



# Environmental Advocates Have Proposed a Sweeping New Approach to Regulating Utility Capital Investments and Earnings

## Background

On August 19, 2020, the organization E4TheFuture, whose mission is to “promote residential clean energy and sustainable resource solutions to advance climate protection and economic fairness by influencing... policies,” released a new publication titled, “National Standard Practice Manual for Benefit-Cost Analysis of Distributed Energy Resources” (“NPSM for DER”). Under the direction of E4TheFuture, advocacy-oriented firms such as Synapse Energy Economics and Energy Futures Group, as well as the agenda-driven Smart Electric Power Alliance, authored this manual. E4TheFuture is working with regulatory commissions and other stakeholders to encourage adoption of the ideas presented in the NSPM for DER; if embraced by policy and regulatory actions, the NSPM for DER will dramatically affect how electric and gas utilities plan, make investments and create earnings.

## Implications of the NPSM for DER for Utility Regulatory and Corporate Strategy

The NSPM for DER seeks to expand the scope of energy efficiency cost-effectiveness and policy, that had previously been very narrowly focused, to many aspects of utility planning, spending, and strategy. This new approach favors encouraging alternatives to traditional resource and system investments, thereby influencing how customers will be charged and how utilities will create earnings. The concepts contained in the NSPM for DER are rapidly gaining traction with many utility commissions across the country.

Even before publication, MCR observed key advocates and advocacy-oriented parties, all of them among the authors of the NSPM for DER, injecting

this new line of thinking into regulatory proceedings and stakeholder processes. As suggested above, these proceedings and processes extend well beyond energy efficiency and cover a wide range of core utility business issues across numerous states, including:

- In Michigan, regulatory emphasis is on forecasting and inclusion of energy efficiency, demand response, renewable energy and non-wires solutions into utility integrated resource plan and Certificate of Necessity proceedings.
- In Maryland, there is a “grand bargain” of cost recovery pre-approval through multiyear rate plans in exchange for inclusion of stakeholders in utility planning processes.
- In Maryland and Minnesota, regulators are incorporating performance incentive mechanisms that address alternate resources and non-wires solutions into rates, with the ability of stakeholders to heavily inform the definition of metrics and symmetrical penalty/reward schemes.
- In Oklahoma and Arkansas, regulators are considering issues such as storage and net metering in stakeholder-informed rulemakings and proceedings.
- In Rhode Island, regulators have adopted a planning and utility investment decision-making framework and performance incentive mechanism principles to drive the evolution of utility services and systems to increase adoption of third-party distributed generation and renewable energy.

**MCR’s industry experts develop solutions to key issues facing utility executives.**

These examples illustrate the reality that pressure is increasing across the country and across many different types of regulatory proceedings to achieve the overall goals of the NSPM for DER, centered around tilting the “playing field” in favor of third-party DER investments.

### The Content of the NSPM for DER

The central tenet of the NSPM for DER is:

*“DER BCAs (benefit-cost analyses) can provide a systematic way to compare DERs consistently and comprehensively with each other and with alternative resources. DER BCAs answer the fundamental question: Which resources have benefits that exceed costs and therefore merit utility acquisition or support on behalf of their customers?”*

Based on this premise, the NSPM for DER takes a deep dive into consistent assessment of the economics of energy efficiency and demand response, distributed generation, distributed storage, and electrification initiatives. Importantly, the consistent assessment of the economics includes many of the more theoretical, indirect “societal” benefits and externalities that tend to be hard to quantify and can dramatically tilt the analysis. The NSPM for DER methodology applies this economic assessment approach to decision-making across a wide range of investments and offers examples on specific types of decision making, such as:

- Combining multiple DERs as an alternative to traditional utility service
- Considering non-wires (non-pipe) solutions as

alternatives to distribution (and transmission) investment


- Using systemwide DER portfolios as a baseload resource

The NSPM for DER further extends the methodology to virtually all utility investment by introducing the concept of “dynamic system planning,” which requires the consideration of DER as an alternative to investment throughout all utility planning and investment decision-making processes.

### What Utilities Should Do

It may be tempting to view the NSPM for DER as a technical EE compliance document. It’s not. Forward thinking utilities will recognize that this document represents the next step in a well coordinated approach by active stakeholders to fundamentally change utility planning and investment decisions.

In MCR’s experience working with utilities, success with this new approach requires analysis in conjunction with alignment across many functional areas of the company, including energy efficiency, strategic planning, finance, regulatory, sales and marketing, load forecasting, and distribution planning.

Given the outcomes MCR has seen, we believe utilities should begin thinking about and addressing how the NSPM for DER might affect their future planning. If utilities are engaged and well prepared ahead of time, they have an opportunity to articulate their positions and to drive outcomes that make sense for their customers and shareholders alike. 

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