Via Electronic Mail

May 13, 2019

Luly E. Massaro
Commission Clerk
Public Utilities Commission
89 Jefferson Boulevard
Warwick, Rhode Island 02888

RE: Docket No. 4943, Guidance Document Regarding Principles to Guide the Development and Review of Performance Incentive Mechanisms, Comments of Sunrun Inc.

Ms. Massaro:

Sunrun Inc. ("Sunrun") submits the following comments in response to the Public Utilities Commission's ("Commission") April 11, 2019 Notice to Accept Comments ("Notice") in the above-referenced docket.

Sunrun is the largest residential solar, storage and energy services company in the country with nearly 250,000 customers in 23 states, including Rhode Island, and the District of Columbia and Puerto Rico. Integrating performance-based regulatory mechanisms into the regulatory paradigm is a critical element of aligning the utility business model with Rhode Island's clean energy goals, the goals of the Power Sector Transformation Initiative and the public interest more broadly. We commend Commissioner Anthony for developing the memorandum on Principles for Performance Incentive Mechanisms ("Memorandum") and the Commission for furthering this important discussion to develop a thoughtful framework for integrating performance incentive mechanisms ("PIMs") into the regulatory paradigm in Rhode Island.

As a leader in residential distributed energy resource ("DER") deployment, Sunrun has significant experience working with regulators, utilities and other stakeholders on rate design and related regulatory mechanisms to align utility incentives with the public interest. PIMs are an important tool available to the Commission to accomplish these goals. We offer the following preliminary observations and recommendations to advance the goals of the Memorandum.

I. PIMs Are a Useful Mechanism to Incentivize Utility Performance

Sunrun agrees with the Memorandum's assessment that "PIMs can be reasonable, possibly necessary, tools to improve a utility's performance in certain areas."[1] PIMs are one regulatory tool commissions use to integrate elements of performance-based regulation ("PBR") into traditional cost-of-service regulation ("COSR") when COSR fails to advance certain policy goals.

For instance, as the New York Public Service Commission ("NY PSC") observed in the Reforming the Energy Vision Track 2 Order ("REV Track 2 Order"), "New York and many other states have used performance incentives for years to encourage reliability, customer service, and other priorities."[2] In the REV Track 2 Order, the NY PSC adopted a performance incentive approach using "outcome-based earning opportunities, targeted toward results that will create consumer savings and enable and build market activity, with an assumption that the need for regulated incentive mechanisms will be continually reviewed in light of progress in the development of transactive markets."[3] New York's approach to performance incentives tracks closely with the Memorandum's purpose and vision for incorporating PIMs into the Rhode Island regulatory paradigm.

Other states are also exploring PIMs as part of a broader suite of PBR mechanisms intended to more closely align utility incentives with public policy goals. In 2018, Hawaii enacted legislation requiring the Hawaii Public Utilities Commission ("Hawaii PUC") to "establish performance incentives and penalty mechanisms that directly tie an electric utility's revenues to that utility's achievement on performance metrics and break the direct link between allowed revenues and investment levels."[4] The Hawaii PUC is currently investigating the regulatory mechanisms best suited for implementing the legislature's directives to achieve that end.[5] While the Hawaii PUC currently utilizes a number of PIMs to incentivize utility behavior in targeted areas, the PBR proceeding is also investigating how revisions to existing PIMs and adding new PIMs would advance the proceeding's goals.[6]

The experience of other states with PIMs shows that they can be a useful regulatory tool and lend support for the Commission's efforts to develop guidance for the design of

[1] Memorandum of Commissioner Anthony to Chairperson Curran and Commissioner Gold, Re: Principles for Performance Incentive Mechanisms at 2 (Mar. 5, 2019) ("Memorandum").

[2] New York Pub. Serv. Comm'n, Case 14-M-0101, Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision, Order Adopting a Ratemaking and Utility Revenue Model Framework at 7 (May 19, 2016) ("REV Track 2 Order").

[3] *Id.*

[4] H.R.S. § 269-16.1(a).

[5] *See* Hawaii Pub. Utils. Comm'n, Docket No. 2018-0088 ("Docket No. 2018-0088").

[6] *See, e.g.*, *id.* Staff Proposal for Updated Performance Based Regulations at 33-34 (discussing existing PIMs and recommendations to establish PIM targets tied to state energy goals or other established regulatory priorities, and should balance the costs of achieving the target with the potential benefits to ratepayers).

performance incentives. Other states' experiences also offer lessons learned on the design and implementation of PIMs that could be useful to Rhode Island.

II. Discussion of PIM Principles

A. Principle 1: A performance incentive mechanism can be considered when the utility lacks an incentive (or has a disincentive) to better align utility performance with the public interest and there is evidence of underperformance or evidence that improved performance will deliver incremental benefits.

