



**DTE Energy®**

# Performance Based Regulation MPSC Collaborative

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# Performance based ratemaking (PBR) covers a range of plans and plan elements in three categories



	<u>Regulatory Construct</u>		<u>Goal or Incentive Area</u>
<b>Broad-based Incentive Frameworks</b>	<ul style="list-style-type: none"><li>• Multi-year Rate Plans (MRPs)</li><li>• Price Cap (i.e., inflation less a productivity factor) frameworks that may include price and revenue caps</li></ul>		<ul style="list-style-type: none"><li>• Strengthens cost control</li></ul>
<b>Narrow Incentive Frameworks</b>	<ul style="list-style-type: none"><li>• Targeted Performance Incentives (TPIs)</li><li>• Earnings Adjustment Mechanisms (EAMs)</li></ul>		<ul style="list-style-type: none"><li>• Focused on specific outputs</li><li>• Service Quality Improvements</li><li>• Address Policy Goals</li></ul>
<b>Risk Reduction/ Investment Incentive Mechanisms</b>	<ul style="list-style-type: none"><li>• Riders</li><li>• Trackers</li><li>• Formula based rates</li></ul>		<ul style="list-style-type: none"><li>• Investment (e.g., Grid Modernization)</li></ul>

**Many PBR plans are composed of combinations of broad-based incentive frameworks and targeted performance incentives**

# DTE has had in place, elements of the “narrow” and “risk reduction/investment incentive” type PBR mechanisms for awhile



- Trackers
  - Uncollectibles
  - Storm Restoration
  - Line Clearance
  - Pension
  - Choice Implementation Mechanism
  - Gas Safety and Training
  
- Gas Infrastructure Recovery Mechanism
  - Beginning in 2013, and reaffirmed for 2017-2021, the Commission approved a surcharge, increasing annually, for contemporaneous recovery of the return on and of the annual capital investment related to the DTE Gas’s Main Renewal, Meter Move Out and Pipeline Integrity programs
  
- Energy Optimization (EO)
  - PA 295 of 2008 gave the Commission the ability to approve financial incentives for rate-regulated utilities when they exceed energy savings targets for a given year. As outlined by PA 295, the financial incentive cannot exceed 15 percent of the providers’ actual annual EO program spending or 25 percent of the customers net cost reductions as a result of the energy optimization plan, whichever is less

# PBR mechanisms can help support the regulatory structure and provide additional benefits both to the customer and to the utility



Attorney/client work product prepared in anticipation of litigation

Objective	Description
<b>Strategic Alignment</b>	<ul style="list-style-type: none"><li>• Supports a good value proposition for our customers</li><li>• Supports system reliability efforts</li><li>• Aligns with MPSC goals and objectives</li></ul>
<b>Rate Administration</b>	<ul style="list-style-type: none"><li>• Simplifies the regulatory process and provides rate certainty</li><li>• Smooths out rate increases to customers</li></ul>
<b>Risk Mitigation</b>	<ul style="list-style-type: none"><li>• Allows for strong and healthy utilities</li><li>• Minimizes risk for recovery of large investments</li><li>• Minimizes regulatory uncertainty</li></ul>
<b>Legal Implications</b>	<ul style="list-style-type: none"><li>• Ensures that selected mechanisms don't require any new legislation and can be implemented under existing Michigan law</li></ul>