

PSC investigating parallel generation purchase rates



By Richard Heinemann

Much has changed since the Public Utility Regulatory Policies Act (PURPA) was promulgated 42 years ago. There are

now robust capacity and energy markets and a bevy of state and federal renewable energy mandates. Meanwhile, rapid advancements in technology have made renewable generation resources more cost effective and increasingly attractive to residential and commercial retail customers. Efforts to revisit and potentially revise or revamp PURPA are well under way at the federal level. The Public Service Commission of Wisconsin (PSCW) has decided to follow suit by launching a generic docket (5-EI-157) to investigate how utilities calculate avoided energy and capacity costs and develop distributed generation (DG) buy-back rates under the parallel generation (PG) tariffs used to implement PURPA requirements.

Generally, Wisconsin utilities structure PG purchase rates in two ways. For small systems (20 kW or less), customer-owned DG is compensated on a net-metering basis, in which customers are allowed to offset energy deliveries over a prescribed period of time (usually a billing cycle, but under certain PG tariffs, a calendar year). Customers that deliver more energy to the distribution system than they consume are credited at a buy-back rate, which for many MEUW mem-

bers (especially non-WPPI members), is equivalent to the retail energy rate.

Larger PG systems are generally provided a credit for energy delivered to the system at an “avoided cost” rate. However, the components that comprise such “avoided cost” rates vary. Most utilities base these rates on the cost of wholesale energy as determined by locational marginal prices in the MISO energy markets. Some utilities include additional credits for production capacity costs or avoided transmission costs, but there is no consensus on how, or in some cases even whether, to include such costs. There is also no standard way of accounting for system costs caused by PG so as to prevent cross-subsidization by other, non-PG customers.

Such variance, coupled with the increasing interest on the part of both large and small customers in developing DG systems, whether for environmental or economic reasons (or both), means that the Commission’s investigation is being viewed with some urgency by stakeholders.

On July 14, 2020, dozens of individuals and organizations — ranging from renewable energy advocates to local governments, customer groups and utilities — filed responses to four questions posed by the PSCW: (1) What factors or methods should inform the determination of avoided costs and be considered in developing buy-back rates? (2) What current or future market or regulatory changes are relevant

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to consider? (3) What current or future technological changes are relevant to consider? (4) How do purchase rates under PG tariffs impact customer decisions to invest in DG, and what other barriers to DG deployment are relevant to consider?

In their comments, the utilities and utility trade associations (including MEUW) generally struck common themes:

- Emphasizing that avoided cost methodology should aim for customer equity, availability and accuracy, while focusing on actual, non-speculative cost components; pointing out that, as currently designed, PG rates (especially the net metering schemes designed for smaller systems) create economic distortions and cross-customer subsidies when they overcompensate DG;
- Urging the Commission to be mindful of FERC’s ongoing PURPA rulemaking effort and recent storage orders, as well as MISO’s current stakeholder investigations into the system impacts of non-dispatchable resources; and
- Underscoring the significance of rapidly evolving smart and battery storage technologies that have the potential to shape and alter customer load patterns and potentially provide other forms of value to distribution systems.

Non-utility stakeholders, including several local governments, renewable energy advocates and developers, generally cited the current lack of tariff uniformity, as well as market and regulatory uncertainty around such issues as third-party ownership, as barriers to DG development. Many called for a more level “playing field” by eliminating disparities between tariff structures that distinguish between utility-owned and customer-owned DG, particularly when it comes to including capacity and transmission costs. A few emphasized the importance of including externalities such as the public health and environmental costs of carbon emissions in deriving avoided cost methodology.

Notably, the industrial customer group, whose members include large customers that have installed on-site generation in order to reduce their electric costs, cautioned the Commission against setting buy-back rates in order to incentivize certain technologies, rather than acting to ensure that rates are not discriminatory and that they reflect the utility’s actual demand and supply balance. The group observed that if more large energy users install on-site generation, other customers could be adversely impacted because the utility’s fixed costs would be spread over fewer billing units, creating cost subsidies and rate increases.

In its comments, the Citizens Utility Board emphasized that, while PG rates should be cost-based, the principal challenge for the Commission to overcome in setting such rates is the notion that PG systems should be viewed as a burden to the distribution system (and other system users), rather than as a potential resource to be leveraged for the benefit of all customers.

To assist its investigation, the PSCW has also surveyed public utilities on how they currently calculate avoided costs; responses are due later this month.

Given the complexity of the issues and the wide range of policy perspectives being brought to the Commission’s attention, a comprehensive response from the PSCW is not expected for quite some time. MEUW will continue monitoring this docket as it develops. ●

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