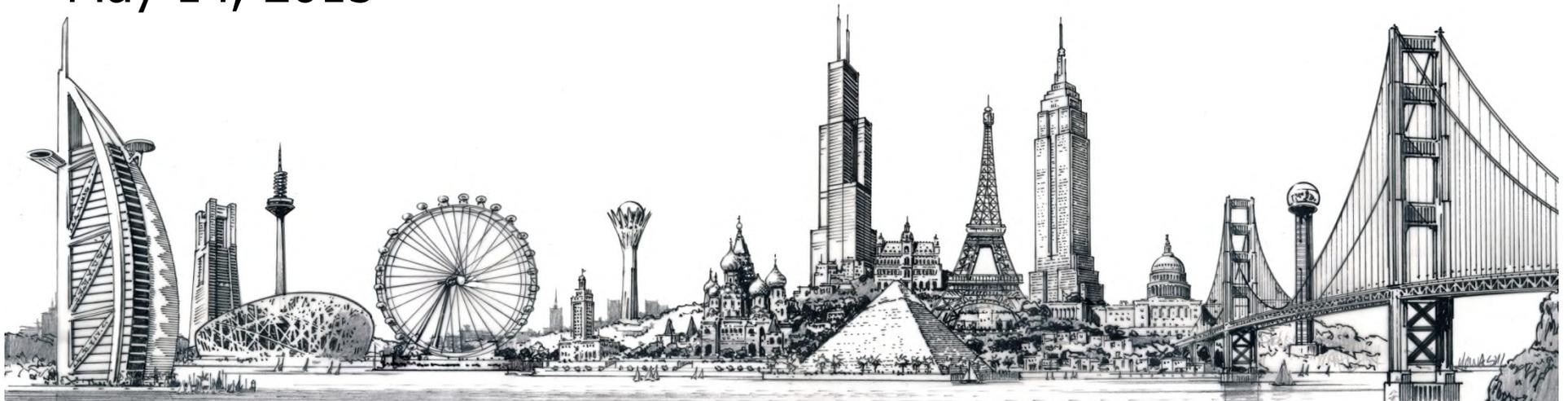


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**DEVELOPMENTS IN NEW
YORK'S "REFORMING
THE ENERGY VISION"
(REV)**

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May 14, 2015



Agenda

- Background of the REV Proceeding
- The REV “Market Framework”
- Distributed Energy Resource (“DER”) Market Design
- Microgrid Development and Issues

Background

- The New York State Public Service Commission (“PSC”) identified key changes in the electric industry
 - Cost, aging infrastructure, declining efficiency, flat sales growth, climate change
 - “The trend toward affordability of self-generation threatens to create an unacceptable gap between those who can choose to leave the grid and those who cannot”
 - New York enacted the Community Risk and Resiliency Act to enhance response to climate change challenges
 - Gov. Andrew Cuomo outlined New York State’s REV goals in his Jan. 21, 2015 State of the State address
- Overall goal: “[T]o reorient both the electric industry and the ratemaking paradigm toward a consumer-centered approach that harnesses technology and markets”

History of the Proceeding

- Proceeding instituted on April 25, 2014
 - Goals include “Enhanced customer knowledge and tools that will support effective management of the total energy bill; Market animation and leverage of customer contributions; System wide efficiency; Fuel and resource diversity; System reliability and resiliency; and Reduction of carbon emissions.”
- Two-track proceeding
 - Track 1 to focus on developing distributed resource markets
 - Track 2 to focus on reforming utility ratemaking practices
- August 22, 2014: PSC Staff issued a Track 1 Straw Proposal
- October 24, 2014: Draft Generic Environmental Impact Statement
- February 6, 2015: Final Generic Environmental Impact Statement
- February 26, 2015: PSC issues Order Adopting Regulatory Policy Framework & Implementation Plan

History of the Proceeding, Post-Order

- March 31, 2015: Market Design Platform Technology (“MDPT”) Working Group files a detailed work plan, with its first report or reports to be issued by July 1, 2015
- April 1, 2015: Staff initiates process to refine utility and affiliate codes of conduct
- May 1, 2015:
 - Each utility identifies at least one potential non-wires-alternative project
 - Parties file comments related to microgrids
 - Staff, following consultation with the Energy Efficiency (“E²”) Working Group, files guidance for energy efficiency transition implementation plans (“ETIPs”) (only the draft is currently available)
 - E² Working Group establishes and files a three-year rolling cycle (only the draft is currently available)

Wide Range of Stakeholders/Participants

- Electric Power Customers
- Electric Power Utilities
- Third party aggregators (Energy Service Companies [“ESCO”], retail suppliers, and demand-management companies)
- Technology vendors and operators
- New York Independent System Operator (“NYISO”)
- Environmental Groups

What Is The Vision?

