STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

PUBLIC UTILITIES COMMISSION
89 Jefferson Boulevard
Warwick, Rhode Island 02888
(401) 941-4500

Chairperson Margaret E. Curran
Commissioner Paul J. Roberti
Commissioner Herbert F. DeSimone, Jr.

MEMORANDUM

To: Commissioners
From: CGW & TAB
Date: March 1, 2016
RE: Recommendations for a Docket to Investigate the Changing Distribution System

In response to a decision and directive made by the Commission at an open meeting on January 19, 2016, staff provides the following memorandum and recommendations regarding issues to consider in a docket to investigate the changing distribution system. The memorandum is organized into four sections: Background, Recommendations for the Docket, Stakeholder Feedback, and Process Outline.

I. Background

In 2014, Rhode Island enacted the Renewable Energy Growth Program (R.I. Gen. Laws § 39-26.6-1 to 25[1]) to facilitate and promote installation of grid-connected generation of renewable-energy; support and encourage development of distributed renewable energy generation systems; reduce environmental impacts; reduce carbon emissions that contribute to climate change by encouraging the siting of renewable energy projects in the load zone of the electric distribution company; diversify the energy generation sources within the load zone of the electric distribution company; stimulate economic development; improve distribution system resilience and reliability within the load zone of the electric distribution company; and reduce distribution system costs.

As part of the Renewable Energy Growth Program, the PUC was required to, and did, open a docket to consider rate design and distribution cost allocation among rate classes in light of net metering and the changing distribution system that is expected to include more distributed-energy resources, including, but not limited to, distributed generation. The PUC was to determine the appropriate cost responsibility and contributions to the operation, maintenance, and investment in the distribution system that is relied upon by all customers, including, without limitation, non-net-metered and net-metered customers. In PUC Docket No. 4568, National Grid, the State's dominant electric distribution utility, filed a new, revenue-neutral rate design proposal using the

[1] The full statute may be accessed at: http://webserver.rilin.state.ri.us/Statutes/TITLE39/39-26.6/INDEX.HTM.

previously-approved cost-of-service upon which current rates were set, in accordance with the Renewable Energy Growth Program statute. After months of review and just prior to the hearing, National Grid requested, with no objection from the parties, and was granted, a Motion to Withdraw the filing without prejudice. The docket will be closed upon issuance of a written order.

At an open meeting on January 19, 2016, in allowing the Motion for Withdrawal, the PUC decided that it would open a docket or series of dockets on or about February 25, 2016 to review the changing distribution system. In their discussion supporting the decision, the PUC conveyed that the issues raised in the docket would be ongoing, and that the rate design policy set forth in the Renewable Energy Growth Program was intended to affect future rates, regardless of any decisions in the immediate docket. The PUC specifically discussed paragraph (c) of Section 39-26.6-24, noting the language states that after new rates are set pursuant to paragraph (a), the PUC "may approve changes to the rate design in any future distribution-base rate cases when a fully allocated embedded cost of service study is being reviewed in the rate case, **<u>subject to the principles set forth in subsection (b) of this section</u>**" [emphasis added]. The PUC further noted that Paragraph 4 of National Grid's assented-to Motion for Withdrawal expressed National Grid's "understanding that the Division and the Intervening Parties do not support the Company's proposed rates, but have expressed their interest in engaging in further discussions on rate design and distribution cost allocation among rate classes in light of net metering and the changing distribution system that is expected to include more distributed energy resources, including, but not limited to, distributed generation. The Company supports further discussion on these issues."

Chairperson Curran directed staff to work with the Office of Energy Resources (OER) regarding which agency would take the lead on various issues related to the anticipated docket or dockets and to make recommendations on the best way to forward. PUC staff held multiple meetings with OER staff and sought input from a range of stakeholders, including those in Docket No. 4568, as well as other traditional ratepayer advocacy groups. Resulting from that direction and input, this memorandum expresses staff recommendations for the PUC's docket on issues related to the changing distribution system, as well as work PUC should address in other dockets.

