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July 29, 2014

VIA ELECTRONIC FILING

Hon. Kathleen H. Burgess
Secretary to the Commission
New York State Public Service Commission
Three Empire State Plaza
Albany, New York 12223
secretary@dps.ny.gov

Re: New York State Public Service Commission Matter 14-00581/14-M-0101 – Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision

Dear Secretary Burgess:

This firm represents The Microgrid Resources Coalition ("MRC"). MRC is pleased to submit the enclosed Comments in regards to the *Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision.*

Please feel free to contact me at the above number if you have any questions in this matter.

Very truly yours,

C. Baird Brown
Attorney for MRC

CBB/BCP
Enclosure

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision

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Case 14-M-0101

Initial Comments of the Microgrid Resources Coalition

Dated: July 29, 2014

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I. Introduction

The Microgrid Resources Coalition ("MRC") is pleased to provide its comments in response to the Commission Staff Report and Proposal "Reforming the Energy Vision" ("REV Report") that articulates the central concerns of this docket. The MRC is a consortium of leading microgrid owners, operators, developers, suppliers, and investors formed to advance microgrids as energy resources. The MRC promotes the widespread implementation of microgrids through advocacy for laws, regulations and tariffs that support their access to markets, compensate them for their services, and provide a level playing field for their deployment and operations. In pursing this objective, the MRC intends to remain neutral as to the technology deployed in microgrids and the ownership of the assets that form a microgrid.

The MRC defines microgrids as local electric systems or combined electric and thermal systems: that includes retail load and the ability to provide energy and energy management services needed to meet a significant proportion of the included load on a non-emergency basis; that is capable of operating either in parallel or in isolation from the electrical grid; and that, when operating in parallel, can provide some combination of energy, capacity, ancillary or related services to the grid. A system meeting this definition can create efficiencies in many ways. For instance, using cogeneration to serve balanced electric and thermal loads, microgrids can achieve generation efficiencies above 80 percent compared to around 30 to 50 percent for conventional generation. In addition, including renewable energy allows microgrids to undertake efficient and flexible hybrid generation operations. By using thermal and electrical storage to manage time of use of imported electricity and fuel, microgrids help moderate power prices and grid congestion by efficiently shifting load to times of lower demand and pricing and by locating generation closer to loads. Building temperatures generally move slowly due to their thermal mass. By "smart" management of thermal loads, microgrids can effectively use buildings themselves as thermal storage to manage load shape. These and similar efficiency and energy management strategies not only save money but also significantly reduce the environmental impact of providing energy services.

Microgrids provide a wide range of other benefits to their hosts, the larger grid, and to the surrounding community. By "islanding" from the grid in emergencies, a microgrid can both continue serving its included load when the grid is down and serve its surrounding community by providing a platform to support critical services from hosting first responders and governmental functions to providing key services and emergency shelter. Microgrids present an opportunity to install reliable capacity in congested urban areas of the grid where large scale power plant development may not be feasible, and strategic placement of microgrids can reduce contingencies that threaten grid stability if properly integrated into the regional planning process. Using electric and thermal storage capabilities, a microgrid can provide local management of variable renewable generation, particularly on-site solar. Through fine-tuning its own generation and load, a microgrid can provide load following and other ancillary services to the grid in response to real time signals. Moreover, microgrids are capable of providing energy and multiple ancillary services at the same time. Local microgrid service providers make the operation of the grid more competitive and thus more cost-effective for all retail consumers.

II. Customer Driven Development

The central feature of the REV Report is the proposal for development of Distributed System Platform Providers ("DSPPs"). In approaching a discussion of the potential roles and responsibilities of DSPPs, the MRC takes the overarching view that the grid as a whole, and DSPPs in particular, should empower customers. Customers have multiple energy needs, including electricity but also including thermal loads for heating, cooling and hot water, and specialized processes. Customer decisions about usage of other utilities, such as water and sewer services, are often integrated in the decisions about energy use. Those uses may soon expand to include wide use of electric or hybrid vehicles. Customers also frequently have non-monetary goals, such as decreasing their carbon footprint or increasing resiliency or power quality. Customers generally are the only ones that can effectively make integrated choices between energy sources, between modes of operation, and between monetary and non-monetary goals for their energy usage.

