



NextGrid: Utility of the Future Study
Working Group 7
Meeting #1
June 8th, 2018

Introduction

WG 7 participants introduced

Carl Pechman introduction of WG7

- Participants invited to present on upcoming topics, please contact WG7 leaders

Introduction by Illinois Commerce Commission (ICC)

- NextGrid study focused on examining trends in electricity, and emerging technologies
- Define grid modernization, and describe benefits for parties
- Identify next steps for policies
- Not docketed proceeding, nor commission order
- Final report will provide comprehensive view of grid modernization, report will not in every instance provide a “best path forward”
- Will identify areas of agreement and disagreement
- Goal of creating a strong, safe, and reliable grid
- Goal of project participants:
 - Identify issues/challenges
 - Project lead will provide a report
 - Public comment will be solicited on report (including 3 public meetings—first meeting June 14th)
 - For more information, see NextGrid website <https://nextgrid.illinois.gov/> (including letter from the Chairman, and other helpful documents describing the goals and process identified for NextGrid)
- Chatham house rules will be used for all NextGrid meetings and work products (e.g., no individual parties will be identified throughout the Working Group 7 process)
- Ross Hemphill introduced for presentation

Background on current ratemaking in Illinois (IL), presented by Ross Hemphill

- IL is a restructured state

- Strict rules around Transmission and Distribution (T&D)
- Integrated Distribution Company (IDC) roles need to be considered, as they relate to T&D companies
- Until recently, it was difficult to encourage residential customers to go to competitive suppliers, two things impacted this:
 1. Purchase of Receivables and Consolidated Billing (PRCB)
 2. Municipal aggregation: communities were allowed to determine the default retail supplier for all residents in their community
- Formula ratemaking has also been impactful:
 - Yearly process: by May 1st of every year, utilities must provide accounting information that will lead to change in rates, in December ICC makes decision about rates, rates go into effect in January
 - Revenue requirement formula
 - Differences is that it's an expedited process w/two differences from standard ratemaking:
 - Return on Equity (ROE) is an arithmetic process included in statute, instead of a timely back-and-forth
 - Cost of service and rate design are not part of the annual process, but a process that occurs every three years
 - Protocols are a part of IL statute
 - Rate is backward and forward looking (includes old accounting, and forecast)
 - Incentives are built into the formula (metrics relating to reliability, promised benefits, etc.) metrics are tracked, included in a tariff, and if metrics are not met, there is a penalty
 - Changes were made to the formula in the most recent statutes Future Energy Jobs Act (FEJA)
 - Extended formula to 2022
 - Allowing companies to treat Energy Efficiency (EE) program costs as a rate base (allowed to earn a return)

Current ratemaking issues (Open discussion by working group members)

- Want to emphasize significance of separating revenue requirements from rate design process (generally, in traditional ratemaking process, rate design is an afterthought), this process separates the two issues
- Bifurcation of proceedings allow an opportunity for a “deeper dive,” this multiplicity of proceedings presents challenges for intervenors who may be spread thin
- FEJA EE measures—put in incentives and penalties in place, big step

- 3 formulas from legislation: in order to have incentives, it had to be “broken apart,” Distributed Generation (DG) rebate also allows for compensation for customers with smart inverters
- Embedded cost: particular cost that are derived from an incremental cost basis (ex: construct allowing single billing, adjustment to the charge for when single billing is used, and that’s based on avoided costs)
- Customers can opt for Time of Use (TOU) pricing
 - Will this become mandatory/the default in the future?
- Formula rates: utilities were allowed to invest in reliability infrastructure, Advanced Metering Infrastructure (AMI)
- How much do we want to consider existing ratemaking? (Allowed capital structure)
- Revenue requirements are equally important as ratemaking design—important that incentives match up with state goals
- Interest in sharing experience of customers around the country with different rates
- Working on standby rates, would like to look at other states for rate designs as well
- **WG7 members should send relevant studies/reports**
- TOU was viewed as a valuable rate design, with methods for protecting Low and Moderate Income (LMI) customers
- Underlying theme in this discussion is the shift of risk (who bears risk with these changes)
- How do value propositions change actions? (e.g. Electric Vehicles (EV))
- Have to keep in mind the unbundled nature of this conversation in (IL), supportive of providing customers options for managing risk, designs have to take into account what you’re doing for customers, and what customers want
- The revision of the law that hasn’t been discussed is that rates be cost-based (e.g. make sure cost-causers are paying the costs)
- Zero Emission Credits (ZECs) should be considered here—a lot of additional regulatory costs have been placed on customers. Programmatic costs have increased dramatically, even while cost of electricity has decreased in IL. How do externalities impact customer behaviors?
- Unbundled rates send many price signals. While customers are pretty good at responding to price signals, several price signals seem difficult for customers to parse
- Affordability hasn’t been discussed in this group—the goal of utilities is to provide safe, reliable, and least cost service (statute in IL does require Least Cost)
 - Statute does have a least cost alternative, but includes several goals that may require broader consideration (e.g. reliability, etc.)
- Is there a way to merge localized pricing on the grid with planning on the grid—could this all be part of the same picture as they’re closely related
 - Aligning planning constraints with localized pricing is challenging