II. Recommendations for Docket No. 4600 – Issues Related to the Changing Distribution System

Determining the Factors for Future Rate Cases

In relying on paragraph (c) of Section 39-26.6-24 in its decision in Docket 4568, it is clear that the PUC has interpreted the law to mean that in setting future distribution rates for National Grid, the PUC will be required to take into account and balance the following factors: (1) The benefits of distributed-energy resources; (2) The distribution services being provided to net-metered customers when the distributed generation is not producing electricity; (3) Simplicity, understandability, and transparency of rates to all customers, including non-net metered and net-metered customers; (4) Equitable ratemaking principles regarding the allocation of the costs of the distribution system; (5) Cost causation principles; (6) The General Assembly's legislative purposes in creating the distributed-generation growth program; and (7) Any other factors the PUC deems relevant and appropriate in establishing a fair rate structure. The statute is clear on the breadth of options before the PUC in considering and balancing these factors, and that the PUC "may consider any reasonable rate design options, including without limitation, fixed charges, minimum-monthly charges, demand charges, volumetric charges, or any combination thereof, with the purpose of assuring recovery of costs fairly across all rate classes."

The material presented by parties in Docket 4568 demonstrated disagreement between the parties on the factors enumerated above. For example, many parties argued that distributed-energy resources provided benefits, but no party presented specific and concrete means to include such benefits in rates, nor was a test presented to determine how such benefits could be measured and if they were aligned with state policy and all of the General Assembly's legislative purposes in creating the program. At a minimum, and for the benefit of setting just and reasonable rates in a future rate case, staff recommends the PUC use the new docket to better determine the seven factors listed above. Staff recommends that in the new docket, particular focus is paid to factors (1) and (2), which can be framed as determining what the costs and benefits of distributed generation are that can and should be included in distribution rates using the factors listed in (4) and (5).

Consistency Within and Across Programs

The PUC must continue to ensure that all rates charged to customers are just and reasonable, as do all utility commissions. The test for justness and reasonableness in Rhode Island, however, is influenced by and is inextricable from state policy that may be unlike policies in other jurisdictions. Much of this policy is informed through the creation of various utility programs that are decided by the PUC individually in any given year. This piecemeal setting of rates is useful for a number of reasons, the least of which is that it is required by statute in many instances. However, the discreteness of programs and dockets can lead to an inefficient implementation strategy (and potentially higher program costs and corresponding rates) when a state policy goal spans multiple programs, or when the goals of one program is at odds with the goals of another.

For example, staff notes that many of these provisions of state law allow National Grid to earn various types of monetary incentives for successful implementation of the programs, each based on a different measure. Some programs have no incentives currently, such as standard offer supply portfolios; others allow for traditional rate-base earnings, such as the infrastructure, safety, and reliability plan. Further, some programs, such as the energy efficiency program; various distributed generation programs; and certain distribution-related rates, have budget-, revenue-, and performance-based incentives. Through docket proceedings, internal research, and stakeholder engagement, the staff has learned that some utility activities can be funded through more than one of these programs, and in some cases, simultaneously through multiple programs. These multiple avenues of funding, combined with the possibility the each has a different incentive to the utility, create a potential for unintended investment signals to the company from regulators and stakeholders.

Staff is also aware that state policy is set and achieved through programs that often have overlapping objectives. For example, infrastructure, safety and reliability program spending has the potential to reduce Renewable Energy Growth program spending, and vice versa. Because, as noted above, most of these programs are statutory, operated and reviewed for the most part independently, and lack a unifying test for reasonableness, it is difficult to understand if spending in one program efficiently and appropriately offsets spending in another program. Ideally, program spending and rates could be set so that state policy goals are achieved at the lowest cost.

