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## **Comments of Vote Solar**

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

**Nathan Phelps, Regulatory Director**

**February 28, 2020**

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### **Introduction**

Vote Solar appreciates the opportunity to submit comments to the Public Utilities Commission (“PUC” or “Commission”) on the principles for the development and review of performance incentive mechanisms (“PIMs”). The development of the principles for PIMs is an opportunity for interested parties to reflect on the priorities, desired outcomes, and design of PIMs.

Vote Solar takes this opportunity to address a few issues. Specifically, these comments address: (a) general comments on PIMs; (b) the identification of PIM topic areas and information gathering; (c) the incentive structure of PIMs; and (d) a discussion of the principles for PIMs proposed by Commissioner Anthony.

### **About Vote Solar**

Vote Solar is an independent 501(c)3 nonprofit working to repower the U.S. with clean energy by making solar power more accessible and affordable through effective policy advocacy. Vote Solar seeks to promote the development of solar at every scale, from distributed rooftop solar to large utility-scale plants. Vote Solar has over 80,000 members nationally. Vote Solar is not a trade group nor does it have corporate members.

### **Initial Thoughts on PIMs**

Vote Solar is strongly supportive of increasing the opportunities for the Commission to compensate investor-owned utilities (“IOUs”) for desirable outcomes, mitigate capital bias, and benefit ratepayers. As such, Vote Solar is supportive of PIMs in theory. Nonetheless, as the PUC has identified, the details of PIM development and review are critically important. Vote Solar is very pleased that the PUC is working on this issue, and we’re happy to help the PUC on this issue where appropriate.

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To the extent practicable, Vote Solar recommends that PIMs should be considered as part of the overall revenue requirement of the IOU. Ideally, over time the percentage of revenue collected from a return on capital expenditures will decrease as the percentage of compensation from PIMs increases. For this reason, Vote Solar expects that most PIMs should be reviewed in the context of a general rate case. Nevertheless, Vote Solar supports the investigation of PIMs – including information gathering and even the preliminary development of PIMs – in advance of a general rate case. At the very least, any PIMs that are developed outside of a general rate case should be taken into account in the determination of the revenue requirement in the general rate case.

### **PIM Topic Areas and Information Gathering**

As discussed several times in the December 23, 2019<sup>1</sup> discussion document in Docket No. 4943 (“Discussion Document”), there may be a need for a future process that identifies policy or performance areas for PIMs.<sup>2</sup> Vote Solar supports a future process for two reasons: (1) provide additional guidance to all parties on where PIMs are (and are not) appropriate; and (2) identify areas where PIMs could potentially be appropriate, but there is insufficient information at the present time.

Vote Solar notes that the Hawaii Public Utilities Commission might offer a useful example of how a commission can provide guidance to stakeholders on PIM topic areas, and the focus of performance-based regulation in general.<sup>3</sup> Vote Solar believes that such a process could also be very fruitful in Rhode Island by narrowing the focus of PIMs *in the short term*, but also providing an opportunity to think about PIMs more broadly in the medium and future term.

In addition, Vote Solar is worried that potential topic areas for PIMs may be restricted by available information – especially data. If the PUC has a future process to identify topic areas, then all stakeholders may have an opportunity to identify areas of interest that do not have a baseline. If the PUC is so inclined, it could direct the IOU to gather information on the topic area and/or hire a consultant to gather information. Ultimately, stakeholders may have some difficulty in identifying appropriate PIM topic areas or be limited in appropriate options if there is a scarcity of information.

For instance, a potential topic area for PIMs could be the energy burden of low-income customers. Energy burden is typically calculated as the percentage of income that is used to pay for energy bills. After this information is compiled, the PUC could determine that this is not an appropriate topic area for PIMs, and alternatively decides to take other regulatory actions (such as increasing the discount rate for low-income customers). However, after the information is gathered, energy burden may be an area worthy of consideration for PIMs. As an example, a

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<sup>1</sup> The document was initially released on December 19, 2019 and revised on December 23, 2019.

<sup>2</sup> For instance, the PUC brings up this issue on pages 29 (twice) and 37 of the Discussion Document.