In this context, the MRC strongly supports many of the goals articulated by the REV Report. As the report says, "The DSPP 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."[1] We also strongly support the proposal that, "The DSPP will create markets, tariffs and operational systems to enable behind the meter resource providers to monetize products and services that will provide value to the utility system, and thus to all customers."[2] We believe that microgrids, which both generate electricity and moderate their own load shapes though a variety of sophisticated techniques, represent the future of behind the meter resources. They are able to respond with fine-tuned accuracy to market or tariff signals that augment grid function. They are best positioned to create a prioritized triage list and determine where limited power resources may be used in emergencies.

Customers currently have the ability to choose an electric supplier, and by choosing a supplier they (especially larger customers) have some choice over the incentives that are built into their retail rates. They have the ability to contract with third party suppliers of equipment and services either to enable the customer to generate electricity or manage load or to have a third party generate or manage for them. They can participate in markets operated by the NYISO for certain products and services needed by the grid, and FERC orders will likely require further expansion of these markets. All of these features work to permit the customer to optimize its overall energy usage against the constraints of the tariff, the incentives of the markets, and its own operational priorities. The MRC feels strongly that in structuring the development of DSPPs the Commission should avoid actions that limit customer choice and should work to increase the ability of customers to direct their energy destiny.

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[1] REV Report at 11.

[2] *Id.* at 12.

III. The DSPP as a Neutral Platform

The MRC generally supports the proposal that existing distribution companies should evolve into DSPPs. That said, the MRC believes that the Commission must undertake a far more detailed delineation of the categories of services provided by DSPPs on the one hand and by customers or third parties on the other hand. In particular, the MRC is not sanguine about REV Report's suggestion that the Commission relax its vertical market power policy in the context of distributed generation and behind the meter energy management.[3] More broadly, where a DSPP provides monopoly services it should have regulated rates that provide it with appropriate incentives, and its operations should be transparent to competitive DER providers; but to the extent that a DSPP or an affiliate acts as a competitor in providing DER services, it should not receive rate base treatment. The MRC is concerned that if this separation between grid dispatch and generation revenues is not maintained, there will be conflicts of interest in dispatch decisions.

The MRC expects that DSPPs will continue to own and maintain the transmission system (subject to FERC and NYISO jurisdiction) and the distribution system. We expect that the DSPPs have a critical role to play in reconfiguring the distribution system to accommodate widespread implementation of Distributed Energy Resources (DER), and we expect them to play a revitalized role (with Commission guidance) in reliability planning. To the extent that such planning identifies the need for additional products or services, the DSPP model should provide an environment that is neutral between solutions provided by wires, by generation (behind the meter or otherwise), or by sophisticated load management. The rules should be clear and the decision-making should be transparent to all interested stakeholders. Neutrality in this context means that more efficient solutions for the system should be favored, and that rate structures (in particular the opportunity to include assets in rate base) should not distort the decision to select one solution over another. Where products or services are sufficiently fungible and not tied to substantial new capital investment, use of markets to identify efficient providers is clearly preferable. Where localized improvements calling for capital investment are needed, bidding processes can still be used to select longer-term solutions.

By way of example, microgrids can typically provide a wide variety of energy and ancillary services. Not only do they often include flexible generation assets such as gas-fired cogeneration with liquid fuel back-up, but they can modify their overall load through storage, both electric and thermal, can arbitrage between gas, oil, and electricity by using steam or electric chillers, and can use buildings themselves as storage facilities, by using sophisticated controls to allow temperatures to rise or fall incrementally. These responsive capabilities can be postured to provide demand response or excess generation, spinning reserve, and regulation. In addition, with increased renewable penetration, microgrid resources are well suited to provide local reliability services such as voltage support that do not yet have an associated market-based incentive. Microgrids would often be able to provide these services in the alternative, or in many instances, simultaneously. Not even the markets in PJM Interconnection, Inc. ("PJM"), the most advanced markets at this date, compensate microgrids for providing the full range of

[3] *Id.* at 28.

services of which they are capable.

Microgrids can also play a role in long term reliability planning. As the REV Report points out, distributed generation can be a substitute for investment in additional feeder capability or substation upgrades.[4] Where a DSPP identifies the need for upgrades on its system that can potentially be addressed by multiple technology approaches, it could issue an open-ended RFP that seeks solutions. If the service area that requires improvements includes substantial thermal loads, a microgrid will often be the most efficient solution, have the lowest life-cycle cost, and lowest carbon footprint. Where the DSPP is not itself a competitor, it can simply select the best solution. If the DSPP or an affiliate proposes to compete to provide a solution, the Commission would need to supervise the competition, and the competitors should be put on an equal footing in terms of capital recovery. Either the DSPP foregoes rate base treatment, or it offers a long term contract with payments from tariff collections on the same terms as it would receive if it put the improvement in rate base. This is similar to the approach that NYSERDA has taken with renewable energy. The DSPP should be compensated for its services in delivering overall distribution reliability, whether through its own assets or through competitive procurement of services.