Ideally, a single set of measurements would be developed by which all future programs funded through rates can be examined for reasonableness, including whether differences between program incentives are reasonable and whether the decision to implement a utility activity through one program versus another is reasonable. Such a single set of measurements may be beyond what is possible from one single docket, but staff recommends the PUC recognize this ideal, and let it inform the new docket.

In determining costs and benefits on the distribution system as recommended above, staff recommends that the PUC consider how rates are just and reasonable across all programs and components of the bill. Staff recommends that the natural guiding principle in considering rates across programs is the principle of least-cost procurement. To the extent possible and consistent with the law, benefits and costs considered in one program should be considered in all other programs so that state policy goals are procured in a consistent manner across programs. Staff refers to this as a normalization of least-cost procurement across all programs, and recognizes that while it may not be a readily achievable outcome in the new docket, it is an appropriate guiding principle. To support this concept, staff notes the system reliability and least-cost procurement statute provides that least-cost procurement shall comprise system reliability and energy efficiency and conservation procurement as provided for in R.I. Gen. Laws § 39-1-27.7 and supply procurement as provided for in R.I. Gen. Laws § 39-1-27.8, as complementary but distinct activities that have as common purpose of meeting electrical and natural gas energy needs in Rhode Island, in a manner that is optimally cost-effective, reliable, prudent and environmentally responsible. [2]

Specific Matters to Consider

In order to determine the factors necessary for determining rates pursuant to the Renewable Energy Growth Program, and to improve consistency within and across programs, PUC staff recommends the PUC develop an improved understanding of the

[2] The full section may be accessed at: http://webserver.rilin.state.ri.us/Statutes/TITLE39/39-1/39-1-27.7.HTM.

costs and benefits caused by various activities on the system. More specifically, PUC staff recommend in Docket 4600 that the PUC seek answers to the following overarching question: **What attributes are possible to measure on the electric system and why should they be measured?**

This overarching question can be further broken down into three broad questions:

1. What are the costs and benefits that can be applied across any and/or all programs, identifying each and whether each is aligned with state policy?;
2. At what level should these costs and benefits be quantified—where physically on the system and where in cost-allocation and rates?; and
3. How can we best measure these costs and benefits at these levels–what level of visibility is required on the system and how is that visibility accomplished?

Staff urges the PUC to impress upon parties that solutions recommended to the third question must relate back to quantifications identified in answering the second question, which in turn must relate back to the costs and benefits identified in answering the first question.

III. Stakeholder Comments

On February 5, 2016, Commission staff sent a request for comments to previously identified stakeholders to garner input on the use of a cost-benefit analysis to determine how programs could be funded in a least cost manner. The stakeholders were provided a preliminary text to comment on that included the concept of a docket to determine the factors for ratemaking pursuant to the Renewable Energy Growth Program and the concept of improving consistency across programs under the principle of least-cost procurement. In addition, the preliminary text presented the over-arching questions staff have recommend be the focus of Docket 4600 listed above.

Staff received responses from nine stakeholder entities, all of which were generally supportive of PUC's decision to open a docket to explore issues related to a changing distribution system.[3] Many of the stakeholders provided actual, concrete examples of the types of costs and benefits that should be reviewed as well as solutions to include such costs and benefits in rates. These comments highlight the need for this docket prior to the filing of National Grid's next rate case and they introduce specific material to address in scoping meetings.

Some commenters focused on grid-facing applications associated with distribution planning. This is important to every program reviewed by the PUC and will be an important component of this docket, particularly in the area of visibility. Commenters also addressed various customer-facing applications, such as time of use rates which would necessitate some investment by the utility. There were suggestions of certain other types of pricing mechanisms that the PUC might consider. Many of these will likely require a certain level of visibility on the system that does not, now exist. How to implement such goals in a cost effective way (such as metering) will naturally be discussed under the topic of how costs and benefits can best be measured at certain levels.

