

## UTILITY RATE DESIGN INITIATIVE: A FRAMEWORK TO DRIVE ENERGY PRODUCTIVITY

The Utility Rate Design Initiative (RDI) emerges as a response to the “fixed rate phenomenon,” addressing the underlying reasoning behind the wave of utilities requesting significant increases in the fixed rate portion of their cost recovery in a manner that will encourage energy efficiency for electricity customers and utility shareholders alike. This initiative will bring together utilities, businesses, regulatory leaders, and consumer, efficiency and environmental advocates to produce specific recommendations for changes to rate regulatory models for direct application to rate cases.

### How will the RDI be implemented?

- *C-Suite level meetings.* The Alliance to Save Energy will convene a series of comprehensive discussions among high-level executives and thought leaders representing all stakeholder interests impacted by rate regulation.
- *Build consensus and recommendations.* The RDI will build towards consensus on recommendations, strategies and potentially provide templates for rates that (1) will not inhibit continued investment in energy efficiency by utilities and third parties; (2) can drive increased investment in energy efficiency; and (3) will allow utility shareholders, ratepayers, states and localities to benefit from the investments made in energy efficiency. Templates will be constructed for utilities with and without advanced metering infrastructure, with each template including sections for vertically integrated and restructured companies.
- *A “top-down” approach.* Should an overwhelming majority of stakeholders agree on templates, these models may be brought forth in regulatory rate proceedings. In this “top down” policy-driven approach to rate design, state utility regulators will have some measure of concurring testimony to review, decide upon and put recommendations into action.

### Why is the RDI necessary?

- *It will preserve the strides made in increasing energy efficiency across the country.* The “fixed rate phenomenon” has the potential to undermine and even reverse the great strides made in increasing energy efficiency across the country. As a least-cost energy resource, energy efficiency has improved our national economy, helped secure our nation by offsetting the need for foreign energy supply and protected our environment. At the same time, because most utility rate recovery structures are in part volumetrically based, energy efficiency has been regarded by many utilities as an impediment to their ability to recover costs.

### Challenges

- *Rising costs.* Utilities’ costs are increasing with investments in improved reliability, smart grid and related infrastructure — even as electricity sales are flat or declining.
- *Statutory requirements.* Regulators are statutorily required to allow utilities the opportunity to recover fair and reasonable costs.
- *Increasing use of fixed charges.* Regulators are allowing increasing levels of recovery through fixed charges because it is the easiest, bluntest way to “guarantee” such recovery.
- *Lack of information.* Regulators need better information about best practices and optimal rate designs across the U.S. and internationally.
- *Concerns of large industrial users and consumer advocates.* These groups have concerns that must be addressed regarding systems benefits charges, surcharges and the appropriate attribution of costs.
- *Differing views of energy efficiency by different stakeholders.* Some large industrial consumers view energy efficiency programs as a “tax” without a return on their investment, whereas consumer advocates for the residential sector have real concerns about keeping bills low — especially for economically vulnerable consumers. These stakeholders represent the opposing balance to keep rates for consumers low, as utilities seek to recover increasing costs from their consumers.

## Opportunities

- *Strong energy efficiency policies and programs.* States across the country have already demonstrated that such policies and programs can offer significant economic, reliability and environmental benefits.
- *Energy efficiency resource standards (EERS).* Commissions, state energy officials and utility executives from 24 states have EERS, or EERS goals, in place, and 48 states have established efficiency programs.
- *Opportunities to meet state and federal policy goals.* The Clean Power Plan, as well as other market forces, have spiked the interest of state planning authorities to investigate how to meet state policy goals and the requirements of this new regulation. Energy efficiency programs and third party investments can support such policies.
- *Coordinated efforts of diverse stakeholders.* Utilities, government, businesses, environmental interests and consumer advocates share a common interest in meeting legal obligations in the least costly manner possible.
- *Increased opportunity to demonstrate the benefits of energy efficiency.* The recent explosion in new technologies and big data can support and provide evidence of the benefits of energy efficiency, as utilities modernize their distribution systems.

## How will consensus recommendations be developed and promoted?

- *Convene high-level meetings.* The Alliance proposes to break through the stalemate of conflicting interests by setting up a series of meetings to produce a “Rate Design Roadmap.”
- *Educate stakeholders.* Once endorsed, the Alliance will socialize the Roadmap to educate allies, regulators and other stakeholders about the benefits of the consensus-based recommendations for rate design options.
- *Build consensus among high-level influencers.* This top-down policy-driven approach to rate design will drive endorsement of these templates by businesses, stakeholders and the utility C-suite level participants -- which will in turn result in some measure of concurring testimony for regulators in rate cases.

## Dialogues will be convened to produce “Rate Design Roadmap”:

	ROUND 1	ROUND 2	ROUND 3	ROUND 4
WHO	Utilities, Business executives	Round 1 Stakeholders, + Former regulators, Consumer advocates	Round 1 & 2 Stakeholders, + Four identified target audiences (NARUC/NASEO/EEI, NASUCA/NACAA/ECOS, ELCON, Local, state and regional stakeholders and advocates)	Broader audiences
WHEN	May 2016	November 2016	March 2017	Late spring/early summer 2017
WHERE	Washington, DC	Washington, DC	Washington, DC	TBD
OUTCOME	Establish set of principles for recommendations and templates.	Develop concepts, policy recommendations and initial rate templates.	Shaping templates for rate design. Secure endorsement of these recommended changes to rate regulatory models.	Socialize the concepts in various markets, including regulatory conferences, presenting the results to Commissioners.