

To New York Department of Public Service Staff

**RE: Case 19-E-0283**

**Derivation of Demand Reduction Value (DRV) and Locational System Relief Value (LSRV) from the Marginal Cost of Service (MCOS)**

Clean Energy Parties (CEP) respectfully submits a distilled version of our recommendations for deriving DRV and LSRV from MCOS as a follow-up to our March 14 meeting with Staff. We are concerned that our earlier comments did not clearly communicate our position, particularly as the LSRV reference price concept we presented last November is likely now inappropriate given the release of NYSERDA retail storage incentives next month that fill the “missing money” need. We respectfully reiterate our updated position discussed in our more recent filings for Staff’s consideration, as further detailed below:

- I. Decouple DRV and LSRV and set DRV at 100% of System-Average MCOS in the near-term.
- II. Establish a separate stakeholder process to calculate LSRV and establish a robust program for dispatchable DERs under the Grid of the Future proceeding.

**I. Decouple DRV and LSRV and Set DRV at 100% of System-Average MCOS**

While the biennial update cycles will yield significant improvements to the accuracy of MCOS, MCOS will still not fully capture emerging system needs, the actual costs to address them, or the value that DERs would provide in addressing them, as described in the CEP’s comments and further described below. Thus, “de-averaging” MCOS to encompass both DRV and LSRV is inappropriate. It is also overly complex and lacks a coherent or transparent rationale. Instead, the full value of MCOS should be reflected in the system-wide DRV value, and LSRV should be determined separately to capture additional location-specific value. Setting DRV equal to MCOS is justified for the following reasons:

- a. **MCOS is not designed to capture the complete, long-term value of DERs.**
  - o *MCOS excludes unknown costs:* MCOS reflects the average cost of currently-known system upgrades needed to serve new load, but does not capture the cost of unanticipated or emergent grid investments that DERs could help address. The Joint Utilities’ (JU) urgent upgrade project filings and the ongoing Proactive Planning Proceeding show that utilities are

regularly identifying new high-cost needs for specific networks that were not previously forecasted, reinforcing the limitations of MCOS in reflecting actual costs that DERs would help avoid on a location-specific basis, particularly in light of increasing electrification. For example, Con Edison's 2018 MCOS study did not identify Jamaica, Queens as a high-priority area, but by 2022, Con Edison filed a petition for a \$1.1 billion grid investment at Idlewild, citing emergent capacity constraints in the Jamaica network.<sup>1</sup>

- *MCOS underestimates forecasted loads:* Utility load forecasts used in MCOS studies are often lower than those provided in the Integration Analysis Modeling reference cases or subsequent modeling conducted per the State Energy Plan. As a result, MCOS values do not fully capture the value of DERs to support loads in line with State policy trends and mandates.
- *MCOS underestimates forecasted costs:* MCOS does not accurately capture actual as-built costs, which often substantially exceed forecasts, increasing burden to ratepayers and highlighting the value of third-party DERs in avoiding additional costs. For example, the Con Ed Fox Hills Energy Storage System (7.5 MW / 30 MWh) ran 67% over the approved budget of \$22M.<sup>2</sup> This inaccuracy is particularly impactful in a high-inflation environment.
- *MCOS has a short-term horizon:* MCOS only accounts for the deferral value of known, forecasted upgrades over a 10-year horizon. As DERs typically operate over a 20+ year period, their value extends well beyond the short horizon of the MCOS studies, which exclude long-term avoided costs.
- *MCOS excludes other benefits.* MCOS excludes broader system benefits that DERs can offer, such as emissions reductions, reliability improvements, and resiliency.

**b. Therefore, it is reasonable for the sum of DRV and LSRV to exceed MCOS, and there is precedent for doing so.**

- *Staff precedent:* In 2018, DPS Staff proposed eliminating LSRV and setting DRV equal to full system-wide marginal cost estimates, partially in

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<sup>1</sup> Case 22-E-0064, Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plans with Additional Requirements, 7/20/2023, p43, Joint Proposal Attachment p90.

