June 23, 2016

Hon. Travis Kavulla, President
National Association of Regulatory Utility Commissioners
1101 Vermont Ave., NW
Suite 200
Washington, D.C. 20005

Dear President Kavulla:

We are a representative group of consumer, low-income, environmental and technology-specific advocates who have joined forces to have frank discussions and increase understanding of the rapidly evolving electricity rate-design issues arising in today's fast-changing energy landscape. We believe in an electric power future that protects consumers and provides for the continued growth of clean, efficient and renewable energy. These changes will require regulators to pay close attention to how customers interact with and pay for the energy and services they use, as well as how utilities finance their capital investments.

Our organizations have not traditionally seen eye to eye on everything. But more and more these days, we're finding and forging common ground. For example, we agree that increases in fixed charges are among the least effective ways for utilities to adapt, particularly in light of the well-documented impacts on customer costs, conservation, equity and the ability for customers to control their energy bills. We think the fact that organizations from environmental, consumer and renewable energy perspectives are now working closely together on this issue speaks volumes about its importance, and it signals the inclusive and collaborative path forward needed to get good rate design done right.

As we've talked with one another, the conversation has increasingly turned to a more expansive notion of what "good" rate design looks like:

- It should include a *good process*; one that is transparent, fair, accessible and accountable.
- It should be based on *good data* and *transparent modeling* that are credible and available to all parties.
- And it should have a *good sense of timing*. Instead of the traditional confrontation in a contested rate-case proceeding, we should look for opportunities to engage collaboratively in formal, constructive stakeholder processes that explore new ways of moving forward together, even if it takes a little longer.

Regulatory Process Recommendations:

Outlined below are several regulatory process recommendations that we believe would improve the likelihood of success and manage any risk associated with change. Regulatory process was not a topic covered by NARUC's recent survey, so we are approaching it outside the survey and hope some of our recommendations and examples can find a place in the upcoming Manual. This

will also serve as a response to some of the views that Edison Electric Institute expressed in its Feb. 14, 2016, letter to NARUC's Subcommittee on Rate Design regarding rate design for residential distributed generation.

We are discussing this topic at this time because of the impact of new technologies on the utility business model, utility regulation and the allocation of utility system costs and benefits to consumers. It is broader than the impact of solar PV and net metering. The increased prevalence of energy efficiency, demand response, storage and electric transportation should also be explored as they continue to grow and more innovations and choices enter the market. We believe that with appropriate and equitable allocation of costs, these new technologies and customer options can provide many benefits, and we therefore support their cost-effective development and deployment.

We also believe that all customers should pay an equitable share for their use of the grid. But some in the utility industry have initially reacted to load loss from new technologies by citing solar customers and cost-shifts as equity reasons to impose new fixed charges or untested demand charges on *all* customers. Laying blame on any one technology and responding with short-term Band-Aids rather than long-term solutions is a missed opportunity. We are also concerned that imposing increased fixed charges or untested demand charges on all customers may stifle deployment of nascent technology, discourage innovation, reduce customer control over electricity costs and disproportionately harm low-use and low-income customers. Reviewing rate design and small-scale generation pricing options, given the changes taking place in the electricity sector, is a necessary and laudable act, but it should be put in perspective and done in a mindful, holistic way that is informed by substantiating data, particularly at the relatively low levels of solar penetration that currently exist in many of our states.

To that end, we applaud NARUC's action to establish the Subcommittee on Rate Design and its development of a Manual to assist state commissions. We advance a range of process ideas below to inform the development of that Manual because there is importance in doing it right – and risks to doing it wrong.

It is important to note that we, as a group, have discussed the 1961 Bonbright principles as a useful starting point in the analysis of a fair rate design. (The original 1961 Bonbright principles are more consumer- and small-customer oriented than the revised 1988 principles that EEI cites in its Feb. 14, 2016, letter.) However, application of the Bonbright principles is not formulaic and should not dictate any one specific answer. We believe it is prudent and necessary to augment the 1961 Bonbright principles to include important public policy objectives, including equity and environmental objectives, and parameters for deployment of energy saving, management, storage and generation technologies. Different state commissions may weigh the importance of the principles differently, depending on their goals. Options for change may also differ depending on factors like the availability of advanced metering. For these reasons, we do not reach consensus on a "best" solution for every state.

