

**BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

In the Matter of the General Investigation to )  
Examine Issue Surrounding Rate Design for ) Docket No. 16-GIME-403-GIE  
Distributed Generation Customers. )

**INITIAL COMMENTS OF**  
**SOUTHERN PIONEER ELECTRIC COMPANY**  
**JOINED BY THE KANSAS ELECTRIC COOPERATIVES, INC.**

COMES NOW Southern Pioneer Electric Company (“Southern Pioneer”) and pursuant to the State Corporation Commission of the State of Kansas (“Commission”) Order Opening General Investigation (“Order”) and Order Setting Procedural Schedule (“Procedural Schedule”), hereby files the following initial comments. The Kansas Electric Cooperatives, Inc. joins in support of Southern Pioneer’s comments.

**I. Background**

1. Southern Pioneer is a not-for-profit, taxable Kansas corporation with its principal place of business located in Ulysses, Kansas, and distribution and customer service offices in Liberal and Medicine Lodge, Kansas. Southern Pioneer serves 17,100 retail customers in 34 communities located in all or some ten south central and southwest Kansas counties. Southern Pioneer is a certificated electric public utility regulated by the Commission and is a wholly owned subsidiary of Pioneer Electric Cooperative, Inc., a not-for-profit Kansas member-owned electric cooperative not subject to Commission regulation pursuant to the provisions of K.S.A. § 66-104d.

2. On July 12, 2016, the Commission issued the Order opening this general investigation docket in order to examine various issues surrounding rate structure for Kansas distributed generation (“DG”) customers.<sup>1</sup>

3. The Order further provides that all Kansas electric public utilities subject to the Commission’s jurisdiction over retail rates are hereby made a party to this proceeding and must enter an entry of appearance no later than thirty (30) days from the date of the Order<sup>2</sup>, and file within forty five (45) days from the date of the Order written comments on how the general investigation should proceed to minimize the need for extensive comment periods<sup>3</sup>.

4. On August 3, 2016, and August 26, 2016, Southern Pioneer filed its entry of appearance and filed initial Response Comments, respectively.

5. On February 16, 2017, the Commission issued an order setting the Procedural Schedule to include the submission of initial comments by the parties with supporting affidavits by no later than March 17, 2017 at 5:00 PM<sup>4</sup>.

6. These additional comments are provided in accordance with the Commission’s adopted Procedural Schedule.

## **II. Additional Initial Comments**

7. Southern Pioneer emphasizes that the costs, benefits, and rates appropriate for Distributed Generation (“DG”) tend to be unique to each utility and to different DER technologies.<sup>5</sup> While it may be desired to have a one-size-fits-all result, the industry has largely

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<sup>1</sup> Docket No. 16-GIME-403-GIE, Order Opening General Investigation, Ordering Clause A, p. 5 (July 12, 2016) (“Order Opening”).

<sup>2</sup> Order Opening, Ordering Clause C, p. 5.

<sup>3</sup> Order Opening, Ordering Clause D, pp. 5-6.

<sup>4</sup> Docket No. 16-GIME-403-GIE, Order Setting Procedural Schedule, Findings and Conclusions, p. 3 (February 16, 2017)

<sup>5</sup> Southern Pioneer would note that while the term DG typically refers to generation resources, other stakeholders may also include energy storage resources as DG. Typically, the term Distributed Energy Resources (“DER”) is used when discussing both energy generation and energy storage resources.

concluded that while it may be possible to establish general guidelines, the outcomes and implementation of rates for DG need to be utility specific. In other words, results and appropriate responses cannot be assumed or generalized across all utilities or even types of DG technologies.

8. Southern Pioneer currently has three active renewable DG customers on its 17,100-meter system. While this is a minimal number of DG customers, Southern Pioneer is experiencing an increasing number of inquiries and applications for behind the meter DG, particularly small wind and rooftop solar.

9. Southern Pioneer understands and accepts the reality that the nature of electricity delivery, consumption, generation and the grid itself, as we have known it in the past and today, is changing rapidly. Technologies are increasingly becoming available to consumers that allow them to generate a portion of their own electricity, respond to prices, reduce (or increase) demand on the distribution system, or store electricity for use at a later time. These technologies are becoming more affordable, and many in the industry project substantial growth in the adoption of DG technologies. As a result, it is important that all stakeholders (regulators, utilities, DG customers, vendors, etc.) understand and transparently discuss how DG impacts (1) individual consumers thru rate design, (2) grid reliability; and the relationship to the location, timing, and level of DG penetration, and (3) the cost of providing safe and reliable electricity to all customers.

