



RAP

Energy solutions
for a changing world

Advancing Customer Resources in an Evolving Power Sector

MEEA 2015
Chicago

Presented by Carl Linvill

January 30, 2015

The Regulatory Assistance Project

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Agenda

1. Foundational observations on risk
2. Value: full valuation of customer resources
3. Tariffs: fair compensation runs both/many ways
4. Rate design: price signals clear
5. Evolution: Performance Incentive Mechanisms

1. Foundational Observations on Risk

- New business models, regulatory practices and paradigms are timely
- Affirmative risk management can avoid expensive mistakes
- Some current best practices will still be good ideas
- Fair compensation runs both/many ways
- Risk shifting is not risk minimization

For More see the CERES publication:

- Authors
 - Ron Binz with
 - Richard Sedano (RAP)
 - Denise Furey
 - Dan Mullen

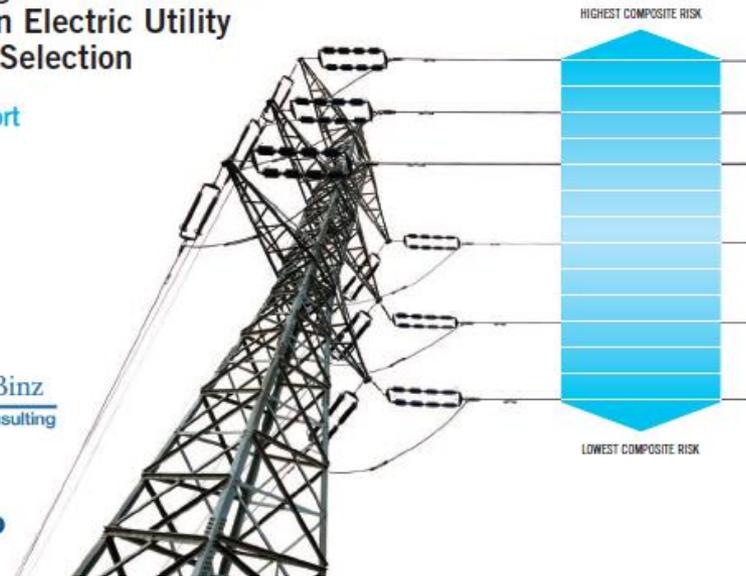
PRACTICING RISK-AWARE ELECTRICITY REGULATION: What Every State Regulator Needs to Know

How State Regulatory Policies
Can Recognize and Address
the Risk in Electric Utility
Resource Selection