We do, however, offer specific recommendations on what a good regulatory *process* looks like in evaluating rate-design changes. They include the following and are discussed in more detail below:

- Assessment and analysis of state conditions and sound data when determining the need and pace for rate-design change;
- Collaborative, upfront, open, docketed processes that explore the range of rate-design options in advance of or in lieu of rate cases;
- Data-driven rate-design inquiries;
- Pilots and testing for novel or untested rate designs prior to wide-scale adoption;
- Consideration and accommodation for low-income and vulnerable customers in rate design; and
- Sufficient opportunity to educate customers on new/shifting rate designs well in advance of their implementation and the development of tools to do so.

Assessment and analysis. Understanding the pace for making change should be a first step. Do state-specific conditions require immediate action, or should state regulators continue with intentional monitoring and establish guideposts and goals for taking future action? Rate design changes come with the risk of unintended consequences and should not be undertaken lightly or in *anticipation* of a future problem. Iowa and Minnesota are good examples of states that are carefully assessing state-specific conditions and sound data when determining the need and pace for rate-design change.

Collaboration. Commissions should have processes available to discuss goals and assess different methodologies and their impacts outside traditional, contested rate cases. In an open, docketed process, stakeholders and regulators can evaluate the pros and cons of different rate-design alternatives based on clear policy goals. Regulators should require utilities to share any models upon which they base claims for cost shifts or other impacts so that stakeholders can run alternative scenarios. An open process can help regulators assess trade-offs and choose designs that meet the majority of goals, rather than being locked into binary yes/no choices. Mitigation measures can be taken in those areas where compromise needs to be pursued. These processes should be open and collaborative, designed to understand the pace of change, options available and impacts. In contrast, proposals in rate cases limit frank discussions, often have gaps in data, and by their very nature are adversarial. It is to all parties' benefit to avoid the public, adversarial rate-case confrontations that have taken place recently in states like Arizona, Utah, Nevada, Wisconsin and New Mexico.

Data-driven. During collaboration, commissions should start the process of defining and collecting the data necessary to inform future policy discussions. For solar PV, this data may include, but is not limited to, deployment rates and locations; diversity of system sizes deployed; load shapes; hourly production profiles, including south and west arrays; hourly line losses; distribution costs; and hourly load data for individual circuits. As EEI recognized in its letter,

"The electric system benefits (e.g. cost savings) attributable to DG can include energy, capacity, transmission and distribution (T&D) system deferral and line loss reductions, as well as environmental and other benefits as assessed in each jurisdiction." Collecting data to put actual numbers to these costs and benefits is an important step. The Iowa Utilities Board, for example, recently required utilities to conduct pilot projects and collect data to help inform the development of future policy or rule changes related to distributed generation. Minnesota's Department of Commerce-led Value of Solar methodology process is another good example of an open, data-driven process.

***Testing*.** Pilots, shadow-billing and opt-in rates are all widely accepted methods for testing new rate designs and managing risk prior to wide-scale adoption.

Special attention to low income/vulnerable population impact. While any process should include thorough analysis of anticipated impacts of rate design changes, particular attention should be given to low-income and vulnerable populations to ensure that rate design or the imposition of new costs do not undermine the home energy security of these households. The process should incorporate review and approval of effective programs and policies to mitigate these impacts.

***Consumer education*.** Some rate designs strive to change customer behavior through price signals. Customers must be able to respond and – critically – *understand* how to respond for these designs to be effective. Customer education is also a topic that should be mindfully explored.

There are many examples in the last few years of states making significant rate-design changes in a preemptive manner and without adequate support, creating a backlash that limits choices in the future. Such experiences incite political intervention and discourage consumers from reducing or shifting their energy use and investing in cleaner sources, even when warranted. Our organizations have expertise in this complex arena, and we are eager to engage with commissioners, utilities and other stakeholders nationwide to find common ground, limit areas of disagreement, and manage the risk associated with change for the benefit of customers, the environment and society.

Thank you for the opportunity to provide these process recommendations, and we encourage you to consider them for inclusion in the forthcoming rate design Manual.

Sincerely,

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cc: Hon. Nancy Lange, Chair, Committee on Energy Resources and the Environment

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Hon. Brandon Presley, Chair, Committee on Consumer Affairs

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