In general, the DSPP cannot act as the neutral market maker for services required by the grid, if at the same time it is an interested party in providing the services. This is the same problem (and the same set of actors) that led FERC to first require Open Access Transmission Tariffs and eventually to insist on Independent System Operators and Regional Transmission Organizations. The Commission should not permit the DSPP model to support anticompetitive practices. Many of the services that can be provided by DERs are services needed for the operation of the bulk power system. In these cases, procurement directly by the NYISO makes the most sense and avoids conflict of interest. Having the DSPP act as an "aggregator of aggregators"[5] does not serve efficiency and asks for mischief. To the extent that there are specific services needed at the distribution level, the Commission needs to ensure that they are properly identified and assure that markets are neutral. While such services are referred to in the REV Report, no examples are given.

Finally, the MRC is skeptical of the benefits of DSPPs providing services or owning assets behind the meter, unless it is done through unregulated subsidiaries on a competitive parity with third party providers. The REV Report suggests that incumbent distribution companies "know the specific needs of many customers" served by their systems.[6] As discussed above, customers have energy needs that are broader than their electric needs and unique organizational priorities that may not be apparent to an outsider; distribution companies have no reason to be familiar with the range of those needs; and what is needed is not "optimal levels of customer participation" for the system viewed as a *fait accompli*[7] but a system that is adaptable to permit customers to optimize their energy usage. Nor is the fact that "competitive markets for value-added services at

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[4] *Id.* at 13.
[5] *Id.* at 12.
[6] *Id.* at 25.
[7] *Id.* at 31.

the level of small customers have been slow to develop"[8] an argument for DSPPs to act as monopoly providers. The barriers to development of these markets are many, as we will discuss further below in the context of energy efficiency. They often include barriers of the incumbent distribution company's own making, including difficulties in obtaining the customer's own usage information.

IV. Services to and from Microgrids

Customer tariffs are typically built up of many smaller components that are combined and then billed on a monthly basis, in proportion to peak demand, or in proportion to total energy use. Microgrids can be operated to mitigate or respond to each of the sub-components of an energy bill. Billing transparency and compensation (or tariff reductions for self-provided services) for each component is critical to the most efficient operation of a comptetitive grid.

DSPPs will provide services to, and DSPPs or NYISO will purchase services from, customers or third parties who deploy DERs. To assure that those exchanges contribute to the efficient operation of the grid, the prices faced by DSPPs or NYISO must accurately reflect the value of the services to the grid, and the prices faced by owners or operators of DERs must accurately reflect the cost to the grid. Where prices can be established in well-designed, competitive markets those prices can generally be expected to meet this requirement. However, pricing for services provided on a monopoly basis by DSPPs must be based on transparent cost accounting by DSPPs and should generally be allocated to customers on a carefully applied cost causation basis. Pricing issues also arise for products and services supplied by owners and operators of DERs where markets cannot easily be structured or where measurement of the deliverable product or service presents methodological problems.

Distribution company tariffs typically comprise an energy commodity charge, transmission and distribution charges allocated by energy usage, and demand charges that are fixed recurring charges. The charges that represent services from the distribution company – the distribution charge and the standby charge – lump together a variety of services that are either provided by the distribution company or passed through from the NYISO. On the one hand, a sophisticated microgrid can often be operated to avoid or substantially reduce demand charges by limiting its energy demand on peak days when capacity demand is measured. On the other hand, sophisticated microgrids are often providing for themselves or even exporting some of the services, including balancing, VAR support and fundamental reliability that the distribution company is charging for. To meet the transparency and cost causation principles articulated above, these services need to be disaggregated, separately defined and charged (or paid) for on a net usage or provision basis.

