

## **Quadrennial Energy Review Meeting**

**September 8, 2014**

**Commissioner Garry Brown, NYS Public Service Commission**

### **Topic: Business Models and Regulation of Regulated Utilities – Do They Need Change, and If So, How?**

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- The challenges New York and other states are facing in the energy marketplace are formidable. Over the next decade, if we continue to do business as usual, New York’s energy consumers and the respective electric utilities will have to invest more than \$30 billion, and on clean energy programs of over \$10 billion, to maintain and upgrade the State’s aging delivery and transmission infrastructure system.
  - These increases are attributed to aging infrastructure, load growth, increased need for storm resiliency, implementation of clean energy goals, and increased customer demand for uninterrupted power.
  - To address these challenges, we have been asking ourselves if there is a better way to provide improved energy service to customers at a lower cost and in a cleaner fashion.
  - Last April, the Commission launched its newest and most ambitious proceeding, the Reforming the Energy Vision initiative (or REV for short).
  - REV seeks to change the way that the utility delivery system is used, designed, and priced to reflect a more distributed environment where unidirectional power flow from centralized power plants to customer load is no longer the assumed normal. REV is running concurrently with our energy efficiency and clean energy initiatives.
  - Our purpose is to align utility actions and practices, and the Commission’s regulatory practices, with technological advances in information management, power generation, and the distribution of electric energy; advances that promise significant improvements in system efficiency, customer choice, and use of clean generation and energy efficiency technologies.

- By introducing and embracing information technology and clean energy solutions, millions of New Yorkers will benefit from a 21st century power grid, enabling them to better manage and reduce their energy costs while protecting and preserving the environment.
- With this approach, utilities will actively manage and coordinate a range of distributed energy resources, such as solar panels, wind turbines, co-generation facilities, and battery storage units. Markets and tariffs will empower customers to reduce and optimize their own energy usage and electric bills. The Commission’s ratemaking framework will also need to be revised to provide improved incentives and remove disincentives.
- REV’s overall objective is to create market-based, sustainable products and services that drive an increasingly efficient, clean, reliable, and consumer-oriented energy industry. The outcome of the transformation is to make energy efficiency and other distributed resources a primary tool in the planning and operation of an interconnected and modernized power grid.
- Under this energy industry modernization initiative, utilities will actively manage and coordinate a wide range of distributed resources, or generate electricity from many small energy sources and link them together.
- The energy industry modernization effort will also complement the generation efforts currently provided by large-scale power plants.
- Under REV, there are several elements that are critical components of New York’s 21st century power system design and operation. One of the central components of the REV vision being examined is the concept of the utility, or other third-party entity, as a Distributed System Platform Provider.
- We envision that the Platform Provider will modernize its distribution system to create a flexible platform for new energy products and services, to improve overall system efficiency and to better serve customer needs.

- Further, the Platform Provider will incorporate distributed energy resources including energy efficiency, demand response and distributed generation, into planning and operations to achieve the optimal means for meeting customer reliability needs.
- Under the REV initiative, customers are seen as active partners in addressing the challenges and opportunities of the modern electric grid. In order for distributed energy resources to be fully integrated into the management of the system, customer interests in managing energy concerns must be aligned with the roles of utilities and other market participants in the operation of sustainable markets.
- We want customers to be in a position to know what their price is going to be, where they can control it by controlling their demand and they have the products and services to allow them to budget for electricity, both at the residential and commercial level, much better than they have today.
- Through the REV initiative, the PSC will examine how existing practices should be modified to enable utilities to actively manage and coordinate distributed energy resources and provide a market enabling customers to optimize their energy priorities, provide system benefits, and be compensated for providing such system benefits.
- The REV process has been very inclusive with ongoing participation by numerous parties and the public through various avenues.
- The first stage of the proceeding involved a collaborative process that examined the role of distribution utilities in enabling market-based deployment of distributed energy resources to promote load management and greater system efficiency, including peak load reductions. Developing strategies to engage and empower consumers was part of this process.
- The second stage of the proceeding, undertaken in parallel with the first phase, but on a later timeline, is examining changes in current regulatory, tariff, and market designs and incentive structures to better align utility interests with achieving the Commission's policy objectives.

- In addition to the collaborative process, an “Energy Agenda for the Future” Symposium featuring national and state energy experts was held along with a technical conference on at which the Commission received a status report from staff and active parties.
- The most recent development in the REV proceeding was issuance of a Staff Straw Proposal on August 22<sup>nd</sup>, which reflects two major refinements from the first Staff Straw proposal issued last April. First, rather than just focusing on an end state vision, it also identifies measures that will put New York’s electricity industry on an immediate path to realize the REV vision. Second, the proposal includes further details on key policy issues raised in the April report, and includes recommendations to support market development toward the end-state vision and utilities’ fulfillment of proposed policy issues.
- The primary finding of the staff proposal is that the central vision of REV – increasing the use and coordination of Distributed Energy Resources via markets operated through a Distributed System Platform – is achievable and offers substantial consumer benefits.
- Distributed Energy Resources to support the REV objectives are available in the market and their value can be increased. DER providers, Energy Service Companies (ESCOs), and customers are ready in large numbers to participate in emerging DSP markets. Technology to support the Distributed System Platform is achievable and, to a large extent, already available.
- Under the Staff Straw Proposal, existing utilities should serve as platforms to launch REV. However, utilities should only be allowed to own DER under certain clearly defined conditions.
- Utilities should also integrate energy efficiency into their regular operations and should take responsibility for procurement of large-scale renewables.
- The Staff Straw proposal further sites significant barriers that will need to be overcome and recommends that the Commission issue an Order taking certain preliminary steps to

implement these reforms. Staff will receive written comments on the proposal, as well as receive feedback from participants at a procedural conference on November 6, 2014.

- We anticipate that for Stage 1, which is addressing distributed system platform and customer engagement issues, a policy determination will reach the Commission in early 2015.
- For Stage 2, addressing platform technology and microgrids and community grids, a Staff options paper will be filed in October and a Staff straw proposal issued in January 2015.
- As you can see, we are actively engaged in changing the regulatory framework in a way that will drive all energy providers to innovate. We will also ensure consumers are empowered and engaged to make their own energy choices in ways that will benefit them directly.
- Thank you.