<sup>2</sup> Case 20-E-1097, Proceeding on the Motion of the Commission to Implement Transmission Planning Pursuant to the Accelerated Renewable Energy Growth and Community Benefit Act, CECONY January 2025 Phase 1 Report, January 2, 2025.

response to stakeholder concerns about the lack of rationale behind DRV de-averaging methods.<sup>3</sup> Although the Commission ultimately decided to retain LSRV in the 2019 Value Stack Compensation Order,<sup>4</sup> Staff's underlying rationale for setting DRV equal to 100% of MCOS, including providing a "more predictable and reliable compensation and, thereby, improv[ing] the ability of the Value Stack to spur development of large onsite and remote crediting projects," remains valid.

- *Programmatic precedent:* Other utility programs that enable DERs to provide value to the grid, such as Auto-DLM and NWA programs, already pay DERs a higher value than the systemwide MCOS as illustrated in the figure below, notably because they are able to provide reliable high-value relief during high-need times and/or in high-need areas. Similarly, LSRV resources should be able to capture additional location-specific value that is not fully reflected in MCOS, particularly if the tariff is revised to require resources to be fully dispatchable with performance penalties, as further described below.

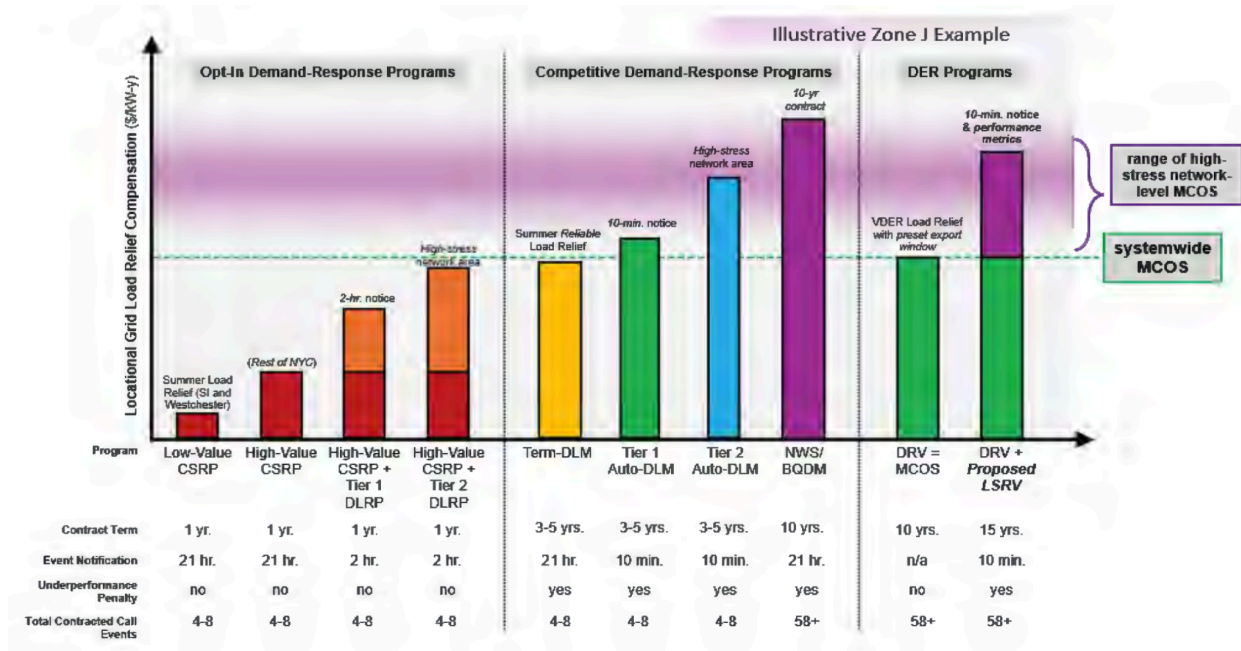


Figure 1: Illustrative example of Locational Grid Load Relief Compensation (\$/kW-yr), contract duration, number of call events, notification period, and performance penalty requirements for a project in Zone J (New York City) under various utility program options. Notably, the utility pays a higher premium above the systemwide MCOS rate as key reliability features are enhanced.

