

# Performance-Based Regulation Proceeding

## Phase 2 Workshop A

Hawaii Public Utilities Commission

August 7, 2019



# Workshop Objectives

- Review the **Phase 1 D&O** to support a shared understanding of its key elements and inform Party proposal development
- Review the **process and desired outcomes for Phase 2**
- Align on expectations and needs for **Phase 2 Working Groups**



# Workshop Agenda

- I. Welcome & Opening Remarks
- II. Overview of Proceeding & Workshop Agenda
- III. Phase 1 D&O Presentation and Participant Discussion

LUNCH

IV. Phase 2 Process Overview & Reflection

BREAK

- V. Stakeholder Presentations: “Needs and Offers”
- VI. Next Steps & Close



# Ground Rules

- Be present
- Practice democracy of time
- Keep an open mind



# Introductions

Briefly, introduce yourself with:

- Name
- Organization
- Whether you participated in Phase 1



# Check-In Question

As you are developing your proposal, what is one thing you are hoping to walk away with from this workshop that you didn't have before?



# Review of Decision and Order No. 36326



# D&O 36326 establishes the regulatory guiding principles, goals, and outcomes to guide Phase 2

The following guiding principles will inform the development of the PBR framework:

- 1. Customer-centric approach**, including immediate “day 1” savings for customers when the new regulations takes effect;
- 2. Administrative efficiency** to reduce regulatory burdens to the utility and stakeholders;
- 3. Utility financial integrity** to maintain the utility’s financial health, including access to low-cost capital

Regulatory Goal	Regulatory Outcome	
Enhance Customer Experience	Traditional	Affordability
		Reliability
	Emergent	Interconnection Experience
		Customer Engagement
Improve Utility Performance	Traditional	Cost Control
	Emergent	DER Asset Effectiveness
		Grid Investment Efficiency
Advance Societal Outcomes	Traditional	Capital Formation
		Customer Equity
	Emergent	GHG Reduction
		Electrification of Transportation
		Resilience





# Phase 2 will focus on the development of 8 key PBR mechanisms

## Revenue Adjustment Mechanisms

1. Multi-Year Rate Plan (MRP) with Indexed Revenue Adjustment
2. Earnings Sharing Mechanism
3. Major Project Interim Recovery (MPIR)
4. Revenue Decoupling and Existing Cost Trackers
5. Off-Ramps

## Performance Mechanisms

6. Performance Incentive Mechanisms (PIMs)
7. Shared Savings Mechanisms
8. Scorecards and Reported Metrics



# Revenue Adjustment Mechanisms



# 1. Multi-year Rate Plan

## Objective

- Multi-year Rate Plan with Indexed Revenue Adjustment
  - Extended 5-year period between general rate cases
  - Initial target revenues and rates based on existing or pending utility rates
  - **During MRP, target revenues will be adjusted annually based on the ARA formula**

## Phase 2 Considerations

- Determination of ARA formula values
- Determination of process for addressing end of initial MRP

## Annual Rate Adjustment (ARA)

$$\text{ARA} = (\text{inflation factor}) - (\text{X-Factor}) + (\text{Z-Factor}) - \text{Customer Dividend}$$

- Values for these specific factors will be determined during Phase 2
  - **Inflation**: Annual change according to a regularly published inflation index
  - **X-Factor**: Predetermined annual productivity factor
  - **Z-Factor**: Factor applied (ex post) to account for exceptional circumstances not in the utility's direct control (e.g., tax law changes)
  - **Customer Dividend**: A "stretch factor" or reduction in allowed revenue
- In addition, target revenues in a given year may be adjusted by:
  - (1) effect of revenue decoupling; and
  - (2) specific projects approved pursuant to the MPIR adjustment mechanism



## 2. Earnings Sharing Mechanism

### Objective

- Develop mechanism under which utility and customers will “share” in the amounts of utility earnings that deviate from PUC approved amount
- Intend to examine both “upside” and “downside” elements of sharing; i.e., customers sharing in both reasonable gains and losses in utility earnings (although, not necessarily in symmetrical amounts)
- Sharing baseline range will be bordered by a deadband or “collar” within which there will be no earnings sharing or adjustment

### Phase 2 Considerations

- Determination of earnings “sharing” baseline range and deadbands
- Determination of unit of measure (e.g., ROE, EPS, etc.)
- Determination of period of review (e.g., quarterly, annually, multi-year, etc.)



