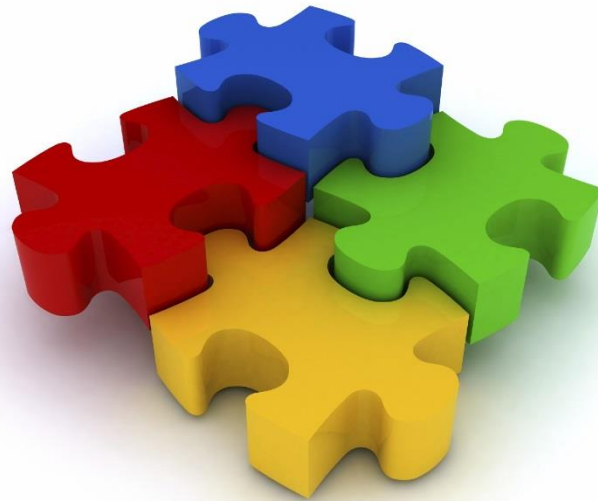


Performance Based Regulation (PBR) MPSC Workgroup

MPSC Workgroup Meeting – 3/13/17



MICHIGAN PUBLIC SERVICE COMMISSION

PBR– Summary Content

- **Background**
- **Work Plan**
- **MI Recent Performance
Mechanisms/Incentives Report/Topics and
Resources**
- **Other States and National Sources**
- **International Sources**



PBR Study - Background

- **“The term – performance-based regulation – is the most recent in a long line of vocabulary used to describe regulatory approaches that rely on financial incentives and disincentives to induce desired behavior by a regulated firm. The desired behaviors, or outcomes, are generally 1) lower costs, 2) improved service, and 3) more rational allocation of risks and rewards.**



PBR Study - Background

- **The renewed interest in PBR largely reflects dissatisfaction with cost-of-service or rate-of-return regulation, especially the perception that cost-of-service regulation stifles utility innovation and causes utility managers to be more responsive to regulators than to customers. PBR may also be pursued by utilities seeking higher profits, more flexibility, or less risk.”**
- *“Performance Based Regulation for Distribution Utilities”* – Regulatory Assistance Project – December, 2000



PBR Study - Background

- **PA 341 of 2016 (Section 6U) requires MPSC to conduct PBR Study...**
 - Collaborate with Stakeholders
 - Review PBR systems implemented in other states – including the UK's RIIO (revenue = incentives + innovation + outputs) model



PBR Study - Background

– Evaluate the following PBR factors:

- Methods for estimating revenue during multiyear pricing [PA 341 Sec. 6u (3)(a)]
- Methods to increase length of time between rate cases; provide utilities opportunities to retain cost savings without adjustments [PA 341 Sec. 6u (3)(b)]
- Options for incentives & penalties pertaining to customer satisfaction, safety, reliability, environmental @social issues [PA 341 Sec. 6u (3)(c)]
- Profit sharing provisions [PA 341 Sec. 6u (3)(d)]
 - Spread efficiency gains among consumers and utilities and reduce downside risks associated with innovation
 - Allow returns if certain functions performed

***MPSC must provide report to legislature/governor with results by April 20, 2018**



Work Plan & MPSC Workgroup

- **Work Plan:** Assemble team, engage stakeholders, initiate processes and reports
 - **PBR Workgroup**
 - Cross Section of MPSC interest and expertise
 - FAAD
 - RED
 - OWMD
 - Telecom
 - Customer Service



MPSC Workgroup

– PBR Workgroup (Cont.)

- Brian Ballinger, Sponsor
 - Support the team
 - Address barriers, etc.
- Patrick Hudson, Team Leader
 - Develop and implement plan
 - Communicate with team
 - Keep leadership informed
 - Ensure timelines met



MPSC Workgroup

– PBR Workgroup (Cont.)

