

NOV 13 2020

PUBLIC SERVICE
COMMISSION

Power by Association

November 13, 2020

VIA EMAIL

Michael J. Schmitt, Chairman
Kent A. Chandler, Vice Chairman
Talina R. Mathews, Commissioner
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

RE: Application of Kentucky Power Company for (1) A General Adjustment of Its Rates for Electric Service; (2) Approval of Tariffs and Riders; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4) Approval of a Certificate of Public Convenience and Necessity; and (5) All Other Required Approvals and Relief - Case No. 2020-00174

Dear Chairman Schmitt, Vice Chairman Chandler and Commissioner Mathews:

The Edison Electric Institute (EEI) respectfully submits this letter to the Kentucky Public Service Commission (PSC or Commission) in support of Kentucky Power Company's (KPC or Company) proposal to modify its net energy metering (NEM) tariff, consistent with the statutory guidelines of recently enacted SB 100 in the above-referenced proceeding. EEI monitors various NEM proceedings across the country and appreciates the opportunity to provide the PSC a national perspective on NEM trends across the country and support KPC's proposed successor tariff.

EEI is the association that represents all U.S. investor-owned electric companies. Our members operate in all 50 states and the District of Columbia and provide electricity for 220 million Americans. Collectively, the electric power industry supports more than 7 million jobs in communities across the United States. EEI's member companies, which include Kentucky Power Company, deliver safe, reliable, affordable and increasingly clean electricity that powers the economy and enhances the lives of all Americans.

SB 100 was enacted in March 2019 with the intention to reform retail rate NEM in Kentucky and took effect earlier this year. Except for specific provisions, like grandfathering existing customers for 25 years, the bill provides only a roadmap of how to reform NEM and requires the Commission to establish an excess compensation rate and increase the capacity limits. In response to this direction, the Commission initiated Case No. 2019-00256 to collect comments from interested stakeholders to consider the issues related to implementation of SB 100 and stated that the law requires electric utility-specific compensation rates, not a uniform rate for all electric utilities. In this proceeding, the first initiated after SB 100's passage, the Commission

now has the important task of determining whether the NEM successor tariff as proposed by KPC meets the statutory guidelines established in SB 100 and should be approved.

KPC's proposed successor tariff is a first step in a longer transition towards a more efficient and equitable rate design for private solar customers. The Company's proposed rate design for NEM is reasonable, based on a verified cost-benefit analysis,¹ immediately reduces the current subsidy paid by other non-net metering customers, and contains netting periods that make sense when considering the Company's lack of AMI meters. AMI meters provide numerous benefits to both customers and the distribution system.² Advanced metering would enable customers to better understand their power usage and allow the Company to offer expanded rate options and more precise netting periods. For example, the proposed 12-hour netting periods could be further refined to be even more granular, like hourly or every 15 minutes, if the Company were able to install AMI. With more granular data, customers could then use their private solar systems in a manner that could be more beneficial to them by enabling them to maximize their system's output, and the Company could better manage, track, and calculate the costs and benefits derived from these systems.

In this proceeding, various intervenors suggest that the new tariff would undermine the distributed solar market in Kentucky and diminish customers' options for generating their own power. There is no hard evidence that supports any of these claims. What is apparent, however, is that the economics of full retail NEM not only pays customer generators **three times the market value** of their excess energy, but was also not overly enticing to customers to date, as demonstrated by the extremely low private solar adoption rates in KPC's service territory. The local solar market in Kentucky was and still is nascent. Regardless, it was wise and appropriate for policymakers to recognize and address the inequities of retail NEM by passing SB 100 and providing a roadmap for reform, prior to adoption growing so quickly that it continues to force other, non-generating customers to pick up the cost.

Kentucky Power Company's proposed NEM tariff in this proceeding not only meets the statutory guidelines established in SB 100 but is also just and reasonable for all customers - not just those who own private solar generation. More than a dozen other states have recognized the inequities of retail NEM and have begun to transition to a different compensation model for distributed generation. The proposed NMS II tariff, which would compensate customers at the Company's calculated avoided cost rate of \$0.03659/kWh, is in line with other recently decided NEM proceedings,³ and is fair to participating and non-participating customer alike, because it immediately reduces the current multiple cross-subsidy issue. Moreover, and consistent with the requirements of SB 100, current NEM customers will not be impacted by this proposal, as they are grandfathered for 25 years and will still receive the full retail credit for excess compensation.

¹ In a recent order, the Utah PSC endorsed the idea of setting NEM rates based on the utility's cost of service, supported by substantial evidence. *See Application of Rocky Mountain Power to Establish Export Credits for Customer Generated Electricity Order Docket No. 17-035-61*, (Oct. 30, 2020), <https://pscdocs.utah.gov/electric/17docs/1703561/3161911703561o10-30-2020.pdf>.