- “Customer side of the grid represents an enormous and largely untapped resource to improve the value of the system The framework developed here will define good utility practice for the new century. . . . ”
- “Central generation, large-scale renewable resources, and transmission are critical system components. Efficient integration of DER will require consistent treatment of market dynamics and values across all segments of the grid.”
- “Under current ratemaking, utilities have little or no incentive to enable markets and third parties in creating value for customers and achieving policy objectives . . . Utility earnings should depend more on creating value of customers and achieving policy objectives.”

“Trends Driving Our Regulatory Reforms”

- Integration with traditional PSC responsibilities, but “[a] principal purpose of REV is to bridge artificial gaps created by our regulatory structure, and to account for values and costs that range across categories.”
- Regulatory Models and Economic Efficiency – “The opportunity before us is to set forth a regulatory and business model for the traditional utility and its investors that prompts encouragement [of DER], not opposition.”
- System Modernization for a Digital Economy – Addressing and integrating information technology needs AND capabilities, cybersecurity, customer choice, resilience

“Trends Driving Our Regulatory Reforms”

- Clean Energy and Environmental Responsibility
 - Challenges: Climate, Plug-in vehicles, combined heat and power (“CHP”), integrating distributed renewable generation
 - Solar “generally a very positive development, but it presents challenges”; notes risk of very high penetration (referencing Hawaii) and observes net metering is “imprecise measure of value of PV to the system” and “could place an inequitable burden” on non-solar customers
 - Opportunities: Reduced emissions/heat rate, energy efficiency, electrification of transport, geothermal heating
- Universal Service – Affordability, shrinking customer base, need to maintain universal service and secure utility financial stability

Building to the Framework

- “Utilities, and this Commission, could respond to these challenges by clinging to the traditional business model for as long as possible. . . .”
- “A variation on this approach would be to assume a reactive posture, addressing issues only when they have grown into critical or highly visible problems.”
- “Alternatively, we can identify and build regulatory, utility and market models that create new value for consumers and support market entrants and this new form of intermodal competition – in other words, embrace the changes that are shaking the traditional system and turn them to New York’s economic and environmental advantage.”
- “We decisively take the latter approach. . . . The challenges that force us to question traditional methods and assumptions also reveal a pathway toward a more efficient, customer-friendly and sustainable model.”

The REV Market Framework

- “Functional Center” is the “Distributed System Platform Provider” (“DSP”), with responsibility for integrated system planning, grid operations, and market operations
- Evolution of traditional utility capital plans to “Distributed System Implementation Plan”
- DSPs responsible for:
 - Integrating DER into current electricity delivery system, with services and pricing that supports greater penetration of both DER and grid-scale renewable supply (“DER providers will be viewed as customers and partners, rather than competitors”)
 - Operating standardized market across the state
 - Coordinating and optimizing retail and wholesale operations, with “concerted action” by NYISO, DSPs, regulators and market participants

The REV Market Framework

- MDPT Work Plan: The group aims to define the DSP market and how its evolution can be shaped to achieve the REV goals, and to formulate the platform technologies and standards to support DSP market design
- Distributed System Implementation Plans (“DSIPs”) are a key component
 - Contents subject to Staff guidance, and will reflect the Market Design & Platform Technology stakeholder effort
 - DSIPs will include the following:
 - Actual and forecast system loads and capital spending projections, at a level of specificity sufficient to inform market planning and participation by third parties;
 - Actual and forecast levels of DER including detailed analysis of system needs amenable to being met by DER;
 - Plans for encouraging market development of DER;
 - Plans for increasing DER deployment in underserved markets;
 - Specific plans including cost estimates for building DSP capabilities; and
 - A description of internal organization of DSP and traditional utility functions.

