



**Memorandum**

**From:** Seth Handy

**To:** Jonathan Schragg

**Date:** October 2, 2017

**Regarding:** RIDPUC & OER Power Sector Transformation Section on Utility Compensation - Proposed Performance Incentive Mechanisms

I respond on behalf of Handy Law. The proposed Performance Incentive Mechanisms (PIMs) appear to be where much of the rubber hits the road for this track of the Transforming the Power Sector (“TES”) process of reforming the utility business model moving forward, so we appreciate the time to consider your proposal and the opportunity to offer considered comment in writing. I’m sure I’ve had inadequate time (and energy) to fully consider the implications of these PIMs moving forward. I still have yet to read the Regulatory Assistance Projects recent report on the subject, so I’m relieved that they are fully engaged as consultants in this process. Many of the proposed PIMs relate to issues raised in prior comments we’ve offered so I’ll incorporate those responses again here, by reference.

As a general matter, PIM’s should replace existing elements of utility compensation (rather than expand on them) and should be carefully tailored to address and resolve specific performance that is desired but not, or not adequately, driven by current compensation. One essential goal is to reduce the cost of our entire energy system and that must include, as one central factor, the amount invested in our monopoly utility. We will expand on specific areas that seemingly require realignment of incentives.

*1. Distributed Energy Resources*

Long ago, we offered the following comments on the development of the State Energy Plan.

*2.13.13 Comments* – “Major energy policy decisions are being made and will be made in RI. If the excellent research & analysis you and your team has done do not ultimately find their way into a clear/transparent "plan" then those decisions may very well be made without the benefit of a plan, which would be a sad result of all this effort. Despite the obstacles (including politics), someone has to go out on a limb to plan for the right result for RI - if that kind of planning doesn't come through the information/analysis you've gathered/done loud and clear, then the politics may continue to be under-informed and subject to other, less rational

forces and get RI to a sub-optimal result. As an example, a complete “energy plan” should set goals for supply by sector (efficiency v gas v. solar v wind. . .), where the energy is coming from (regional, utility scale, DG) & the strategy for getting there (ie, if gas how do we deal w pipeline capacity & what's the timing for that? If Hydro Quebec or other, regional utility-scale renewables how do we handle transmission & what's reasonable timing for that? if substantial solar how do we break down soft cost barriers? if wind how do we resolve siting challenges? if small scale hydro is a piece, how do we get those projects developed?). It's a whole lot to expect of this process, but in the absence of such planning these questions will be answered haphazardly w/out the benefit of data, expert analysis and well thought out strategy. I've been asked to weigh in on proposed new energy legislation and it sure would help to be able to put it in better-informed context (for example, what is the anticipated specific role for natural gas for our future sourcing so we can think through our position on gas pipeline extension?).”

*On 10.9.13 comments on “General Goals”* - The goal of increasing fuel source diversification across all sectors is inadequate. The goal should be stated in a more specific and ambitious manner (perhaps as a specifically percentage reduction in reliance on the largest fuel source as used for OER’s analysis of security impacts). For example, a 1% reduction in reliance on natural gas in favor of regional nuclear power clearly would not be sufficient implementation of the plan for enhanced security/reliability yet it would satisfy this goal.

Effective implementation of these goals across sectors will have implications and impacts across sectors. For example, the goal of fuel diversification in our transportation sector greatly increases the demand for electricity and natural gas, even such that natural gas evidently becomes a larger fuel source even than gasoline – but, meanwhile, across sectors this calls for more reliance on a fuel source from which we are aiming to diversify. The impacts across sectors should be carefully accounted for – for example, maybe diversification of our transportation fuel means we need to go even further for fuel diversification in our other sectors. This is the same effect that you have discussed on the cost issue – we need to make the investments necessary to reduce costs in our transportation and thermal sectors so that we can stomach the anticipated increase in cost for the electricity sector (though that cost analysis is yet to be fully understood).

