Is performance-based regulation the future of the utility business model?

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POWERING WHAT'S NEXT

April 27, 2022

How it started

A toolkit for utilities and stakeholders considering regulatory reforms

- **Karl R. Rábago**, principal, Rábago Energy LLC
- **Dan Cross-Call**, former principal at Rocky Mountain Institute and director of market development and regulatory innovation at Uplight
- **Doug Scott**, vice president for electricity and efficiency at the Great Plains Institute
- **James Griffin**, commissioner and chair of the State of Hawaii Public Utilities Commission

[Performance-based regulatory strategies to accelerate beneficial electrification]

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Performance-based regulatory strategies to accelerate beneficial electrification

By Jesse Hitchcock, Meryl Compton, Bill LeBlanc, Steven Day

March 30, 2022

Key takeaways

- States are increasingly required to advance beneficial electrification, and policy changes like performance-based regulation (PBR) can help.
- Using PBR shifts the regulatory focus toward long-term, societal benefits.
- PBR can align societal goals with the utility's business goals. For example, beneficial electrification can achieve societal goals like reducing carbon while also meeting utility goals.
- Even if PBR isn't feasible now, utilities can take small steps to support beneficial electrification and pursue larger regulatory reforms.

Contents

What we learned

- States are increasingly required to advance beneficial electrification, and policy changes like performance-based regulation (PBR) can help.
- Using PBR shifts the regulatory focus toward long-term, societal benefits.
- PBR can align societal goals with the utility’s business goals.
- Regulatory innovation takes time! Utilities can take small steps to support beneficial electrification and pursue larger regulatory reforms.

There was a mindset of acknowledging that the world is changing and exploring how the utility business model could change to meet that.

—Doug Scott, vice president of electricity and efficiency at the energy consultancy Great Plains Institute

Outline for today

Why PBR, and why now?

Challenges with traditional regulation and how a performance-based strategy can help

The bad (and good!) news about PBR

Key takeaways and lessons learned from other states

Discussion and Q&A

Audience questions welcome!

Speaker introductions

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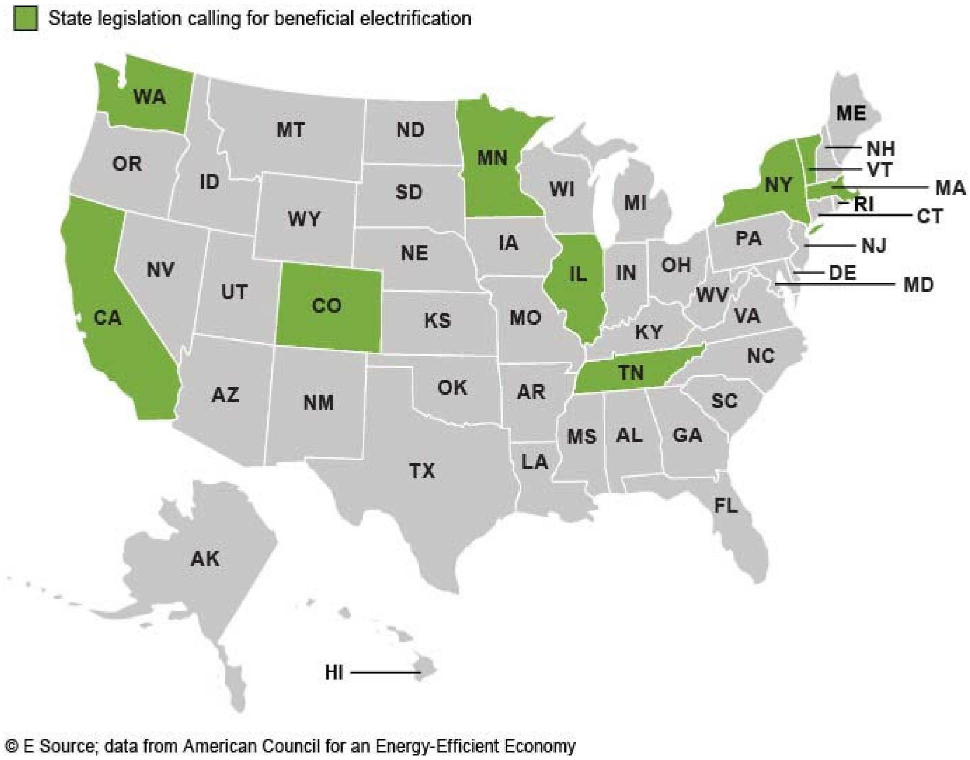
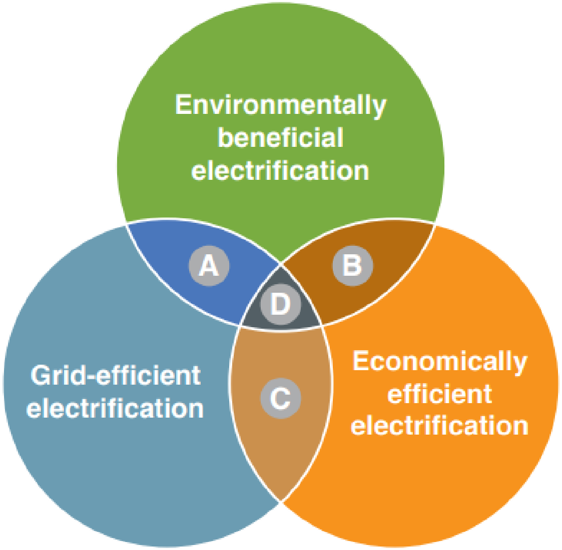
Why PBR, and why now?