The REV Market Framework

- PSC observed that several parties “cautioned that products purchased by DSPs that are either repackaged for sale in ISO markets, or resold directly to utility customers, could trigger [FERC jurisdiction] over DSP activities” and underscored that DSPs will not purchase power that would constitute sale for resale under the Federal Power Act.
- DSP initial market expected to be open-access tariffs, not auctions
- Extensive set of guidelines, including transparency, minimizing market power, minimum barriers to entry, customer protection and benefit

Utilities as DSPs

- Utilities are required to serve as Distributed System Platform (“DSP”) providers
 - The PSC believes that utilities are best positioned to do so, and “[h]aving the utility expand its responsibility to include DSP functionality enhances the opportunity for integrated operation of the distribution system and for realizing the economic value of DER investment”
 - “By expanding the role of the utilities to include DSP functions, utilities will have the regulatory obligation, operational capability, and economic incentive to optimize the use of DER”
 - “The most efficient way to execute a dynamic system is to have a single entity oversee planning, grid operations and market operations”
- Concerns about utility market power addressed as follows:
 - Utilities will not own DER “where a market participant can and will provide these services”
 - Basic ratemaking reforms, to be considered in Track 2, will “reward utilities for outcomes that benefit customers and achieve our objectives”
 - The PSC will monitor utility-as-DSP-provider performance closely
 - The PSC will develop dispute resolution to curb “activities that deter DER investments”
 - The PSC will explore separation of DSP and standard utility operations
 - If DSP providers are not meeting the REV objectives, the PSC will consider substitutes

Utility Ownership of DER

- Utility DER Ownership “will be the exception”
 - When utilities do own DER as a regulated asset, “they will be restricted to recovery of their actual costs”
 - Further, utilities will be paying for DER to support local reliability”under tariffs to be approved by the PSC
 - Utility DER ownership “presents a risk of undermining markets more than a potential for accelerating market growth”
 - “A basic tenet underlying REV is to use competitive markets and risk based capital as opposed to ratepayer funding as the source of asset development. On an ex ante basis, utility ownership of DER conflicts with this objective and for that reason alone is problematic.”
 - “Markets will thrive best where there is both the perception and the reality of a level playing field, and that is best accomplished by restricting the ability of utilities to participate.”

Utility Ownership of DER

- Utility DER ownership allowed under a few circumstances:
 - “As a general rule, utility ownership of DER will not be allowed unless markets have had an opportunity to provide a service and have failed to do so in a cost-effective manner”
 - The following are exceptions to the general rule prohibiting utility DER ownership:
 - 1) procurement of DER has been solicited to meet a system need, and a utility has demonstrated that competitive alternatives proposed by nonutility parties are clearly inadequate or more costly than a traditional utility infrastructure alternative;
 - 2) a project consists of energy storage integrated into distribution system architecture;
 - 3) a project will enable low or moderate income residential customers to benefit from DER where markets are not likely to satisfy the need; or
 - 4) a project is being sponsored for demonstration purposes.
 - Note that utility affiliate ownership will be “allowed under a less stringent set of conditions than direct ownership”
 - For an affiliate’s RFI/RFP procurements, the utility must “hire an independent expert reporting to Staff to ensure an unbiased selection”
 - The PSC directed Staff to “address and refine utility and affiliate codes of conduct” to address misuse of inside information

Additional DSP Issues

- The PSC developed other provisions for DSP providers supplying system data and expressed support for a “uniform digital marketplace”
 - PSC Staff will consult with other stakeholders to examine design and operation
- To enhance energy efficiency, “utility direct resource acquisition and rebate programs must be coordinated with NYSERDA programs and periodically reviewed so that each utility program is properly situated on the market transformation curve”
 - Further, the PSC directed Staff to begin developing a REV Energy Efficiency Best Practices Guide
- The PSC also launched a “large-scale renewables” track
 - Staff will work with NYSERDA to issue an “LSR options paper” by June 1
- In line with overall REV objectives, PSC ordered a series of steps to protect low-income customers and to enhance interconnection arrangements
 - For instance, the PSC has increased the Standardized Interconnection Requirement threshold to 5 MW “in order to better streamline interconnection of these facilities” and avoid a “burdensome technical review that can slow or prevent projects that would be beneficial to the grid.”

Benefit-Cost Analysis (BCA)

- Predetermined BCA is impractical “for the entire REV framework,” but “active monitoring and review will be performed”
- “Metrics for evaluating REV in general will be closely related to metrics used for performance-based ratemaking of utilities”
- The PSC will focus on four categories in developing its BCA framework:
 - 1) Utility investments to build DSP capabilities;
 - 2) Procurements of DER via selective processes;
 - 3) Procurement of DER via tariffs; and
 - 4) Energy efficiency programs.

