

# RESPECT

## Reforming Energy System Planning for Equity and Climate Transformation

Frequently Asked Questions  
Fall 2021

### What is RESPECT?

RESPECT stands for “Reforming Energy System Planning for Equity and Climate Transformation.” RESPECT proposes a modernized framework for how utilities make investments and decisions, so that we can build the energy systems necessary at the speed required to address the climate crisis. RESPECT imagines a world where investments in our energy systems are aligned with state goals to address climate pollution, further environmental justice, and lower consumer costs. RESPECT focuses on the fact that utilities plan the electric and gas distribution systems they own and operate and have strong financial stakes in the outcomes of their planning decisions – resulting in a significant conflict of interest. By proposing two simple, but far-reaching reforms, RESPECT eliminates these conflicts and redirects the focus of energy system planning towards benefits for consumers and addressing the climate crisis.

### Who is the intended audience for RESPECT?

RESPECT is intended for elected officials, utility regulators, consumers, environmental justice voices, utilities, clean energy and consumer advocates, and other stakeholders interested in addressing challenges related to distribution utility planning – essentially anyone who has looked our energy systems and thought, “how can we do this better, while fighting the climate crisis and improving environmental justice at the same time?”

### What are the problems that RESPECT is trying to solve?

RESPECT addresses three problems with current planning and regulatory oversight: (1) planning is siloed between electric and gas utilities, which causes overspending, reduced reliability and resilience, and more climate pollution; (2) current planning processes ignore equity and environmental justice; and (3) utilities will not plan against their financial interests, even with performance incentives.

RESPECT offers two overarching solutions:

#### Comprehensive Planning

Conduct “all-in” energy system planning that considers supply and demand-side resources; customers’ energy, capacity, and thermal needs; and climate requirements and environmental justice impacts for all fuels across the state.

#### Separate Planners and Owners

Create statewide Planning Entities that can look for solutions beyond utility boundaries and across fuels, leaving traditional utilities free to focus their efforts on business development in alignment with climate and equity mandates. By separating the entity that conducts planning from the entities that own the grid, RESPECT avoids conflicts and clarifies roles.

## Can you give an example of the problem?

Consider a situation we might face today. A low-income neighborhood has two serious problems; first, a gas pipeline has been leaking methane for years. Separately, the community's electric transformers are aging, causing concerns over power reliability and preventing clean energy investments, such as rooftop solar, electrification of building heating, or electrifying the diesel buses that idle at local stops.

Under current utility regulation, the gas utility would respond to the leak by upgrading the pipeline at considerable expense, paid by ratepayers over the next 40 years, locking them into long term sunk costs and continuing reliance on gas. There is no consideration of whether efficient electric heat pumps or geo-microdistricts are a better option. Meanwhile, the electric utility (a different company, even if a corporate affiliate) upgrades the transformer, but is not allowed to recover the expenses for one large enough to allow electrification of local heating and transportation, as that use may or may not materialize. Ratepayers would be on the hook for multiple sets of upgrades to the transformers, needed as more electrification comes online, while also paying high gas bills caused by the replacement pipe. There has been no comprehensive look at how investments in the gas and electric systems are interdependent, how an array of clean energy options can replace fossil gas, or what solutions might be best for the community and their needs.

Under RESPECT, the solution would work better for consumers and the environment. The state Planning Entity proactively identifies the neighborhood as a priority for electrification, based on its environmental justice characteristics, the age of existing infrastructure, and the potential to reduce emissions. The Planning Entity issues a request for proposed solutions. Responses from project developers include proposals to weatherize and electrify building heating, put in fast chargers for electric buses, install community rooftop solar and storage, and build new, efficient, all-electric affordable housing and commercial space. The combined package leverages federal tax credits, state efficiency incentives, clean tech grants, affordable housing subsidies, and commercial development

investments to cost less to ratepayers than the traditional solution. The Natural Monopoly Entity—the electric and gas utility—safely decommissions the gas pipe, lowering its operations and maintenance costs, upgrades the electric transformers only once, and continues to provide electricity to the neighborhood, dispatching resources to balance supply and demand. The utility is back to its core business of providing safe, reliable service to its customers, knowing its investments are secure.