Microgrids also present challenges to existing ways of defining services to and from the grid. As an example, demand response programs are typically predicated on shutting down industrial processes, or starting up a backup generator. In either event there is a

[8] *Id.* at 27.

clearly defined baseline of "normal operation" – typical full load industrial operation with no backup generator operating. Microgrids' flexible operation allows them to function at a wide variety of levels of electric demand (or even surplus power production), and it is hard to view any one level as the baseline. PJM notes that, with respect to highly variable (or, in the case of microgrids, highly flexible loads), customers may be penalized with a more conservative baseline that understates the demand reduction due to the difficulty of deriving a more accurate baseline. ISO-New England adopted a baseline refresh rate that also results in conservative estimates of load reductions for highly flexible resources with automated response capabilities. The MRC generally supports aspects of the ISO-New England Program and the New York ISO, which rely on Day-Ahead participation and prescribe the baseline for services at the level above which the microgrid resource commits to the grid in the form of day-ahead bids. In other words, if a microgrid bids one MW of demand response day-ahead, from a ten MW behind the meter generator, the baseline is nine MW. By bidding in the day-ahead market, the microgrid resource takes the risk that it will not be dispatched, and by putting that portion of its capabilities at risk, it defines its baseline.

The MRC cautions against creating barriers to access by microgrids to RTO and local or state based incentives, as microgrids and other DER resources have functionalities and characteristics which contribute towards state goals as well as provide increased efficiency in wholesale market outcomes. We note that many smaller independent power generators are interconnected directly to the distribution system, rather than the transmission system; and because eligibility for production tax credits and renewable energy credits are often predicated on sales of electricity, they often sell the entire generation output at wholesale and buy their station power as a retail customer on the distribution system. While there are typically differences in scale, there is no effective difference in kind.

We believe that the bid-in baseline is a paradigm that may function well for a variety of services. For example, a microgrid resource that commits to bid in a minimum MW quantity daily (subject to the same sort of outage schedules as a typical generating unit) should be eligible for capacity payments. Microgrid resources can bid in regulation services by offering a fixed band of flexibility around a bid baseline. PJM currently permits resources to participate in spinning reserve markets, but not if they are also providing regulation in the same hour. A microgrid can effectively provide both simultaneously by providing regulation around its designated ramp trajectory.

V. Reliability and Resiliency

The MRC strongly supports the role of the DSPP as the primary reliability planner envisaged by the REV Report.[9] The distribution companies currently build and maintain the transmission system as well as build, maintain and operate the distribution system. This gives them unique knowledge of the needs of the system, but the planning process needs to recognize that the needs of the system are not the same as the needs of the customers. Part of the planning obligation is to make realistic forward assessments of

[9] *Id.* at 12, 13.

customer needs and plans for energy usage, not just energy demand, but how customers will choose to meet that demand. If the REV vision is carried out, a smaller proportion of the electricity will be supplied centrally and there may well be less total electricity use. The planning process needs to be transparent and engage customers to make realistic assessments of their needs and directions.

The MRC also supports a renewed role for the state and the Commission in assuring efficiency, reliability and resiliency of the power system as a basis for state economic progress. This role has tended to atrophy with the introduction of retail competition, and needs to be reinvented and reinvigorated. The state and the Commission can help assure evenhanded treatment for different classes of customers and protect the interests of low income and small business consumers, while pursuing reliability goals in the DSPP context. Just as the Commission should be evenhanded among customers, they should be evenhanded among suppliers of equipment, technology and services. They should avoid picking winners and losers among technologies, and also avoid, wherever possible, picking winners and losers as between DSPPs and third party providers of services. This is particularly important, as discussed above, where wires, generation (behind the meter or otherwise), and load management are all able to contribute to reliability solutions.

Many administrative aspects of distribution system management will affect the ability of the grid to achieve efficient levels of reliability services from DER. Interconnection policies should reflect the reliability priorities. New DER resources, such as microgrids, which have sophisticated internal power management controls rather than relying entirely on grid services, should receive appropriate recognition of their capabilities in interconnection processes. DERs that advance reliability goals should be given priority in interconnection processes. The DSPP does not have to assume for planning purposes that all DERs will fail simultaneously. Indeed, multiple smaller DERs present a much smaller contingency risk than single large generators. When separated from the contingency planning process, standby power is essentially an energy product that a microgrid owner should be able to purchase from its competitive power provider and determine the level of insurance that it desires. There is also no basis to discount reliability services from DERs.[10] They should meet the same standards and face the same penalties (on a contingency risk basis) as any other resource. If a DER wishes not to face those risks, it can consider providing services through an aggregator that is capable of managing them, and if an aggregator wishes to discount the performance of resources it aggregates for its own protection, that is a decision it makes in a competitive market.

