

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION**

Minutes of Open Meeting Held on March 18, 2019

Present: Chairperson Margaret Curran, Commissioner Marion Gold, Commissioner Abigail Anthony, Patricia Lucarelli, Cynthia Wilson-Frias, Margaret Hogan, John Harrington, Todd Bianco, Alan Nault, and Emma Rodvien. PUC consultant, Michael O'Boyle joined via Skype.

On Monday, March 18, 2019, the Public Utilities Commission (PUC) conducted a workshop for Commissioners and Commission Staff to discuss a Memorandum from Commissioner Abigail Anthony regarding principles to guide the development and review of performance incentive mechanisms.

Commissioner Anthony opened the meeting at 10:10 a.m. and the PUC recessed for fifteen minutes due to a brief scheduling conflict. The meeting resumed at 10:25 a.m.

The Commissioners discussed the appropriateness of and need to establish clear, complete, and consolidated guidance on the PUC's policy for the appropriate use and design of performance incentive mechanisms.

Commissioner Anthony provided background of the PUC's review of performance incentive mechanisms (PIMS) in prior cases. She noted that the PUC does not currently have universal principles in place to guide the analysis of PIMS. She posited that it is important to both the PUC and parties to have clear and consistent principles. The PUC needs them for its analysis of PIMS while parties need them so they can determine how to build a case and design PIMS.

Chairperson Curran agreed that it is time to begin developing PIMS because of the changing distribution system and interest around the country and in Rhode Island in reassessing the methods of compensation to the utility.

Commissioner Anthony indicated that she began her assessment with the system reliability procurement and least cost procurement standards which she has been using as her basis for evaluating proposed PIMS. During the course of her analysis, she explained, she found that many of the PIMS recently proposed had common problems. For example, it was difficult to compare the cost of the metric to the achievement of the purported benefits. It was also unclear in some cases to understand why a PIM was needed when it seemed the utility already had an incentive to undertake the activity. Additionally, in some cases, the design of the PIM seemed to lack a clear connection to the proposed action and expected benefits. She also questioned PIMS that do not hold the utility to any clear outcome. Finally, there were some PIMS proposed which, upon further review, it was determined the utility was already meeting or exceeding the target.

Together with staff and the consultant, she took a fresh look at the eleven principles from the system reliability procurement and least cost procurement standards and thought about what works, what may not work, and whether they could be refined for broader applicability.

Commissioner Gold noted that much of the work on PIMS had been started in the energy efficiency space and applying it systemwide may pose different challenges and presents the next step forward in the process. She found Commissioner Anthony's cost/benefit discussion in the memorandum very helpful in distinguishing the analysis from the Docket No. 4600 framework of costs and benefits. Agreeing that a clear and consistent standard of review is really important, she queried whether the goals for the electric system that are included in the Docket No. 4600 Guidance Document could be used as a starting point for goals of PIMS.

Commissioner Anthony had not considered the goals for the electric system in the context of the PIMS, but thought it was an interesting area to discuss further. She explained that she had focused more on the benefits that are set forth in the Docket No. 4600 framework. She noted that the memorandum does not set forth priority areas or focus areas of where the PUC might want to see a PIM proposed. She explained that as the stakeholders begin to work through the memorandum and the principles, the universe of things to which these would apply is pretty narrow and she thought inclusion of goals might be a distraction from the analysis of the principles.

Chairperson Curran pointed out that the whole approach in the memorandum was to put the innovations and thought in the hands of people who have expertise. Rather than the PUC offering that there is one right way to design PIMS, it is designed to guide others. Stakeholders are given the ability to determine how to achieve a goal rather than the PUC directing how to achieve that goal. The PUC should be guiding what parties should be working on, but not dictating how it should be done, but rather, leave it to those with expertise to figure out.