² *See* The Edison Foundation Institute for Electric Innovation, "Electric Company Smart Meter Deployments: Foundation for a Smart Grid (2019 Update)," (Dec. 2019), available at: https://www.edisonfoundation.net/-/media/Files/IEI/publications/IEI_Smart-Meter-Report_2019_FINAL.ashx

³ Utah PSC recently approved an excess compensation rate of 5.969 cents/kWh in summer and 5.639 cents/kWh in winter for customer-generators. *See Order Docket No. 17-035-61* (October 30, 2020).

The original intent of NEM, when compensated at the retail rate, was to incent installation of small wind turbines and solar panels at a time when these technologies were prohibitively expensive. As a policy tool, net energy metering is quite simple. It was—and remains—a basic billing mechanism that allows a customer with distributed generation to “spin back” their meter to reflect the amount of electricity they produce. This output is then netted with a customer’s usage, resulting in payment for only that portion that isn’t consumed by the customer-generator. This blunt instrument allows distributed generation customer-owners to see a reduction in their bills consistent with the amount of self-generation they consume.

However, it also pays them the same rate that they would pay the electric utility for any excess power that they send back to the grid. That is, despite the fact that customer-owner generators are providing only generation, they are paid the full “bundled rate,” which includes the cost of power generation, plus the entire suite of fixed costs associated with delivery of power to the customer – even though they are using the distribution system to send this power to the energy grid. Therefore, when NEM customers are compensated at the retail rate, they are getting paid not just for the power they are producing, but also for the distribution grid and services they are utilizing. As a result, these customer-generators avoid paying for the cost of electric service they use – however, these costs are still incurred by the utility and, until reformed, are then passed through and subsidized by other, non-net generating customers.

Kentucky is one of 14 states that are either in the process of transitioning away from NEM or have already adopted alternative compensation mechanisms for customer-owned distributed generation.⁴ Most recently, the Florida Public Service Commission held a workshop to review the rules and regulatory policies related to NEM, which were originally enacted in 2008.⁵ The reasons for this transition can vary by state, but a common thread is that states (and their Commissions) now recognize that retail rate NEM overpays customer generators for the service they provide, that the incentive needed more than a decade ago to incentivize a market is no longer needed when prices have dropped so dramatically, and that there is a cost shift from NEM participating customers to non-participants, which creates an unfair subsidy that should no longer be perpetuated.

In a December 2019 whitepaper, the New York Department of Public Service Staff performed an analysis in the Value of Distributed Energy Resources Rate Design Working Group (as part of the state’s REV proceedings) and “identified cost shifts from onsite solar adopters using NEM to non-adopters of between \$3.00/kW per month to \$7.00/kW per month depending on utility and customer class.”⁶ Additionally, The Brattle Group’s recent analysis found that NEM subsidies range from \$22 to \$105 per customer per month across the country.⁷ To address this cost shift, KPC has proposed a credit of \$0.03659/kWh that fairly compensates customers for their net

⁴ These states include: AZ, AR, FL, HI, IL, IN, KY, LA, MI, MN, NC, NY, SC, and UT

⁵ See Florida Public Service Commission, “Customer-Owned Renewable Generation Workshop,” September 2020, <http://www.psc.state.fl.us/UtilityRegulation/RenewableGenerationWorkshop>.

⁶ See NYDPS, “Staff Whitepaper on Rate Design for Mass Market Net Metering Successor Tariff,” December 2019, Case No. 15-E-0751, <http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId={67DC3354-F3D6-4618-AB75-F098A2906E12}>.

⁷ See The Brattle Group, “Assessment of Residential Net Metering Subsidies (Presentation),” June 2019, https://brattlefiles.blob.core.windows.net/files/16671_assessment_of_residential_net_metering_subsidies.pdf.

excess generation, and reduces the subsidy paid by other non-net energy metering customers. This credit does not include the distribution costs that are included in the Company's retail rate. The gross impact of this cost-shift may be small in Kentucky because of low penetration rates, but it is true and real—especially for customers that are low-income or out of work due to the increasing (and continuing) spread of COVID-19.

As the PSC evaluates this proposal and seeks to ensure compliance with SB 100, the Commission should take this opportunity to eliminate, to the extent possible, the subsidies that have been created to date through retail NEM. Correcting this inequity is not only better for customers, but also embodies the intent and direction of SB 100. EEI thanks the Commission for the opportunity to share these thoughts on Kentucky Power Company's proposal, and remains a resource, if needed, on NEM policy across the country.

Respectfully submitted,

A handwritten signature in black ink that reads "Philip D. Moeller". The signature is written in a cursive, flowing style.

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