



# Diversified Energy Regulatory Consulting, LLC

**DIVERSIFIED ENERGY REGULATORY CONSULTING, LLC**

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TOPIC: As it relates to topics being considered by Working Group #5, what are the methods to increase Illinois customers' access to new technologies that would stimulate distribution level market participation.

## I. INTRODUCTION

Nation-wide, the electric industry, and in particular the electric grid is undergoing significant transformation and disruption. The State of Illinois and its electricity market is not exempt from these national trends. With increasing renewable penetration, and the introduction of technologies that potentially give customers greater control of their energy production and consumption, the electric grid continues to evolve from a centralized one-directional system, to a decentralized, multi-directional system. In addition to this, states, including the State of Illinois, are instituting policies to facilitate and encourage decarbonization and a movement towards a clean energy economy.

With these factors and trends in mind, there needs to be a focus on creating the appropriate incentives for utilities, third-parties and customers, to encourage innovation in this space, greater customer engagement, while also maintaining safe, reliable and resilient service.

The focus of these comments will be on: (1) the need to adopt the appropriate ratemaking constructs to incentivize utilities to work with third-party energy service and technology providers to facilitate innovative and customer centric solutions. These ratemaking constructs should encourage innovation and customer engagement, while also allowing utilities to earn a reasonable return on their investments; and (2) the use innovative rate design in coordination



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with enabling technology to facilitate customers managing their energy consumption and production.

### II. COMMENTS

#### A. The Role of Utility Ratemaking to Facilitate Innovation and Greater Customer Engagement.

With the changing energy landscape reflective of a changing resource mix, emerging technologies and changes in customer preferences and engagement, it is crucial that the utility ratemaking and incentive process also evolve. Traditional ratemaking principles with its focus on capital investments, and a return on that investment would likely have to be supplemented or replaced with more innovative ratemaking constructs. Adoption of newer more innovative ratemaking principles is needed in order to encourage utilities to facilitate increased third-party and customer engagement. One solution to consider is the use of such regulatory constructs such as performance-based ratemaking, as well as lost revenue adjustment mechanisms, such as revenue decoupling as a means to incentivize utilities to work with third-party innovators to facilitate the grid of the future.

The grid of the future is likely to be multi-directional with the increasing proliferation of distributed energy resources that allow customers to potentially island their facilities as needed, and provide services to the grid. The grid of the future is also expected to allow customers to more seamlessly and effortlessly, through the use of enabling technologies, manage their energy usage and production. These ratemaking constructs, if properly structured could allow utilities to recover the cost of providing basic service, without hampering efforts to introduce cost-effective, market-based, innovative solutions that furthers Illinois' energy policy priorities. These priorities include moving towards a clean energy economy that empowers customers, and gives



customers options for managing their energy costs, while ensuring that utilities maintain the safety, reliability and resiliency of the grid.

#### B. The Role of Rate Design and Enabling Technologies To Further Customer Engagement In Managing Energy Consumption

The appropriate utility ratemaking construct is crucial in encouraging utilities to work with third parties to innovate, while also providing safe, reliable and resilient service at just and reasonable rates. However, in addition to having the right utility ratemaking construct(s), rate design, along with the use of enabling technologies are also essential in facilitating greater customer engagement. Across the country, many state regulatory commissions and the utilities they regulate, have adopted or do offer some form of time varying rates, through various opt in and opt out programs. Utilities have offered various forms of time-varying rates. Large customers, particularly commercial and industrial customers have for instance taken advantage of these offerings to peak shave and manage their demand charges.

The core purpose of rate design and the use of time varying rates in particular, is to allow for cost allocation that is consistent with cost causation principles, and to send the appropriate price signals that would influence how and when electricity is consumed and produced. The success of these rate designs in altering behavior, is largely contingent on:

1. How these innovative rate designs are structured (e.g. opt in vs. opt. out.);
2. The level and efficacy of customer education around these programs;
3. Having and continuing to refine the technology that would allow for easy and widespread adoption of these programs;
4. Having adequate consumer protections; and



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5. Having choice and a suite of rate designs that meet the need of different population segments.

As the technology improves over time, including technologies that allow for the ability to send price signals in real-time, aggregate data and determine trends and produce useful and actionable information, customers are likely to feel more empowered in terms of their energy usage and managing their energy costs. There are also benefits to the grid in terms of being able to work with third party providers and innovators in creating solutions that optimize and balance supply and demand on the grid, thereby promoting safety, reliability and resiliency of the grid.

### III. CONCLUSION

In conclusion, Diversified Energy Regulatory Consulting (DERC) applauds the Illinois Commerce Commission's effort to facilitate a dialogue through the NextGrid initiative on how best to obtain the benefits of the grid of the future for customers, utilities, third-party innovators and other stakeholders. DERC believes that the objectives of the initiative can only be recognized where there is alignment between energy policy, and the appropriate ratemaking and rate design constructs. DERC appreciates the opportunity to add these comments, and looks forward to further participation in the process.

Respectfully Submitted,

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