



New York Standby Rate Exemption

Policy Description

The New York standby rate exemption allows qualifying combined heat and power (CHP) installations to voluntarily exempt themselves from utility standby tariffs and instead select the rate service class they would otherwise be charged. In 2004, the New York Public Service Commission (PSC) ruled that efficient CHP and other forms of “beneficial distributed generation” could elect to exempt themselves from utility standby rates. Standby rates often place high fixed (and therefore unavoidable) charges on customers with distributed generation to maintain their utility services.

The utility standby rates adopted by all New York utilities in 2003 sought to account for the utility’s cost when connecting and supplying distributed generation. Costs were allocated, in principle, according to whether they were “local” or “shared.” Local costs were ascribed to the individual site and were recovered by a fixed “contract demand charge.” Shared services were collected via an “as-used” daily demand charge. Parties recognized that distributed generation could create benefits, but the rate design did not account for any of these benefits. However, New York policy increasingly focused on growing distributed generation capacity, thanks to the environmental, supply diversity, economic, and system benefits. The PSC gave customers the option not to take standby rates, seeing this action as a strategy to build the market for distributed generation.¹

Quick Facts

Location: New York
Market Sector: All
Policy Type: Electric rate incentive
Geography: State-wide
Policy Start: 2004

Policy Development



The Lobby of 205 West End Avenue, a 543-unit co-op with 2 x 100 kW Tecogen Inverde CHP modules using the standby rate exemption

COURTESY OF Tecogen, Inc.

In 2003, the New York PSC adopted standby service rates in each of the New York utilities for customers with on-site electric generation. However, the PSC acknowledged the slow installation rate of distributed generation and ruled that there needed to be rate options for beneficial distributed generators. The PSC deemed that the standby tariffs proposed by the joint utilities accounted for the costs, but not the benefits, of supplying some distributed generation. The PSC therefore allowed customers with efficient CHP under 1 MW to voluntarily exempt themselves from standby rates and take the standard delivery rates for their service classes. The PSC also allowed fuel cells, wind, solar, biomass, methane waste to gas, and other “beneficial distributed generation” sources of any size to voluntarily exempt themselves from standby rates, as well as any CHP that is sized below 15% of total site demand. The standby exemption was initially approved for projects that began service by the end of 2006 and was thereafter extended to 2009, 2014, and 2019.² There is currently a proceeding on extending the exemption for another five years.³

¹ [New York Public Service Commission Order on Standby and Buyback Service Rate Design and Establishing Optional Demand-Based Rates; Case 15-E-0751](#)

² [New York Public Service Commission Order Continuing and Expanding the Standby Rate Exemption; Case 14-E-0488](#)

³ [New York Public Service Commission Notice Initiating Proceeding and Soliciting Comments; Case 19-E-0079](#)

Fifteen parties submitted comments to the PSC in 2014, all supporting the extension of the exemption until standby rate design was addressed in the Reforming the Energy Vision (“REV”) proceeding.⁴ The REV-derived rates are intended to account for not only the costs of supplying power to sites with distributed generation but also the benefits distributed generation provides to the grid and to all ratepayers. Environmental groups, independent power producers, large industrial energy users, and the CHP industry all agreed on the necessity of standby rate exemptions to promote clean and efficient distributed generation. In 2014, the PSC ruled to expand the exemption to CHP sites up to 15 MW (from less than 1 MW) for a period of four years. The expanded capacity in the ruling was a result of comments by the Northeast Clean Heat and Power Initiative, large energy users, and New York City, who felt that large commercial offices, with CHP requirements well above 1 MW, could utilize CHP in a socially beneficial manner and should be eligible for the exemption.

Policy Outcomes

The standby rate exemption has been very successful in allowing CHP and other distributed generation to be installed economically. Since 2004, 352 installations have opted for the standby exemption, accounting for 272.2 MW of generation. In comparison, only 38 sites that would otherwise be eligible have opted not to exempt themselves from standby rates.⁵

Additional Program Considerations

- Larger commercial and industrial energy users have concerns regarding the rate methodology and favor a more technology-neutral approach, suggesting that the rate system not be contingent on the type of technology used for standby service.⁶
- In the interim of developing a new rate system, CHP advocates recommend extending the exemptions already in place to all standby service customers while a new comprehensive tariff is put into place.⁷

Lessons To Share

- New York utility standby rates encompass the costs to the utility of providing service to behind-the-meter distributed generation, but benefits of distributed generation to the grid and society are not rigorously measured and valued.
- Since 2004, the New York PSC has allowed *qualifying* CHP under 1 MW (raised to under 15 MW in 2014) to voluntarily exempt themselves from standby rates, instead taking delivery at their normal service class rates.
- Sites that can take advantage of the standby rate exemption do so in overwhelming numbers. Since its inception in 2004, 90% of installations have opted for the standby exemption, whereas only about 10% that would otherwise be eligible have opted not to exempt themselves.
- The Track 2 Proceeding of New York’s REV is tasked with creating rates that fairly charge and compensate customers with distributed generation for the associated costs and benefits to the electric grid. The PSC is currently engaged in a proceeding on the matter of extending the standby rate exemption for another five years beyond 2019.
- The standby rate exemption has been a key initiative for facilitating growth of the CHP market in New York State.

For More Information

DOE NEW YORK–NEW JERSEY CHP TECHNICAL ASSISTANCE PARTNERSHIP (CHP TAP)

Thomas Bourgeois, Director

914-422-4013

tbourgeois@law.pace.edu

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<http://www.nynichptap.org>

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⁴ [Joint Comments of Alliance for a Green Economy \(AGREE\), Catskill Mountainkeeper, Citizens Awareness Network, Citizens Environmental Coalition, Citizens for Local Power, Hudson River Sloop Clearwater, Inc., New York Solar Energy Society, PUSH Buffalo, Sierra Club Atlantic Chapter, et al.; Case 14-M-1010](#)

⁵ 2018 Standby Exemption Reports for [Niagara Mohawk Power Corporation](#), [Consolidated Edison Company of New York](#), [Orange and Rockland Utilities](#), [Rochester Gas and Electric](#), [New York State Electric and Gas](#), and [Central Hudson Gas and Electric](#); [Case 14-E-0488](#)

⁶ [Comments of Multiple Intervenor In the Matter of the Continuation of Standby Rate Exemptions](#); [Case 19-E-0079](#)

⁷ [Comments of Aegis Energy In the Matter of Continuation of Standby Rate Exemptions](#); [Case 19-E-0079](#)