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**STATE OF VERMONT
PUBLIC UTILITY COMMISSION**

Case No. 17-5257-INV

In re: Review of the Standard-Offer Program)

**REPLY COMMENTS OF THE DEPARTMENT OF PUBLIC SERVICE IN
RESPONSE TO COMMENTS FILED BY OTHER STAKEHOLDERS ON SEPTEMBER
21, 2018**

The Department of Public Service (“Department” or “PSD”) appreciates the opportunity to provide reply comments to the Public Utility Commission (“PUC” or “Commission”) addressing certain comments filed by other stakeholders on September 21, 2018 regarding: (1) any steps the Commission should take to improve the function of the standard-offer program; and (2) any 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.

Comments of Allco Renewable Energy Limited (“Allco”)

Allco discusses the need for long-term revenue streams to ensure renewable facilities are built, and programs such as the standard-offer program to ensure utilities don’t monopolize renewable energy development for utility shareholder profit. As Allco did not have the Department’s written comments available before submitting its own comments, it is important for the Department to emphasize that its comments outline a successor mechanism that embraces long-term revenue streams for development of third-party renewables, while simultaneously attempting to unlock greater system and ratepayer value by eliminating the “middleman” that currently decouples projects from system needs, costs, and benefits. This proposal is in no way

a reflection of the work of Vermont Electric Power Producers Inc., but rather an acknowledgment of major changes in the electric sector and regulatory structure since the inception of the standard-offer program. The Department further wishes to emphasize that only one of Vermont's 17 electric utilities (albeit the largest) is owned by investors, though all are subject to standard-offer requirements unless they obtain an exemption.

Allco also claims that the regional electricity mix is becoming dirtier over time, based on an expected rise of fuel capacity from 71% at present coming from coal, oil, and gas to 76% by 2025, and argues that “should cause the Legislature to take firm, bold action like California” and that “now is not the time to turn the clock back and rely on monopoly utilities to deploy renewable energy.” The Department, using the same source of information, finds that 72% is expected to be from coal (0%), oil (16%), and gas (56%) by 2025. The Department notes that while 71% of ISO-NE's 2018 capacity was from coal (3%), oil (23%) and gas (45%), the actual energy generation from those resources was 51% in 2017. The Department finds it misleading to correlate the increase in capacity from fossil fuel resources to a rise in the amount of *energy* coming from these resources. Additionally, the fossil fuel resource mix is expected to change over the next several years. A significant amount of coal and oil capacity have or will retire from 2013 through 2021, with an additional 5,000 MW at the risk of retirement in the coming years. The retired capacity will primarily be replaced by new wind and efficient natural gas¹ plants that will have a cleaner profile than the existing mix. Even more misleading is to correlate that figure to any sort of rise in the amount of fossil fuels supplying Vermonters with energy, when utilities must meet increasingly stringent renewable electricity and fossil fuel reduction

¹ <https://www.iso-ne.com/about/regional-electricity-outlook/grid-in-transition-opportunities-and-challenges/power-plant-retirements>

requirements under the Renewable Energy Standard (RES). This is a *statutory requirement* for utilities to supply renewable electricity to customers, and most of it – at present and anticipated in the future, particularly under the Department’s successor mechanism – will *not* be built and owned by utilities.

In addition, it is important to note that procurement beyond the RES, particularly of Tier 2 resources, does not actually help meet the Comprehensive Energy Plan goal of 90 percent renewable by 2050, because the utilities will be selling RECs in excess of their annual RES obligations out of state. Furthermore, those sales of RECs do not result in net new renewable resources in the region, because those RECs simply displace the amount of new generation that would be required to meet other states’ renewable requirements. Consequently, procurement requirements that go beyond the RES may help developers, but they do not help meet Vermont’s carbon reduction goals.

Lastly, Allco recommends adding a storage component to the standard-offer program. The Department understands the potential advantages of storage to time-shift renewable generation (particularly solar) to match system load shapes. However, as further explored in the Department’s energy storage study to the Legislature in 2017,² energy storage is a means to an end (or multiple ends) that could potentially be more cost-effectively achieved by other means, rather than an end in and of itself. The Department believes moving toward flexible generation, or procurement of energy during specific time periods, in a technology-agnostic manner is worth exploring, particularly within the framework of the successor mechanism program proposed in its comments.