<sup>3</sup> Case 15-E-0751, Whitepaper Regarding future Value Stack Compensation, Including for Avoided Distribution Costs, December 12, 2018, p7.

<sup>4</sup> Case 15-E-0751, Order Regarding Value Stack Compensation (Value Stack Compensation Order), April 18, 2019, p17.

- c. **Setting DRV equal to 100% of MCOS simplifies the tariff and allows for independent optimization of LSRV.**
- *Protect current price signals:* DRV revenue is foundational to all new VDER-compensated projects. However, LSRV is largely defunct and is not currently driving a meaningful amount of DER investment in New York State. Redesigning LSRV independently of DRV will enable it to better function as a location-specific signal without negatively affecting the DRV revenue stream or disrupting the current DER market. Notably, the success of the distributed generation market, as evidenced by the rapid growth of the interconnection queue for these assets over the past five years, has been built upon the bankability of DRV, which provides long-term fixed revenue. When considering the value of DRV rates, the Commission should consider that DRV rates have remained static for many years despite the rapid increase in utility build costs.
  - *Reduce administrative burden:* Current DRV values are calculated through opaque, utility-specific methods that yield roughly 90% of MCOS but without clear or consistent justification. A standardized approach of setting DRV equal to 100% of system-average MCOS would provide a clear, predictable baseline for compensation and support consistent implementation across utilities while reducing technical complexity and administrative burden.
  - *Tailor LSRV to meet the need:* DRV and LSRV serve fundamentally different purposes (temporal, system-wide relief versus forward-looking location-specific compensation) and should be derived independently. Separately calculating LSRV would allow it to reflect specific locational investments tailored to meet the needs of the market at a given point in time, ensuring the best outcome for ratepayers.

II. **Establish a separate stakeholder process to calculate LSRV for dispatchable DERs under the Grid of the Future proceeding.**

LSRV has failed to drive meaningful development or reliable performance from dispatchable DER and requires a redesign. CEP shares some of the Joint Utilities' concerns about LSRV, particularly regarding the dispatchability of assets and the ability of utilities to be able to rely on LSRV resources with certainty. CEP recommends that the Commission establish a separate stakeholder process to redesign the LSRV valuation methodology, separate from MCOS, for the following reasons:

**a. LSRV cannot be readily derived from MCOS.**

- *LSRV should be based on the value needed to drive the market:* As noted by the JU in their November filing, “the level of the [LSRV] price signal should be set as the price needed to drive the market” (p7). They further note that “by definition, the LSRV value is never static as it depends on the cost of infrastructure needed for a specific load area at a specific point in time and should be reevaluated every planning cycle” (p11). In line with this rationale, LSRV should not be tied to MCOS, but instead should represent an additional reliability value additive to MCOS, rightsized to reflect the cost of mobilizing DER in areas of need based on current market conditions.
- *LSRV should be more forward-looking than MCOS.* LSRV is intended to send forward-looking market signals to satisfy needs that are emerging in a 4-10 year timeframe.<sup>5</sup> Thus, LSRV should be sufficient to incentivize developers to build DERs in areas where future growth or constraints are expected, but specific deferral values may not yet be quantified. This value is therefore not readily captured in MCOS studies, which only incorporates the known costs of specific upgrades, averaged across the system. Further, LSRV resources do not need to fully eliminate constraints in a given area to be effective; the price signal should serve to animate markets and steer DERs to the areas where they will be most valuable in the future. LSRV being additive to MCOS will help provide a longer-term planning horizon, mitigating the risk of relying solely on the shorter-term marginal view provided by the MCOS studies, which underestimate long-term costs.
- *Improvements to LSRV rules should be reflected in compensation levels.* The Joint Utilities have noted that LSRV is not compensated as highly as NWA projects because they are not contractually obligated to dispatch during key times and they do not face performance penalties, meaning they cannot be relied upon in system planning and operation. The CEP agree with these concerns; we suggest that LSRV capacity should only be allocated to dispatchable resources and that LSRV resources should be subject to performance penalties. If these changes are made, the appropriate LSRV compensation level must be adjusted to reflect that—reiterating the need to establish a separate process for LSRV valuation.

