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What to Think About When Considering a Multi-Year Rate Plan

Utility Business Model Reform Network
Annual Meeting

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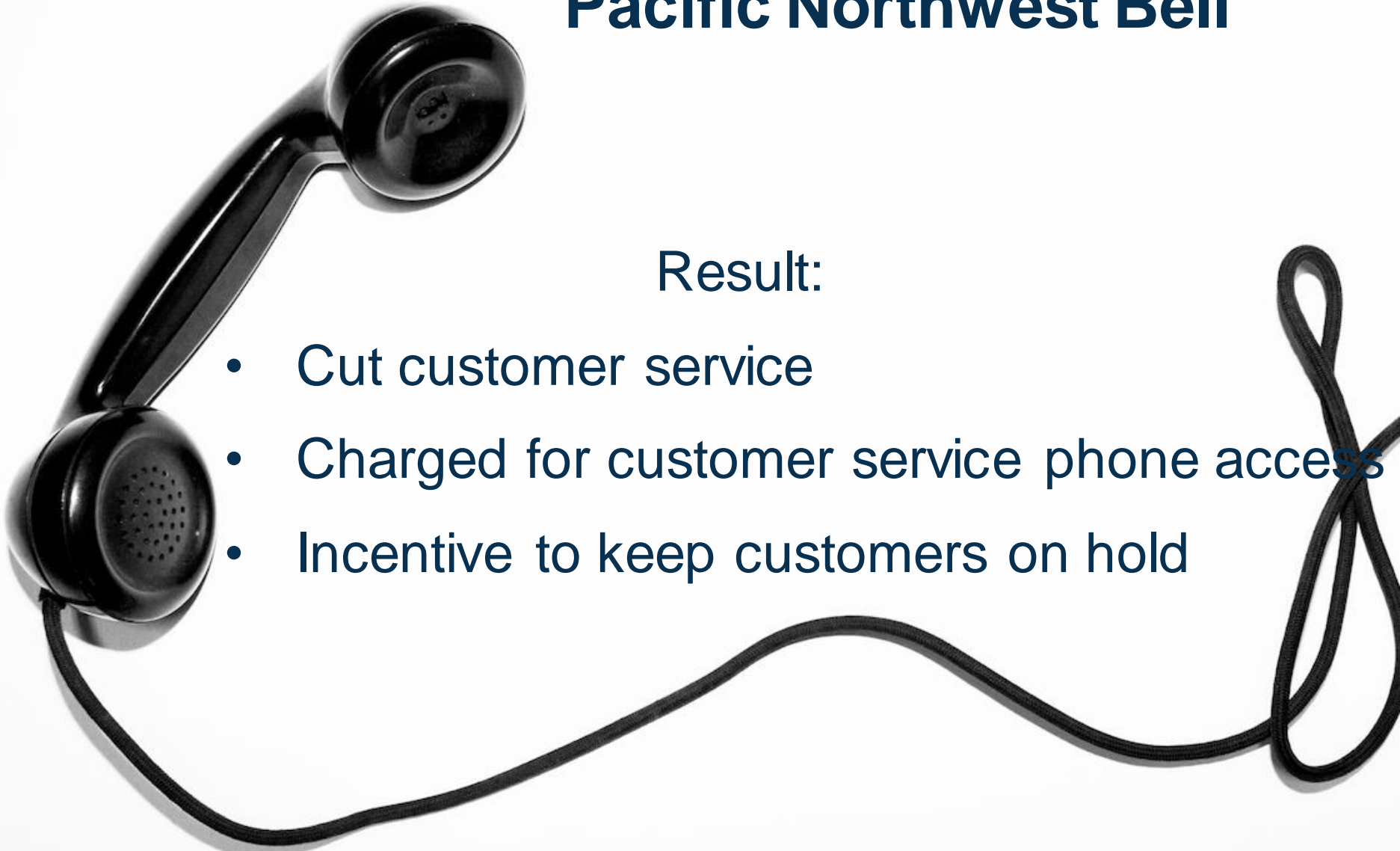
What to Avoid with PBR and Multi-Year Rate Plans: Good Design Makes a Difference!