*On 10.9.13 comments on “Electric Sector”* - Include a general goal of regulatory reform designed to better align our utility’s business/operating plan with state policy objectives. The PUC docket on infrastructure safety and reliability may be one means to provide for better alignment (at least on the grid modernization front) but may not be sufficient on all fronts that need to be considered.

The goal of expanding renewable energy procurement and incentives is a good one but it requires more teeth. OER is in an excellent position to make specific recommendation about how our projected future energy load should be serviced. How much from demand side management/efficiency? How much from traditional fuels and how much from renewables? Within the goal for renewables, how much regional and how much local? If OER doesn't answer these questions now, no one will be better positioned to answer them in the future. While the plan is meant to have long term impact, it's not necessary to become frozen due to the prospects of change – as long as bold goals are moving reform forward, those goals and the strategies to achieve them can always be reviewed and updated along the way if/as change requires.

I strongly support the goal of reducing soft costs and regulatory burdens for renewable energy development. Regional siting standards are essential to ensure the proper balance of state and regional procurement goals with local siting preferences. Please add the issues of consistent and sensible property taxation across the municipal landscape (eg, increased property valuation and taxation upon installation) and business structure issues (e.g., the licensed electrician issue) on the “to do” list. Please have the plans implementation measure go far beyond the formation of working groups to further study the issues. I submit that you have enough information to make specific recommendations at this time.

I'm afraid the current proposal for PIMs speaks, in part, to the problem of not having a more specifically tailored energy plan including a more detailed implementation analysis and strategy. For distributed generation, the proposed PIMs regurgitate existing program incentives, all of which were conceived as pay-offs for National Grid's willingness to concede some ground in allowing various elements facilitating distributed generation to happen. None of those incentives were based on the more comprehensive understanding of energy policy we benefit from today or a vision of how best to lower costs and achieve the other objectives of a well-conceived state energy plan and policies. The long-term contract program and DG Standard Contract Program are not a source of new project volume so invoking those programs as performance drivers is misleading – any impact of those utility incentives is already spent. In contrast, the proposed PIMs do not account for net metering – a program that is likely to drive much more volume of development moving forward (since the REG program is capacity restricted and the price setting in that program has been overly aggressive and does not adequately reflect the value of those assets).

When stakeholders raise concern about reinforcement of such a status quo, they're asked what framework we should seek to reinforce through PIMs. We submit that PIMs should be used to reinforce the State's specific vision of what it seeks to achieve through DERs. Perhaps it's the specified goals of the State Energy Plan. They provide general guidance but (as was set out in the comments reproduced above) lack the specificity that can generate a real implementation framework for Rhode Island. For example, the specific

SEP goal for renewables is a 40% renewable energy standard by 2035. State law now almost reflects that plan – 38.5% by 2035. But, the RES can be satisfied by supply from around the region. So, how much of that required future supply of renewables will come from RI? What sources will it come from? How, where and when will those sources be sited and interconnected and who will purchase them through what program?

Maybe the PIMs should reflect other, more specific and ambitious goals, like the state’s resolution to become 100% renewable by 2025 and the Governor’s call for 1000MW by 2020. Where will that 1000 megawatts come from and what are the obstacles and mechanics of delivering on that resolution? Perhaps the State’s climate goals should play into the PIMs, especially to the extent they are specific to the energy sector.

The many stakeholders in Docket 4600 expect the State to weigh alternative means to reduce and supply our energy needs according to valuation criteria that those stakeholders unanimously resolved to adopt. Once we’ve resolved the most cost effective and beneficial (to customers, the distribution system and society) means to feed our energy needs, we could then identify the obstacles to that path and incentivize the utility to help us get through them. That would provide a well designed and developed strategy to low cost and high value energy solutions.

