



WHITE PAPER

Why Is the Smart Grid So Dumb?

**MISSING INCENTIVES IN REGULATORY
POLICY FOR AN ACTIVE DEMAND SIDE IN
THE ELECTRICITY SECTOR**

By Travis Kavulla, NRG Energy



Advanced metering infrastructure was supposed to transform the retail customer experience, empowering demand to participate in a genuinely two-sided market across from supply. But as smart meters become ubiquitous, few retail customers see time-of-use prices related to the cost elements of electricity service that vary over time. Someone, somewhere must face clear incentives to actively manage demand in order for it to happen. Yet even the companies that serve retail customers too often lack meaningful exposure to these costs.

This paper examines the incentives facing two different types of retailers: utility monopolies and competitive retailers. It finds

incomplete incentives to activate demand flexibility throughout their business models. Regulated utilities under modern amendments to traditional cost-of-service regulation are usually deadened to incentives altogether, or even perversely incentivized. Competitive retailers typically are faced with incentives around supply costs, but too often have no role billing for and intermediating other network charges. Reforms are proposed: time-of-use rates as the default retail product for regulated-utility customers, all retailers exposed to and responsible for billing all relevant grid costs, and public investment and standards for automated devices. Absent these reforms, transformation of electric grids—increasingly subject to intermittent supply, volatily priced fuels, and rising demand—will be costlier and slower.

A White Paper from the Energy
Systems Integration Group's
Retail Pricing Task Force

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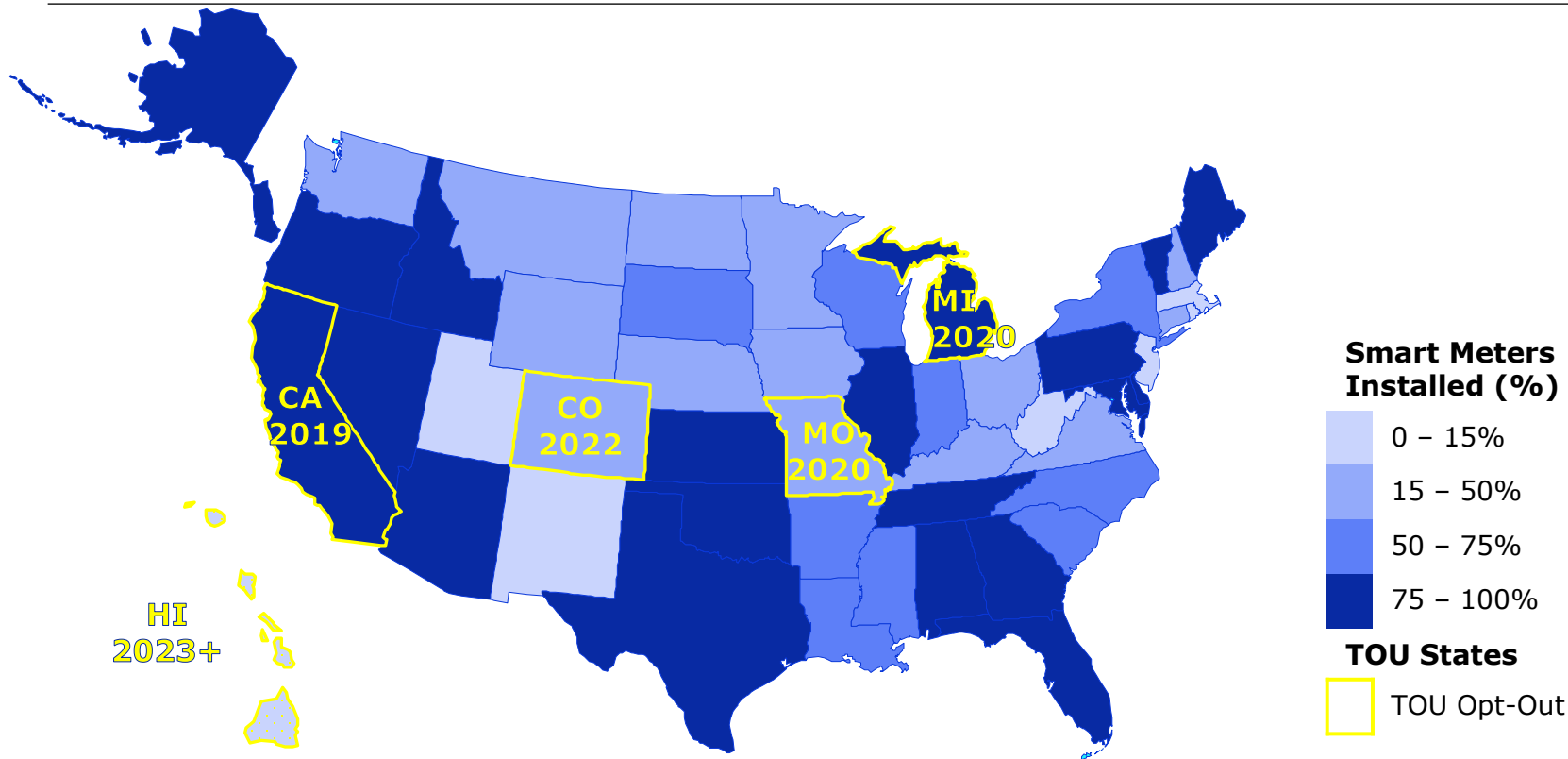
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Restructuring Roundtable - Boston

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AMI is widely deployed, but rarely used for retail pricing



Adapted from: Cooper and Shuster, "Electric Company Smart Meter Deployments: Foundation for a Smart Grid," Institute for Electric Innovation, April 2021, p. 3.

