

Public Utilities Commission's Guidance on Goals, Principles and Values for Matters  
Involving The Narragansett Electric Company d/b/a National Grid

**I. Introduction**

In its order in Docket No. 4600, In re: Investigation into the Changing Electric Distribution System and the Modernization of Rates in Light of the Changing Distribution System, the Public Utilities Commission (PUC) adopted several recommendations of a Stakeholder Report to incorporate into a guidance document in anticipation of future rate cases.<sup>1</sup> A guidance document is a record of general applicability developed by an agency which lacks the force of law but states the agency's current approach to, or interpretation of, law or describes how and when the agency will exercise discretionary functions.<sup>2</sup> It has also been defined as an agency statement of general applicability and future effect that sets forth a policy on a statutory, regulatory, or technical issue. This guidance document is intended to provide direction on how the PUC will apply the principles set forth in R.I. Gen. Laws § 39-26.6-24(b).<sup>3</sup>

Pursuant to that section of the Renewable Energy Growth Program statute, the factors to be considered in rate design are: (1) The benefits of distributed-energy resources; (2) The

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<sup>1</sup> Order No. 22851 (In re: Investigation into the Changing Distribution System and the Modernization of Rates in Light of the Changing Distribution System) (July 31, 2017).

<sup>2</sup> R.I. Gen. Laws § 42-35-1(9).

<sup>3</sup> R.I. Gen. Laws § 42-35-2.12 addresses the use of a guidance document:

(c) A guidance document may contain binding instructions to agency staff members if, at an appropriate stage in the administrative process, the agency's procedures provide an affected person an adequate opportunity to contest the legality or wisdom of a position taken in the document.

(d) If an agency proposes to act in a contested case at variance with a position expressed in a guidance document, it shall provide a reasonable explanation for the variance. If an affected person in a contested case may have relied reasonably on the agency's position, the explanation must include a reasonable justification for the agency's conclusion that the need for the variance outweighs the affected person's reliance interest.

(e) An agency shall maintain an index of all of its effective guidance documents; publish the index on its website; make all guidance documents available to the public; and file the index annually with the secretary of state. The agency may not rely on a guidance document, or cite it as precedent against any party to a proceeding, unless the guidance document is published on its agency website.

(f) A guidance document may be considered by a presiding officer or final decision maker in an agency contested case, but it does not bind the presiding officer or the final decision maker in the exercise of discretion.

distribution services being provided to net-metered customers when the distributed generation is not producing electricity; (3) Simplicity, understandability, and transparency of rates to all customers, including non-net metered and net-metered customers; (4) Equitable ratemaking principles regarding the allocation of the costs of the distribution system; (5) Cost causation principles; (6) The General Assembly's legislative purposes in creating the distributed-generation growth program; and (7) Any other factors the PUC deems relevant and appropriate in establishing a fair rate structure. The statute is also clear on the breadth of options before the PUC in considering and balancing these factors, and that the PUC “may consider any reasonable rate design options, including without limitation, fixed charges, minimum-monthly charges, demand charges, volumetric charges, or any combination thereof, with the purpose of assuring recovery of costs fairly across all rate classes.”<sup>4</sup> The application of this section of the law currently only applies to The Narragansett Electric Company d/b/a National Grid (National Grid).

To guide its review of future cases that affect National Grid electric rates, the PUC adopted goals, updated rate design principles, and a new Rhode Island Benefit-Cost Framework, recognizing that further work needs to be done on the Framework. This guidance document will discuss application of each. The goals, principles, and framework will apply to all parties to cases that affect National Grid’s electric rates, not just to the utility.<sup>5</sup> Any proponent of a rate, rate design, or program proposal with associated cost recovery will need to meet the same standards. As noted below, opponents should also reference the goals, principles, and framework in their opposition.

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<sup>4</sup> R.I. Gen. Laws § 39-26.6-24(b).

