard-offer program in its present form. The program was conceived and implemented at a time when utilities were not pursuing renewable energy resources, largely because the price of such resources was higher than traditional electric generation. As part of the SPEED program, the standard-offer program filled a gap and provided support for renewable resources that the state deemed good public policy. With the adoption of the Renewable Energy Standard, utilities now have a mandate to acquire renewable resources to meet state goals and have proven able to do that in a cost-effective manner.

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As to the exemption in §8005a(k)(2)(B), VEC believes that this provision has the potential to render the standard-offer program unsustainable as more utilities claim an exemption. It also conflicts with current state energy policy.

As to lack of sustainability, the obvious question is what happens if Green Mountain Power, VEC, and the remaining municipal utilities enter contracts that allow them to join WEC, BED, and Swanton Electric in becoming exempt from the standard-offer program? Who then pays for the standard-offer power?

In addition, with the enactment of the Renewable Energy Standard, the legislature intended to encourage small, in-state renewable energy resources, which include standard-offer projects. The exemption allows a utility to purchase energy from a large out-of-state wind project (with or without retaining the renewable attributes of the energy) and thereby avoid purchases from in-state standard-offer projects. This exemption seems to be a clear disconnect from current state policy and should be eliminated.

Thank you for the opportunity to comment. VEC looks forward to continuing this discussion.

Respectfully submitted,

VERMONT ELECTRIC COOPERATIVE, INC.

A handwritten signature in blue ink, appearing to read 'VJB', with a horizontal line extending to the right.

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