<sup>3</sup> See Docket No. 2018-0088.

future PIM could be based on a reduction in the energy burden of low-income customers (normalized for weather and, potentially, other factors).

### **Incentive structure of PIMs**

The financial consequences should depend on the PIM. For some very clear-cut PIMs that are part of the IOU's core responsibility – such as outage-related PIMs – a penalty only structure might make sense.<sup>4</sup> For other PIMs – such as energy efficiency – a reward only structure might make sense. For other PIMs, both penalties and rewards might make sense.

Generally speaking, a reward-only performance metric does not appropriately balance the risk and reward for the IOU and the customers. In the absence of penalties, an IOU could decide that it will focus on only some of the PIMs because they can achieve the most financial gain with the least effort, thereby selectively choosing which performance areas are worth their effort. PIMs should generally balance the interest of the IOU and the customers. One option to balance the interest of the IOU and the customers is to include a penalty for poor performance. A symmetrical performance metric would thereby provide the IOU with more financial motivation to actively work on the Company's performance in all PIM areas since the Company is likely to suffer a penalty if it ignores performance in any one area. Another option to balance the interest of the IOU and the customer is to have reward-only PIMs, but require a threshold level of performance in all PIMs in order receive the reward from any individual PIM.

In addition, PIM rewards and penalties could include a deadband with no financial impacts. For instance, half a standard deviation above or below the target performance (the performance level that the IOU is expected to achieve without any additional rewards or penalties) could include no financial ramifications from the PIM. The deadband can be thought of as the margin for error in order to account for uncertainty and variability.

### **Discussion of Principles**

Overall, Vote Solar is very supportive of the concepts behind the draft principles. Vote Solar is especially appreciative of the deliberative thinking and work that the PUC has put into PIMs. Vote Solar provides the below comments with the hope of furthering the discussion.

At a high level, Vote Solar recommends that the PUC balance principles 2-5. In this regard, principles 2-5 would not have any primacy over one another. Instead, the principles should be considered similarly as the ratemaking principles are currently considered. Since principle 1 asks threshold questions, it should be treated differently than the other principles.

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<sup>4</sup> Penalty-only PIMs can be viewed as a way to reduce harm for ratepayers, or reduce undesirable outcomes.

*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.*

Vote Solar strongly supports the threshold questions associated with principle 1. However, the PUC may want to be explicit – rather than implicit – with some additional guidance. Specifically, proponents should have to demonstrate that (1) the monopoly IOU is the appropriate entity to take action, rather than entities operating in a competitive environment, and (2) a PIM is the appropriate regulatory option to effectuate the outcome. Vote Solar acknowledges that the PUC has made these points, but we think these are also threshold questions that warrant explicit inclusion in principle 1.

In addition, Vote Solar notes that proponents should clearly identify the desired outcome of a PIM. When other stakeholders and the PUC are reviewing the proposed PIM, there should be no ambiguity as to what outcome the PIM is motivating the IOU to effectuate. Please note that this does not mean the PIM should necessarily identify the desired *action* of the IOU. For example, if the desired outcome is to lower peak demand, is that peak demand of the distribution system, the transmission system, the wholesale energy market, all the above, or something else. If the proponent is unable to clearly identify the desired outcome, evaluation of the PIM proposal and/or the review of the performance of the IOU under the PIM will be exceedingly difficult, if not impossible.

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

In order to protect ratepayers, principle 2 is reasonable and appropriate. Vote Solar's only concern with principle 2 is in regard to public policy directives. For instance, RI statutes allows the IOUs to offer low-income customers a discounted rate.<sup>5</sup> If the PUC desired, it could direct the IOUs to increase participation of low-income customers on the discounted rate. If a PIM is the appropriate mechanism, the benefits of increased low-income customer participation in the discounted rate would largely be netted out by the costs to other ratepayers. In this hypothetical example, the cost-benefit framework may not be the best mechanism to determine whether energy affordability for low-income customers is in the public interest.