<sup>5</sup> This does not include the calculation of any periodically approved factor that is based on a previously approved methodology that has been subjected to the goals, principles, and framework. For example, while the design of the annual Infrastructure, Safety, and Reliability recovery factors would be subject to the goals if the utility proposed significant changes to the then-current rate design, the annual reconciling factor would not.

This Guidance is intended to neither expand nor detract from the current rights and obligations of the parties before the PUC, but to provide clarity to parties presenting a case before the PUC. While it is the utility that files tariffs initially, that does not preclude a party from putting forth a relevant alternative proposal once the utility has opened its tariffs to review. Nor does it preclude the PUC from opening an investigation into the continuing reasonableness of the utility's rates under R.I. Gen. Laws § 39-3-11. The PUC is not abrogating its right to appropriately manage the scope of any matter before it.

## **II. Goals that all proposals should address**

The Stakeholder Report posed the following question: What can and should the new electric system be able to accomplish? The Stakeholder Report then presented a list of goals that the PUC has adopted as a guide for reviewing any proposal filed with the PUC.<sup>6</sup> It is always incumbent upon the proponent of any proposal to meet its burden of proof. To this end, the proposing party must provide accompanying evidence that addresses how the proposal advances, detracts from, or is neutral to each of the stated goals of the electric system. Likewise, an opponent to a proposal should also refer to these goals in developing its rationale.

The goals are as follows:

- Provide reliable, safe, clean, and affordable energy to Rhode Island customers over the long term (this applies to all energy use, not just regulated fuels);
- Strengthen the Rhode Island economy, support economic competitiveness, retain and create jobs by optimizing the benefits of a modern grid and attaining appropriate rate design structures;

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<sup>6</sup> See footnote 5. For example, while the design of the annual Infrastructure, Safety, and Reliability recovery factors would be subject to the goals if the utility proposed significant changes to the then-current rate design, the annual reconciling factor would not.

- Address the challenge of climate change and other forms of pollution;
- Prioritize and facilitate increasing customer investment in their facilities (efficiency, distributed generation, storage, responsive demand, and the electrification of vehicles and heating) where that investment provides recognizable net benefits
- Appropriately compensate distributed energy resources for the value they provide to the electricity system, customers, and society;
- Appropriately charge customers for the cost they impose on the grid;
- Appropriately compensate the distribution utility for the services it provides;
- Align distribution utility, customer, and policy objectives and interests through the regulatory framework, including rate design, cost recovery, and incentives.

The PUC recognizes that any given proposal may not advance all of the goals listed above, but each goal should be addressed so that the PUC can appropriately balance the interests of all parties in setting just and reasonable rates across rate classes and programs.

### **III. Rate Design Principles**

The PUC has adopted certain principles to be applied in assessing the reasonableness of rate design. A proposed rate design may be found reasonable if it does the following:

- Ensures safe, reliable, affordable, and environmentally responsible electricity service today and in the future;
- Promotes economic efficiency over the short and long term;
- Provides efficient price signals that reflect long-run marginal cost;
- Identifies future rates and rate structures that appropriately addresses “externalities” that are not adequately counted in current rate structures;
- Empowers consumers to manage their costs;

- Enables a fair opportunity for utility cost recovery of prudently incurred costs and revenue stability;
- Ensures that all parties should provide fair compensation for value and services received and should receive fair compensation for value and benefits delivered;
- Constitutes a design that is transparent and understandable to all customers;
- Ensures that any changes in rate structures are be implemented with due consideration to the principle of gradualism in order to allow ample time for customers (including DER customers) to understand new rates and to lessen immediate bill impacts;
- Provides opportunities to reduce energy burden, and address low income and vulnerable customers' needs;
- Ensures consistency with policy goals (e.g. environmental, climate (Resilient Rhode Island Act), energy diversity, competition, innovation, power/data security, least cost procurement, etc.);
- Evaluates rate structures based on whether they encourage or discourage appropriate investments that enable the evolution of the future energy system.