One thing seems clear, performance on existing incentivized programs is insufficient to achieve the State’s broader and greater objectives for renewable energy. As set out by the PUC in Docket 4600, the existing program incentives are inconsistent and are not comprehensively designed to achieve well-designed results, including reducing the total cost of our energy system. Moreover, the beneficial electrification transformation considered in this TES process will clearly drive even much more demand for distributed generation. Net metering will be an important driver in getting distributed generation to the scale Rhode Island needs to meet its policy objectives. There is currently no utility incentive associated with net metering, nor has the utility or the State considered value-based compensation for net metered projects (indeed, the utility still presumes a cost burden from net metering even after they participated in developing the stakeholder consensus on a methodology to determine value from Docket 4600).

The PIMs should be closely tied to Rhode Island’s vision of and goals for DER moving forward and the utility role in resolving the challenges of getting there, not to compromise legislation that issued as a result of past political horse-trading.

## *2. Non-wires alternatives*

National Grid clearly does have the right incentive to search out and implement alternatives to large-scale transmission and distribution system investments from which it profits dearly. It has recently come to our attention, after advocacy on the point, that National Grid has improperly administered the non-wires alternative analysis it conducts for the Energy Efficiency Resource Management Council as part of implementing system reliability procurement. The experts are evidently investigating this problem that is already baked into the 3-year SRP plan and the first annual SRP implementation plan,

with hopes that it will be resolved for the next annual plan increment. My (admittedly imperfect, though I've asked for more information. . .) understanding of what has happened here indicates that this shortcoming may be, in part, due to the relatively minimal resources that are dedicated to the SRP in contrast to the much better resourced efficiency piece of EERMC's planning effort. The SRP and non-wires alternative analysis benefits from relatively little consultant oversight given the small budget. Rhode Island may need to reconsider this funding imbalance, but National Grid clearly needs new incentives to ensure that all of its planning processes are best designed to achieve their objectives (like enhancing system security and reducing cost to customers). Beyond that, the utility must be better regulated to ensure its planning is not misdirected to serve its own pecuniary interests.

The same is true of the Infrastructure Safety and Reliability planning process. "National Grid has admitted that, partially due to the nature of the distributed generation application process, there is little integration of the distributed generation program into the overall planning process. . . Testimony in this docket supported the ability of long-range studies to take system reliability, energy efficiency and distributed generation considerations into account. The long-range studies need to include consideration of distributed generation on the distribution system." Final Order, Docket 4539, pp. 20, 26 (Oct. 21, 2015).

Finally, the utility has recently evaluated the viability of locational incentives that the General Assembly asked it to consider for the implementation for the Renewable Energy Growth Program in 2014 (at last!). It was little surprise that, having finally done the analysis, they concluded that there is no place for locational incentives to drive value on the distribution system. We cannot have confidence in their conclusion unless/until their incentives are not tied to investments in wires and are aligned with Rhode Island's interest in reducing the cost of our energy system.

If the utility continues to be entrusted with oversight of the distribution system planning process, we need to be sure its work is driven by new performance metrics and not by its current business model. We strongly support well-conceived and implemented SRP/NWA and ISR PIMs that not only enhance utility compensation but shift its underlying basis to better align with Rhode Island's planning and policy interests.

### *3. Interconnection*

The utility's incentives are not well aligned with the State's interest in getting DER solutions interconnected to the distribution system at vastly increasing scale. We hope this issue will be suitably addressed through the distribution system planning element of this TES process, the legislative mandate issued last year, and the PIMs proposed in your draft. The continued assessment of a pass through interconnection tax (PUC Docket 4483) is a particularly egregious example of misdirection/misconduct from misaligned incentive.

### *4. Beneficial electrification of thermal*

The thermal element of any plan to achieve beneficial electrification is going to be challenging to implement as long as low cost gas impedes the cost effectiveness of building-specific implementation. That transformation will require community planned solutions that enable the scale to generate more competitive economics (eg, community heat pumps implemented with municipal aggregation and/or community renewables). Our utility clearly needs new incentives to help make that happen, since such wide-scale thermal conversion currently poses a direct threat to its gas interest. This initiative effectively represents a third of our state energy plan and it must not be overlooked in the development and implementation of utility PIMs.