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May 13, 2019

Via Regular U.S. Mail & Email

Luly Massaro, Commission Clerk
RI Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

Re: PUC Docket No. 4892 - Guidance Document Regarding Principles to Guide the Development and Review of Performance Incentive Mechanisms

Dear Ms. Massaro:

Enclosed for filing in the above referenced docket, please find an original and nine copies of the Rhode Island Office of Energy Resources' comments.

If you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

Andrew S. Marcaccio
Deputy Chief of Legal Services

Enclosures

STATE OF RHODE ISLAND
OFFICE OF
ENERGY RESOURCES

**Comments of the Rhode Island Office of Energy Resources on Docket #4943
re: Guidance Document Regarding Principles to Guide the Development and
Review of Performance Incentive Mechanisms**

May 13, 2019

The Rhode Island Office of Energy Resources (OER) submits these comments regarding the solicitation for comments on the Guidance Document Regarding Principles to Guide the Development and Review of Performance Incentive Mechanisms (Guidance Document) in Docket #4943.

OER supports the development of the Guidance Document and thanks the Commission for their efforts in advancing the conversation about Performance Incentive Mechanisms (PIMs). A set of clear guidelines and expectations will help both the utility and stakeholders frame their thinking when developing, proposing, and evaluating performance incentive mechanisms, with the goal of putting forth performance incentive mechanisms that are effective and cost-efficient.

Having clear, non-duplicative guidelines for all PIMs and a framework for Commission review is helpful. Previous Commission rulings on proposed PIMs has created some skepticism among certain stakeholders about their future use. Well-structed guidelines will help frame utility and stakeholder expectations, and guide the development of PIMs so that, when necessary and designed appropriately, they can be deployed to improve the performance of the utility and outcomes for end-use consumers.

The intersection of PIMs with Docket 4600, especially concerning the desire to quantify non-cash benefits and qualify all non-quantifiable benefits, needs additional clarification in future refinement of the Guidance Document. There seems to be a disconnect about the benefits we want to achieve with programs (i.e. all of them: cash quantifiable, non-cash quantifiable, non-quantifiable) and the benefits the Commission wants to incentivize through PIMs (i.e. only cash quantifiable). This asymmetry may lead to unintended consequences.

A future revision of the Guidance Document should clarify expectations for PIMs that may span across separate businesses within the utility. Such clarifications may include the appropriate docket(s) in which to propose cross-business PIMs, relevant information regarding standards of review or supporting evidence, and expectations for symmetries in performance across businesses.

Excluding any type of qualitative benefit from analysis of a proposed PIM may unnecessarily neglect key benefits from utility performance. For example, in discussion of the Docket 4600 framework, benefits described within a bounded range were said to be qualitative. However, if stakeholders can make the argument that improved performance will at least provide the lower bound of the qualitative benefit range, it is plausible that benefit should be accounted for in a well-designed PIM. More direction on this would be helpful in a refined set of PIM guidelines.

In Principle 5, how is "same benefit" defined? Does it refer to who gets the benefit, the type of benefit, how the benefit is delivered, when the benefit is delivered, or where the benefit is delivered?

The Guidance Document focuses only on improving performance outcomes (e.g. customer service). It does not address building institutional capacity and processes for the utility to perform in new ways (e.g. implement NWAs, build out specific discrete tools). PIMs may address both of these, but the guidelines may be different. The guidelines should also discuss action-based incentives for complete clarification for stakeholders.

Attenuating incentives over time may lead to attenuating desired utility behavior. Principle 3 entails decreasing the proportion of benefits paid to the utility and increasing the proportion of benefits that accrue to customers. In the absence of a clear Commission order, regulatory requirement, or statutory requirement to continue the desired behavior/action of the utility, there is no force to maintain equilibrium. The utility is ostensibly incurring some cost to achieve the desired outcome in return for the added profit through the PIM. Without any other changes, removal of the PIM may lead to reversion of actions (considering outcomes like improving customer service). Moreover, the explanation of Principle 3 seems to suggest that a non-attenuating PIM is a poorly designed PIM. Is this accurate? If the share between benefits and costs remains the same, is that a negative?

Purely tracking metrics without a cash (dis)incentive is not sufficient to alter utility performance or behavior. We see value in tracking metrics to understand baseline performance and set targets for improved performance. However, we are skeptical that the sole act of tracking metrics without risk of penalty or revenue will substantially change utility behavior.

Which perspectives should be presented in a PIM analysis/justification? Following the Docket 4600 framework, a societal perspective would underlie the analysis regarding the proposed PIM. Should a utility or customer perspective also be considered?

We urge the Commission to be mindful of the burden of required analyses for PIMs, benefit-cost analyses, and other regulatory proposal requirements on stakeholders. Robust stakeholder engagement has been a cornerstone of program development in Rhode Island, resulting in nation-leading programs and continual improvement for the utility. While it makes sense that the utility and stakeholders should provide clear, complete, and rigorous support for all proposals, compiling such evidence and analyses is time-consuming, resource-intense, and complex. Furthermore, extensive analyses by the utility are ultimately borne by ratepayers. How can we strike the most beneficial balance between analytical burden and incentive design? Thought should be given to prioritizing certain components, reducing time and cost of analyses as appropriate, and generally streamlining requirements. An appropriate approach may need to consider qualitatively-described benefits.

What is the expectation for cost of the analysis needed to develop PIMs? As the required level of detail and analytical rigor increases, so do costs. Whether the analysis is conducted by the utility, the Energy Efficiency and Resource Management Council (EERMC), the Distributed Generation Board, OER, or the Division of Public Utilities and Carriers (DPUC), the cost of the analysis is ultimately paid for by ratepayers. With this in mind, we hope the Guidance Document can provide clarity on expectations for analytical detail. Do all PIM proposals require equal levels of detail? Would the Commission only consider incentives large enough to justify an extensive analysis? How might the level of required detail impact the ability of stakeholders to review and comment on the proposed PIM? Who does the Commission expect to propose PIMS – the utility, stakeholder councils, OER, DPUC? Is the expected level of analysis the same across all entities that wish to propose a PIM? Does the analysis need to be completed before a PIM structure is proposed or could a PIM be proposed (or approved) contingent on data collection and analysis over a time period?

Thank you for your consideration.