To be clear, Vote Solar fully expects that principle 2 is appropriate for the vast majority of PIM proposals. Nonetheless, the PUC may want to allow for exceptions in narrow circumstances.

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<sup>5</sup> See R.I. Gen. Laws § 39-2-5(13).

*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.*

Vote Solar fully supports principle 3. Vote Solar only offers that there will likely be a learning curve for all parties. We expect that as all parties gain experience with PIMs and the calculation of benefits and costs, all parties will get better with the development of PIMs and the accuracy of calculating benefits and costs associated with PIMs.

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

Vote Solar supports the objective of principle 4. Our only concern is identifying “no more than necessary.” Specifically, if non-IOU stakeholders are going to be offered the opportunity to propose PIMs in the future, determination of the appropriate incentive level could be exceedingly difficult in circumstances of information asymmetry. We expect that the determination of appropriate incentive levels will become easier over time as the IOUs, stakeholders, and the PUC gain more-and-more experience with PIMs. However, Vote Solar would not want the experience with PIMs in RI to be thwarted by an unintentional roadblock of precision in novel subject areas. Just as “[r]egulators are unlikely to have enough information to select which actions are the least-cost for delivering beneficial outcomes,”<sup>6</sup> stakeholders are unlikely to have enough information in order to determine the *precise* incentive level necessary to motivate action by the IOU.<sup>7</sup> In an effort to provide a little bit of leeway, Vote Solar proposes the inclusion of “to the maximum extent practicable” to principle 4.

Vote Solar notes that we agree with the PUC “that if a utility were to find efficiencies in a business area, the utility might, temporarily, enjoy extra profits driven by those efficiencies, but eventually those efficiencies should flow to ratepayers.”<sup>8</sup> Similarly, the appropriate incentive level will likely change over time, and incentive levels should be viewed as an iterative process with past experiences influencing future incentive levels.

*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.*

With the additional guidance that the PUC provided in the Discussion Document, Vote Solar supports principle 5.

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<sup>6</sup> See Discussion Document at 7, §II.C.2.d.iii.

<sup>7</sup> Vote Solar acknowledges that the PUC discussed the concept of precision in the Discussion Document at 37.

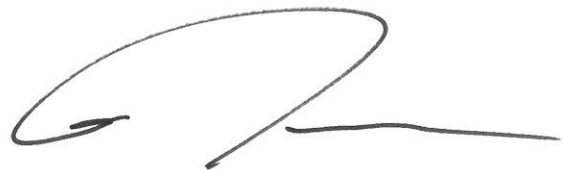
<sup>8</sup> See Discussion Document at 27.

## Conclusion

Once again, Vote Solar appreciates the opportunity to submit comments on the PIM principles. In the interest of providing constructive feedback to the PUC, Vote Solar makes the following recommendations. First, to the extent practicable, Vote Solar recommends that PIMs should be considered as part of the overall revenue requirement of the IOU. Second, the PUC should have a future process in order to (1) provide additional guidance to all parties on where PIMs are (and are not) appropriate, and (2) identify areas where PIMs could potentially be appropriate, but there is insufficient information at the present time. Third, although the financial consequences of PIMs (*i.e.*, penalty-only performance incentives v. reward-only performance incentives v. symmetrical performance incentives) should be determined on a case-by-case basis, PIMs should balance the interests of both the IOU and the ratepayers. Fourth, principle 1 should be revised in order to require proponents to (1) demonstrate that the monopoly IOU is the appropriate entity to take action, rather than entities operating in a competitive environment, (2) demonstrate that a PIM is the appropriate regulatory option to effectuate the outcome, and (3) clearly identify the desired outcome of the PIM. Fifth, the PUC may want to allow for exceptions to principle 2 in narrow circumstances. Sixth, principle 4 should be revised to include “to the maximum extent practicable.”

Vote Solar looks forward to continuing to work with the PUC and other interested parties on PIMs. Vote Solar is available to answer any questions that the PUC might have on our comments. Vote Solar sincerely thanks the PUC for the opportunity to present our perspective. We look forward to working on this issue in the future.

Respectfully submitted this 28th day of February 2020 by:



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