² <https://legislature.vermont.gov/assets/Legislative-Reports/Storage-Report-Final.pdf>

Vermont Independent Power Producers Association (“VIPPA”)

In their comments, VIPPA stated that the report commissioned by the PUC from Lawrence Berkeley National Laboratory (“LBNL”) is a “vote of confidence for Vermont’s Standard Offer Program,” in particular because the LBNL Report found that the Vermont program compared favorably with similar programs in other states in terms of energy pricing and project delays/cancellations. However, the LBNL report did not look at all of the potential *costs* imposed by the standard-offer program, or the important differences between states – namely that Vermont has a higher percentage of distributed generation compared to peak load than the other states reviewed in the report. Additionally, Vermont is a much more rural state, with the lowest load levels in the Northeast, and an electric system that is less than robust in many areas.

A locational pricing methodology will likely provide some benefits; however, given the significant amount of distributed generation already on the Vermont system, it is important that there be greater consideration of the impact of new distributed generation during the procurement process. Such an evaluation of system needs with this consideration in mind is best conducted by the owners and operators of the system rather than the regulators.

AllEarth Renewables (“AllEarth”)

AllEarth states in its comments, “The wheeling issues of concern to utilities were resolved in a memorandum of understanding in docket 8963....” (All Earth comments at 2.) The comment does not reflect that, notwithstanding the memorandum of understanding in that docket, the standard-offer program still imposes wheeling costs, and that those are borne by ratepayers.

Producer shall be responsible for arranging for any transmission services required under the terms of the Interconnecting Utility's duly approved transmission tariff, if any, including executing applications for transmission service and transmission service agreements, provided however, that by virtue of participation in the Standard Offer Program, **Producer will not be charged for any transmission costs, which will be billed by Facilitator to the Vermont Distribution Utilities participating in the Standard Offer Program.**³

Consequently, while wheeling charges are not an issue for developers, they still represent an unnecessary cost for Vermont ratepayers.

AllEarth also recommends that the PUC consider recommending a *decrease* of the maximum capacity of standard-offer projects from 2.2 to 1.5 MW, based on "increasing capacity factors for projects."⁴ This would move the standard-offer program even further away from the RES structure and also would result in a net increase in costs by reducing the benefits of scale. Additionally, such an action would not "tend mitigate [sic] any physical or economic grid impacts"⁵ as claimed by AllEarth. In some areas of the state, even a 500 kW solar project would negatively impact the grid.

Utilities

In its first round of comments, the Department suggested that the PUC should recommend that the PUC suggest that the legislature continue offering exemptions for previously exempt utilities from projects built in or before 2019, but remove the provision for future exemptions. Several other parties also commented on the future of exemptions, with recommendations ranging from removal of the entire provision to continuation as originally written.

³ See, revised standard offer contract, at ¶ 14, as modified by the PUC's Order of March 22, 2018, in Case No. 17-3935-INV.

⁴ AllEarth comments at 3.

⁵ AllEarth comments at 3.

In any given year, the standard-offer program has a total program cost. Those costs are proportionally assigned to each utility based on their respective share of Vermont's load, unless a utility is exempt. When utilities are exempt, costs are shifted from the exempt utilities to participating utilities and their customers. Currently exempt utilities (Burlington Electric Department, Swanton, and Washington Electric Cooperative) are all opposed to the removal of exemptions, which would increase their costs. Non-exempt utilities (Green Mountain Power and Vermont Electric Cooperative) recommend the removal of the exemption provision, or at a minimum for projects commissioned after the exemption date. The Department reiterates its recommendation to meet in the middle – to allow previously exempt utilities exemption from projects built in or before 2019, but issue no new exemptions going forward.

Conclusion

The Department again appreciates the opportunity to comment in this docket, and looks forward to engaging as appropriate to further discuss or refine its proposal for a successor mechanism to align the standard-offer program to current technology and regulatory circumstances.

Dated at Montpelier, Vermont this 5th day of October, 2018

VERMONT DEPARTMENT OF PUBLIC SERVICE

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