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Jonathan Schrag
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Jonathan,

As clean energy project developers, builders, and job creators, we sincerely appreciate the invitation to participate in Rhode Island's Inquiry into the Electric Utility Business Model and Rhode Island Power Sector Transformation. In response to your May 1, 2017 request for stakeholder comment, we offer the following thoughts:

1) Start with a clear vision

Our advice is to start with trying to create stakeholder alignment with a clear vision of what the Rhode Island energy sector should look like both in the long term and through the transition. It's important to state this vision in terms that ordinary citizens can understand and support rather than obscuring it with the technical jargon of utility regulation. Attached is the best and clearest analysis we have seen regarding historic and future roles of electric utilities in our society. It uses accessible language and analogies to make it understandable for the media, the legislature and others in explaining the effort we are all engaged in. Hopefully it can provide some guidance in crafting a vision document for stakeholders to respond to and help define. Please spend the time and effort to get the long-term vision right at the beginning, so that it can provide clear guidance on formulating the metrics and other details.

2) Policy objectives

It's great to see goals and policy objectives are going to be explored at the outset of the process. Along with your good policy objectives to control the long-term costs of the electric system, give customers more energy choices and build a flexible grid to integrate more clean energy generation, it is critical to add the objective of encouraging and enhancing economic development within Rhode Island. With almost no traditional energy resources within the state, we send huge sums of money out of state for gas, oil, Canadian hydro and other energy resources. By further developing local resources like wind, solar and in state hydro, we can keep more of that money working locally and creating jobs for Rhode Islanders.

3) Reasons to inquire into the electric utility business model

It's great to see you highlight the challenges regarding Infrastructure Bias and Historical Precedent, especially among utility industry staff, regulators and consultants. Changing a system so deeply entrenched and familiar is hard. There are powerful interests determined to preserve the status quo.

It's also great to see you highlight the opportunities provided by Data Connectivity interfacing with the energy system, along with the inherent Risk of Technology Obsolescence. That risk is especially fraught when considering regulated ratepayer funded technology investments guided by the incumbent utility perspective on technology, data access, data ownership and interoperability of utility systems with those of customers and their third-party service providers. Utilities have been notoriously slow and expensive in adopting technology. There is perhaps no better example than the very outdated utility billing systems and the extremely high proposed costs to upgrade them.

4) Determining what functions the electric utility should perform

In order to answer the question about what functions the utility should perform, one needs to first determine what the long-term role of the utility should be. In our view, the utility should transition from its current ubiquitous role at the center of almost every energy transaction to become a platform on which independent service providers can offer a wide range of energy services and a wide range of pricing and payment options for customers who consume electricity, produce electricity and offer other services related to the consumption or production of electricity.

Equally or perhaps more important to the question of what functions the utility perform, is the question of which activities the distribution utility, as a regulated monopoly, should be prohibited from performing or participating in within the ISO New England service territory. Competitive providers cannot compete with monopoly service providers, which are guaranteed revenue through ratepayers. In order to enable innovative competitive markets and drive down ratepayer costs, the distribution utility should be required to divest or separate from related companies which perform functions that are not natural monopoly distribution functions.

The following functions are integral to the distribution utility platform role: Reliability services, pole and line maintenance, maintaining transformers and substations, circuit reconfiguration, distribution system engineering and planning, managing multi-directional power flow and network integration.

There is certainly a role for the utility in services like power factor correction and the regulation and optimization of voltage and frequency. Yet many aspects of these services can be provided more efficiently through third-party independently deployed storage and other services.

Communication and information services are critical to the future grid, but likely are better served through a multifunctional data communication network also providing business and consumer Internet, public safety communication, services to other utilities including water and gas, and information and communication services not yet envisioned. A secure reliable Internet connection will enable electricity related data to piggyback on multifunctional networks at significant savings to ratepayers. Some exploration may be needed of different regulatory engagement with communication providers as a reliable Internet becomes as critical an infrastructure as roads, water and electricity for people's lives.

