



BURLINGTON
ELECTRIC
DEPARTMENT



September 21, 2018

Judith Whitney, Clerk
Vermont Public Utility Commission
112 State Street, Montpelier, VT

Re: Case 17-5257-INV – Review of the standard-offer program

Dear Ms. Whitney:

In a memo dated September 5, 2018, the Public Utility Commission established a deadline of September 21, 2018 for filing comments on recommended improvements to the standard-offer program. Vermont Public Power Supply Authority (“VPPSA”) and Burlington Electric Department (“BED”) attended the August 2nd workshop on this topic and submit the following comments related to the standard-offer program. These comments supplement our joint filing in this proceeding dated February 2, 2018.

Context for BED and VPPSA’s Recommendations

There have been significant changes in Vermont’s energy policy landscape since the standard-offer program was established in 2009 to encourage the development distributed renewable generation within the state. Tier 2 of Vermont’s Renewable Energy Standard (“RES”) will ultimately dictate how much small-scale renewable generation is developed and consumed within the state. Generation from standard-offer resources may be utilized by Vermont utilities to comply with the RES. To the extent that generation from standard-offer and net metering resources are not sufficient to satisfy Tier 2, utilities will develop additional projects, seek out power purchase agreements with renewable generators, and/or purchase renewable attributes from merchant generators. The RES structure properly contains flexibility for utilities to achieve compliance with Vermont’s renewable energy policy in the most cost-effective manner. Because of this structure, the standard-offer program no longer solicits *incremental* renewable generation. Instead, it displaces the development of resources utilities will be required to procure for RES compliance, reducing flexibility of utilities to meet their requirements and deliver environmental benefits at the lowest cost to ratepayers.

In addition to the changes in Vermont’s energy policy framework, there have been significant changes in the physical electric grid since the standard-offer program began. Increasing levels of distributed generation resources have been concentrated within specific areas of the state, resulting in certain portions of the grid becoming export-constrained - in other words, there is often more generation than consumption and the area is limited in what can be exported. When the program was established in

2009 and significantly altered in 2012, standard-offer resources were envisioned to deliver grid benefits and help *avoid* the need for grid upgrades due to load growth. Now we are seeing these resources create and exacerbate grid constraints.

The unequal distribution of small generators across the state means that some utilities host a disproportionate amount of standard-offer capacity. Under the current program structure, utilities that host more than their pro-rata capacity of standard-offer resources are permitted to charge transmission “wheeling” costs to the recipients of standard-offer generation, representing significant costs to certain utilities. Recent solicitations have led to the State contracting with solar resources at prices that, at the low end, can be cost-competitive with market prices. However, wheeling charges of approximately \$.03/kWh substantially increase the cost of standard-offer resources to some recipient utilities. The program was premised on sharing the costs and benefits of developing small, renewable resources, but the costs and benefits of the standard-offer program are not being equitably distributed among the State’s utilities.

Increased costs due to grid constraints and the imposition of wheeling charges result from the disconnect between the entities making siting decisions (the project developers) and the entities paying for the projects (utility ratepayers). Because standard-offer generation is a “must-buy” resource for utilities, utilities are not able to negotiate to ensure that value commensurate with cost is delivered. Those making the siting decisions within the standard-offer program do not bear the financial consequences of those decisions.

Much of the August 2 workshop in this proceeding focused on a presentation by staff from Lawrence Berkeley National Lab that quantified the wholesale value of solar and wind resources located throughout the state. The presentation reinforced what analysis conducted by the VELCO and the distribution utilities has concluded: that distributed resources deliver significantly different net value depending on when generation occurs and where within the state those resources are located, with those located in the northern tier of the state providing the least value. However, under the current structure of the standard-offer program, there is no disincentive for developers to locate additional projects in the already congested northern portion of the state. Rather, developers are encouraged to exacerbate the problem because the lower costs of land in the affected area allows a lower bid price and an opportunity for a standard-offer contract.

The high costs at the inception of the program, the location of standard-offer resources where they deliver comparatively lower values that impact other utility resource investments, and imposition of wheeling charges all contribute to the potential for more utilities to seek exemption from the program and its above-market costs. A program structure that potentially allows all participants to opt-out is, of course, unsustainable. This is a fundamental flaw in the program that should be addressed. However, retroactively eliminating all program exemptions would unfairly discriminate against utilities that historically made long-term commitments to procure renewable resources, most often at prices higher than today.

Recommendations the Commission should make to the Vermont General Assembly concerning the standard-offer program, including recommendations related to the exemption set forth at 30 V.S.A. § 8005a(k)(2)(B) and any issues arising from that exemption

VPPSA and BED believe that the PUC should recommend to the Legislature that the standard-offer program should cease solicitations after 2019. This would undoubtedly improve siting outcomes, as utility solicitation of distributed resources for RES compliance would consider *all* costs. Access for private developers would not be affected – in most cases utilities partner with developers to manage the development process and construct projects. As stated above, the structure of the RES ensures that ending standard-offer solicitations would not adversely affect the amount of renewable energy generation that is developed in Vermont. Phasing out standard-offer program solicitations would also address the concerns around inequity due to the “transfer payments” among utilities that occur as a result of wheeling costs and exemptions from the program.

Steps the Commission should take to improve the function of the standard-offer program

Should the PUC decide to recommend to the Legislature that standard-offer solicitations continue, the utility exemptions that have already been approved by the PUC should be maintained. In addition, if the program is continued, the PUC should address the issue of locating standard-offer resources in areas that are undesirable from a grid standpoint. BED and VPPSA suggested a framework for price adjustments accounting for grid condition in our February 2, 2018 comments in this proceeding.

Thank you for your consideration of these comments. Please contact me (mbailey@vppsa.com or 802-882-8509) with any questions you may have.

Sincerely,



Melissa Bailey
Legislative and Regulatory Affairs Representative
Vermont Public Power Supply Authority