A Ceres Report
April 2012

Authored by
Ron Binz
and
Richard Sedano
Denise Furey
Dan Mullen

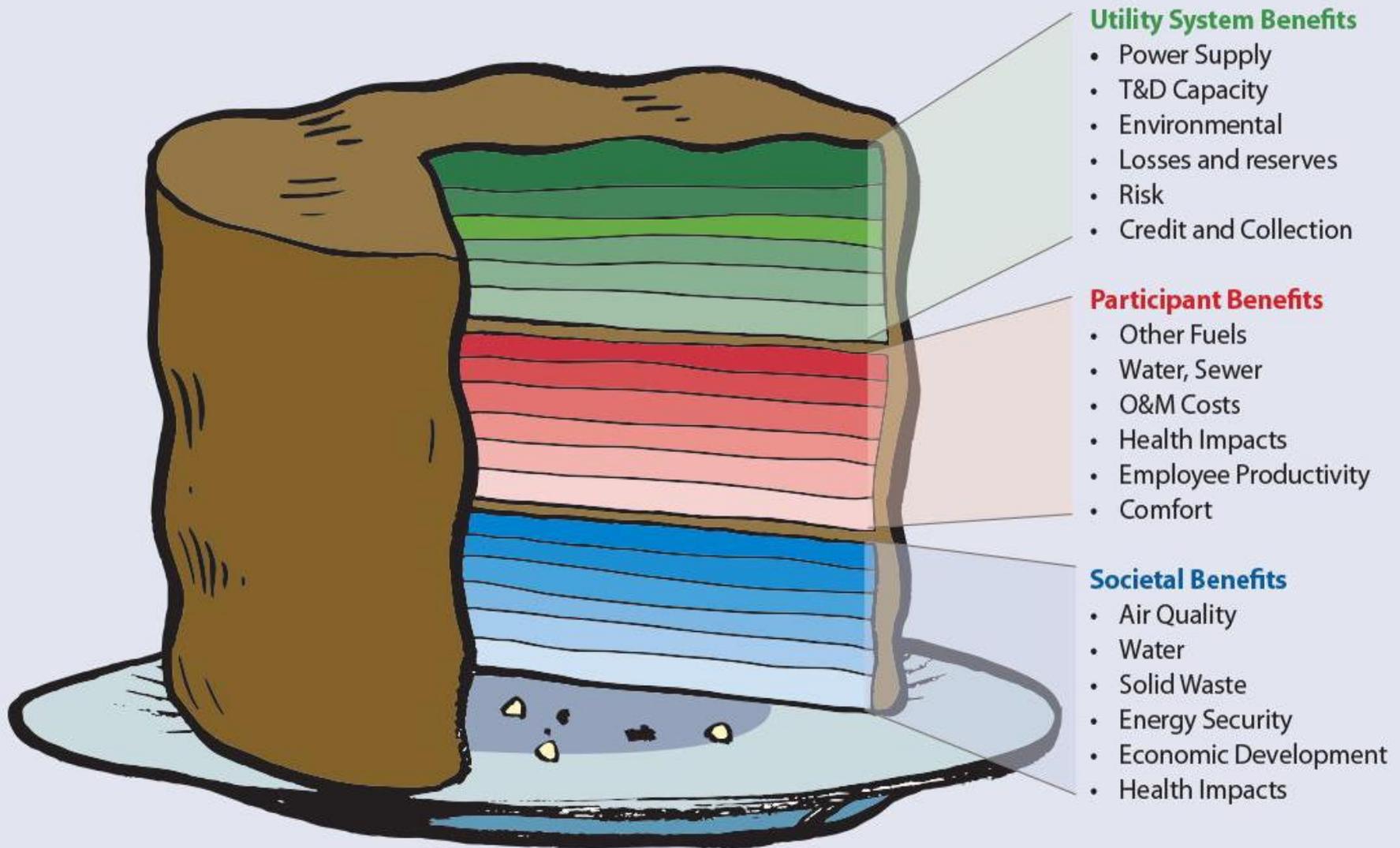
Ronald J. Binz
Public Policy Consulting



2. Full Value of Customer Resources

- Ensure that the full value of customer resources are recognized in cost/benefit analysis, in tariff design and in rate design

