

## Joint EEI/NRDC Statement to NARUC

February 14, 2018

This statement presents joint recommendations by the Edison Electric Institute (EEI) and the Natural Resources Defense Council (NRDC) to the National Association of Regulatory Utility Commissioners (NARUC), based on extensive mutual experience and interchange. Our perspectives and constituencies are very different, but we find much common ground on clean energy progress, grid infrastructure needs, opportunities for regulated electric companies in electricity resource portfolio management and investment, and the potential need for collaboratively developed rate design and other regulatory reforms.

As outlined in more detail below, we collectively have agreed that:

- A clean energy transition is underway and accelerating.
- Smarter energy infrastructure can empower customers, enhance reliability, reinforce resiliency, and reduce long-term costs.
- Regulated electric companies are and will remain essential in electric resource portfolio management and investment.
- We jointly support selected rate design and regulatory reforms, but recognize the need may vary from state to state.

The suite of conclusions and recommendations on which we agree follows, in four sections.

1. ***A clean energy transition is underway and accelerating:*** America's power sector has made remarkable progress in reducing carbon and other emissions in recent years (and in some cases decades), while making energy products and services even more affordable and reliable. Energy efficiency has helped to moderate growth in electricity consumption significantly, renewables are surging, and electric companies are critical partners in distributed energy resources. We share the goal of continued progress in upgrading the grid and improving the energy system to further reduce carbon and other emissions cost-effectively, including by (i) delivering cost-effective energy efficiency through a coordinated combination of electric company programs and government standards, (ii) integrating increasing amounts of clean energy resources, (iii) electrifying transportation with efficient electric vehicles and charging systems, and (iv) increasing research, development and demonstration of emission-reducing technologies, including those that reduce emissions from fossil generation (e.g., carbon capture and storage). The investment in making the grid smarter, cleaner, more dynamic, more flexible, and more secure, while integrating a balanced mix of cost-effective resources from both central station and distributed energy resources, will continue the industry's ongoing commitment to the transition of the generating fleet to a cleaner energy future, including reductions in greenhouse gas emissions.

*Our joint recommendations include:*

- We reaffirm the continuing importance of state and federal efficiency standards for buildings and equipment. These standards have delivered highly cost-effective savings and innovation under bipartisan leadership over more than four decades.
  - As leading examples of successful voluntary initiatives to accelerate efficiency progress, we recommend continued support of federal energy efficiency programs that provide consumers with timely and reliable information about energy savings, such as appliance standards; building codes; Low Income Home Energy Assistance Program (LIHEAP); EnergyStar, Federal Energy Management Program (FEMP); and energy efficiency training and certification.
  - We acknowledge decades of success in electric company investment in energy efficiency resources across the nation and will work together to augment it. We support programs targeting cost-effective energy efficiency and distributed energy resources for low-income customers, including those in multifamily housing, to ensure that all customers have the opportunity to participate. Energy efficiency investments must be cost-effective for customers, and we support earnings opportunities for such investments, like more traditional regulatory assets.
  - We urge others to join us in endorsing proposals for the efficient electrification of transportation, buildings, and industry, which is increasingly important for reducing carbon emissions and meeting federal air quality standards.
  - In addition to compliance with applicable government procurement standards, we support allowing electric companies to offer customers additional renewable energy options and other customer-focused solutions that give all customers the opportunity to meet more of their electricity needs with cleaner energy.
2. *Smarter energy infrastructure can empower customers, enhance reliability, reinforce resiliency, and reduce long-term costs.* Examples include effectively deployed advanced digital technologies, improved power lines and substations, and cyber and physical security measures. The grid is the enabling platform for clean and distributed energy resources, smart meters, storage, microgrids, visibility, management, reliability, resilience, security, analytics, customer solutions, and digital sensing, monitoring and controls. But much of this potential for these resources remains unrealized. At the regional level, we need increased integration of transmission system operations, which, among other benefits, will assist with the continued integration of higher levels of clean energy. At the local level, we need to enable regulated distribution companies to advance smarter, more flexible, and more resilient grids, including in partnership with third-party service providers, with adequate regulated investments to do so. Cost-effective solutions and improved coordination between transmission and distribution systems should continue to be evaluated in both planning and procurement. Price and data transparency are increasingly important for customers to better manage their usage and for optimizing electric grid utilization. Unlike the high-voltage transmission systems—which have extensive visibility over real-time conditions—most distribution systems lack an equivalent level of visibility. As the needs of customers evolve, and to increase

reliability and resiliency, there is a need to invest in technologies that enable increased visibility and increased operational flexibility of the distribution system. At the same time, the industry must continue to ensure comprehensive readiness and preparedness initiatives to efficiently and effectively respond to natural disasters. The industry must continue to work on ensuring appropriate and efficient methods of acquiring and deploying recovery resources. Legislators and regulators should review current approaches to liability and damage compensation that may not be well-suited in an era of increasingly violent and destructive weather and wildfire events. Lastly, improved coordination of natural gas pipeline markets and operations will help reduce costs, improve reliability, and could enable improved cost-effective infrastructure planning.