Practices that can lead to difficulty

- Basing performance incentives on inputs
- Rewards or penalties based on exogenous factors
ex: weather, economic growth, etc.
- Unclear or uncertain metrics or goals
- Lack of clarity and measurement methodology
- Not understanding utility motivations

Carte Blanche for Cost Cutting

Pacific Northwest Bell



Result:

- Cut customer service
- Charged for customer service phone access
- Incentive to keep customers on hold

FERC Transmission ROE Policies Incentivize More and More

- To broadly improve transmission reliability and reduce congestion, FERC's Order No. 679 awards transmission utility a higher rate of return on equity for new transmission investment
- No requirement to quantify benefits of a given investment in relation to overall costs

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What Multi-Year Rate Plans Do



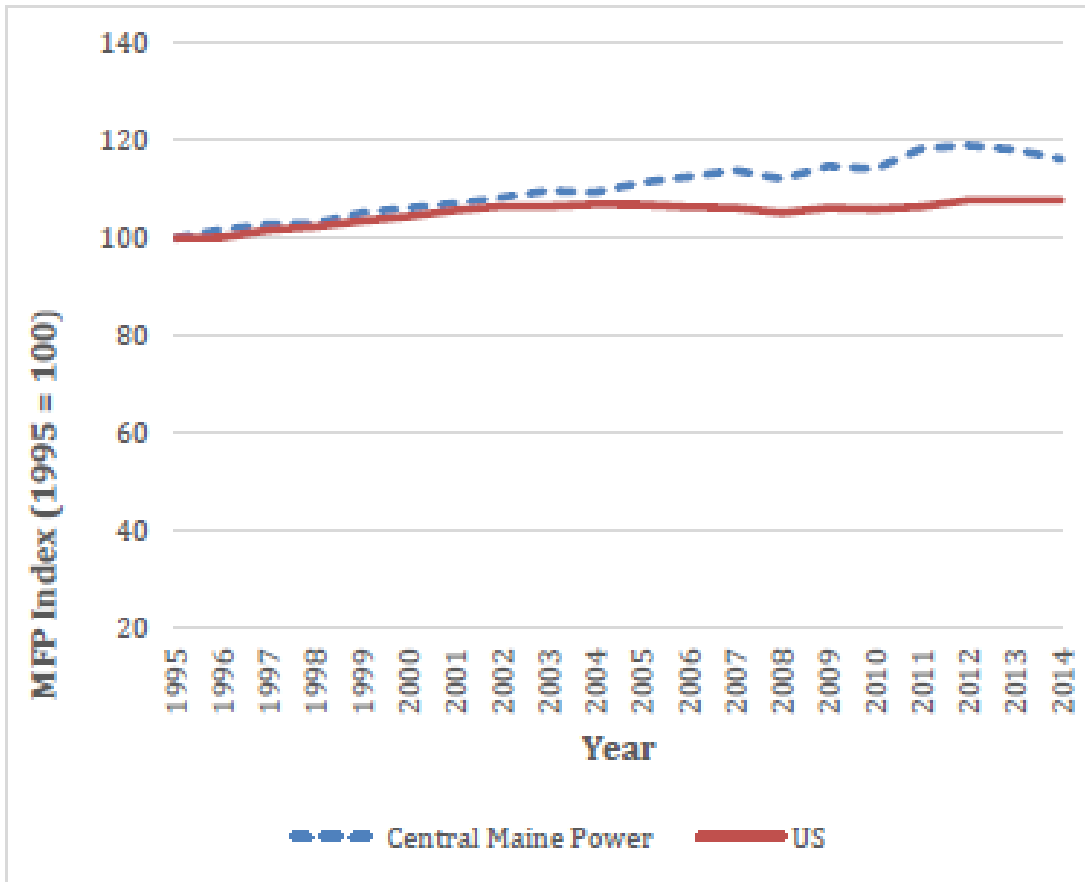
Multi-Year Rate Plans

- Set rates for longer period
- Allow utility to keep some/all savings if efficient
- First used in CA, NY, New England
- Common now in Australia, UK, Germany, New Zealand, Canada

Multi-Year Rate Plans can:

- Reduce frequency of rate cases, freeing up commission for other needs
- Improve culture of utility management
- Improve utility performance and lower utility costs
- Strengthen incentives for utilities to improve performance (Benefits ideally are shared between utilities and their customers)
- Often need customer service and reliability metrics

Productivity growth of CMP and other U.S. utilities, 1992-2014



Source: M. Lowry et al. State PBR Using Multi-Year Rate Plans for U.S. Electric Utilities, July 2017.