# 3. Major Projects Interim Recovery (MPIR)

## Objective

- Continue using the MPIR adjustment mechanism for interim cost recovery for extraordinary projects, as approved by the Commission on a case-by-case basis
- Examine whether modifications to the MPIR adjustment mechanism are necessary in light of the PBR principles, goals, and outcomes established by the commission, as well as the other PBR mechanisms under consideration in Phase 2
- MPIR adjustment mechanism will continue to operate as a separate adjustment to annual target revenues

## Phase 2 Considerations

- Determine what modifications to the MPIR Mechanism should be made, consistent with the commission's PBR guiding principles, goals, and outcomes
- Examine whether the MPIR adjustment mechanism should be modified to address incentives regarding capital and operating expenditures



# Reflection Activity

In small groups, complete flipchart template using stickies and Sharpies.

Answer these questions for each of the mechanisms:

- What **clarifying questions** do you have?
- What **crucial decisions** need to be made for this mechanism to be successful?
- What **opportunities** does this mechanism provide?
- What **issues** do you anticipate needing to address in development and/or implementation of this mechanism?



# Report Out

What is **one key question** and **one item you want to highlight** from your discussion?



# 4. Revenue Decoupling

## Objective

- Continue Revenue Decoupling through the operation of the Revenue Balancing Account (RBA)
  - Target revenues will continue to be adjusted annually based on the difference between sales revenue and target revenues established through base rates (as adjusted by the ARA)
- Existing cost tracking and flow-through mechanisms will continue unless modified in separate dockets
  - Ex: Energy Cost Recovery Clause, Purchased Power Adjustment Clause, pension and OPEB tracking mechanisms, DR Adjustment Clause, REIP surcharge, DSM surcharge, Public Benefits Fee surcharge, etc.

## Phase 2 Considerations

- Consider whether modifications to RBA are desirable to accommodate development of related PBR mechanisms
- Consider modifying RBA review period to address lag





# 5. Off-ramp Provisions

## Objective

- Examine need, desirability, and specific details of developing mechanisms to provide review of, and potentially adjustment to, approved PBR mechanisms during MRP

## Phase 2 Considerations

- Determine whether off-ramp mechanisms are necessary, in light of other identified PBR safeguards
- Determine under what specific circumstances an off-ramp mechanism would be necessary or desirable
- Determine specific details of off-ramp mechanism(s)
- Triggering events and standards for review
- Duration; i.e., “pause” or discontinuation of the mechanism
- Process for initiating off-ramp mechanism; i.e. automatic or by application



# Performance Mechanisms



# 6. Performance Incentive Mechanisms (PIMs)

## Objective

- Apply “PIM-specific design considerations” to develop 3 to 6 new PIMs addressing the Outcomes of Customer Engagement, DER Asset Effectiveness, and Interconnection Experience
- PIMs for Customer Engagement and DER Asset Effectiveness will be “upside” only, while PIM(s) for Interconnection Experience will feature both “upside” and “downside” components

## Phase 2 Considerations

- Determine reasonable metrics, targets, and financial incentives addressing each of the identified Outcomes
- Determine whether multiple PIMs should be developed to address a particular Outcome
- Examine each identified Outcome to assess definable aspects that can be reasonably measured and compared
- Monitor related dockets for relevant developments and filings (e.g., DER, DR, Grid Mod, IGP)



# 7. Shared Savings Mechanisms (SSMs)

## Objective

- Utility and customers share savings from reducing expenditures compared to a baseline or projection. Utility retains a portion of savings as profit while returning the remainder to customers
- Develop SSMs addressing the Outcomes of Grid Investment Efficiency and Cost Control
- SSM for Grid Investment Efficiency should address utility capital bias
- SSM for Cost Control should incent cost effective solutions to meet customer needs