There were some comments that the PUC engage in a process similar to the proceeding initiated by the New York State Public Service Commission (NYPSC) known as Reforming the Energy Vision (NY REV). For example, the Heartwood Group, Inc. expressed that asking the over-arching questions staff has recommended in the context of the current regulatory model was not expansive enough, and that the PUC should seek answers to these questions in a reformed regulatory model. Staff agrees that the NY REV model is more expansive and notes that while there are similarities between the NY REV and what staff recommends for Docket 4600, the NYPSC's order to open the NY REV goes beyond the PUC's order to open docket 4600. NYPSC presented two questions in ordering NY REV:[4]

---

[3] Comments were received from the Rhode Island Office of Energy Resources; Rhode Island Energy Efficiency and Resource Management Council; Acadia Center; Handy Law, LLC; Heartwood Group, Inc.; National Grid; Northeast Clean Energy Council; Northeast Energy Efficiency Partnerships; and People's Power & Light. Staff notes that because of the PUC's timeline to open the docket, stakeholders were only provided two weeks to submit comments. The full set of comments are attached to this memo.

[4] NY PSC Reforming the Energy Vision DPS Staff Report and Proposal, April 24, 2014. Full document at http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId=%7b930CE8E2-F2D8-404C-9E36-71A72123A89D%7d

1. What should be the role of the distribution utilities in enabling system wide efficiency and market based deployment of distributed energy resources and load management?
2. What changes can and should be made in the current regulatory, tariff, and market design and incentive structures in New York to better align utility interests with achieving our energy policy objectives?

Staff has interpreted the PUC's direction given on January 19, 2016, described in the Background section of this document, to be focused on answering the second question, but not specifically asking the first question yet. Staff expects and sees the benefit to allowing Docket 4600 to be informed by proceedings in other jurisdictions, such as the NY REV, but the resources necessary to execute such a proceeding do not currently exist at the PUC. Additionally, such a proceeding would likely duplicate, and possible conflict with, the work being done by the Systems Integration Rhode Island group.

Furthermore, the NY PSC set five policy objectives in the NY REV:

1. Customer knowledge and tools that support effective management of their total energy bill
2. Market animation and leverage of ratepayer contributions
3. System wide efficiency
4. Fuel and resource diversity
5. System reliability and resiliency

These five objectives are not at odds with the PUC staff recommendations here. However, in its decision to open Docket 4600, the PUC did not enumerate specific objectives beyond the need to better develop the new factors for ratemaking enumerated in the Renewable Energy Growth Program for the benefit of future rate cases, aligning agency authority for government efficiency, and to improve stakeholder engagement on these issues. Furthermore, at on open meeting on December 11, 2015 the PUC heard from OER regarding its System Integration Rhode Island report, which included a section on performance-based ratemaking that drew interest from the PUC and staff. Staff recommends, as explained above, that Docket 4600 examine utility return and incentives, and that these parts of the proceeding be informed by a new utility vision. PUC staff disagrees, however, that primary questions in the new docket is how the new distribution system should be structured and what is the role of the electric distribution system should be in the future, as is a focus of the NY REV. That is a question for a future PUC docket. The main question in this docket rather should be what changes to ratemaking will ensure just and reasonable rates and best align the interest of the utility with state policy, and, correspondingly, how we best set rates to ensure customers are paying the lowest possible cost for safe and reliable service. In response to this category of responses, staff suggest the PUC accept stakeholders' interests in the NY REV and similar dockets in other jurisdictions as a benefit to the Docket 4600 and future dockets, but that the PUC keep this proceeding focused the need to set just and reasonable rates aligned with state policy.

