

## UTILITY RATE DESIGN INITIATIVE: STATEMENT OF PRINCIPLES

October, 2016

The Utility Rate Design Initiative (RDI) aims to address the issue of adequate cost recovery for utilities in a manner that will encourage energy efficiency for energy customers. This initiative brings together utilities, businesses, regulatory leaders, and consumer, efficiency and environmental advocates to produce specific recommendations for changes to rate regulatory models for direct application in rate cases.

The scope of these principles applies to demand-side management (DSM) generally, and includes topics such as traditional energy efficiency, demand response, peak reductions, and demand flexibility.

The Core Participants of the Alliance to Save Energy's RDI specifically aim to develop rate design templates and recommendations for state commissions and proceedings that:

- (1) can drive cost effective increased investment in DSM by utilities and third parties;
- (2) recognize the benefit of DSM;
- (3) will allow utility shareholders, customers, 3<sup>rd</sup> party solution providers, states and localities to benefit from the cost effective investments made in DSM; and
- (4) align price signals with cost causation in a manner that encourages long-term system-wide efficiency and cost reduction

To accomplish this goal, the Core Participants have developed a set of principles, whereby

- DSM as well as system efficiency is encouraged
- There is room to be flexible and creative
- Implementation plans that address transition issues are encouraged

The following principles can drive future innovation in DSM services and business models in response to changing customer needs and the evolution of distributed energy management, generation, storage and control technology.

- Rate designs should include the ability to collect for the use of the energy grid and to compensate customers for investments that provide verifiable local and system-wide cost savings, compared to alternatives.
- Rates should be designed, as much as possible, to reflect the real-time, localized costs of service while assuring equity, limiting complexity and minimizing rate shock.
- Rates that more accurately reflect the costs and savings resulting from time and location dependent demand management should be introduced as a platform for delivering innovative new energy services to customers.
- Utility business models should be complementary with state energy goals and priorities.

The principles are centered around four basic tenets of rate design.

## Equity and Fairness

- All stakeholders – consumers, utilities, states, advocates – must be prepared to compromise in order to meet a mutually agreeable end-state that encourages DSM, and allows utilities to earn the revenues required to provide reliable, cost-effective service and remain financially healthy through adequate return on investment
- All consumers should have the opportunity to control their energy use and costs, regardless of their rate class or level of experience and/or knowledge about DSM practices or programs.
- Customer education about their energy use and its impact should be included in the process of rate design and energy market implementation
- Rate design should follow cost causation principles to support the long-term efficient use of the system through efforts by customers to manage their energy use
- Rate shock should be avoided, potentially through an appropriate transition plan incorporated into new rate designs.

## Economic Efficiency

- A rate design should encourage both using the system efficiently and using energy efficiently
- Forward-looking rates are able to send better price signals than historic rates, but a shift to prospective test years or multi-year rate plans should be coupled with metrics and incentives that will continue to ensure societally beneficial outcomes.
- Rates should be as closely aligned with cost as possible, recognizing limitations of regulatory regimes and policy directives.
- Performance-based regulation and ratemaking can be implemented along a spectrum of complexity and completeness, and can be a useful tool to help advance policy objectives, but particular attention must be paid to its design to ensure that administrative burdens on all parties are moderated.
- Rate design and regulatory structure should be adaptable to evolving technology changes, as well as to market and policy changes
- Rate stability should be encouraged and consistent with public policy

## Technology

- Rate design should be technology neutral
- By designing rates that are cost reflective, customers will have the opportunity to choose technologies to manage energy usage, become more efficient and save money
- AMI should be specifically considered as an enabling tool for economic efficiency, as well as equity and fairness
- Rate design should be reflective of utility's metering technology
- In addition to consumer education, regulators, utilities, and service providers should provide consumers with tools and technologies to manage more sophisticated rates

## Consideration of Current Regulatory Regime

The RDI recognizes that any rate cases that occur in the near term will interact with the existing policies and regulatory constructs that are currently implemented in states and at state utility commissions across the country. It also recognizes that rate design cannot be constructed in a vacuum. To that end, RDI acknowledges that rate design must be considered in the context of existing paradigms, but does not opine either positively or negatively on their efficacy.