Because the proponent of a rate or rate design proposal always has the burden of proving that the proposal is just, reasonable, and appropriately balances the interests of the ratepayers and the utility, when a party proposes a specific rate design the accompanying evidence that addresses how the proposal advances, detracts from, or is neutral to each of the stated rate design principles, listed above. Likewise, an opponent to a rate design proposal should also refer to these principles in developing its rationale. The PUC recognizes that no one rate design proposal may advance each principle listed above, but each should be addressed so that the PUC can appropriately balance the interests of all parties in setting just and reasonable rates across rate classes and programs.

Adoption of these principles is intended to augment the PUC's role in ensuring just and reasonable rates for all classes of customers.

#### **IV. Benefit-Cost Framework**

The PUC adopted the Benefit-Cost Framework presented in the Stakeholder Report, which is attached as Appendix A and incorporated herein.<sup>7</sup> While there is still significant work still left to be done so that the Framework can be applied in a fully quantitative manner, it can now, and should be used, to provide the basis for qualitative assessments of proposals. In the next National Grid electric distribution rate filing, any rate design proposal should, at the very least, reference each category within the first two columns of the Report: Mixed Cost-Benefit, Cost, or Benefit Category and System Attribute Benefit/Cost Driver (Categories and Drivers, respectively).<sup>8</sup> In proposing any new rate design proposal, the proponent should discuss how each of the Categories and Drivers was considered and how the rate design will affect each. Where the costs and benefits can be quantified, the proponent should provide such information and the basis for the conclusion reached. Where quantification is not possible or not practical, the proponent should so explain. Regardless of whether the quantification can be fully completed, a qualitative analysis should be included. Likewise, opponents to any rate design proposal should reference the framework Categories and Drivers as part of their opposition. In addition, in any case that proposes new programs or capital investment that will affect National Grid's electric distribution rates, the impact of any increased ratepayer recovery should also reference the goals, rate design principles, and Benefit-Cost Framework. National Grid should apply the Benefit-Cost Framework to changes

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<sup>7</sup> Appendix A to this Guidance Document is titled Appendix B: Benefit-Cost Framework as it is from the Stakeholder Report.

<sup>8</sup> See footnote 5. For example, while the design of the annual Infrastructure, Safety, and Reliability recovery factors would be subject to the Benefit-Cost Framework if the utility proposed significant changes to the then-current rate design, the annual reconciling factor would not.

in its cost of service for the primary purpose of complying with State policy or to expand a current program. As stated in the PUC's Order No. 22851, the Benefit-Cost Framework will not be the exclusive measure of whether a specific proposal should be approved. For example, there may be outside factors that need to be considered by the PUC regardless of whether a specific proposal is determined to be cost-effective or not. This may include statutory mandates or other qualitative considerations. This is consistent with the PUC's broad regulatory authority in setting just and reasonable rates. The PUC notes that the Rhode Island Supreme Court has oft held that the PUC is not held to any one specific formula in setting rates, but is expected to use its expertise in setting rates.<sup>9</sup> This does not mean that a proposal can avoid the cost-effectiveness test. Rather, if persuasive evidence is presented where a proposal does not pass the screening but it is nonetheless found to be beneficial to the system and further state energy goals, it may be approved. Conversely, if a proposal passes the cost-effectiveness test, it will not automatically be approved if persuasive evidence is presented that, for example, it will be too burdensome on customers in the short term. However, the Framework should serve as a starting point in the making of a business case for a proposal.

