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10-26-17

Macky McCleary, RI Division of Public Utilities and Carriers
Danny Musher, Office of Energy Resources
Jonathan Schrag, RI Division of Public Utilities and Carriers
Carol Grant, Office of Energy Resources

Re: October 23 Meeting on Power Sector Transformation

All,

I want to thank you again for engaging stakeholders as much as you have in your endeavors to implement the Governors order to transform the power sector. I am very impressed by the intentions, the experience, the thoughtfulness and hard work that you all have brought to bear in the first phase of the Power Sector Transformation process.

Formal contested regulatory proceedings significantly favor the utility company, which can charge ratepayers for all their legal and expert expenses. Thank you for indicating that you will be providing some effective means to incorporate stakeholder feedback into the upcoming rate case and other forums in which Power Sector Transformation is being considered, without the need for stakeholders to engage as formal intervenors.

The unanimous consensus of Docket 4600 was that costs and benefits should both be considered in these proceedings and that “externalities” also need to be considered. The anticompetitive and innovation stifling nature of the current utility business and regulatory model has huge economic and environmental costs that are not nearly balanced by the perceived benefits that regulators, utility industry consultants and government officials generally ascribe to the current system. The transformation that the Governor has ordered really has to be fundamental.

As follow up to the October 23rd stakeholder meeting, I want to recommend that you focus on the need to transform the utility compensation model to be based entirely on performance based incentives. While it is fine to reimburse the utility for legitimate costs incurred, all profit and shareholder returns should be based on achieving clear performance metrics related to the monopoly functions that the distribution company has been entrusted with.

The most important of the performance goals, that should be rewarded the most financially, are those related to distribution system reliability, safety and power quality.

To clarify the urgent need for transformation, the second most important set of performance based metrics should be related to reducing the role of the distribution utility to its core natural monopoly functions and separating itself from any and all roles and activities within the New England ISO area that could be performed competitively by other parties.

Next in importance should be reducing the cost of distribution services to ratepayers and rewarding the distribution company for lowering overall costs rather than making unnecessary investments for rate payers to cover, as is encouraged by the current cost-plus business model.

Fourth in importance is creating rewards for the distribution system to increasingly support distributed energy services of all kinds in which the utility is not a party to the transaction in any way other than providing access to the delivery system.

One urgent performance based incentive to be included in the upcoming rate case is a financial incentive for the distribution company to encourage, connect and enable what we now call virtual net metering projects. Those arrangements represent the future platform model for the grid, supporting independent transactions directly between energy service providers and customers. Under the current framework these projects don't provide a direct financial benefit to National Grid, while the company makes a healthy profit from its involvement in the Renewable Energy Growth Program. That disparity needs to be corrected. Based on the cost benefit considerations, including environmental and local economic "externalities", virtual net metering arrangements are certain to provide far more net value to ratepayers than the majority of ways in which our energy is currently procured and delivered. So, if we adhere to the consensus recommendations of Docket 4600, National Grid's cost objections to virtual net metering really don't hold up.

Hopefully the goal of transforming the power sector to a "platform" model of the future grid is one that is sincerely shared by all parties. There is one very simple metric that your agencies and the PUC could use to evaluate every proposal from National Grid as to whether or not it effectively represents progress in reaching the Governor's goal of transforming the power sector. If the proposal would involve a contract or other agreement for National Grid doing anything beyond its essential monopoly function of providing a reliable distribution platform for moving electricity between independent buyers and sellers, then it is a move backwards or at best further entrenching the status quo. If, on the other hand, a proposal involves supporting energy service transactions in which National Grid and its affiliates are not contractual parties to the transaction, it is more likely to make progress toward a real transformation toward a more efficient and innovative future for the power sector.

Thank you again for considering these recommendations and for all you are doing to move the Power Sector Transformation forward.

Sincerely,

A handwritten signature in blue ink, appearing to read "Fred Unger", is placed over a light gray rectangular background.

Fred Unger