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<sup>5</sup> Case No 15-E-0751, Order Regarding Value Stack Compensation, 4/18/2019, p17.

**b. A regular and consistent process to update LSRV zones must be developed prior to determining appropriate LSRV compensation levels.**

- *LSRV zones are outdated.* LSRV zones have not been updated since 2017, and do not reflect current impacts of electrification, load growth, and DER deployment, rendering the signal ineffective. Given that LSRV compensation levels should be reflective of the forward-looking value DERs can provide in the specific designated LSRV zones, the zones themselves must be updated so the LSRV compensation levels can reflect actual need in those zones.
- *A process separate from MCOS is needed to update LSRV zones.* The Commission should establish a separate process to define objective criteria for defining LSRV zones and event expectations prior to finalizing LSRV valuation, ideally as part of the Grid of the Future proceeding, further supporting the proposal to decouple LSRV from MCOS and DRV calculations.

**c. Separating LSRV from MCOS allows improvements to be considered in the context of the holistic Grid of the Future vision.**

- *Grid of the Future will consider an integrated vision for DER deployment.* A separate process to revamp LSRV as part of the Grid of the Future proceeding would allow the Commission to align it with New York's broader vision and better support the role of flexible, dispatchable resources. Currently, the Joint Utilities employ a range of overlapping locational price signals, including LSRV, Demand Response programs (such as CSRP, DLRP, Term-DLM, and Auto-DLM), and Non-Wires Alternatives (NWAs), to address high-need areas. The Grid of the Future proceeding offers an opportunity to streamline and harmonize these tools, ensuring they work together effectively to incentivize a diverse set of grid services and resource types.
- *Revamped LSRV requirements could help solve the shortcomings of NWA and DLM programs.* To date, NWA processes have been complex, bespoke, administratively burdensome, and generally non-scalable. In contrast, LSRV could be improved to provide similar levels of reliability as NWA projects, while offering standard contracts that allow the market to respond more readily and efficiently, steering development to high value areas on much faster timescales. Similarly, DLM programs could be improved upon, particularly as participating energy storage resources are only dispatched a few hours a year; indeed, they are actively discouraged from cycling regularly to achieve higher performance values under the

current “baseline” methodology. In the Grid of the Future proceeding, the Commission has the opportunity to create an LSRV program that provides the reliability needed by utilities in a way that is more scalable than other programs, resulting in system efficiencies and the highest value to ratepayers.

## **Conclusion**

In summary, CEP urges the Commission to implement improvements to DRV as soon as possible, and to convene stakeholders as part of the Grid of the Future proceeding to develop and launch an effective LSRV program and valuation methodology.

DRV is already an effective temporal price signal that supports widespread DER adoption in New York. By decoupling LSRV from DRV and setting DRV to 100% of MCOS, Staff would improve VDER in the near-term, while facilitating a longer, independent process to reform LSRV to drive dispatchable, reliable load reduction. In doing so, the Commission would:

- Improve the accuracy and transparency of price signals, driving strategic and bankable DER deployment;
- Optimize DER performance and grid integration;
- Reduce reliance on upfront incentives, thereby reducing near-term ratepayer impacts;
- Protect ratepayers by shifting DER compensation toward pay-for-performance models; and
- Support New York’s thriving distributed solar + storage industry and our local workforce.

These changes are particularly urgent as New York transitions away from capacity-based incentives for solar, navigates federal policy uncertainty, and seeks to fully leverage DERs in the clean energy transition. In the near-term, we encourage the adoption of the CEP proposal to quantify DRV; we then hope to work collaboratively with DPS, the Joint Utilities and other stakeholders to develop and re-launch an effective LSRV price signal to drive targeted deployment and operation of dispatchable DER in areas where they provide the most value.

Thank you for the opportunity to submit our recommendations.