National Grid Basic Service and competitive offers in Massachusetts



Basic Service Rates (R-1)

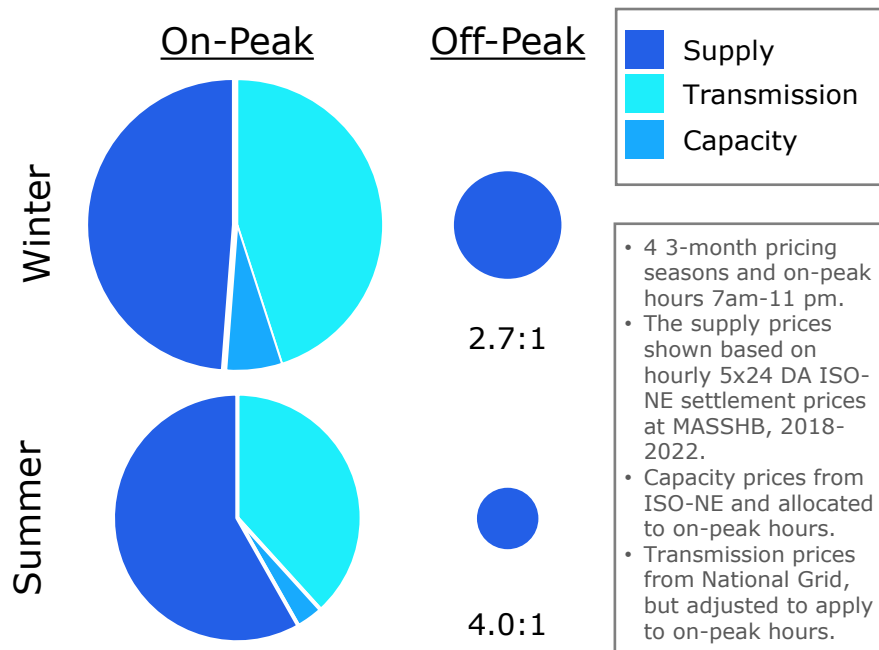
Month	Fixed Price	Variable Price
Apr 2023	33.891 ¢	25.248 ¢
Mar 2023	33.891 ¢	29.733 ¢
Feb 2023	33.891 ¢	39.776 ¢
Jan 2023	33.891¢	40.500 ¢
Dec 2022	33.891 ¢	35.959 ¢
Nov 2022	33.891 ¢	28.571 ¢
Oct 2022	11.491 ¢	11.610 ¢
Sep 2022	11.491 ¢	11.177 ¢

MA Shopping Site Listings

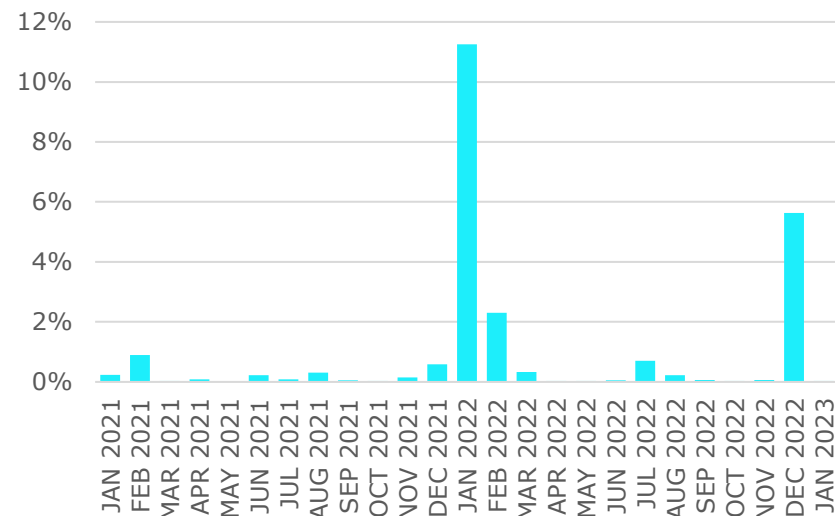
Electric Supply Products			
SUPPLIER NAME	PRICE ⓘ	CONTRACT TERM ⓘ	RENEWABLE ENERGY ⓘ
Basic Service ⓘ	33.891 ¢/kWh TBD	Nov '22 through Apr '23 May '23 through Oct '23	Required:59% Voluntary:0% TOTAL : 59%
 Sign Up Compare ☐	12.270 ¢/kWh	8 months No cancellation fee Automatic renewal ⓘ	Required:59% Voluntary:0% TOTAL : 59%
 Sign Up Compare ☐	12.290 ¢/kWh	9 months Cancellation fee ⓘ Automatic renewal ⓘ	Required:59% Voluntary:0% TOTAL : 59%
 Sign Up Compare ☐	12.890 ¢/kWh	8 months No cancellation fee Automatic renewal ⓘ	Required:59% Voluntary:41% TOTAL : 100% ⓘ 
 Sign Up Compare ☐ New Customers Only ⓘ	12.990 ¢/kWh	6 months Cancellation fee ⓘ Automatic renewal ⓘ	Required:59% Voluntary:0% TOTAL : 59%
	12.990 ¢/kWh	7 months No cancellation fee	Required:59% Voluntary:0%

Price signals tell customers every kWh is the same, and they don't respond to cost peaks

National Grid MA could have a TOU supply price spread of 3x- 4x



Oil-fired generation as a % of total supply in ISO-NE 01/21 to 01/23



Someone, somewhere, has to face a price signal for demand activation to happen



1. Basic service should be a default TOU with Critical Peak Pricing optionality
2. Retailers can be better positioned to offer time-varying rates or incentive- or rebate-based DR, but only if they
 - a) Get to manage not just energy supply costs, but all rate elements
 - b) Get access to AMI data / have customers' loads settled on AMI
 - c) Own the customer bill
3. Public investment/standards for devices



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