- Rob Ozar, Primary Researcher
- Kirk Forbes, Report Compiler
- Dan Blair, RED – Contributor
- Nick Revere, RED – Contributor
- Charyl Kirkland, OWMD - Contributor
- Bob Nichols, FAAD - Contributor
- Kavita Bankapur, RED - Contributor
- Cody Matthews, OWMD – Contributor
- Susan Corbin, Customer Service – Contributor
- Sean Kelly, Telecom - Contributor



MI Mechanisms, Incentives, Topics & Resources

- **MI Performance Mechanisms, Incentives Report, Topics & Resources**
 - Incentive Regulation of Distribution Utilities
 - Primer: Theory and Practice – Rob Ozar’s presentation to the Georgians
 - Incentives and Performance Mechanisms
 - Staff’s presentation to Georgians – brief overview



MI Mechanisms, Incentives, Topics & Resources

- FAAD Draft Report from 2014
 - Michigan Primer for PBR
 - Aligning policymakers, regulators, utilities and customers
 - PBR ties utility profit to performance
- 1990's/2000 Rate Case Activity
 - Case No. U-11290 – June 1997
 - Case No. U-11456 – September 2000
 - Case No. U-15244 – March 2007



MI Mechanisms, Incentives, Topics & Resources

– MI Energy Office Roadmap Report – August 2015

- *“Roadmap to Implementing MI’s New Energy Policy: Paths to the Future Report”*
- Prepared for the MI Energy Office by Public Sector Consultants with the Regulatory Assistance Project (RAP)
- Performance Regulation section
- Also other sections including Code of Conduct, Rate Design and Infrastructure Planning
- http://www.michigan.gov/documents/energy/path-to-future-report_497839_7.pdf



Other States and National Resources

- Sub-category – Multi-year Rate Plans(MYRP)
 - Minnesota Public Utility – November 2015
 - Open Docket No. E002/GR-15-826 : Northern States Power authority to increase rates
 - National Regulatory Research Institute (NRRI) October 2016
 - MYRP and public interest report (www.nrri.org)
 - Scott Madden Management Consultants –February 2014
 - Current business and regulatory environment
 - Overview of different MYRP approaches
 - Summaries of future trends



Other States and National Sources

- Advanced Energy Economy – 2016 NARUC
 - Presentation Exploring PBR and Alternative Rates
- Lawrence Berkeley National Laboratory
 - 2016 Future Electric Utility Regulation Report
 - Issues from perspectives of utilities and customers
- Regulatory Assistance Project (RAP) –December 2000
 - PBR for Distribution Utilities - Advice



Other States and National Sources

- Hawaii Docket 2013-0141
 - Open rate case containing testimony from advocates
- Articles and Essays
 - Effective Regulation of Public Utilities – Aug. 2015
 - Essay –industry performance and commission measurements
 - Utility Dive –Can PBR unlock utility of the future
 - March 2016 article



Other States and National Sources

- West Monroe – 2014
 - Illinois is first state to approve a PBR structure
 - Resurgence of PBR in Maryland, Oklahoma & CA
- NARUC Winter Meetings – 2017
 - How DER compensation and value affects utilization



Other States and National Sources

There are examples of alternative rate design already in practice or under consideration.	
Rates	California-residential rate design (R1206013) Arizona-time varying rates Massachusetts-time varying rates (14-04) Illinois-real-time pricing and bill savings
Distribution System Planning/DER	New York -Value of Distributed Energy Resources proceeding (15-E-0751) Minnesota -Value of Solar Tariff NARUC -Distributed Energy Resources Manual Rhode Island Investigation Into the Changing Electric Distribution System
Performance Based Regulation	AEE Institute -PBR for Pennsylvania Whitepaper Massachusetts Energy Efficiency Programs Discussions in MN, MO, IL, MI, NH
Wholesale Markets	FERC -Electric Storage Participation in Regions with Organized Wholesale Electric Markets -No. AD16-20-000



International Sources

- Ontario – Renewed Framework
 - 2014 NARUC Presentation
 - Overview of the Renewed Regulatory Framework for Ontario
 - Performance Measures
 - Rate-setting under the Renewed Regulatory Framework for Electricity (RRFE)
 - Importance of planning in the RRFE
 - Status of implementation and next steps



International Sources

- Ontario – Renewed Framework
 - Mowat Research #141
 - Spring of 2016 commissioned by OME to research role of DER in energy distribution systems
 - Select experts from Germany, U.K. Scandinavia and US
- UK’s RIIO Model
 - Pace Law Review fall of 2015
 - Reforming Electricity Regulation in NY



Emphasis on UK's RIIO Model

- Legislation specified UK's RIIO model
- Staff Georgian presentation referenced UK's RIIO
- Several sources from NRRI
- More work to do researching UK's RIIO



Next Steps

- Web post this PP presentation
- Web post general project agenda
- Monitor stakeholder interest (responses from the web)
- Reach out to stakeholders
- Prepare for stakeholder participation late July 2017