- Rate options for customers are a great way to provide customers with choices so they can get the most benefit for the risk they are most willing to absorb
- Least cost—part of the revenue requirement discussion. These costs (least cost approach) may not be the best approach for providing the value customers may want on the system. Is there a way to consider net value, instead of least cost?
- Least cost is more a test about how something is achieved, rather than a lowest common denominator according to ICC interpretation in earlier cases according to one member of working group
- Want to dig into incentives issues
- There are several issues that didn't exist when the initial statutory language was developed. How do we address this?
- Future/New technologies should be considered under the ratemaking umbrella
- Have a tendencies to use rate design to compensate people for avoiding certain cost and consumers for utilizing certain cost. Need to pay for services provided
- Do we want to talk about different types of cost studies (e.g., Embedded costs)
 - Complications with marginal cost studies: with DG studies, not really avoiding costs, just avoiding a particular part of infrastructure—marginal cost studies don't really tell you that
 - Not which cost, but what are you doing with it? See rate design as Intra-class cost allocation— marginal cost is much more relevant because you're sending price signals
 - Marginal costs are really the cost of an Infinitesimal small increase in product—that is a different question from the traditional way of doing marginal cost studies (utility-wide review). Traditional marginal cost studies (if it has an analogue) is more like avoided cost. While marginal cost takes into consideration time and location.
 - Maybe with DG, we should be looking at avoided cost
- How are Information Technologies (IT) costs addressed?
- When looking at avoided costs—we're looking at DG as a supply side resource. Is it EE or supply side? Taking load off the grid as a value to utilities needs to be part of the discussion.
- FEJA does have a value of solar proceeding that will start soon. 2011 formula rate law—allowed 2.6 B investment for ComEd AMI investment. What is ComEd getting out of this?

Speaker slots for meeting 2

- Janice Dale (IL AG)—Risk and Affordability
- Scott (ComEd)—will provide a presentation on Revenue Requirements
- Danny Waggoner (AEE)—Capital bias and how States are addressing this (what's included in rate base, opportunity costs for offsetting capital, regulatory signals, etc.)

- Ken Costello (NRRI) Incentive Ratemaking / Performance Based Ratemaking (PBR)?
- Paul Alvarez (Wired Group)—Performance Benchmarking
- Bob Stevens (IL Industrial Energy Consumers)—Cost of Service Studies - overview

Outline for Meeting 2 discussion

- What could ratemaking accomplish that satisfies the needs of consumers while building on what we're already investing in?
- Talking about revenue requirement (point 2.a) is fine, but there's not 1, there's 10, and we have to keep each in mind.
- Larger process discussion—how do we ensure that everyone's interests are met?
 - Inductive process to discuss larger vision about NextGrid with some freedom—goal of coming to a shared view.
- Don't think it's necessary to discuss Rate Case cycle
- General discussion on different types of cost of service studies
- Cost of service studies for partial users—for future users (what types of costs will utilities be incurring for future generation)
- Cost Shifting (e.g. cross subsidization) – important, doesn't need a presentation

Meeting 3 Speakers

- Pat Sharkey (Midwest Cogeneration Association) –Partial Use of Grid Resources as Backup for DG (equitable and nondiscriminatory rates)
- Paul Centolella (Paul Centolella and Associates) – Rates

Meeting 3

- Technology, EV infrastructure charging deployment
- External costs moved to the 3rd meeting
- DG valuation—(included in PNL working group, they will be presenting at one of the meetings on this topic)

Meeting 4 Speakers

- Kevin Miller, EV/EV Charging

Adjourn