Microgrids: Major Issues

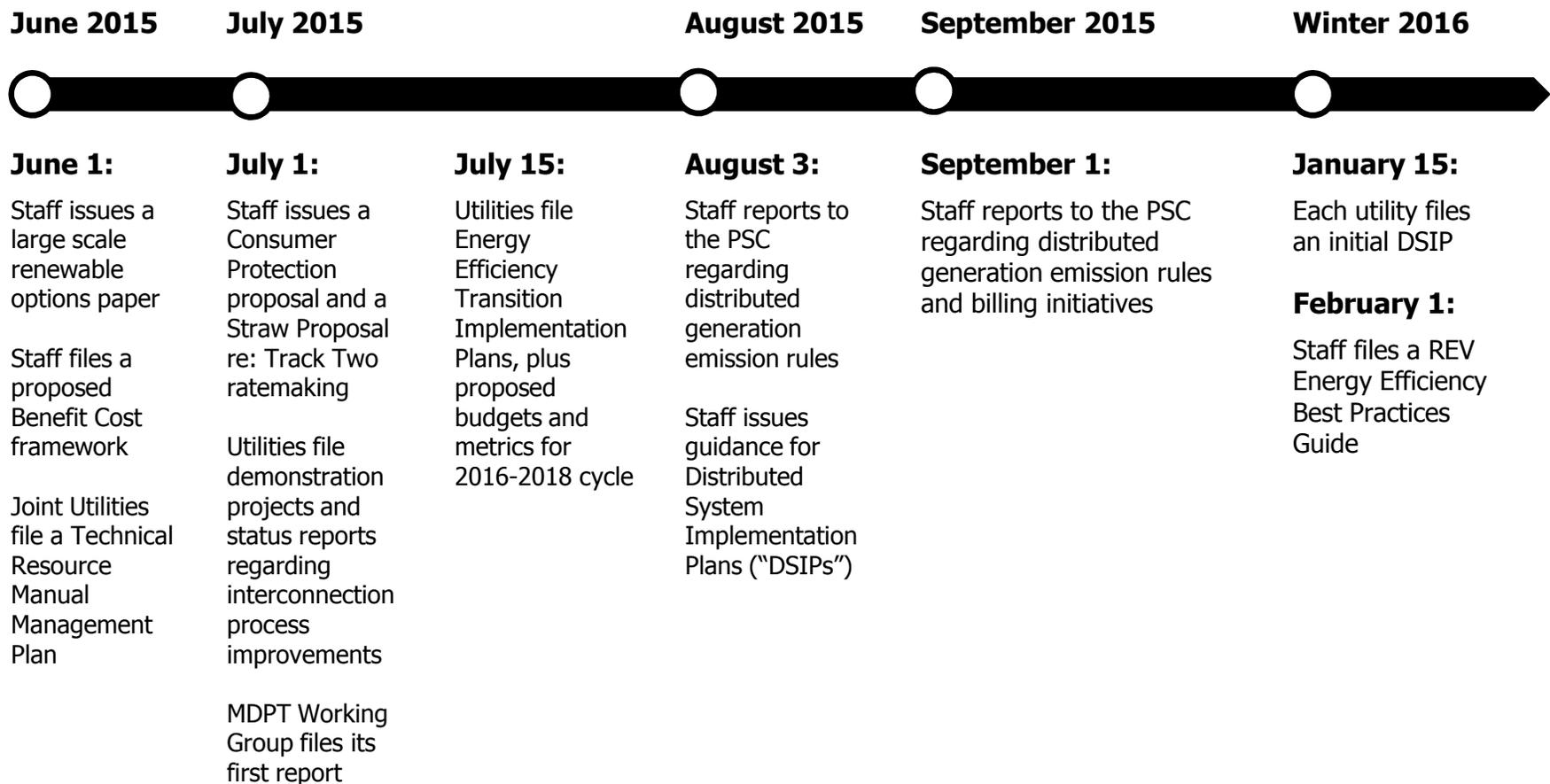
- Adopts DOE microgrid definition: “[a] group of interconnected loads and distributed energy resources (DER) with clearly defined electrical boundaries that acts as a single controllable entity with respect to the grid [and can] connect and disconnect from the grid to enable it to operate in both grid connected or island mode.”
- Identifies three models:
 - Local cogeneration/alternative energy facility serving tenants and exempt from regulation
 - Serving multiple business customers with “light regulation” by PSC
 - “Community microgrid” with full islanding
- Establishes policy “attributes”, including obligation to provide “reliable power at just and reasonable rates within the microgrid”