Some services like transaction management services, aggregation, clearing and settlement among parties, integration of distributed energy resources with ISO-NE markets, metering, etc. are also likely better served by parties other than the utility. Nationwide utilities have proven to be slow, very expensive and far from innovative in providing these services. Special purpose third party entities should be explored for these services. Some may be provided through the market. Determining the optimal role of regulators in these areas is a challenge that might take some time to sort out and is better addressed once the overall conceptual architecture for a transformed grid is in place.

Energy efficiency program delivery, though an area Rhode Island is rightfully proud of, is another area likely better served through a special purpose third party or through the market. Energy efficiency programs fall within the distribution utility scope because at their start, that was considered the path of least resistance compared to funding through taxes or having consumers fund work directly. Channeling energy efficiency dollars through a large utility creates impediments not present when independent providers are able to compete with more efficient and innovative services. In the context of a

deregulated utility, it makes no more sense for the utility to invest in efficiency than it does for them to own generation.

The distribution utility should be prohibited from participating in services that are not natural monopoly functions and better served through competitive markets like customer engagement services, home energy optimization, appliance automation, intelligent load management, backup energy services, energy storage and electric vehicle charging services.

Ratepayers will generally be protected from technology obsolescence and other risks by moving as much service and cost out of the regulated monopoly purview and into the market.

With the distribution utility having significant influence and interaction with regulators and legislators, it is critical that they be restricted from participating in markets that are inherently competitive with the goal of encouraging in-state energy resources directly interconnected to the distribution system and the jobs and economic opportunities that come with that local development. Specifically, the distribution utility should be financially isolated from any transmission projects that to deliver out of state energy into Rhode Island. They should be made financially agnostic in every way regarding the sources and volumes of both electricity and gas being delivered over their distribution platforms.

5) Determining how the utility should be compensated

Existing investment should be compensated on a cost basis calculated over an appropriate amortization period for the specific investment and including a small cost of capital consideration. But capital investment should not be the basis for determining the utility company overhead and profit.

In the long-term compensation for overhead and profit for the utility should be provided only on a performance basis targeted at meeting specific performance goals including reliability, ratepayer cost reduction, system efficiency, greenhouse gas emissions reductions and integration of distributed energy resources onto the system. There should be very serious financial incentive for the distribution utility to transform into a platform facilitator enabling independent service providers and no incentive whatsoever for them to maintain business as usual. The transition should be done gradually in a way that is predictable and appropriate for the utility to implement.

6) Should utility performance incentives place cost recovery at risk while creating the potential for the utility to earn more than the cost?

Most definitely yes. To the degree possible the utility should be incented to meet performance goals by creating the potential to earn significantly more than their costs for efficiently meeting performance goals and to not recover costs that are poorly invested. The best example is the performance goal of reducing ratepayer costs. Today the utilities get what is effectively a guaranteed return on any investment they can convince regulators to approve. This encourages infrastructure bias as well as the tendency to drive up costs for every investment and activity they are engaged in. As clean energy project developers, we can install poles, lines, transformers and other infrastructure on the private side of an interconnection for about half of the cost that the utility charges for essentially the same equipment and service with their interconnection agreements. Instead of being incentivized to drive up costs, the utility should be incentivized by allowing them to keep a significant portion of any savings they provide ratepayers through more efficient procurement and delivery of services.

7) **How should a potential enterprise-wide performance-based regulatory framework interact with existing performance incentives, such as statutory performance incentives for energy efficiency and renewable energy?**

This process we are engaged in should not be limited or constrained in any way by existing programs and statute. With a transformed grid will come the need to completely re-examine existing statutes to determine more appropriate roles for the regulated monopoly interacting with distributed energy resources. The current programs for energy efficiency and renewable energy could be significantly improved in the context of a platform utility business model. Likely, a clear vision of the transformed energy sector will require legislative changes to existing programs. If the guidance that Docket 4600 provided for compensation for distributed energy resources is embraced as part of that transformation, then as advocates and supporters of existing programs, we will support enabling legislative changes for transformation to a more rationalized system for the future.

Thank you for the good questions and thanks again for engaging stakeholders in this process.

Sincerely,

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