charged
Charting a path for Greater Electrification on the Distribution system

PROACTIVE INVESTMENT FRAMEWORK

TECHNICAL AND REGULATORY CONSIDERATIONS

FACT SHEET

This report can help readers understand the proactive investment concept, identify proactive investment opportunities, evaluate the prudency of proposed proactive investments, and apply techniques to fairly allocate and recover associated costs.

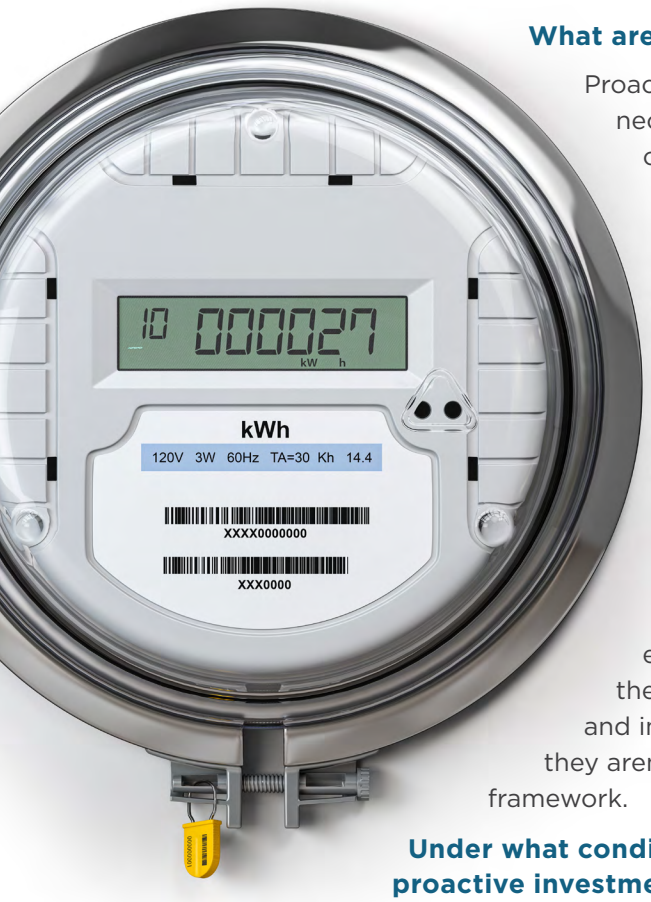
What makes proactive investments different from a technical perspective?

Historically, distribution capacity investments have been driven by relatively certain load growth projections, either from short-term aggregate customer growth expectations or specific, known large load additions. Proactive investments, in contrast, attempt to provide capacity further ahead of time to enable future growth, and are driven by longer-term forecasts. This can improve customer experience, support state policy goals, and potentially improve long-run investment efficiency. However, this can lead to investments that are made too early or are not fully utilized if load does not grow as expected, putting upward pressure on rates.

What makes proactive investments different from a regulatory and economic perspective?

Making investments ahead of typical load growth expectations may increase regulatory scrutiny — and how prudency assessments are conducted. Because there is additional risk that growth may not materialize as expected, utilities must demonstrate why the investment is justified. In addition, because the specific type and size of growth is less certain, existing cost allocation and recovery mechanisms may not result in reasonable outcomes among customer classes.

This fact sheet was developed from the report **Proactive Investment Framework: Technical and Regulatory Considerations** *which was developed as part of a CHARGED working group and released in December 2025.*



What are the benefits of proactive investments?

Proactive investments can reduce connection times by completing necessary upgrades before new load applications come in. They can also be used to smooth out capacity investments across several years when growth is expected to outpace the ability to build the needed capacity in one construction instance. A proactive investment approach can also be used in sizing decisions for other investments, increasing up-front costs but lowering the overall life-cycle cost by avoiding inefficiencies from repeated upgrades.

What are the risks of proactive investments?

Proactive investments are more reliant on longer-term forecasts, increasing the risk that the investments are made too early or in the incorrect location. Inappropriate cost allocation is also a concern, as capacity added to support forecasted growth among one customer class may end up being used by customers of a different class once the project has been constructed. Investment underutilization and inappropriate allocation can both raise costs for customers if they aren't appropriately addressed as part of a proactive investment framework.

Under what conditions or circumstances should utilities consider proactive investments?

Utilities should consider proactive investments only in locations where they provide specific benefits compared to the current investment process, for example, long-run cost-effectiveness, faster connections for new loads, customer experience improvements, or support for state energy goals.

How can proactive investments be implemented to minimize risk of over investment?

One way to reduce risk due to over forecasting is to align construction timelines with when risk is predicted to emerge — i.e., wait as long as possible to build rather than build as soon as possible. Regulators may want to consider having a set of prerequisite processes and capabilities before considering proactive investments. These could include:

- a regular, transparent, and well-structured distribution system planning process.
- robust forecasting practices that account for and quantify uncertainty, and regular reporting of longer-term forecasting error.
- more extensive screens for load flexibility and non-wires alternatives.
- communication of existing headroom on the system to connect new loads at low cost.
- rates and harmonized programs that incentivize load flexibility.
- and data-sharing platforms.

What is an appropriate regulatory process for proactive investments?

Proactive investments processes should be paired with an advanced regulatory framework that monitors utility performance through a broad set of metrics, and where utilities already use best practices for forecasting and planning. Meaningful stakeholder engagement is essential,

particularly for improving load forecasts and identifying where and when investments are needed, as distribution investment planning has historically largely been managed by utility engineers with limited transparency into the data, assumptions, and methods. In many cases, changes to existing ratemaking processes may not be required. However, the regulatory process becomes especially important if a utility is requesting specific ratemaking treatment, such as extraordinary cost recovery, that could shift investment risk from utility shareholders to ratepayers.

How should the costs from proactive investment be allocated?

Under most circumstances, traditional cost allocation approaches that are based on the cost causation principle still apply to proactive investments. In some instances, it may be useful to consider future beneficiaries and create spatial cost allocators that reflect investment for certain customer types or areas on the distribution system. However, alternative cost allocation approaches can add complexity and care should be taken when deviating from traditional cost allocation practices that have been relied upon for several decades.

What are some of the unanswered questions and next steps?

It's important to protect ratepayers from unjustified proactive investments. It is important to develop gating criteria to ensure the utility performs on prioritized metrics. Additionally, ensuring that utilities have prerequisite regulatory processes in place, such as a transparent distribution planning process and proceeding, is a critical customer protection that should occur before implementing a proactive investment framework.

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