

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Commission's Review	)	
of Chapter 4901:1-10, Ohio Administrative	)	Case No. 12-2050-EL-ORD
Code, Regarding Electric Companies	)	

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**APPLICATION FOR REHEARING AND MEMORANDUM IN SUPPORT OF  
INTERSTATE GAS SUPPLY, INC.**

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**December 8, 2017**

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Pursuant to Section 4903.10, Revised Code ("R.C."), and Rule 4901-1-35, Ohio Administrative Code ("O.A.C."), IGS Solar, LLC, IGS Generation, LLC, and Interstate Gas Supply, Inc. (collectively, "IGS") respectfully submit this Application for Rehearing of the Opinion and Order ("Order") issued by the Public Utilities Commission of Ohio ("Commission") on November 8, 2017 for the following reasons:

- 1. The Order unjustly, unreasonably, and unlawfully undermines solar project development and places an undue burden on competitive retail electric service suppliers ("Suppliers") and their customers for the reasons stated herein:**
  - a. The Order discriminates against shopping customers and undermines State Policy (R.C. 4928.02(A)-(D) and (K)) in favor of customer choice and distributed generation inasmuch as the Order failed to recognize limitations in existing utility metering and billing systems.**
  - b. The Order's removal of the capacity portion of the compensation provided under the SSO net metering tariff reduces the incentive for customers to install solar projects, which violates R.C. 4928.02 to promote the development of distributed generation.**
  - c. To the extent that the Order permitted utilities to recover the cost of net metering compensation through distribution rates, the Order violated R.C. 4928.02(H).**

For the reasons stated herein, IGS urges the Commission to grant this application for rehearing and to correct the errors identified herein.

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**MEMORANDUM IN SUPPORT OF  
INTERSTATE GAS SUPPLY, INC.**

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**I. INTRODUCTION**

On November 8, 2017, the Public Utilities Commission of Ohio (“Commission”) set forth a Finding and Order (“Order”) in the above captioned proceeding amending the net metering rules for Ohio. In their current form, the amended rules would restrict the growth of the solar energy market in Ohio, and make it more difficult for customers to receive economic incentives for the installation of solar projects given the unjust and unreasonable changes set forth in the Commission’s Order.

It is the policy of the state of Ohio to “ensure diversity of electricity supplies and suppliers, by giving consumers effective choices over the selection of those supplies and suppliers and by **encouraging the development of distributed and small generation facilities.**”<sup>1</sup> It is IGS’s experience that fair and reasonable net metering rules that provide reasonable compensation and incentivize delivery of electricity back onto the grid enable distributed generation development. It is also IGS’s experience that States without reasonable net metering rules often fail to develop distributed generation projects. Thus, to effectuate the state policy and encourage the development of distributed generation

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<sup>1</sup> R.C. 4928.02(C) (emphasis added). See *also* R.C. 4928.02(A)-(B), (D), and (K).

the Commission should ensure net metered projects receive fair compensation. Because the Order does not accomplish these goals, IGS recommends that the Commission grant rehearing and adopt the changes recommended herein. Specifically, IGS recommends that the Commission issue rules that direct the electric distribution utilities (“EDUs”) to make available on a non-discriminatory basis a net metering tariff for both SSO and shopping customers. Given that the EDUs billing and metering limitations will prevent a net metered customer from obtaining any value associated with their reduced peak demand, the tariff should provide compensation based upon the full bypassable SSO-generation rate.

## **II. BACKGROUND**

### **A. Background and Commission-Ordered Net Metering Structure**

This proceeding was initially opened on July 11, 2012. Following different proposals and comments over several years, on November 8, 2017 the Commission issued a Finding and Order approving net metering rules. During the more than half-decade that has elapsed since this proceeding commenced, IGS’ perspective and experience with net metering rules in this state and elsewhere has evolved.

