Advancing the Clean Energy Future

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ACADIA CENTER COMMENTS

Acadia Center submits the following comments in response to the Rhode Island Division of Public Utilities and Carriers and Office of Energy Resources' request for stakeholder comments on the Initial Considerations on Utility Compensation issued on August 15, 2017. Acadia Center is a non-profit, research and advocacy organization committed to advancing the clean energy future. Our approach is characterized by reliable information, comprehensive advocacy, and problem solving through innovation and collaboration.

Acadia Center participated in the Power Sector Transformation Initiative's earlier phases, as well as Docket 4600 and SIRI, and was one of eleven stakeholders submitting comments in response to the May 1, 2017, Notice of Inquiry into the Electric Utility Business Model.

Acadia Center sees the Power Sector Transformation Initiative's overarching aim of developing a more dynamic regulatory framework to enable Rhode Island and its utilities to advance a cleaner, more affordable, and reliable energy system for the 21st century and beyond as a transformative step for state-level energy policy. The state's energy future is dependent upon an ambitious, effective, and comprehensive response to historic challenges and opportunities.

Acadia Center agrees that the utility business model and compensation framework must adapt to changing circumstances, and can become a valuable tool for reshaping utility incentives and removing impediments to a customer-friendly clean energy future. We commend the agencies for recognizing that the current utility compensation framework does not fully incentivize the utility to develop the organizational structures, capabilities, and strategically important software and service capabilities that will be needed to undertake information-oriented functions required of a utility in the near future. Acadia Center strongly supports the general recommendations regarding multi-year rate plans, performance incentive mechanisms, and innovative partnerships. As explained in further detail below, Acadia Center's key recommendations at this stage are:

- Adjustments to the return on equity and the role of innovative partnerships in the multi-year rate plan would benefit from additional discussion and refinement.
- The list of System Efficiency Metrics should include a metric related to system peak demand, which drives generation capacity costs, and a metric for load factor at key substations; and the list of Distributed Energy Resource Metrics should include a metric related to efficient electric heating and a metric related to the percent of load served by distributed resources.

- The categories of proposed metrics titled "Network Support Services" should be recast as "Customer and Network Support Services" and expanded to include metrics related to new low-income customer programs and protections, as well as reductions in energy intensity per bill.
- Innovative partnerships related to EV charging are likely unnecessary or duplicative. These EV charging services are already being provided by existing companies and government agencies and do not necessarily fit within the appropriate role of a distribution company.

Multi-Year Rate Plans

Acadia Center supports the implementation of a well-designed multi-year rate plan. Pages 5 and 6 of the Initial Considerations document reasonably describe the relevant features and considerations in designing a multi-year rate plan at a reasonably high level, with one possible minor exception and one additional consideration.

First, the discussion of the adjustment of the return on equity needs further refinement. It is not necessarily the case that allowed ROE should be reduced, but rather that the creation of performance incentives and penalties creates a range of allowed ROE, with a baseline level if all performance incentive targets are met but not exceeded. This baseline level should be set reasonably and such that it is consistent with the risks placed on shareholders and the need to attract capital. Overachievement or underachievement of performance incentive targets essentially shifts the dead band, where the distribution company shareholders receive additional revenue for overachievement or lose potential profits due to underachievement. As always, all aspects of revenue levels should be closely considered, including the appropriate debt-equity ratio.

Second, innovative utility partnerships are relevant to this area as well. Incremental revenues from innovative partnerships, above costs, should be shared between ratepayers and shareholders, either through the general earnings sharing mechanism or a separate mechanism.

Performance Incentive Mechanisms

Acadia Center supports creation of a comprehensive list of metrics to measure and track, as well as the selection of a more limited set of metrics and targets to provide new performance incentive mechanisms. However, several notable omissions should be addressed:

- System Efficiency Metrics should include overall system peak demand, which drives generation capacity costs, and improvements in the weighted average load factor at key substations.
- Distributed Energy Resource Metrics should include metrics related to efficient electric heating options, primarily air-source heat pumps; the percentage of customers who remain enrolled in load management programs from one year to the next; and the amount and relative percentage of load served by distributed resources.
- Network Support Services Metrics should be reframed as Customer and Network Support Services Metrics. It should include metrics related to the adoption and operation of successful low-income programs, notably arrearage management. Reductions in energy intensity on a bill-usage per-customer basis, normalized for weather, economic development, and strategic electrification, could also be utilized to measure customer engagement and benefit. Existing service quality metrics could be categorized here as well for completeness.

Acadia Center does not have specific suggestions for the weighting of these metrics and the operation of performance incentives at this time.

Partnership Models

Acadia Center supports the exploration of partnership models related to (1) the utilization of shared communications infrastructure, (2) advanced meters, and (3) data analytics. However, the potential partnerships with respect to electric vehicle charging stations do not appear to describe any options that are either (1) within the appropriate role of a distribution company or (2) not already provided by existing entities.

First, charging station coverage maps are already provided by a range of entities, including charging station network operators, third-party entities such as PlugShare, and the Alternative Fuels Data Center at the U.S. Department of Energy. Second, it is not clear why a distribution company would provide "installation services" that are currently provided by private parties. However, as discussed in the Beneficial Electrification workstream, there are options, such as the "make ready" model, where the distribution company provides services related to interconnection and line extension. Any installation services beyond this model would have to either replace the third-party services from existing providers with distribution company personnel, or would continue to use services from existing providers. In the first case, usage of distribution company personnel undercuts outside investment opportunities and risks locking in monopolies. In the second case, it is not clear how the utility could earn additional revenue without overcharging the recipient of the services. In either circumstance, it is not clear how the provision of these services helps meet the twin goals of spurring the growth of EV charging and private investment. Lastly, with respect to subscription fee services, it is not clear how this could be achieved without ownership and operation of charging stations by the distribution company. Such ownership or operation is not within the reasonable role of a distribution company.

As a result, Acadia Center recommends removing electric vehicle charging stations from the list of partnership models, unless a specific option is identified that is non-duplicative of existing efforts and within the reasonable role of a distribution company.

Conclusion

Acadia Center appreciates the opportunity to comment on the Initial Considerations on Utility Compensation and looks forward to further collaboration on these issues.

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