## Phase 2 Considerations

- Determine suitable areas of utility operations that address identified Outcomes
- Determine reasonable baseline or projection for SSM in identified areas
- Determine proportion of savings that should be retained by utility versus returned to customers
- Consider process for reviewing effectiveness of SSMs



# 8. Reported Metrics and Scorecards

## Objective

- Develop Scorecards to measure utility performance against an established benchmark or target
  - Focus on achieving Outcomes of Interconnection Experience, Customer Engagement, Cost Control, and Greenhouse Gas Reduction
- Develop reported Metrics to measure and assess utility performance towards achieving Outcomes of Affordability, Customer Equity, Electrification of Transportation, Capital Formation, and Resilience

## Phase 2 Considerations

- Determine appropriate areas of utility operations that are suitable for achieving identified Outcomes
- Determine reasonable units of measurement to track utility progress in specific areas
- Determine reasonable benchmarks or targets against which to compare recorded progress
- Determine appropriate periods by which to measure progress; i.e., monthly quarterly, annually, etc.
- Consider process for reviewing and evaluating effectiveness of metrics and scorecards



# Reflection Activity

In small groups, complete flipchart template using stickies.

Answer these questions for each of the mechanisms:

- What clarifying questions do you have?
- What crucial decisions need to be made for this mechanism to be successful?
- What opportunities does this mechanism provide?
- What issues do you anticipate needing to address in development and/or implementation of this mechanism?



# Report Out

What is **one key question** and **one item you want to highlight** from your discussion?



# Thank you

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August 7, 2019





# PBR Workshop A

## Phase 2 Working Groups

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# This presentation will cover the following Phase 2 Working Group details:

- Approach and Desired Outcomes
- Meetings/Workshops Logistics
- Participation and Responsibilities
- Tools to Support Collaboration
- Roles
- Next Steps



# Phase 2 will focus on developing a portfolio of Revenue Adjustment and Performance Mechanisms

## Phase 1

- Established **goals, outcomes, and guiding principles** for PBR mechanism development
- **Assessed** current regulatory framework
- Identified **new/updated regulatory mechanisms** to help achieve desired outcomes
- Adopted a **comprehensive PBR framework** for further development in Phase 2
- Built a foundation for **collaboration** for this work

## Phase 2 Working Groups

- Participants in both Working Groups will **present, evaluate, and improve proposals**
- **Working Group meetings** will focus on evaluation and refinement of PBR mechanisms
- **Workshops** will focus on matters that extend across Working Groups and will serve to further advance comprehensive PBR proposals

## Phase 2 Outcomes

- Parties file **vetted, high-quality PBR proposals** and supporting material (June 2020)
- Phase 2 D&O to adopt **new/updated revenue adjustment and performance mechanisms + process for implementation**



# Phase 2 Working Group Logistics

- Working Group meetings and workshops will take place at :  
**PUC Hearing Room**  
**465 South King Street**  
**Kekuanao‘a Building**  
**Room 103 - Hearing Room**  
**Honolulu, Hawaii 96813**
- Working Group meetings are expected to be between 3-5 hours; workshops will be between 5-7 hours, depending on agendas
- In-person participation is highly encouraged; however, there will be a phone line available for remote participation if needed
- Agendas and preparatory materials will be circulated prior to meetings
- Briefing notes will be circulated after each Working Group meeting and will provide a short summary of the meeting's presentations and discussions

Planned Date*	Event
August 14, 2019	Parties' initial PBR proposal
August 21, 2019	Joint RWG and PWG Meeting
September 25-26, 2019	Second RWG and PWG Meetings
October 23-24, 2019	Third RWG and PWG Meetings
November 20, 2019	Workshop B: Financial Workshop
December 11-12, 2019	Fourth RWG and PWG Meetings
January 15, 2020	Parties' first proposal update
January 22, 2020	Workshop C: Proposal Presentations
February 12-13, 2020	Fifth RWG and PWG Meetings
March 18-19, 2020	Sixth RWG and PWG Meetings
April 15-16, 2020	Seventh RWG and PWG Meetings
May 13, 2020	Parties' second proposal update
May 20, 2020	Workshop D: Final Workshop