The purpose of net metering rules is to provide value to distributed generation resources when the resource produces more electricity than a customer needs. As is relevant to this Application for Rehearing, the Order established one set of requirements for customers of the standard service offer (“SSO”) and another set for customers served by a Supplier:

- SSO customers shall receive net metering compensation from their electric distribution utility based upon the energy-only portion of the SSO rate (no capacity compensation).<sup>2</sup> The Order further determined that the “[t]he electric utilities may file an application to recover the deferred costs of providing net metering in base distribution rates, or through some other appropriate rider or mechanism, and the Commission will consider the application.”<sup>3</sup>
- Customers served by a Supplier shall negotiate a rate for net metering compensation from their Supplier.<sup>4</sup>

Thus, the Order authorized two different net metering paradigms, each of which will lead to very different levels of compensation. SSO customers will receive the payments based upon the energy portion of the SSO rate. Since the SSO rate is currently based upon an around-the-clock price per megawatt hour, it would result in applying a \$ rate multiplied by the volume of excess production. For example, a customer that produces 1200 kilowatt hours and uses 1000 kilowatt hours would receive a credit of 200 multiplied by the SSO energy rate.

Customers served by a Supplier are directed to negotiate a rate with a Supplier. As practical matter, the Supplier is likely to provide compensation to the customer to reflect the value the Supplier receives when the customer places excess electricity onto the electric grid. Although IGS initially supported this compensation structure, it may be

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<sup>2</sup> Order at 17.

<sup>3</sup> *Id.* at 19.

<sup>4</sup> *Id.* at 18.

difficult, if not impossible, for a Supplier to provide any form of compensation to a net metering customer due to limitations in electric distribution utility billing systems that have not progressed significantly since the Commission initially opened this proceeding over five years ago. Based upon the current status of smart meter deployment throughout the state, it will likely be another five years until Suppliers receive a negative load recorded on their settlement statement for net metered energy.

### **B. Net Metered Energy at the Wholesale Level**

When a customer produces energy in excess of their usage requirements, it is placed onto the distribution and transmission grid. The manner in which the energy is treated at the wholesale level is dependent on the sophistication of utility meter data management and billing systems. For example, when a utility has functional bi-directional smart meters capable of recording hourly interval data usage, the utility may record and report the amount of excess electricity a customer places onto the grid in each hour of the day.

To the extent that the utility utilizes this granular energy usage information to calculate the settlement statements of load serving entities (Suppliers and the utility itself), this excess energy will show up on the PJM settlement statements as a reduction to the LSEs load, ie as a negative load. In this instance, the value to the Supplier or LSE is the value of avoided cost of the electricity being displaced by the net metered electricity. That value is generally the locational marginal price (“LMP”) for each hour excess energy is placed onto the grid. For the EDU, the value is equal to the reduction in SSO wholesale delivery requirements, because SSO net metered customers are serving a portion of SSO

load by reducing the total PJM load requirements of the utility (their LSE). In the event that a Supplier has a negative load recorded on their settlement statement, it is an uncertain level of compensation that is difficult to quantify over the 20-year life of a distributed resource. As such, this compensation methodology is not easily quantified or explained to a customer.

Regardless, EDUs generally do not calculate Supplier PJM settlement statements based upon actual hourly energy usage for all customer classes because the rollout of advanced metering technology is far from complete.<sup>5</sup> According to the Energy Information Administration (“EIA”), less than 20% of residential customers in Ohio have a smart meter.<sup>6</sup> And this amount includes the smart meters deployed by Duke Energy Ohio, which may need to be replaced in order to provide the functionality contemplated by this rule.<sup>7</sup> Given this limitation, Suppliers receive no compensation or cost reduction when their customers net meter electricity.

If Suppliers receive no cost reduction when their customers place excess electricity onto the grid, where does it go and what happens to the electricity? There are two possibilities. It either residually reduces the EDU's PJM settlement statement or it is treated as unaccounted for energy and reduces the hourly load requirements of the LSEs in the PJM zone.

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<sup>5</sup> See <https://www.eia.gov/todayinenergy/detail.php?id=34012> (viewed Dec. 7, 2017). As of right now, only AEP can potentially calculate settlements based upon actual metered data for Supplier customers. AEP has installed nearly 150,000 smart meters

<sup>6</sup> *Id.*

<sup>7</sup> See *In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Electric Distribution Rates*, Case Nos. 17-32-EL-AIR, Direct Testimony of Donald Schneider at 2-15 (Mar. 16, 2017).