In response to Commissioner Gold's question about how qualitative benefits are treated differently for program review and a review of PIMS, Commissioner Anthony explained that she did not believe the ratepayers should pay performance rewards to the utility for the delivery of qualitative benefits. Qualitative benefits, however, can be important to the review of program funding. PIMS, she believed, should only be paid for quantitative benefits that are measurable. Qualitative benefits that are monetized provide a benefit to the utility it can take to the bank, but there is no way to discern whether those benefits were correct. This requires consumers to just believe they got the benefit the utility said they would. She noted that the PUC considers qualitative benefits in energy efficiency programs but does not pay out the energy efficiency shareholder incentive for those. Rather, the PUC pays for the achievement of efficiency savings.

The Commissioners discussed how PIMS might work in the service quality context and after some input from staff, concluded that it is better to set an outcome-based incentive rather than an action-based incentive. They reasoned that an outcome-based incentive allows the utility (and stakeholders) to try different approaches and hopefully find the least cost method to meet the goal. An action-based incentive, on the other hand, only incents those actions and if those are not the right actions or are not the least cost actions, the

ultimate goal may not be met despite all of the actions being completed and the incentive being paid.

The PUC's consultant noted that if there is a significant risk in compensating the utility for qualitative benefits, but the PUC were to still favor a PIM, there are ways to design one. For example, one could start by tracking and measuring performance. Perhaps the design would be one of penalty only for failing to meet a minimum level of the desired outcome.

Commissioner Gold noted that it will be important to set appropriate targets but also imperative to avoid moving the "goal post" in the middle of an evaluation period. She referenced challenges the United Kingdom faced during the first phase of the RIIO (revenue=incentives+innovation+outputs), including criticism that the targets may have been set too low and that utilities could meet the targets through deferrals.

Chairperson Curran and Commissioner Anthony discussed the fact that the memorandum does not represent a total overhaul of the utility business model but is a starting roadmap for the PUC and parties for the evaluation of PIMS. Commissioner Anthony reiterated that this is a necessary step because all filings, including PIMS, need to be subject to the same standard of review and so many of the proposed PIMS had challenges that shifted risk onto the ratepayers. She stated that the standard of review needs to be such that the PUC can compare and ensure that risks and rewards are fairly allocated between the utility and consumers.

Chairperson Currant asserted that this review would be a necessary component of any potential overhaul of the utility business model. With all of the changes to the electric distribution system, the current compensation model is also likely to have to change. She queried whether this more reasoned approach toward PIMS would also drive considerations of better ways to compensate utilities in the entire system.

Commissioner Anthony suggested that PIMS may be useful and necessary to advance elements of the public interest under the current regulatory structure and help identify what might be a "good deal" and substitute for part of the ROE rather than just as an adder. She opined that the current docket reviewing a capital efficiency mechanism within the context of the electric infrastructure, safety, and reliability plan could provide another piece of the development of PIMS.

The PUC's consultant explained that the role of PIMS can work with other complementary reforms. PIMS alone can do a lot to motivate addressing market failures such as optimizing distributed energy resources. The ultimate question will be what the ultimate utility business model should look like. For example, if it is to optimize the distribution system and take advantage of customer sided resources, the utility will still have the incentive to increase rate base. Even with PIMS layered on the current regulatory compensation structure, the utility may still prefer to improve service through capital investment. PIMS can be a proving point to where the utility can start to optimize the distribution system. Once the utility has started to meet some goals and receive rewards, the targets can be moved further to increase performance.

The Commissioners agreed with Commissioner Anthony's proposal that a guidance document should be developed using the principles in the memorandum as a first step. They discussed next steps for seeking stakeholder feedback, including soliciting comments. They agreed that there is not currently a set time frame. The goal is to develop a quality document rather than a quick document.

A copy of the Memorandum is attached to these minutes. No votes were taken.

Meeting adjourned at 11:55 a.m.

The Open Meeting was streamed live and recorded. It can be accessed at <http://www.ustream.tv/channel/WqQyXw296dg>.