A proposal can pass the benefit-cost test even if all the components are not beneficial, as long as the overall proposal is net beneficial. The components, however, all need to be integral to the overall proposal. If a component is not critically linked to other measures in the proposed program, funding for it can be denied separately from the overall proposal. Example: A proposed

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<sup>9</sup> In re Island Hi-Speed Ferry, LLC, 746 A.2d 1240, 1246 (R.I. 2000), *stating* that:

[T]his Court's review of decisions of the Commission is extremely deferential in light of the fact that *the Commission possesses a unique, specialized expertise and the ability to consider the complex social, economical, and technical information required to set public utility rates that are fair and reasonable*. Further, we reiterate that the Commission has exclusive jurisdiction to make such orders as it deems necessary to protect consumers and to ensure the economic viability of the utility. It is important to further note that this Court has held that "[n]o particular formula binds the commission in formulating its rate decision; the sole requirement is that the ultimate rate be fair and reasonable." (citations omitted) (emphasis added).

beneficial electrification proposal might include 90% of funding for an electric heating measure with a 2.0 benefit cost ratio and 10% of funding for an electric vehicle measure with a benefit cost ratio of 0.5. The proposal can combine those if there is some important connection or synergy between the two measures, presenting a program with a benefit cost ratio of 1.85 (i.e.,  $2.0 \times 0.9 + 0.5 \times 0.1$ ). But, the PUC will review that overall proposal and the two measures to determine if they are critically linked to each other. If not, then funding for the combined electric vehicle and heating proposal may be denied, while funding for only to the heating measure may be provided.

As further technological advances and investment provide additional visibility on the electric system and allow for additional quantitative measures to be developed, the framework will become a more robust tool for evaluating various proposals. Categories will be added as necessary but new categories should be reasonably/reliably shown to exist and the category can reasonably be shown to be related to state policy.

## **V. Pilots**

A pilot is a small scale, targeted program that is limited in scope, time, and spending and is designed to test the feasibility of a future program or rate design. It is incumbent upon the proponent of a pilot to define these limits in a proposal for PUC review. Ideally, a pilot can provide net benefits and achieve goals, but the primary design and value of a pilot is to test rather than to achieve. As such, the PUC recognizes that it is reasonable for pilots to face a lower, but not less formal, standard than programs, so long as that standard is aligned with the elements adopted above.

If a pilot does not yield net benefits per the Benefit-Cost Framework it still could be approved if the proponent can show that the pilot nevertheless provides value. For example, a pilot that is not net beneficial can be approved if the proponent can show that the pilot is designed



to demonstrate how to overcome specific barriers to achieving one or more of the goals for the system. Similarly, a pilot that is not net beneficial can be approved if the proponent can show that the pilot is designed to demonstrate how to overcome specific barriers to fair application of specific rate design principles. Finally, the proponent can prove value if the pilot addresses a specific barrier to achieving specific benefits in the Benefit-Cost Framework.

For example, a time of use rate might be proposed, but it may not be transparent, understandable, or appropriately empower consumers to manage their costs. A pilot investment proposal may be designed to determine how to overcome those barriers to meet the goals of appropriately charging customers for the cost they impose on the grid and appropriately compensating the distribution utility for the services it provides. Likewise, a party could propose a rate designed to incent beneficial siting of distributed energy resources, but for which net benefits cannot be established on the Rhode Island system. The rate could be approved as a pilot if the proponent can establish that the quantifiable benefit of the pilot plus the value of the information the pilot will provide regarding, for example, if the rate is transparent and understandable to customers is greater than the cost of the pilot.

## **VI. Delayed Applicability**

The effect of this document is immediate upon adoption by the PUC. The PUC recognizes that some forthcoming proposals will be in development when this guidance document is formally adopted, or will represent the continuation of a practice that has previously been through a review process similar to the new guidance the PUC has described above. For these reasons, the PUC exempts the following program filings from the effects of this guidance document for the year listed:

1. 2019 Standard Offer Service Procurement Plan and 2019 Renewable Energy Standard Procurement Plan
2. Report and Recommendations Relating to the 2018 Renewable Energy Growth Classes, Ceiling Prices, and Capacity Targets
3. Docket No. 4290 LIHEAP Enhancement Fund Charge Filing for Calendar Year 2018