



Advancing the Clean Energy Future

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Senate Environment and Agriculture Committee
Rhode Island State House
82 Smith Street
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Acadia Center Testimony in Support of S2956, An Act Relating to Public Utilities and Carriers – Public Utilities Commission

Chairperson DiMario, Vice Chair LaMountain and Members of the Committee:

Acadia Center appreciates the opportunity to provide testimony in support of S2956, An Act Relating to Public Utilities and Carriers – Public Utilities Commission. Acadia Center is a non-profit research and advocacy organization committed to advancing the clean energy future. The bill before you today, S2956, will help Rhode Island advance a future of lower ratepayer costs, improved resiliency to the effects of climate change, fewer greenhouse gas emissions, and better utility performance.

Grid Modernization and Resilience Plans

In order to meet Rhode Island's emissions reductions targets and clean energy requirements, we must modernize our electricity system. Grid modernization includes both the infrastructure upgrades, as well as the planning, communications, and data management systems, that are necessary to make the electric grid ready to effectively deploy and make use of advanced energy technologies. At the same time, we need to ensure that our grid is prepared to deal with the effects of climate change, like increasingly extreme temperatures and storms.

S2956 will advance a modern electric distribution grid by requiring the distribution company, Rhode Island Energy (RIE), to submit grid modernization and resilience plans to the Rhode Island Public Utilities Commission (RIPUC) every five years. It is important to regularly assess the utility's vulnerability to climate change impacts so that we can proactively prepare for and respond to the impacts of climate change and take steps to improve resiliency outcomes. This approach is already underway in Massachusetts and in Maine and has seen impressive results in rationalizing and coordinating the many moving parts that go into holistic grid modernization processes.

In addition to strengthening the resilience of the grid, grid modernization investments offer many benefits, including giving customers greater control over their energy usage, providing greater visibility into grid operations, integrating more distributed energy resources (DER) and leveraging them to reduce costly peaks, and deferring or avoiding traditional infrastructure expenses.

Integrated Distribution System Planning

Integrated Distribution System Planning (IDSP) is a modernized approach to long-term utility planning and investment decisions that helps to break down planning silos and to create a more accessible and transparent planning process.

Today, utility planning occurs in silos, without robust coordination between gas and electric utilities and without sufficient integration of policy priorities and the interests of underrepresented groups. And because utilities own and earn a return on the infrastructure that gets built, they have a financial interest in the outcomes of planning efforts and the decisions by regulators to approve certain investments over others. This creates a financial conflict of interest that can work against ratepayer interests. Acadia Center describes these challenges in more detail in our report, RESPECT (“Reforming Energy System Planning for Equity and Climate Transformation”).¹

S2956 addresses many of the problems with utility planning by requiring an Integrated Distribution System Planning process. There are a growing number of critical issues that must be considered as part of long-term utility planning. From emissions reductions requirements and beneficial electrification goals, to resiliency, environmental justice, and affordability issues, decision-making around utility investments should occur with full consideration of these issues and the potential impact each has on the others. Rhode Island can no longer afford to continue energy system planning efforts that are conducted in silos and do not include the voices of stakeholders and communities who are most directly impacted by climate change and the environmental impacts of the state’s energy policies.

Integrated Distribution System Planning is an approach to utility planning that is more comprehensive than what takes place today, allows for greater participation and input from stakeholders, and incorporates a broader set of priorities. IDSP provides a new framework for how the electric grid in coordination with the gas system should be planned to help ensure that our energy systems meet Rhode Island’s goals to reduce climate pollution, further environmental justice, and lower consumer costs.

By requiring the electric distribution company to submit 10-year integrated distribution plans every two years, including a near-term action plan, S2956 will establish a transparent, ongoing process to prepare for the long-term needs of our energy system and to assist in the transition to a clean, affordable, and reliable electric system. Other jurisdictions around the country are already embarking on integrated distribution system planning with success, including Hawaii, New York, Massachusetts, and Maine.

Performance-Based Regulation

S2956 also requires the RIPUC to initiate a Performance-Based Regulation (PBR) proceeding. PBR is an important policy tool to better align the incentives that utilities face with improved performance around a range of public policy goals, such as DER deployment, social equity, and affordability.

¹ <https://acadiacenter.org/resource/respect-reforming-energy-system-planning-for-equity-and-climate-transformation/>

PBR includes a broad set of regulatory tools, including but not limited to performance metrics, scorecards, and financial penalties or rewards, among other tools, that can help to overcome outdated incentives under traditional utility regulation.

Today, utility revenues and profits are based on the costs required to provide service to customers. Utilities are allowed to earn profits on capital expenses, such as poles, wires, and substations. But high allowed returns on these types of investments create incentives for utilities to continue to build expensive infrastructure projects, rather than alternative investments, such as non-wires alternatives and distributed energy resources, that may be cheaper and may avoid the need for traditional investments but do not provide a similar opportunity to earn a profit compared to capital expenses.

By setting clear metrics and targets for performance and by adjusting the financial incentives that utilities face, PBR can help reorient utilities towards more cost-effective solutions and can tie earnings more directly to performance outcomes. Other states such as Massachusetts, Hawaii, and New York have already employed PBR tools with success. While Rhode Island has made efforts in recent years to implement some aspects of PBR, there is room to do much more.

In addition to improving outcomes for ratepayers, PBR can also improve outcomes for utilities themselves. For example, in a report from July 2023, the credit rating agency, Fitch Ratings, stated that it views the PBR framework implemented in Hawaii in recent years “as a credit positive as it provides [a] more stable framework for the utility to deliver on its earnings and cash flow.”² In other words, the credit rating for Hawaiian Electric Companies went up, specifically as a result of PBR implementation.

By establishing a formal PBR process, S2956 will help to ensure that utility operations and investments align with Rhode Island’s policy priorities and are informed by clear performance expectations.

Expanding the PUC’s Mandate

S2956 also expands RIPUC’s mandate to include equity, environmental justice, and greenhouse gas emissions reductions as priorities on level footing as RIPUC’s traditional responsibilities of ensuring safety, reliability, and affordability. To make swift progress on greenhouse gas emission reductions, we must change the way the PUC responds to and considers clean energy and climate mandates. The Commission has the potential to advance a low-carbon future, but outdated mandates may keep it from doing so. By reforming its enabling statute to specifically add equity, environmental justice, and greenhouse gas emissions reductions to the Commission’s responsibilities, RIPUC will be empowered not only to make decisions that incorporate considerations of the costs and benefits of addressing climate change, in alignment with Rhode Island’s statutory climate requirements, but also to claim greater authority in moving those requirements forward through its unique authority as the regulator of the state’s investor-owned utility. We strongly support this expansion of RIPUC’s statutory obligations.

² <https://www.fitchratings.com/research/corporate-finance/fitch-upgrades-hei-to-bbb-heco-to-a-outlook-is-stable-28-07-2023>

Prohibitions on Certain Utility Expenses

Finally, S2956 establishes restrictions on the use of ratepayer dollars to fund certain utility advertising, investor-relations, trade association membership, and lobbying expenses. No utility should spend ratepayer dollars on activities or political contributions that work against ratepayer interests. By establishing clear guidelines, S2956 prevents the use of ratepayer dollars on expenses that are only in the interest of utility shareholders, not utility ratepayers. States that have already enacted similar prohibitions include Connecticut, Maine, and Colorado.

Thank you again for your consideration of this important bill. We hope members of the Committee will recommend it for swift passage prior to the conclusion of this year's legislative session, so that Rhode Island does not suffer a yearlong delay in making greater progress on these vital areas.

Sincerely,

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