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10/5/17

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Macky McCleary, RI Division of Public Utilities and Carriers  
Danny Musher, Office of Energy Resources  
Jonathan Schrag, RI Division of Public Utilities and Carriers  
Todd Bianco, RI Public Utility Commission

Re: September 25 Meeting on Strategic Electrification and Utility Business Model

All,

Thank you all again and thanks to Governor Raimondo for undertaking the Power Sector Transformation effort and for providing the opportunities that you have for stakeholder feedback.

As you finalize your recommendations, I'd like to highlight a couple priorities that will hopefully help to inform your work:

- 1) Stay focused on a clear goal. As Jonathan clarified at the beginning of the most recent stakeholder meeting, it's important to separate first steps, midway steps and endpoints in the process. That said, it's most critical to clarify and focus on the endpoint goals for the process. Hopefully everyone is in agreement that goal of the entire effort you are undertaking is to transform the distribution utility to become a platform over which all kinds of independently owned energy and energy service providers can transact and provide services to their customers.
- 2) Keep it simple. To a large degree, the extreme complexity of current utility regulation is unnecessary. Excessive complexity tends to concentrate influence in the hands of the utilities and effectively shut the public and other stakeholders out of the regulatory process. Both the regulatory process and the regulations themselves should be kept as simple and understandable as possible to encourage democratic participation and public confidence in the system. While some complexity around details is inevitable, the core issues to be addressed aren't really that complex. Those core issues should be the focus of your decisions.
- 3) Shift utility compensation toward performance based incentives as much and as quickly as possible. The historic system of cost recovery plus a profit is in clear conflict with ratepayer interests. It encourages National Grid to spend as much as possible and thus charge rate payers as much as possible. That system should be replaced entirely with performance based incentives, including incentives for reducing expenses that are subject to cost recovery. What is really needed is essentially the opposite of the primary incentive embedded in the current utility compensation system.

- 4) Restrict the monopoly utility role. The monopoly utility should provide only services that are natural monopoly functions and can't be effectively provided through competitive markets. The distribution company should be encouraged and rewarded for divesting and outsourcing services rather than adding functions and services in house.
- 5) Encourage the benefits from independently owned, non-polluting, distributed energy resources. Any service that can be provided at the distribution level should be favored over services requiring transmission services. Non-polluting resources should be favored over resources creating pollution. Every resource or service that can be provided by the market should be encouraged over utility owned or utility controlled resources and services.
- 6) Don't be constrained in your thinking by existing programs and rules. Change the programs and rules as necessary to transform the system and meet the long-term goals.

Following up on the recent meetings, I also want to highlight the following more detailed points:

#### Strategic Electrification:

- 7) National Grid should be encouraged and incentivized to develop distribution system infrastructure and distribution services that enable and support vehicle charging and conversion to efficient electric heating technology. But the company should be absolutely prohibited from owning charging equipment or heating equipment themselves. Utility ownership in those realms would create significant and permanent distortions in those markets. As the document distributed at the meeting suggests, "a proposal that includes the utility owning EV supply equipment should be supported by a demonstration of benefits this model achieves over other ownership models" As clarified in Docket 4600, both costs and benefits should be considered. The cost of shutting out and possibly killing early innovators in these markets through unfair competition from the monopoly distribution company is too high to justify any imaginable benefits from allowing the utility involvement to expand in yet another arena well beyond any justifiable monopoly role.
- 8) In the section on Cost Recovery, the document distributed suggests that "recovery of electrification program costs should be subject to the same considerations as other ratepayer-funded utility projects. In particular, such cost recovery mechanisms should be consistent with least-cost procurement policy". Seeing this language from the PUC staff seems to indicate that the primary finding of Docket 4600 has not yet been internalized at the PUC. Hopefully we can all embrace the need to entirely replace the "least cost procurement" regulatory paradigm with evaluating both costs and benefits in a "highest value procurement", as everyone unanimously agreed to do in Docket 4600.
- 9) While it may be appropriate to utilize incentives, rebates or tax breaks to encourage early private providers of vehicle charging infrastructure, heat pumps or other favored technologies, it would be very inappropriate for the utility to be involved in procurement of those solutions in other ways.
- 10) The appropriate roles of the utility in these arenas should not be decided in response to a utility proposal. Those roles should be shaped and clarified by the stakeholder process and decided by the PUC.

#### Utility Business Model

The following are specific recommendations for modifying the proposed near-term performance based incentives for the distribution utility.

- 11) Creating substations ready for serving distributed generation should be a very high priority for the utility that is incentivized.
- 12) The distribution company should be paid in some manner to support the development of net metering and virtual net metering generation facilities. These systems are generally the closest business models we currently have for the future platform model for the grid that we should be encouraging.
- 13) Incentives should be provided for independently owned utility scale storage and the distribution company should be rewarded for enabling the interconnection of such facilities on the distribution system. But the monopoly utility should not be allowed to own such systems themselves and should not be incentivized for owning storage themselves, nor should any such systems be subject to cost recovery. Much like generation, storage is a technology that should be provided through market participants.
- 14) The distribution company should be incentivized for reducing the cost and time involved in interconnecting distributed energy resources. Solutions are available today to dramatically reduce such costs.

I want to again compliment the form of the summary of proposed performance based incentives presented by Jonathan Schrag and Tim Wolfe as an excellent example of the kind of clear simple presentation we need more of in the regulatory arena. While there may be a need for complex details supporting each of the proposed incentives, the concepts were presented in a clear and compelling way. Thank you for that good work.

In closing, I want to highlight the need to think very differently about the entire power sector and power sector regulation than we have in the past. We certainly will not achieve a successful transformation working within the current utility paradigm. I hope you are all able to embrace the vision of the future platform model for distribution utilities, along with all the very transformative changes needed to get there.

I look forward to seeing the results of all your efforts.

Sincerely,



Fred Unger