Beneficial electrification mandates are becoming more common, but these programs don't always fit into the traditional regulatory "box"



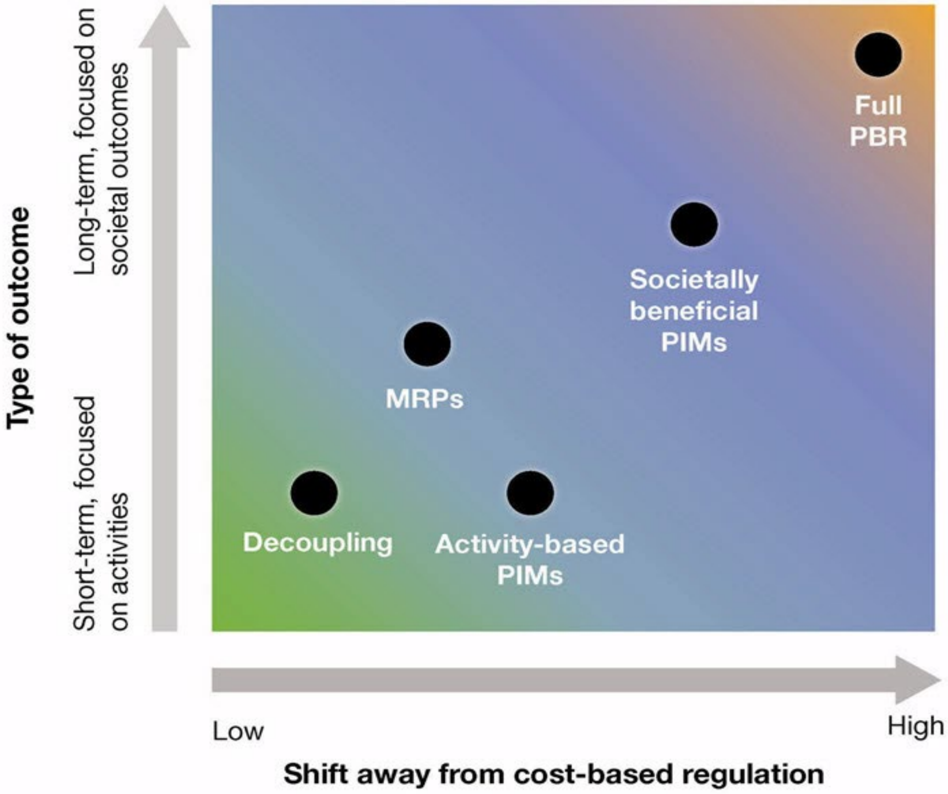
The E Source beneficial electrification framework



- A Less carbon and lower rates for nonparticipants
- B Less carbon and lower bills
- C Lower rates and lower bills
- D Carbon, rates, and bills are all reduced

How PBR components contribute to shifting utility goals

- Some components such as activity-focused performance incentive mechanisms (PIMs) or multiyear rate plans (MRPs) can shift the utility's focus slightly.
- Full PBR incorporates several components and ties the utility business model to PIMs with high-level societal outcomes.



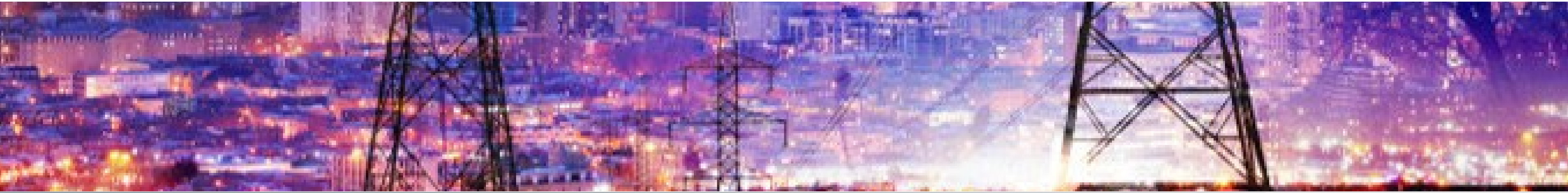
Note: MPRs = multiyear rate plans; PBR = performance based regulation; PIMs = performance incentive mechanisms. © E Source

The bad (and good!) news about PBR

The bad news and the good news …

Bad	Good
The climb to PBR is steep	The climb to PBR is long
PBR proposals are easy to critique	Everyone (nearly) seems ready to collaborate
The low-hanging fruit has been captured by regulations and standards	There is surprisingly little low-hanging fruit
Utilities rarely control all the determinants of performance	They never have, but they powerfully influence the climate
Total rate base could shrink with productivity improvements	Earnings per share can grow beyond those from traditional ROE

Discussion and Q&A



Conclusion

- Many states are directing utilities to incorporate PBR components into their regulatory process
  - Illinois, North Carolina, Connecticut, and Maryland
- Whether utilities are leading the charge or dipping a toe in the water, the benefits of regulatory reform need to be clear and actionable
- Incorporating PBR components can give utilities more flexibility and reduce regulatory burden in the long term

> You need lots of time to lay the groundwork and thoroughly understand all the options and their impact. There can be a lot of trepidation and uncertainty about overhauling the regulatory framework, **but it's still something to explore and be bold with**.
>
> —*Commissioner James Griffin, Hawaii PUC*

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