National Grid, the state's dominant electric and only natural gas utility, provided comments which included a useful outline of the goals articulated in the request for comments. National Grid went on to recommend that "actions that are not directly related to the delivery of energy provided by the Company should be excluded from the regulated delivery company requirements." Staff anticipates that the only areas that might not be subject to the new cost benefit analysis directly would be transmission rates, transition rates, and the LIHEAP Enhancement Fund (standard offer procurement is specifically listed in least cost procurement); it is possible, however, that even these bill components are affected. For example, expending funds on local costs might affect the need for new transmission, which could be a cost and benefit to consider in rates. Similarly, expending funds in certain programs could allow for the reduction of low income rates and allow the LIHEAP Enhancement charge to be kept at the statutory minimum. Where the legislature has seen appropriate to pass all costs related to programs enacted since 2006 through distribution rates, and many of these programs could be affecting distribution planning, staff recommends that the PUC not limit the docket to actions related to National Grid's delivery of energy, as the company has suggested in its comments. In 1996, the electric industry was restructured in RI such that generation was sold off and electric distribution companies were simply supposed to be a wires-only companies. However, because of the way legislation has passed over the past ten years, National Grid is now being expected to be much more than a wires-only company and, periodically, its rates should be reviewed comprehensively. At this time, staff recommends that the PUC open the docket without preconditions on which bill components may be considered, as all are necessary to meet the State's electric energy regulatory policy.

The Office of Energy Resources' comments seem to support the general boundary outlined above for determining costs and benefits to consider in ratemaking and for normalizing least-cost procurement across programs. OER recommends that policy and programs considered in the docket must align with state policy, and PUC staff agrees with this statement. OER recommends that the PUC specifically enumerate existing statutes and state policy documents, such as sections of Title 39 and the State Energy Plan, as the boundaries for the docket. PUC staff believes that such a boundary is not inconsistent in the context of a ratemaking docket. However, in the context of the new docket, such a limitation could necessarily limit the ability to conduct a broad cost-benefit analysis across all programs as they relate to one another. Stakeholders need to be free to analyze the costs and benefits of each program or utility activity and their impact on other program participants or utility activities, even if it means the two cannot be reconciled through ratemaking without a future change to the law.

IV. Process Outline

The PUC is in the process of issuing a Request for Proposals for a firm, individual or organization that will be expected to analyze data and information from stakeholders, published reports, and other resources, and to provide periodic reports to the PUC in writing and orally. The consultant will ultimately develop a final report including a series of recommendations to the PUC for its review to inform its decisions in the future.

1. PUC opens docket.

2. PUC seeks stakeholders to identify themselves and be officially designated to the stakeholder working group (stakeholders may seek limited engagement)

3. Initial meeting with stakeholders

4. Engagement of consultant who will be responsible for scheduling stakeholder meetings, setting the agenda, gathering information necessary for the meeting, prepare summaries of the meetings, acting as a meeting facilitator, and developing tasks with stakeholder and PUC staff input subject to review by the PUC for clarification or further direction.
    a. The consultant will also be responsible for gathering data and analyzing it to facilitate discussion among the stakeholders and advising the PUC of the areas where additional work needs to be done.
    b. The consultant will work with and at the direction of PUC staff to further define issues and tasks as the project progresses.

5. The purpose of the group will be to identify costs and benefits for various programs whose costs and benefits are or likely will be captured in rates (e.g., Energy Efficiency Program, Renewable Energy Growth Program, Infrastructure, Safety, and Reliability Program, Standard Offer Procurement, System Reliability Procurement, Distributed Energy Resources, Net Metering, Demand Response, low income discounts, arrearages and termination, etc.)
    a. What costs can be measured; do they align with state policy?
    b. What benefits can be measured; do they align with state policy?
    c. What costs cannot be measured; do they align with state policy?
    d. What benefits cannot be measured; do they align with state policy?
    e. For each cost and benefit that can or cannot be measured and that is necessary to setting just and reasonable rates aligned with state policy, ask the following:
        i. At what level do we need to measure them?
        ii. What is required in order to measure them?
        iii. What is the cost and benefit of various implementation options?

6. There will be periodic reports on stakeholder activity and progress toward answering the three thematic questions. Those reports will be presented orally at the request of the PUC as presentations or testimony, if necessary.

7. The consultant, with input from the stakeholder group will be tasked with developing a final report including a series of recommendations to the PUC for its review to inform its decisions in the future.