A "Layer Cake" of Benefits from Electric Energy Efficiency



3. Tariffs: Fair Compensation Runs Both/Many Ways

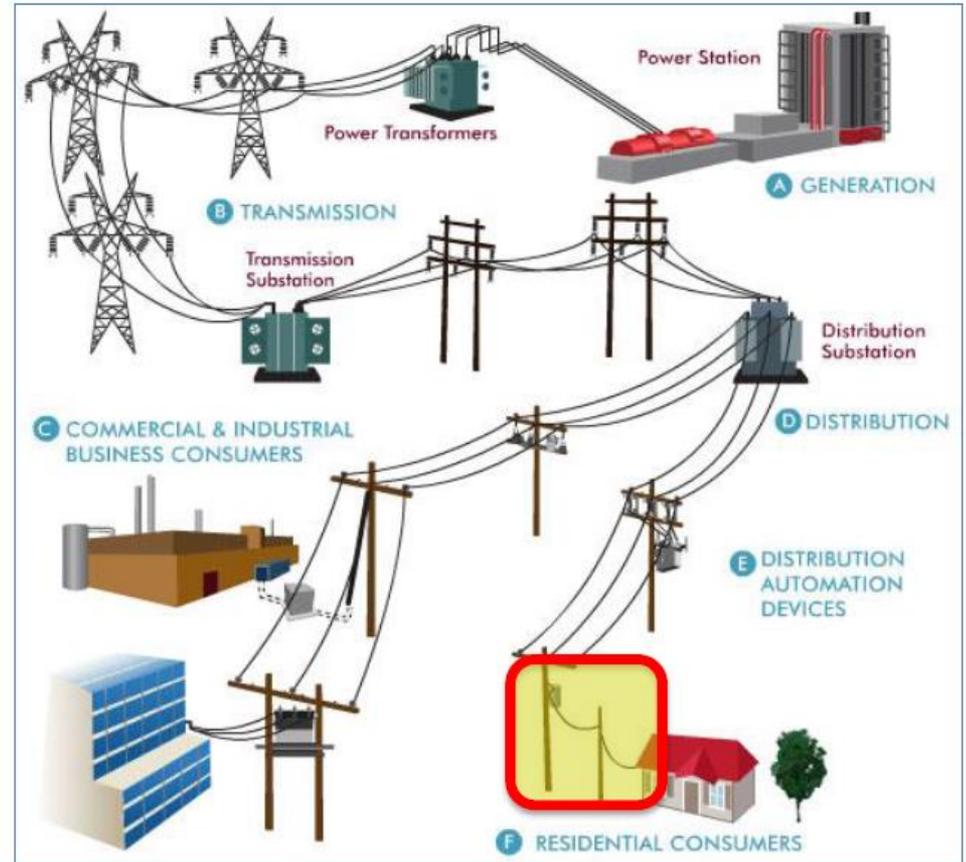
- Two way, full value – Cross subsidies?
- Regional differences matter
- Infant industry support OK
- Rules and terms of service matter
- Keep tariffs simple– Consider time-based
- Innovative business models useful
- Incentives and rate design are distinct
- Throughput incentive a distinct challenge
- Consider “have not” customers

4. Rate Design: Price Signals Clear

- Four simple principles

Principle #1

A Customer should be allowed to connect to the grid for no more than the cost of connecting to the grid.



Principle #2

Customers should pay for the grid in proportion to how much they use the grid.



Principle #3

Customers should pay based on when they use grid services, and for how long.



Principle #4

**Customers
delivering power
to the grid should
receive full and
fair value – no
more and no less.**



For More on Valuation, Tariffs and Rate Design see:



Recognizing the Full Value of Energy Efficiency

(What's Under the Feel-Good Frosting of the World's Most Valuable Layer Cake of Benefits)

Lead Authors
Jim Lazar and Ken Colburn

September 2013

Designing Distributed Generation Tariffs Well

Fair Compensation in a Time of Transition

Authors
Carl Linvill, John Shenot, Jim Lazar

November 2013

5. Evolution: Performance Incentive Mechanisms

- Many activities can link compensation to performance
- Steps toward performance compensation

What targeted utility activities can we link to performance?

- Reliability
- Service
- Satisfaction
- Safety
- Rates (level, volatility)
- Total cost of svc.
- Social goals
- Energy efficiency
- Customer Generation
- Resource diversity
- Competitive activity
- Environmental performance
- Innovation ...

Steps toward PIM (Synapse: Woolf, et al forthcoming for WIEB)

1. Articulate goals
2. Assess current incentives
3. Identify performance areas that warrant performance metrics
4. Establish performance metric reporting requirements
5. Establish performance targets, as needed
6. Establish penalties and rewards, as needed
7. Evaluate, improve, repeat

A Call to Action

- Regulators and Utility Management have the tools they need, though some can be sharpened, but they should strive to be **informed, active, consistent, curious and courageous**

About RAP

The Regulatory Assistance Project (RAP) is a global, non-profit team of experts that focuses on the long-term economic and environmental sustainability of the power and natural gas sectors. RAP has deep expertise in regulatory and market policies that:

- Promote economic efficiency
- Protect the environment
- Ensure system reliability
- Allocate system benefits fairly among all consumers

Learn more about RAP at www.raonline.org

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