How the Regulatory System Protects Customers

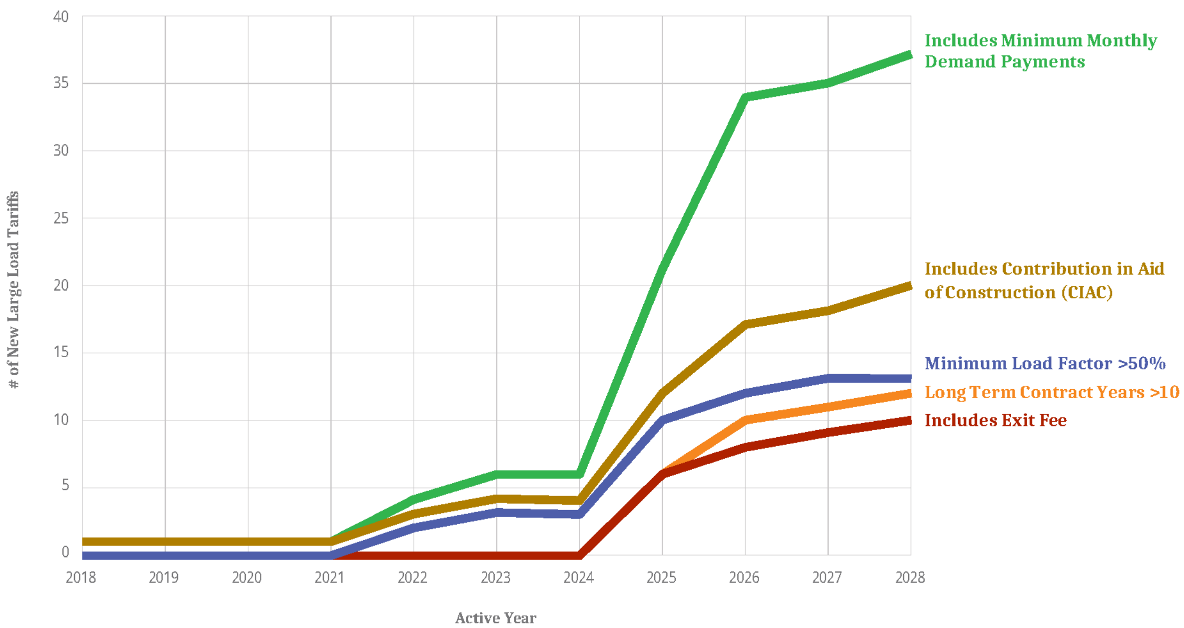
The regulatory framework includes multiple safeguards to prevent cost shifting and ensure customer protections and equitable outcomes.

First, as described in the previous section, core principles of equitable rate design aim to align customer payments with the costs they impose on the system, while also balancing other policy objectives. These costs include existing (embedded) system costs as well as incremental (marginal) system costs. Reflecting marginal costs help ensure that new load does not impose uncompensated costs on the system. Embedded cost allocation methods further distribute fixed costs based on cost-causation principles, aligning class revenue responsibility with underlying drivers such as energy consumption and peak demand. Specific measures for transmission cost allocation are discussed below.

Second, utilities and regulators have begun to employ risk mitigation tools in large load tariff design to manage longer-term uncertainties, including stranded asset risk. Large loads can carry uncertainty regarding pace, scale, or longevity. To manage this risk, utilities may implement minimum demand charges, take-or-pay provisions, long-term contract terms, credit requirements, refundable deposits, capacity reservation charges, and interconnection cost assignments. For example, contribution in aid of construction (CIAC) involves customers paying upfront for dedicated facilities (substations, lines, transformers), which acts as private grid investments that benefit the broader community, rather than just managing liability. These mechanisms ensure that if load does not materialize as forecasted or exits early, unrecovered costs are not shifted to other customers. The next section provides an overview of these tools in more detail.

Moreover, these tools are increasingly being implemented. Figure 3 shows, for select customer protection measures, the cumulative counts of new large load tariffs by active year, demonstrating the accelerating pace of adoption as utilities and regulators respond to large load growth. The full set of tariffs referenced here are provided in Appendix A.2, and may not be capturing all tariffs.

Figure 3: *Cumulative Counts of New Large Load Tariffs by Customer Protection Measures, by Active Year*[6]



[6] Graphic developed by E3 using Halcyon data