

Regulatory Assistance Project Tackles Smart Grid

Phil Carson | Jun 01, 2010



As I've pursued an understanding of how the traditional regulatory framework operates for utilities today, I've naturally sought an understanding of how that will change with the push for smarter grids.

One force for regulatory change is the [Regulatory Assistance Project](#), funded in part by the U.S. Department of Energy and various foundations. The RAP makes experts available - "when asked," as its

staff likes to say - to state regulators and legislators, utilities and advocacy groups seeking insights.

I spoke last week with Rich Sedano, a RAP staffer who advises the National Association of Regulatory Utility Commissioners ([NARUC](#)) and utilities in the United States.

RAP is a group of two dozen former utility regulators that provides technical and policy insights on energy and environmental issues to variety of stakeholders, including NARUC, Sedano told me. Established in 1992, the RAP went international in 1999 with work in China, India, Latin America and Europe. ("Our approach is transferable," Sedano said.)

So, what are the implications of smarter grids for regulation and policy?

"Traditional regulation provides a disincentive to utilities because of the lost margins to cover fixed costs when efficiency happens, as well as the added margins that allow financial flexibility when sales increase," Sedano explained. "The utilities are increasingly becoming advocates for reform along those lines."

"It's a nod to reality that states are going to do what seems to make sense locally - there are many reasons why local circumstances drive state policy," Sedano added.

In Sedano's view, if regulation is aligned with the public interest, with national priorities, with economic efficiency, the results should be positive. Utilities should see incentives and they should be rewarded for good performance.



"What we see in many cases, however, is that [current] regulation doesn't promote those outcomes," Sedano said. "Mostly due to inattention. [In contrast], performance-related regulation can provide motivation for utilities to do things in the public interest, as opposed to being reliant on a cost-plus approach to regulation."

What are the barriers to change?

For instance, Sedano said, current smart meter rollouts have contributed to widespread bewilderment.

"In the case of the smart grid, system benefits are a little harder for people to appreciate," he said. "There's reason to wonder about the extent to which getting these benefits is contingent on consumer behavior - whether we can rely on getting thousands and millions of people to behave in new ways."

"A lot of people are asking, 'Why spend all this money?'" Sedano continued. "The 'Bakersfield scenario' [of smart meter pushback] is greatly feared by regulators and utilities. It may appear that money is just flying out the window before benefits become evident."

In Sedano's view, large-scale smart meter rollouts without dynamic pricing programs "doesn't do a lot of good in terms of changing consumers' behavior."

What do utilities have to do to communicate the smart grid value proposition?

"Utilities are increasingly going to realize - the smart ones already do - that they're information companies," Sedano said. "If they think of themselves as anything else, they'll be missing out. The transition from being really proud of your hard assets in the field and thinking that the resulting information is ancillary, to using that information to make customers better off and improving the utility's business is going to be a big one. I worry about whether utility companies are ready for these sorts of challenges."

"State regulatory commissions are recognizing that a full-blown, customer-engagement campaign is needed," Sedano concluded. "I'd distinguish between 'education' and 'engagement.' And I'd underline 'engagement.' A bill insert isn't enough, a few commercials aren't enough. Utilities must communicate with customers in a two-way manner, not just with information, but so there's understanding."

Readers, weigh in. If you agree with Sedano and RAP, let us know why. If this perspective misses the boat or needs augmenting, let us know why you think so. This is a very big topic and we're just getting started.

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