## Why did Acadia Center write RESPECT?

The current regulatory system is not leading to the right investments to address climate, environmental justice, and consumer costs. Acadia Center has published numerous reports highlighting opportunities for reform to align utility incentives with environmental and consumer solutions, including Utility Vision and Incentives for Change. We found that the slow pace of change, the lack of attention to environmental justice, and confusion over the role of the electric and gas utility are all products of an outdated regulatory system. RESPECT is an attempt to identify systemic reforms that move beyond the scope of reforms seen to date and accelerate meaningful progress.

## What forms could the Planning Entity take and how would it be set up?

The Planning Entity could be a new quasi-agency, non-profit, or benefit corporation established for the purpose of mitigating and equitably adapting to the climate crisis while prioritizing reliability, transparency, rigorous public review, and optimizing service for customers. The Planning Entity could also be created by restructuring an existing state agency, such as the public utilities commission. However, the creation of a new entity would allow for a specifically climate-driven mission, separate from the important economic regulator role that PUCs already play.

## Who would ensure our lights and heat stay on?

The streamlined local utility would act as the Natural Monopoly Entity and would be responsible for dispatching resources and meeting customer demand safely and reliably. At the same time, reliability and safety would be one of the key criteria for the Planning Entity's long-term planning, along with other considerations like equity, environmental justice, and emissions. The RESPECT framework does not propose duplication of efforts – rather, the Planning Entity would plan for reliability, and the Natural Monopoly Entity would execute on those plans. By conducting comprehensive planning and separating planning and owning functions, the RESPECT approach would lead to greater benefits overall for consumers.

## Why would RESPECT lead to better outcomes for utilities, too?

The RESPECT reforms will clarify the role of incumbent utilities and reduce risk for their investments because such investments will be part of a coordinated plan. Whether investments are automatically assigned to them as the Natural Monopoly Entity continuing to operate the poles and wires, or chosen in competitive processes, the coordinated planning greatly increases the likelihood of regulatory approval and decreases their business risks.

## What legislative changes are needed to implement RESPECT reforms?

States would need legislation to establish the Planning Entity – either by amending the role of an existing agency, or, preferably, by establishing a new independent agency that is appropriately staffed and funded. States would create clear roles and responsibilities for the Planning Entity, including meeting greenhouse gas emission goals, advancing equity and environmental justice, maximizing customer benefits, and ensuring safety, reliability, and affordability. States may also need to amend laws surrounding energy siting, utility franchises, and access to utility data.

## Why is Performance-Based Regulation (PBR) not sufficient to address the problems with utility planning identified in the RESPECT proposal?

Performance-based regulation is an attempt to overcome some of the deficits of traditional utility regulation. Under PBR, regulators set targets for utilities in certain performance areas that can be tied to financial rewards or penalties. While these performance incentives can affect financial returns, and therefore utility investment decisions, to date efforts to implement robust PBR tools that fundamentally alter utility decision-making have not been achieved at the scale and speed needed for rapid emissions reductions and power sector transformation.

## How do RESPECT reforms align with regional-level reforms?

While the RESPECT solutions outlined in this document are intended to align with the efforts of the New England Governors' Northeast Energy Vision and efforts to reform the planning and investment processes at ISO-New England, AcadiaCenter has limited the scope of this paper to distribution-level planning. Ultimately, the decisions made by the state Planning Entities impact the planning decisions and market operations of ISO-NE, as the lines between transmission and distribution, as well as wholesale and retail energy markets, are increasingly blurred. Coordination and integration of the Planning Entities with regional structures like ISO-NE could be considered as RESPECT reforms move forward.

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