Microgrids: Selected Comments

- Established additional comment period and received 15+ filed comments on May 1 from range of stakeholders
- Joint Utilities: Utilities should design, own, operate and maintain the electric distribution facilities within community microgrids that serve multiple customers
- IPPNY: PSC should restrict utility ownership of DER
- New York City: Seeks integration with other proceedings, including exemptions from standby charges
- PACE: Add framework for fast-track approval for qualifying microgrids

Next Steps in the REV Proceedings

Timeline of Events:



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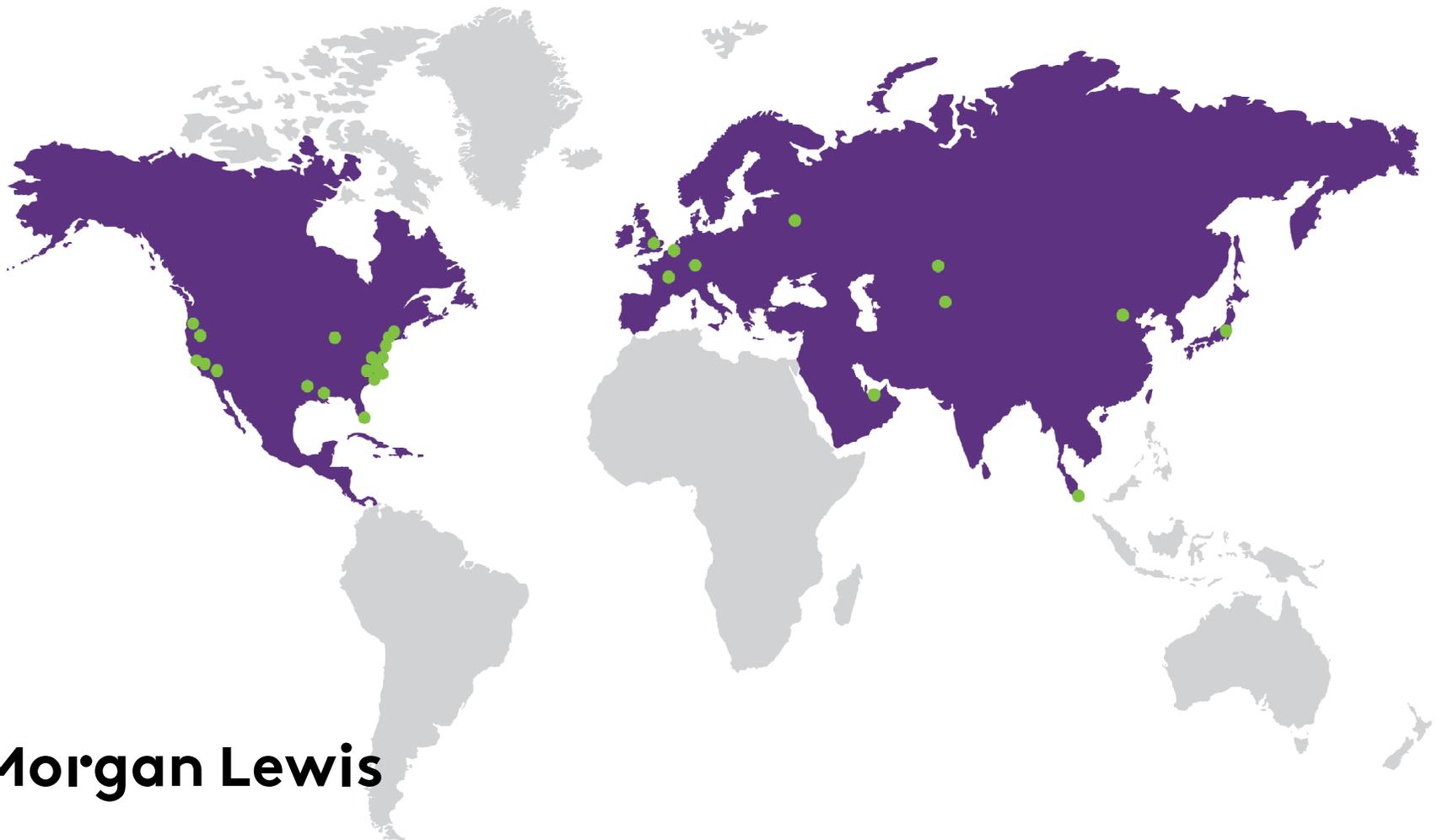
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