While there is a greater push for smart meters and interval data access for Suppliers, these efforts will take multiple years. Therefore, for the long-term foreseeable future, it is impossible for Suppliers to provide net metered compensation to non-interval metered customers in Duke, First Energy, and Dayton Power & Light service territories. Given this reality, it is unjust and unreasonable to authorize rules that mandate customers entertain a futile exercise, which, as a practical matter, will lead to customers reverting to the SSO against the spirit of state policy in favor of competition.

### **III. ARGUMENT**

#### **A. The Order unjustly, unreasonably, and unlawfully undermines solar project development and places an undue burden on Suppliers and their customers for the reasons stated herein:**

##### **1. The Order discriminates against shopping customers and undermines State Policy (R.C. 4928.02(A)-(D) and (K) in favor of customer choice and distributed generation inasmuch as the Order failed to recognize limitations in existing utility metering and billing systems.**

The state policy favors customer choice and the development of distributed generation resources:

A) Ensure the availability to consumers of adequate, reliable, safe, efficient, nondiscriminatory, and reasonably priced retail electric service;

(B) Ensure the availability of unbundled and comparable retail electric service that provides consumers with the supplier, price, terms, conditions, and quality options they elect to meet their respective needs;

(C) Ensure diversity of electricity supplies and suppliers, by giving consumers effective choices over the selection of those supplies and suppliers and by encouraging the development of distributed and small generation facilities;

(D) Encourage innovation and market access for cost-effective supply- and demand-side retail electric service including, but not limited to, demand-side management, time-differentiated pricing, waste energy recovery systems, smart grid programs, and implementation of advanced metering infrastructure . . .

K) Encourage implementation of distributed generation across customer classes through regular review and updating of administrative rules governing critical issues such as, but not limited to, interconnection standards, standby charges, and net metering.<sup>8</sup>

Moreover, State policy and Ohio law prohibit discriminatory treatment.<sup>9</sup> While well-intentioned, the Order undermines each of these requirements.

IGS recognizes that there is a general movement throughout the state toward advanced meter deployment. But that process will take several years. In order for more dynamic products to be offered to customers in the marketplace, it is imperative that Commission rules and procedures enable Suppliers to have access to smart meter data required to provide these products.

Currently, the utility will provide credit on the Supplier's PJM settlement statement only equal to the amount of energy that the utility can verify the customer generator placed onto the grid in each hour of the day. Without an advanced meter that records the hourly energy production and necessary billing systems, there is no way for the utility to provide Suppliers with any form of credit or load reduction on their PJM settlement statement. Therefore, without receiving any value in return, it is impossible for Suppliers to provide net metered compensation to their customers.

The Order places a Supplier providing solar service in an untenable situation. Either provide no compensation to a customer that is net metered or recommend that the customer take service from the SSO. The former is unfair to the customer and would harm their relationship with the Supplier/solar provider; the latter is contrary to the state

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<sup>8</sup> R.C. 4928.02(A)-(D) and (K).

<sup>9</sup> R.C. 4928.02(A); R.C. 4905.26.

policy, which promotes customer choice and development of distributed generation resources.

IGS, like other Suppliers, are active in the retail supply of electricity as well as the development of solar projects. The net metering rules, as stated above, make it unduly burdensome for Suppliers to have an economic incentive to provide a credit to customers they serve. At the very least, shopping customers should have a choice between selecting the best possible net metering credit in the competitive market or the by their EDU.

In order to avoid the practical consequences dictated by the Order, on rehearing, the Commission should direct that EDUs make available on a non-discriminatory basis a net metering tariff for both SSO and shopping customers. Such a tariff is necessary and justified as a result of the limitations in existing utility metering and billing systems. Given that utilities' PJM settlement statement will be residually reduced for any excess electricity placed onto the electric grid, the utilities are in a position to reduce the otherwise deliverable wholesale electric requirements for SSO customers. Therefore, it should not matter whether a customer is a shopping customer or SSO customer for purposes of utilizing the tariff. An example of such a tariff was recently proposed in Duke Energy Ohio's application to establish an electric security plan.<sup>10</sup> A properly structured net metering tariff would be bypassable and revenue neutral to the EDUs.