The MRC is uncertain of the intent of the assertion in the REV Report that: "The DSPP would manage DER products and services in real time, using technologies that allow the flexible and instantaneous use of generation or demand response to meet customer and system needs." To the extent that NYISO or, subject to caveats discussed above, the DSPP specifies products or services that require prompt customer response or even automated customer response, and customers bid those products or services into the relevant market, whether on a day ahead or years ahead basis, or otherwise contract to provided them, the NYISO or DSPP can call for or directly control delivery of the

[10] *Id.* at 46.

products or services. But, as discussed above, the MRC is skeptical about DSPP operation of DER resources in the context of customer integrated energy needs. We would not expect DSPPs to operate DERs in the manner that RTOs operate the transmission system, exercising full scheduling control, unless the DER owner has elected (and been selected in a competitive market) to provide that service.

At the present time, there is nothing that approaches a long-term competitive market for non-wires reliability services. Transmission and distribution get long-term pricing support; generation and behind the meter solutions don't. RTO capacity markets go out three years and cover one year of services, not nearly enough to serve as a basis for financing. While there is locational marginal pricing, there is no way to be compensated for reducing congestion in the long term, and the value of reduced congestion is spread over many customers. Local reliability needs are rarely identified publicly. We suggested above an RFP model that could serve as one substitute, but there may well be others. While some microgrids and other DER will be built because customer values will be high enough to result in direct investment, extensive development will require long-term contracts or stable, predictable markets for reliability products.

Above and beyond support to grid reliability, microgrids provide local resiliency. In island mode, they keep the lights on when the grid is down. For private owners, customer resiliency may be its own reward. When such islands are rare, as they were after superstorm Sandy, civic minded owners of microgrids can provide valuable services to their wider communities. As a matter of policy, the state may wish to encourage or require islanding capability for critical loads such as governmental services, as they now do for hospitals. In these circumstances, the grid will benefit if the result is microgrids that can provide other services to the grid, rather than diesel generators (which, in any event, failed at a rate exceeding 50 percent in Sandy), but those services should be compensated as such, not as resiliency. Microgrids may simplify grid restart by staying in island mode while other sectors are restarted, or by providing black start services to neighboring islands, and they may serve the DSPPs overall goal of reducing loss of load. Those services should be compensated as such. For the most part, however, the MRC concludes that DSPPs and the Commission should compensate actual services provided, eliminate barriers to microgrids wherever possible, and leave policies to promote resiliency to the state

VI. Information and Communication

The REV report raises a number of questions about "customer information." The MRC feels strongly that it isn't "customer information," it's the customer's information. The customer should have an absolute right to get its own consumption information promptly at any time in a standardized electronic format blessed by the Commission. The customer should be able to authorize prompt delivery of its information to third party service providers simply and easily or simply download it and send the information itself. In addition to monthly consumption information, smart metered time of day information available in real time is essential to effective demand response programs. As the REV Report points out, distribution company billing systems often impair time of day

incentives.[11] The "smart back office" is an essential component of the smart grid, and there cannot be efficient markets in DER until this goal is achieved. The MRC recommends that the Commission require all distribution companies as a high priority to acquire the capability to deliver the customer's information to the customer and at the customer's direction using systems that effectively protect the customer's information internally. Distribution companies should get cost recovery, bonuses for rapid completion and penalties for slow completion.

In addition to the customer's information the DSPPs should develop public information about their system and aggregate usage that serve to support and incentivize customer action. Many DSPPs distribution companies have developed peer comparison information and other composite information that assists customers in benchmarking their own consumption and making decisions about energy usage. All DSPPs should perform this service. Also, as discussed above, part of conducting reliability planning in a transparent manner involves DSPPs making available and regularly updating the map of "hot spots" where the value of DER projects to the system would be greatest. Only a transparent DSPP will fully support and incentivize DER. These services also should get cost recovery and priority.

Other than the aggregated forms of information discussed above, a customer's information should be private and not subject to release without the customer's consent. Where services to customers can appropriately be competitively offered, the DSPP and its affiliates should only be able to use the customer's information to offer to provide services to the customer if the customer authorizes it on a parity with other providers.