10. In its Order, the Commission noted that it, “[D]esires a thorough and thoughtful discussion of the appropriate rate structure for DG including the quantifiable costs and quantifiable benefits of DG.” The industry has completed much research and debate related to the costs and benefits of DG. This has played out in the form of net metering policy reviews, value of DG studies, rate design proposals, community solar programs, and other policy and rate-related initiatives. Southern Pioneer observes that the identification and quantification of costs and

benefits of DG are two areas that often result in disagreement between stakeholder groups. As it relates to its rates and policies, Southern Pioneer, strongly advocates for an approach that considers these issues from the perspective of the costs and benefits incurred or realized on the electric system. These are the costs and benefits upon which Southern Pioneer's rates are based. Expanding the scope into costs and benefits that cannot be quantified or have no relationship to Southern Pioneer's cost of service and ratemaking should not directly influence the Commission's or Southern Pioneer's approach to ratemaking. Examples of such costs or benefits that Southern Pioneer believes are often not quantifiable or may be not appropriate to consider in setting electric rates include societal benefits. Such benefits are evident in many areas beyond DER, such as utility scale renewables; however, they are not considered in determining Southern Pioneer's rate levels or rate designs at the Commission.

11. The quantifiable costs and benefits that Southern Pioneer would recommend for consideration in this investigation are those that are quantifiable costs and benefits to the utility. This recommendation is consistent with what is being used elsewhere in the industry, such as was approved by the Public Service Commission of South Carolina ("South Carolina PSC") in Order No. 2015-194. In this case, the Office of Regulatory Staff ("ORS"), at the direction of the South Carolina PSC conducted a similar investigation with a similar purpose to that being conducted by this Commission. The settlement agreement offered by the parties and approved by the South Carolina PSC included a Value of DER methodology to determine the quantifiable costs and benefits of DER to the utility. The costs and benefits include:

- +/- Avoided Generation Energy
- +/- Avoided Generation Capacity
- +/- Ancillary Services

- +/- Transmission & Distribution Capacity
- +/- Avoided Criteria Pollutants
- +/- Avoided CO2 Emissions Costs
- +/- Fuel Hedge
- +/- Utility Integration & Interconnection Costs
- +/- Utility Administrative Costs
- +/- Environmental Costs

The methodology applies to individual utilities given their specific situation and data.

12. Related to the above, electricity generation characteristics from DER such as wind or solar DG are different from most forms of traditional generation. They are by nature; intermittent, largely unpredictable, not dispatchable and subject to weather conditions. In addition, for a rural electric utility like Southern Pioneer and the state's electric cooperatives, solar DG generation is often not available during generation, transmission or distribution system peaks which are major cost drivers. In such cases, solar DG would not materially, if at all, reduce current or future distribution system capacity requirements.

13. On the topic of DG rate design, Southern Pioneer recommends that the Commission consider general accepted ratemaking principles. It is acknowledged that some of these principles may conflict, and so it may not be possible to fully achieve one without violating another. The two principles that Southern Pioneer offer as most relevant to the investigation into rates for DG concern (1) fairness, and (2) efficient price signals, although even these must be balanced by others commonly used ratemaking principles.

14. Historically, Southern Pioneer's rate design has been set up to recover most of its costs through volumetric Energy Charges and very little through the Fixed (a.k.a. Customer)

Charge. This is true of many electric utilities in Kansas and throughout the United States. However, the cost structure is the opposite in that most costs are fixed and relatively few vary with the volume of energy consumed. The implications of this costs vs. rates misalignment are significantly amplified when a DG customer substantially reduces energy consumption, but still relies on the electric grid to serve its full capacity needs when the DG facility is not at its full output or not generating at all. Southern Pioneer's distribution system must be sized, operated, and maintained to serve the peak load requirements whenever they occur. The traditional rate design with a low Fixed Charge and higher Energy Charges to recover distribution system fixed costs no longer works, as it unfairly exposes non-DG customers to picking up the costs being caused but not collected from DG customers, creating a subsidy. The DG customer still has the same, or very similar peak load requirements in this situation; all that has happened is that the DG customer now has a greatly reduced load or utilization factor. Many Commissions, consultants, and utilities have confirmed and demonstrated that this situation results in a cost shift.