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MYRPs and Distributed Energy Resources



NY REV rewards distribution utilities for achieving facilitated competition and customer satisfaction

- Earnings Adjustment Mechanisms
- Financial details set in rate cases for each distribution utility
- Some EAMs are expected to supplement contributions to platform service revenues for the foreseeable future

Rhode Island PUC National Grid Order (Dock. Nos. 4770/4780, Aug. 2018)

Adopted a System Efficiency Incentive

PIM is 45% of the net benefits (the remainder go to ratepayers) from annual capacity market savings as a result of incremental BTM PV beyond forecasts, DR not eligible for existing incentives, incremental storage, additional peak reductions from NWA's or partnerships with third parties.

Rhode Island PUC National Grid Order (Dock. Nos. 4770/4780, Aug. 2018)

Metrics to be tracked that may become eligible:

- Installed energy storage capacity
- CO₂ avoided through EVs
- Light Duty Government and Commercial Fleet Electrification
- Low-income and multi-unit apartment building EV charging sites
- Distributed Generation Interconnection

4 Mechanics of an MYRP for a Vertically Integrated Utility



Mechanics of an MYRP for a Vertically Integrated Utility

< ----- Rate Case Test Year ----- >

Expenses + Return + Tax = Rev. Req

O&M			
+			
Fuel	R.Base		
P.Power	x	Rev.	Test Year
+		Tax	Rev. Req.
Depr.	R.O.R		
Amort.			

Source: C. Freeman, Existing Reg. Elements for HI Electric Companies, HI PUC PBR Workshop II, Sept. 2018

Mechanics of an MYRP for a Vertically Integrated Utility

< ----- Rate Case Test Year ----- >

Expenses + Return + Tax = Rev. Req => Rates

O&M				
+	R.Base			\$ / kWh
Fuel				
P.Power	x	Rev. Tax	Test Year Rev. Req.	\$ / kW
+				
Depr. Amort.	R.O.R			\$ / Cust

Source: C. Freeman, Existing Reg. Elements for HI Electric Companies, HI PUC PBR Workshop II, Sept. 2018

What Happens Between Rate Cases

O&M + Fuel P.Power + Depr. Amort.	R.Base x R.O.R	Rev. Tax	Test Year Rev. Req.	\$ / kWh \$ / kW \$ / Cust
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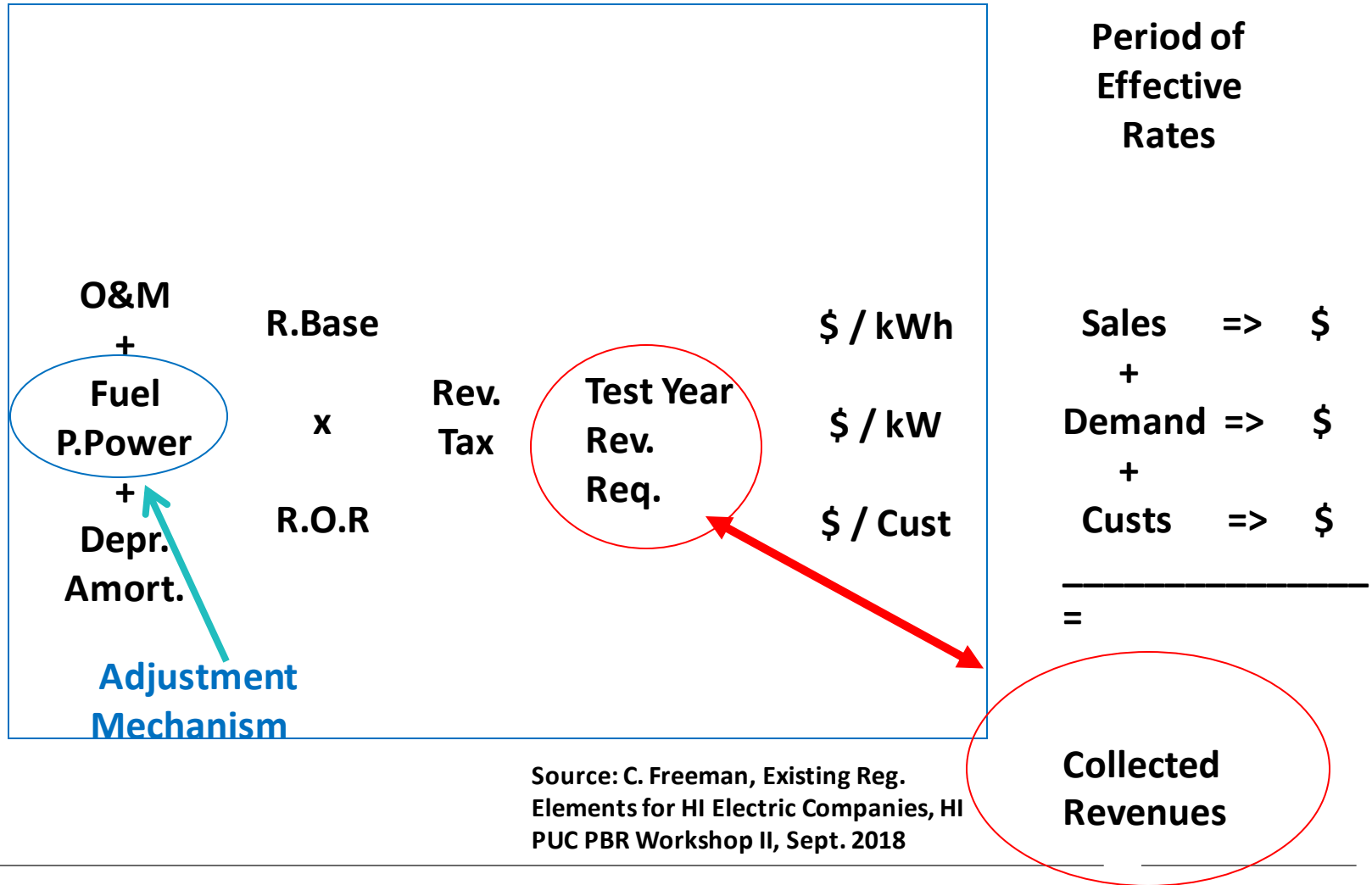
Changes During
Period of Effective
Rates