The REV Report also raises questions about communications systems. The MRC recognizes that the reliability of system communications is an important component of overall reliability, and that, as discussed above, security of the customer's information is also critical. Subject to those considerations, installation, ownership and operation of communications systems raise some of the same issues as to monopoly provision versus competition that DER services raise. Management of the communication system can be used to exclude competitors in the same way that management of the transmission system can. To provide a competitive platform for DER the communication systems should operate on a plug-and-play basis to the extent possible. Appropriate communications systems can actually reduce misincentives in the system. As an example, in rental properties one barrier to energy efficiency or other DER improvements is that the landlord doesn't adopt strategies that would mostly benefit the tenants. Tenant submetering can help resolve the mismatched incentives. Eliminating barriers to ownership and installation of such metering will advance DER.

VII. Energy Efficiency

Customers served by microgrids typically make substantial investments in energy efficiency. They adopt passive measures that reduce energy consumption, and more efficient HVAC and other systems that, when coupled with sophisticated controls, allow

[11] *Id.* at 33.

them to manage their load shape as well as further reduce load. These investments are made to operate tandem with their generating and thermal generating systems – they are sized to work together to provide for optionality and optimization. As discussed above, DSPPs are ill equipped to make such investments or manage such assets.

Distribution companies are also ill suited to manage energy efficiency programs. Paying for such programs through a distribution company's rate base subsidizes some customers at the expense of others. Such subsidies are not needed – energy efficiency measures pay for themselves out of the savings they produce. Low-income residential and smaller businesses may require special treatment because of credit issues, but it is credit support that is required, not subsidy as such, as such customers often have the greatest savings to achieve. Programs that help customers through the complexities of energy efficiency measures, such as those run by Efficiency Vermont, Oregon Energy Trust, or the Delaware Sustainable Energy Utility have proven themselves to be effective at reducing barriers to adoption. Utility-run programs have not been nearly as effective on a percentage reduction basis. Until new rate structures and business models are adopted, utilities have strong incentives to minimize efficiency measures. They have mostly changed a lot of light bulbs and ignored deeper retrofits. To the extent that rate-base subsidized programs compete with market based programs, they tend to drive out the market based programs and slow down real progress. DSPPs can help in this arena by providing benchmarking information and on-bill collection services, which help reduce credit issues.

VIII. Multicustomer Microgrids

Multi-customer microgrids face major state regulatory barriers for third party service providers. These include being classified as an unregistered utility, owning wires that cross rights of way, and, if they got that far, possible rate regulation. Complex contractual issues regarding ownership of electricity and allocation of load shedding in island mode must be resolved. MRC members have been exploring creative solutions to these problems in a number of jurisdictions. Creating a special category of local load serving entity (ESCO as defined in NY), and forming a Utility/Private Partnership that permits continued use of the DSPPs wires in island mode are among the possible solutions. In the view of the MRC, it is premature to try to resolve these issues in this proceeding. We suggest that the Commission strongly encourage and authorize distribution companies to undertake a number of pilot projects, that it grant project specific waivers or special tariffs as needed, and that it learn the lessons of the projects before attempting to make hard and fast rules.

IX. The Utility Business Model

A lot of ink has been spilled on the subject of the emerging utility business model, and the REV Report devotes several pages to possible forms of incentive ratemaking. In connection with its support of distribution companies as DSPPs, the MRC strongly supports models that provide adequate compensation to DSPPs to perform the functions discussed above. Consistent with neutrality of the DSPP and the encouragement of competitive markets, those models must meet certain minimum objectives. They must

assure that DSPPs receive revenues adequate to pay their debt, and provide a base return to invested capital, but in contexts where wires, generation, and behind the meter solutions compete, they must make the DSPP indifferent to the form and ownership of the solution. By analogy, a general contractor charges overhead and a management fee whether it performs work with its own forces and equipment or hires subcontractors.

The DSPP must be compensated for achieving an overall result, and the biggest influence on its investors' returns should be incentives (and disincentives) tied to performance, not level of investment. The return should not be a function of the level of energy sales, because the DSPPs job is to "right-size" the system not force it to grow. However, it does not follow that it is appropriate to cover a substantial portion of DSPP costs in fixed demand charges. As discussed above, at the customer level, payments must carefully reflect actual services received. This necessarily requires a mechanism to periodically adjust collections to fit permitted and assured earnings. Many such mechanisms have been proposed, and we express no specific recommendation as to the choice of mechanism at this time.

X. Conclusion

The Microgrid Resources Coalition is pleased to submit the foregoing comments regarding the Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision.

Respectfully submitted,

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For the Microgrid Resources Coalition

Dated: July 29, 2014