15. It bears noting that Southern Pioneer is not blind to the existence of some level of subsidization in its current rates and the rates of virtually every electric utility in the state. Short of having a specific rate for every customer, and perhaps even in such a situation, it is impossible to completely "cure" all subsidization. However, that should not dissuade the utility or the Commission from implementing rates and policies to minimize subsidies, or especially prevent new ones, to the extent practicable. Approaches currently utilized by and available to utilities and Commissions to mitigate subsidization include the use of line extension policies, classification of customers, and the design of corresponding rate structures.

16. The tradition of recovering customer and capacity costs in the energy charge may also, in the case of DG, provide an inappropriate price signal and result in inefficient deployment

of resources. A rate that collects customer or capacity-related fixed costs in the energy charge provides an inefficient price signal for customer-owned DER investment decisions. For example, if the rate charged for energy use is too high, it could encourage customers to make economically inefficient investments in energy resources. It is Southern Pioneer's position that the time to consider and correct the price signal related to DG is sooner rather than later, so that customers have full information when making investment decisions.

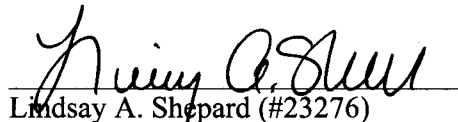
17. There are a few ways to structure the residential rate to fairly recover costs and provide a better price signal to both DG and non-DG customers. Broadly, the utility could (1) modify the base rate structure for all residential customers, i.e. DG and non-DG alike; (2) separate DG customers into their own rate schedule and charge a different rate, 3) keep DG customers on the standard residential rate but determine whether a separate charge is necessary (i.e. Grid Charge), or 4) establish a buy all/sell all process whereby the customer continues to purchase all requirements from the utility and the utility purchases all production from the customer-owned DG.

There are examples of each of the above approaches in the industry today. The most common is the first approach of modifying the rate structure for all customers on the residential rate. Examples of such modifications include increases to the monthly Fixed Charge and/or the addition of a Demand Charge to more fairly recover fixed costs and provide a better price signal related to the volume of energy consumed. Regarding the second approach, the Arizona Corporation Commission recently issued an order in Docket E-00000J-14-0023 that designates solar DG customers as a separate rate class for rate design purposes. On the third approach, there are a handful of utilities that have implemented Grid-Use Charges to ensure that DG customers are charged for their use of the grid and costs are not shifted to non-DG customers without having

to disrupt the rate design for all residential customers. Finally, some states and/or utilities have implemented Value of Solar Tariffs used to compensate for DG production while the DG customer continues purchasing all its electric needs from the utility at the standard rate.

18. The above is not intended to be an exhaustive list of available rate structures. Southern Pioneer would also suggest that there are pros and cons related to each approach. Finally, there could be technological barriers to implementing some of the above alternatives such as existence of Advanced Metering Infrastructure (“AMI”), Meter Data Management Systems (“MDMS”) or the existence of production meters on DG facilities. Regulatory staff, utilities, vendors, DG customers, and non-DER customers must work together if the traditional rate structures are to be effectively modified to arrive at a fair and equitable rate design to facilitate the effective implementation of DER while maintaining the provision of safe, reliable and fairly-priced electricity for all customers.

Respectfully submitted,



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**VERIFICATION**

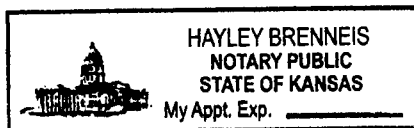
STATE OF KANSAS            )  
  )  
COUNTY OF SEDGWICK    )       ss:

Lindsay A. Shepard, of lawful age, being first duly sworn on oath states:

That she is counsel for Southern Pioneer Electric Company; that she has read the foregoing Comments and knows the contents thereof; and that the facts therein are true and correct to the best of her knowledge, information, and belief.

Lindsay A. Shepard  
Lindsay A. Shepard

SUBSCRIBED AND SWORN to before me this 17th, day of March, 2017.



Hayley Brenneis  
Notary Public

My Commission expires: 9/9/18

## **CERTIFICATE OF SERVICE**

I do hereby certify that on the 17<sup>th</sup> day of March, 2017, a true and correct copy of the above and foregoing Comments was electronically served to the following parties:

  
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