

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of a Working Case to Explore)
Emerging Issues in Utility Regulation) **File No. EW-2017-0245**

**MISSOURI DIVISION OF ENERGY’S RESPONSE TO
NOTICE OF DRAFT RULE FOR COMMENT**

COMES NOW the Missouri Division of Energy (“DE”), by and through the undersigned counsel, and in response to the Missouri Public Service Commission (“Commission”) Staff’s (“Staff”) *Notice of Draft Rule for Comment* and the workshop held on May 29, 2018, and states as follows:

1. DE appreciates the opportunity to participate in this important discussion regarding distributed energy resources (“DERs”) and the integrated resource planning (“IRP”) process. Discussion of this proposal represents progress towards meeting the goals of the Missouri Comprehensive State Energy Plan,¹ including (but not limited to) those found in Attachment A. DE also notes that this discussion is occurring in other states on similar topics, and that a newly released report on such actions is available from Pacific Northwest and Lawrence Berkeley National Laboratories.²

2. DE generally supports using the DER definition suggested by Staff, which is based on the definition used by the National Association of Regulatory Utility Commissioners. DE suggests certain edits in the attached, redlined draft of the rules previously proposed by Staff, including:

¹ The Missouri Comprehensive State Energy Plan is available at <https://energy.mo.gov/comprehensive-state-energy-plan>.

² Cooke, AL, Homer, JS, and Schwartz, LC. 2018. *Distribution System Planning – State Examples by Topic*. Pacific Northwest National Laboratory. http://eta-publications.lbl.gov/sites/default/files/dsp_state_examples.pdf.

- a. Replacement of the words “reduce demand” on the third line of the definition with the phrase “modify the net consumption of energy by customers,” consistent with the potential for certain DERs to beneficially change (although not necessarily “reduce”) customer energy or demand based on their individual requirements; and,
- b. Removal of the words “small in scale” from the second-to-last sentence. Neither the proposed definition nor the Federal Energy Regulatory Commission’s definition (cited in Staff’s April 5, 2018 report in this working docket) addresses particular system sizes, so the inclusion of the term “small” could lead to arbitrary determinations of what constitutes a DER.

3. DE agrees with the observation expressed at the workshop on May 29, 2018 by the Natural Resources Defense Council (“NRDC”) regarding the purpose of this proposal. The proposed rule would require revision depending on whether it is focused on “cataloguing” present levels of DERs or, in the alternative, if it is focused on planning for the future penetration of DERs. Generally, DE observes that the draft rule is more focused on utility-owned DERs and the traditional planning process (see, e.g., the proposed language at 4 CSR 240-22.055(4)(B)), along with “cataloguing” existing DERs (see, e.g., the proposed language at 4 CSR 240-22.055(2)). While a focus on utility-owned DERs meets the most basic goal of utility resource planning – i.e., meeting load by providing safe and adequate service in a cost-effective manner – it does not recognize or meet customers’ evolving needs. The proposed DERs rule will be housed in Chapter 22, the Electric Utility Resource Planning rule. The IRP rules are, by definition, prospective; any additions to, or modifications of, these rules should be designed to plan for future DER penetration, both customer-

and utility-owned, and should provide both utilities and customers with the information needed to enable efficient investments.

4. Customers increasingly want access to a variety of service options, including the ability to supply their own energy needs. As written, the rule does not recognize the right that individual customers have to own, control, and use DERs for their personal power planning needs and goals independent of utility planning purposes. The Public Utility Regulatory Policy Act of 1978 established a new class of customer generating facilities that are to receive non-discriminatory, just and reasonable rate and regulatory treatment — small power production facilities and cogeneration facilities. The right of a customer to generate a portion or all of their energy demand is not at the discretion of the regulated utilities. Rather, a regulated utility is obligated to provide non-discriminatory interconnection services, so it is important for, and incumbent upon, regulated utilities and regulators to remove impediments to the customer use of DERs. In addition, the rule does not contemplate any opportunities for avoiding transmission and distribution investments using customer-owned DERs beyond “existing” DERs, as opposed to those DERs that may be added, made available, or planned for in the future. While DE acknowledges the traditional focus of utility planning on utility-owned resources, the failure to adequately address customer-owned DERs could undervalue customer-owned DERs in the context of utility planning.

5. A related issue is the draft rule’s focus on a three-year planning period for DERs. While the DER landscape is quickly changing (as acknowledged in the rule), a three-year planning period does not match the 20-year planning horizon encompassed by the IRP process. This would fail to evaluate DERs on an equivalent basis with other resources, again potentially undervaluing customer-owned DERs in the context of utility planning and the potential costs avoided by their

existence. A three-year planning horizon could also preclude finding some types of DERs, such as long-lived, capital-intensive distributed generation projects, from being evaluated as cost-effective.

6. Comprehensive planning for both customer- and utility-owned DERs on a longer time horizon is also consistent with the language in Senate Bill 564 (2018). Under the bill, which was signed on June 1, 2018, Section 393.1400.4, RSMo. would require utilities that elect to use “plant-in-service accounting” to file annual five-year capital investment plans. The plans would be required to allocate at least twenty-five percent (25%) of the associated investments towards “grid modernization projects,” including, “Deployment and integration of distributed resources and generation, including renewable resources.” Such capital investment planning would be complemented by an evaluation encompassing a 20-year period of how to integrate both customer- and utility-owned DERs.