*Our joint recommendations include:*

- Continued focus on integrated operations, planning and procurement for interconnected transmission and distribution systems, including more strategic use of cost-effective distributed energy resources to support and enhance the efficiency and flexibility of electricity grids.
  - Continued focus on new approaches for grid planning, pricing, and cost allocation, including identifying and evaluating a full portfolio of cost-effective solutions to help meet system needs.
  - Authorization by state regulators and local utility boards for increased levels of prudent investment in cost-effective smarter, cleaner, and more resilient grids.
  - A voluntary transition to enhanced grid integration, which will help reduce costs and emissions while improving reliability.
  - More pricing and data transparency for distribution systems and their users while maintaining customer privacy and protections and identifying and mitigating security concerns, costs, and liabilities.
  - Continued electric company engagement with the Smart Communities movement, which emphasizes efficient street lighting with advanced controls; efficient electrification of transportation, buildings, and facilities; smart buildings that can provide and be appropriately compensated for grid services; efficient integration of distributed energy resources; data analytics; and enhanced grid resilience.
  - Continued industrywide coordination of spare equipment programs, materials inventories, and mutual assistance processes for responding to floods, storms, earthquakes, and wildfires, with equitable cost allocation, and a reexamination of liability doctrines that may not be well-suited to an era of increasingly violent and destructive weather and wildfire events.
  - Better coordination of natural gas pipeline planning, markets, and operations, including better coordination of the natural gas and electric systems.
3. *Regulated electric companies are and will remain essential in electric resource portfolio management and investment.* America continues to need long-term electric company investment in and facilitation of balanced and diversified portfolios of cost-effective demand- and supply-side resources, including but not limited to integration of renewable resources. These resources should meet federal, state, and local policy goals, including continuous improvement

in reliability, resiliency,<sup>1</sup> security, and environmental performance. We reaffirm our commitment to reviewing, on a state-by-state basis, the linkage between electric companies' financial health and commodity sales volumes, as a necessary but not sufficient condition for aligning customer and shareholder interests in effective resource portfolio management. Electric companies should not be treated or viewed as energy *commodity* providers; their focus should be customers' evolving energy *service* needs and the grid infrastructure that is crucial to meeting them.

*Our joint recommendations include:*

- Consistent environmental and other performance standards for all involved in competitive resource procurement.
  - Partnership and ownership opportunities for regulated electric companies and independent providers in all aspects of clean energy development, including energy efficiency, demand response, renewables, storage, distributed generation, transportation and building electrification, and microgrids.
  - On a state-by-state basis, we reaffirm our commitment to review the linkage between electric companies' financial health and their retail energy sales and to evaluate alternative regulatory approaches, such as performance-based regulation, to encourage electric company investment.
  - Reducing barriers to environmentally responsible permitting, connecting, and siting for new electricity infrastructure.
4. *Recognizing the need may vary from state to state, we jointly support rate design and regulatory reforms* that accommodate rapid technology change and evolving customer expectations (e.g., incorporating strong incentives to avoid or minimize intervals of severe stress on local and regional grids). One size will not fit all in the search for solutions.

*Our joint recommendations include:*

- Informal collaboration, where practicable, should be used to develop reform proposals for consideration by utility regulators, supplementing traditional adjudicatory procedures to drive toward a system that reduces costs and results in solutions that make sense for all customers.
- Increased emphasis on performance-based regulation and a transition to more flexible rate structures that fairly capture the costs and savings for customers associated with the use of the electric grid.
- Transparent pricing of grid and energy services.

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<sup>1</sup> To be read consistent with the Federal Energy Regulatory Commission's definition of resilience: "*The ability to withstand and reduce the magnitude and/or duration of disruptive events, which includes the capability to anticipate, absorb, adapt to, and/or rapidly recover from such an event.*"

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The Edison Electric Institute (EEI) is the association that represents all U.S. investor-owned electric companies. Our members provide electricity for about 220 million Americans, and operate in all 50 states and the District of Columbia. As a whole, the electric power industry supports more than 7 million jobs in communities across the United States. In addition to our U.S. members, EEI has more than 60 international electric companies, with operations in more than 90 countries, as International Members, and hundreds of industry suppliers and related organizations as Associate Members. Visit us at [www.eei.org](http://www.eei.org) and follow us on Twitter [@edison\\_electric](https://twitter.com/edison_electric).

The Natural Resources Defense Council (NRDC) is an international nonprofit environmental organization with more than 3 million members and online activists. Since 1970, our lawyers, scientists, and other environmental specialists have worked to protect the world's natural resources, public health, and the environment. NRDC has offices in New York City, Washington, D.C., Los Angeles, San Francisco, Chicago, Bozeman, MT, and Beijing. Visit us at [www.nrdc.org](http://www.nrdc.org) and follow us on Twitter @NRDC.