IGS recommends the above net metering option be in place until the Commission's

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<sup>10</sup> *In the Matter of the Application of Duke Energy Ohio, Inc., for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan, Accounting Modifications and Tariffs for Generation Service*, Case Nos. 17-1263-EL-SSO, *et al.* Direct Testimony of Don Wathen at 9-10 (Jun. 1, 2017).

next net metering rule review in 2022. At that time, the Commission may reevaluate the methodology based upon the state of advanced metering deployment.

**2. The Order's removal of the capacity compensation provided under the SSO net metering tariff reduces the incentive for customers to install solar projects, which violates R.C. 4928.02 to promote the development of distributed generation**

The proposed rule submitted for comment in 2015 initially proposed that SSO net metered customers receive compensation based upon the full SSO bypassable generation rate. The Order, however, limited compensation to the energy portion of the SSO rate. As a practical matter, the Order reduced economic viability of distributed generation resources by eliminating an important value stream.

The Order implies that SSO and shopping customers may obtain value associated with a reduced capacity obligation, stating: "customer-generators may generate electricity at times of peak demand, and with advanced meters capable of measuring hourly interval usage data, these peak load contributions should be incorporated into a customer-generator's bill."<sup>11</sup> But this value is merely theoretical for the next several years for both shopping and SSO customers.

With respect to a shopping customer, a customer will not receive a benefit from their reduced energy usage during the 5 PJM coincident peak ("5 CP") hours from their Supplier until PJM settlements and retail rates reflect actual hourly energy usage. Moreover, SSO residential customers generally pay a rate per kilowatt hour, either for capacity, energy, or an all-in rate. Therefore, even if utilities calculated individual customer capacity tags based upon actual usage, the existing SSO rate tariffs

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<sup>11</sup> Order at 17.

are not designed to allow a customer to benefit from a reduction in their peak-time usage. In other words, it is possible that an SSO or shopping customer produces excess energy during each of the 5 CP hours, yet still be required to pay the exact same capacity rate as their next door neighbor using the entirety of their excess energy.

In any event, without full deployment of smart meters, there is no way for a shopping or SSO customer to receive a capacity cost reduction based upon their usage during the 5 CP hours. Therefore, to address this inequity, the Commission should direct the utilities' net metering tariff to provide compensation based upon the full SSO generation rate. Otherwise, customers that invest in solar facilities will not receive any form of benefit associated with their peak time use reduction.

**3. To the extent that the Order permitted utilities to recover the cost of net metering compensation through distribution rates, the Order violated R.C. 4928.02(H)**

The Order indicated “[t]he electric utilities may file an application to recover the deferred costs of providing net metering in base distribution rates, or through some other appropriate rider or mechanism, and the Commission will consider the application.”<sup>12</sup> The Order erred in this respect.

The Order treats net metering as a competitive service, establishing net metered compensation at levels established by market prices for electricity. Recovery of the cost of competitive services through distribution rates would violate R.C. 4928.02(H). *Elyria Foundry v. Pub. Util. Comm’n*, 114 Ohio St 3d 305, 315-317 (2007). This non-competitive cost recovery is particularly unreasonable and anticompetitive given that the Order mandated Suppliers to provide net metered compensation to their customers through a

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<sup>12</sup> Order at 19.

negotiated rate.

Moreover, there is no need for EDUs to recover the cost of net metering through distribution rates to be made whole. Net metered electricity results in a reduction of the EDUs load requirements on their PJM settlement statement. Thus, it reduces the total amount of electricity that must be purchased from the wholesale market (or SSO auction winners). Therefore, the EDUs should use their existing SSO rates to provide compensation to net metered customers. This process should be revenue neutral to the EDUs.

#### **IV. CONCLUSION**

IGS appreciates the Commission's efforts to establish appropriate net metering rules that fit the needs of shopping and SSO customers and promote the state policy in favor of distributed generation deployment. However, the Order does not accomplish these goals for the reasons stated herein. IGS urges the Commission to grant this application for rehearing and to correct the errors identified.

Respectfully submitted,

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## **CERTIFICATE OF SERVICE**

I hereby certify that I served a true copy of the foregoing Application for Rehearing of IGS Solar, LLC, IGS Generation, LLC, and Interstate Gas Supply, Inc. upon the following parties via electric transmission, this 8th day of December 2017.

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