\* These dates are subject to change

# Phase 2 Working Group Participation

## Working Group Participants

- Each intervening organization can participate in one or both Working Groups.
  - To support balanced Working Group discussions, each organization should appoint not more than two persons to serve as the primary participants at each meeting.
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- Each intervening organization needs to send the names and contact information for participants expected to be part of each Working Group to Cara ([cgoldenbergrmi.org](mailto:cgoldenbergrmi.org)) by **Friday, August 16**.
  - Each organization also should identify one primary point of contact.

## Working Group Expectations

- Attendance at Working Group meetings and workshops is expected, as is completion of all preparatory or follow-up assignments.
- Each member of the Working Group is expected to be fully engaged in Working Group meetings, including but not limited to:
  - Reviewing meeting materials before meetings
  - Presenting and providing feedback on proposals, and
  - Partaking in thoughtful, collaborative discussion during Working Group meetings.

# Phase 2 Tools to Support Collaboration

## Working Group Data & File Sharing

- Working Groups will use Google Drive to store and organize materials.
- Parties will have the opportunity to request data throughout the Working Group process.
- Data requests must be detailed and justified; data requested is expected to be available to all Working Group participants.

For Working Group Meeting #1, August 21, Working Group members will be asked to bring requests for data they have at this time. These initial requests should be as specific as possible and should be sent to Cara ([cgoldenberg@rmi.org](mailto:cgoldenberg@rmi.org)) by **Friday, August 16**.

## Financial Modeling

- Financial modeling will be essential to the development of Parties' PBR proposals/
- Parties that develop financial models will be asked to share these in Workshop B in November to:
  - Review the assumptions and methodologies incorporated into the models; and
  - Allow other Parties to make use of these resources in developing, testing, and refining their own PBR proposals.

# Phase 2 Working Group Roles

## Working Group Members

- **Engage** in collaborative dialogue
- **Prepare presentations** and other **interim assignments**
- **Review preparatory and follow-up** meeting materials
- **Lead and/or participate** in smaller break-out groups
- **Work with facilitator** to ensure discussions stay on track
- Potentially **serve as a co-chair** (if decided co-chairs are needed)

## Facilitators

- **Develop agendas and objectives** for meetings and workshops
- **Issue interim assignments** between meetings
- **Moderate** discussions and presentations at meetings and workshops
- **Manage file/data sharing** systems
- **Circulate summary notes** after each meeting and potentially **issue status reports** to detail progress and/or summarize unresolved issues
- **Work closely with Commissioners and PUC staff** to ensure objectives are being met

## Commission Staff

- **Attend meetings and workshops**
- **Provide assistance** to facilitators in meetings and workshops if needed
- **Work with facilitators** to design agendas and interim work assignments
- **Offer guidance** on particular matters if helpful to advance discussions
- **Hold formal briefing period** at the conclusion of the Working Group process

# Next Steps

Wednesday  
August 14

- Parties file initial versions of Parties' comprehensive PBR proposals
- Proposals should address the key mechanisms discussed in the Phase 1 D&O, the Workshop A pre-read, and at this workshop

Friday  
August 16

- Parties send list of anticipated Working Group members and POC to Cara
- Working Group members RSVP to Working Group Meeting #1 to Cara
- Parties send detailed data requests to Cara

Wednesday  
August 21

- Working Group Meeting #1
  - Party presentations on comprehensive PBR proposals with Q&A
  - Discuss and seek clarification on Party data requests
  - Align on Working Group meeting/workshop arc and areas of focus





# Reflection

What is one thing you are **excited about**?

What is one thing we will need to **manage against**?



# Thank you

Hawaii Public Utilities Commission

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