Sales	=>	\$
+		
Demand	=>	\$
+		
Custs	=>	\$

=
Collected
Revenues

Source: C. Freeman, Existing Reg. Elements for HI Electric Companies, HI PUC PBR Workshop II, Sept. 2018

What Happens Between Rate Cases

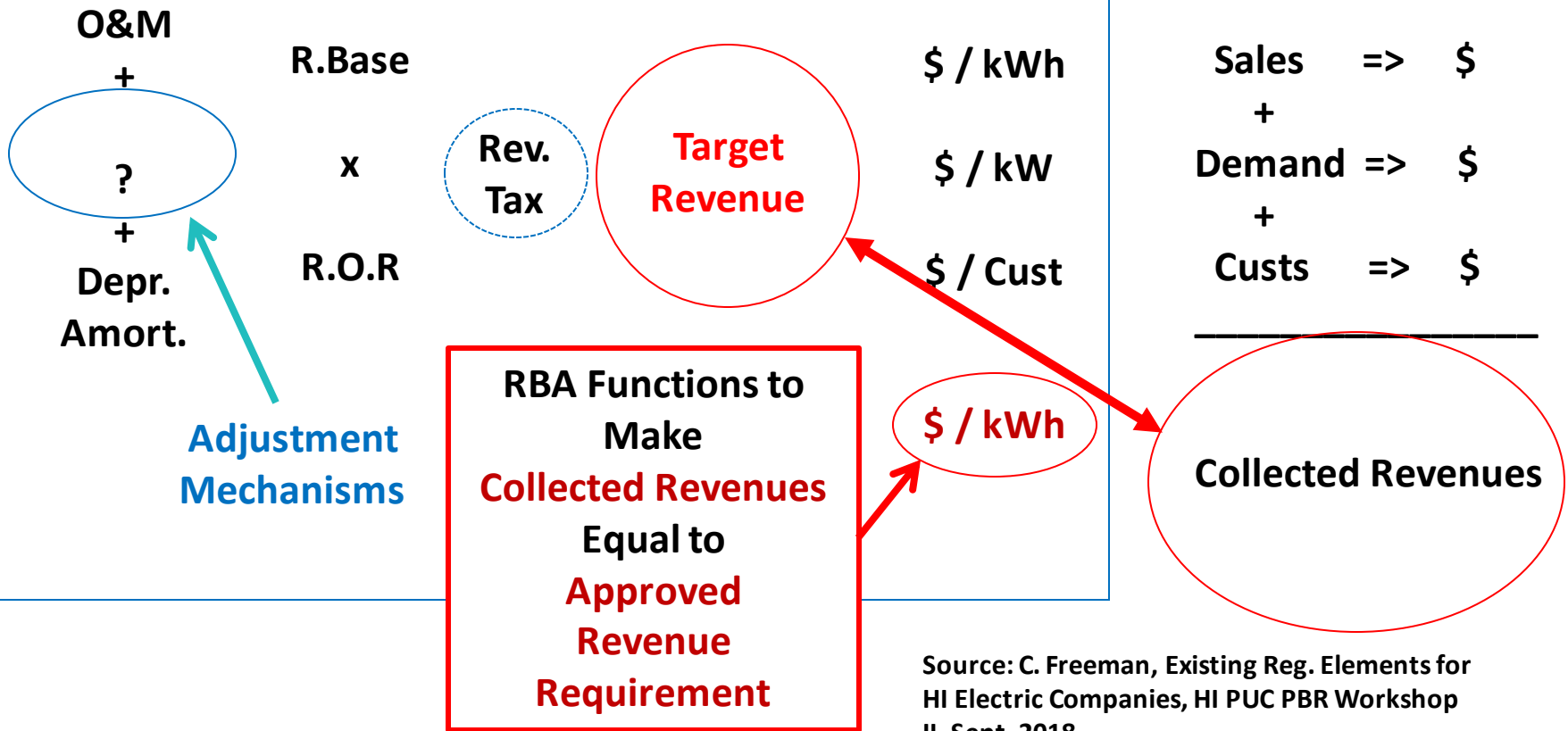


Source: C. Freeman, Existing Reg. Elements for HI Electric Companies, HI PUC PBR Workshop II, Sept. 2018

What Happens Between Rate Cases

Period of Effective Rates

RBA = REVENUE DECOUPLING

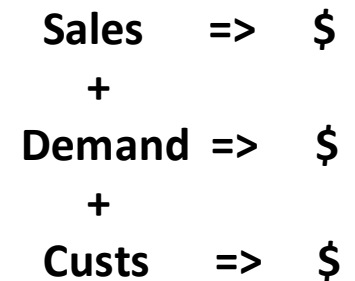
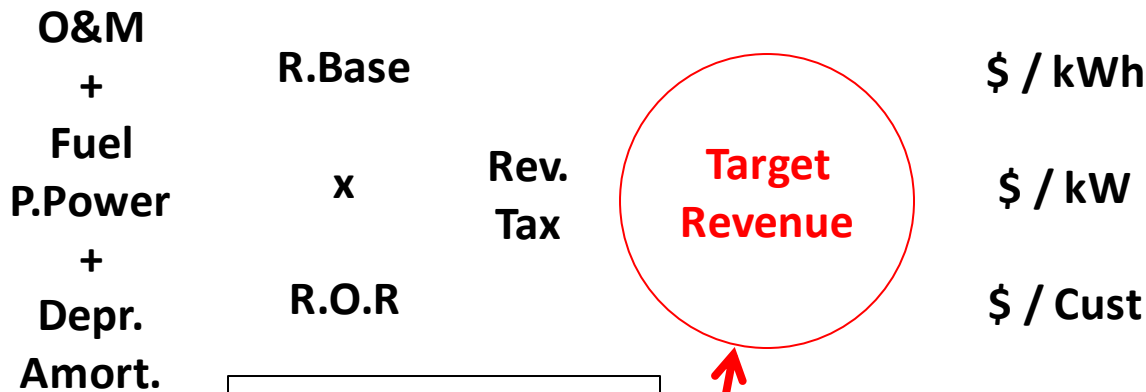


Source: C. Freeman, Existing Reg. Elements for HI Electric Companies, HI PUC PBR Workshop II, Sept. 2018

What Happens Between Rate Cases

Period of Effective Rates

PERFORMANCE INCENTIVE MECHANISMS



Collected Revenues

**Resource Procurement,
 Shared Savings PIMs
 Make Annual
 Adjustments to Target
 Revenues**

\$ / kWh
 RBA

Source: C. Freeman, Existing Reg. Elements for HI Electric Companies, HI PUC PBR Workshop II, Sept. 2018

8 Takeaways



Takeaways

- A good MYRP aligns interests of utilities, regulators, customers
- MYRPs can provide cost containment incentives to utilities
- Poorly designed MYRP mechanisms exist, and provide debatable benefits
- MYRPs can be a step toward reform of regulation if carefully designed in the right context

About RAP

The Regulatory Assistance Project (RAP)[®] is an independent, non-partisan, non-governmental organization dedicated to accelerating the transition to a clean, reliable, and efficient energy future.

Learn more about our work at raponline.org



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