The Memorandum describes this principle as necessary to establish an initial screen to determine whether a PIM is the appropriate regulatory mechanism to drive performance toward a particular regulatory outcome. Sunrun agrees with the incorporation of this principle as a threshold question that should be asked when considering whether a PIM is warranted.

The Hawaii PBR proceeding referenced above offers an example of this principle in practice. In that proceeding, the Hawaii PUC solicited extensive feedback from stakeholders in defining goals and outcomes for the proceeding and identifying regulatory mechanisms best suited for achieving those goals and outcomes. In some instances, PIMs were identified as an appropriate mechanism, while in other instances, different mechanisms were identified, or a combination of PIMs with other mechanisms were identified as more appropriate.[7]

Consideration of the appropriate mechanism for advancing a particular policy goal is an important guiding principle. Sunrun agrees with the Memorandum's recommendation for this as a guiding principle.

B. Principle 2: Incentives should be designed to enable a comparison of the cost of achieving the target to the potential quantifiable and cash benefits.

The Memorandum describes this principle as necessary to allow the Commission to be able to compare various categories of costs and benefits and make just and reasonable decisions. Sunrun agrees that this is an important guiding principle. We further agree with the Memorandum's observation that this principle "requires transparency that enables regulators and the public to understand the total cost of achieving the target and evaluate the cost-effectiveness of the PIM from multiple perspectives."[8] Sunrun encourages the Commission to provide additional guidance and a process for utilities to make available the data necessary to ensure transparency and enable the Commission,

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[7] *See id.* at 19-20 (Table 2: Mapping Outcomes to Specific Regulatory Mechanisms provides a matrix of identified regulatory outcomes mapped to the regulatory mechanisms proposed for advancing each individual outcome).

[8] Memorandum at 6.

stakeholders, and the public at large to understand and evaluate a particular PIM proposal.

C. Principle 3: Incentives should be designed to maximize customers' share of total quantifiable, verifiable net benefits. Consideration will be given to the inherent risks and fairness of allocation of both cash and non-cash system, customer, and societal benefits.

The Memorandum describes this principle as necessary to instill confidence in regulators and consumer advocates that customers are protected from unreasonable costs and will benefit from the PIM.[9] Sunrun agrees with the Memorandum's attention to the need for flexibility in PIM design to provide the regulator with "discretion to strike a fair balance between adjusting utility returns to motivate performance with maximizing customer value."[10] Sunrun notes that while a PIM framework will be similar across PIMs, the specifics of PIM design will very likely differ in some respects based on the targeted outcome any particular PIM is designed to achieve. In this context, regulatory flexibility is important, but as a guiding principle, PIMs should ultimately incentivize utility behavior that promotes the public interest.

Sunrun encourages the Commission to also consider where asymmetrical vs. symmetrical PIM design is appropriate. In some instances it may be appropriate to design a PIM that allocates a certain number of basis points as an upside only (reward), while in other instances it may be appropriate to allocate a certain number of basis points as a downside only (penalty); in other instances, still, it may be appropriate to design the PIM symmetrically to include both upside and downside. The variations in PIM design in this context provide additional means to allocate risk under different reward / penalty structures to incentive performance and disincentivize non-performance by the utility.

D. Principle 4: An incentive should offer the utility no more than necessary to align utility performance with the public interest.

The Memorandum describes this principle as necessary to "appropriately set a performance incentive, a commission should consider and weigh all the benefits that flow to the utility to determine the marginal incentive necessary to motivate the proposed performance."[11] Sunrun encourages the Commission to consider the observations offered in response to Principle 3 for incorporating into Principle 4 as well.

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[9] *Id.* at 6-7.

[10] *Id.* at 7.

[11] *Id.* at 8.

E. Principle 5: The utility should be offered the same incentive for the same benefit. No action should be rewarded more than an alternative action that produces the same benefit.

The Memorandum describes this principle as necessary to ensure that PIMs are designed to "incentivize the utility to seek the most cost-effective methods of achieving performance aligned with the public interest." Sunrun agrees with the Memorandum's observation that PIMs should "inspire the utility to focus on how to achieve the target in a manner that maximizes net total benefits." Sunrun also agrees that PIMs should prioritize outcomes, not means, allow for flexibility and encourage innovation.

III. Conclusion

Sunrun appreciates the opportunity to provide these initial comments on the Memorandum's guiding principles for PIMs. The Memorandum identifies several important topics that it does not address, which will be critical to consider carefully. Sunrun does not have items to add to this list of topics but looks forward to future opportunities to discuss the development and design of PIMs.

Respectfully submitted,

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