7. DE agrees that planning for DERs must become a normal part of many different parts of utility planning, including load forecasting, demand-side resource potential analysis, and investments in transmission and distribution infrastructure. All of these aspects of utility planning should be a part of the DER rule, though that does not obviate the need for a rule specific to DERs that encourages utility analyses of how to accommodate increased DER penetration. To the extent that such planning is connected to other parts of the IRP rule – particularly 4 CSR 240-22.050 (demand-side resources) – DE is concerned that current cost-effectiveness testing practices may lead to customer-owned DERs being under-represented in utility forecasts. In large part, this concern stems from the current definition of the Total Resource Cost (“TRC”) test directed to be used in current rules. Section 393.1075.2(6), RSMo. defines the TRC test as, “...a test that compares the sum of avoided utility costs and avoided probable environmental compliance costs to the sum of all incremental costs of end-use measures that are implemented due to the program,

as defined by the commission in rules.” The National Standard Practice Manual (“NSPM”) indicates that participant benefits should be included as well, e.g., participant savings on natural gas and water bills.³ The NSPM definition explicitly includes participant benefits apart from and in addition to avoided utility costs, whereas the statutory definition does not do so explicitly. Including participant benefits and the other attributes of DERs is critical to correctly valuing these resources as well as in accurately quantifying potential future DER penetration levels for purposes of planning cost-effective utility investments.

8. The proposal for 4 CSR 240-22.055(2) would require utilities to compile a database of DERs. DE recommends that utilities provide this information in an easily accessible location for public use, with appropriate privacy and cyber-security protections. DE also recommends limiting the database to reporting DERs in excess of a minimum capacity threshold to avoid unnecessary reporting burdens for customers. The database should be based on reasonably available information, with a goal (as in other parts of the rule) of supporting and enabling efficient customer and utility investments in DERs.

9. DE supports modifying the language proposed at 4 CSR 240-22.055(4)(G) to focus on a “hosting capacity analysis.” As noted by NRDC at the May 29, 2018 workshop, such an analysis is already required of Xcel Energy in Minnesota, so it is possible for an investor-owned utility to undertake such an analysis. To limit the potentially broad scope of such a requirement, DE would not oppose focusing the analysis on parts of a utility’s distribution system deemed to be of the greatest interest (e.g., due to congestion). A publicly available hosting capacity analysis could support more efficient investment decisions in areas of greatest concern on the distribution system.

³ National Efficiency Screening Project. 2017. *National Standard Practice Manual for Assessing Cost-Effectiveness of Energy Efficiency Resources*. https://nationalefficiencyscreening.org/wp-content/uploads/2017/05/NSPM_May-2017_final.pdf, p. 113

10. In addition to these comments, DE has included proposed revisions to the draft rule as a part of this filing.

WHEREFORE, the Missouri Division of Energy respectfully files its response to the Staff's *Notice of Draft Rule for Comment*.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been served electronically on all counsel of record this 8th day of June, 2018.

/s/ Marc Poston

Marc Poston

Attachment A

Comprehensive State Energy Plan Recommendations Related to Draft Rule

1.1: Modifying the Missouri Energy Efficiency Investment Act (pp. 212-213) –

- a. Allow electric utilities to treat combined heat and power in the same manner as other energy efficiency measures.

2.6: Maintaining Business Affordability and Competitiveness (pp. 226-227) –

- a. Continue to review and recommend revisions to regulated utility tariffs to eliminate barriers or incent on-site customer generation of electricity for businesses.
- b. Continue to support regulated utility efforts to encourage industrial and commercial businesses to locate or remain in Missouri, especially in geographies where existing energy infrastructure is underutilized.
- c. Continue to identify and encourage opportunities for large commercial and industrial customers for cost-effective energy efficiency, demand response programs and on-site generation to help them reduce their energy consumption and resource use and manage their peak energy usage.
- d. Review and identify opportunities to address businesses' interest in purchasing clean energy for corporate responsibility commitments as well as incorporating competitive processes for selection of new electricity generation.

3.6: Expanding Combined Heat and Power Applications (pp. 231-232) –

- a. Develop a statewide CHP potential study that fully assesses both the technical and economic potential of CHP opportunities.

- b. Establish cost-based stand-by rates and interconnection practices that reflect best practices.

3.7: Guiding the Development of Microgrids (pp. 232-233) –

- a. Adopt standardized microgrid interconnection requirements and develop clear rules for how microgrid owners interact with utilities.
- b. Develop tariff structures applicable to microgrids for Missouri utilities for review and approval by the PSC that would:
 - i. Not be punitive or discriminating and appropriately price various types of standby power.
 - ii. Encourage microgrid development with an initial focus on areas of the grid that are congested or experiencing rapid demand growth.
- c. Require that microgrid owners and operators provide utilities with information that could affect planning including information about capacity, system design, and location.

3.11: Planning for Smart Grid (pp. 234-235) –

- a. Establish a working group comprised of smart grid stakeholders and industry experts to develop an integrated smart grid vision and plan for Missouri that includes an assessment of benefits and costs, clearly defined desirable smart grid capabilities, and strategies to manage risks.
- b. Investigate potential issues related to grid security and customer privacy as it is related to smart grid, perhaps through a rulemaking docket at the PSC.

- c. Require Missouri utilities to submit an annual report describing the current state of smart grid technologies deployed on a utility's grid and providing an assessment of the costs and benefits of additional smart grid investments.