



STATE OF RHODE ISLAND

**ENERGY EFFICIENCY &
RESOURCE MANAGEMENT COUNCIL**

CONSULTANT TEAM

Commission Performance Incentive Mechanism Proposal Summary of Proposed Comments

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Date: March 18, 2021



Outline

Performance Incentive Mechanism (PIM) Status Update

PIM Disconnected from the Rhode Island Cost Test (RI Test)

Specific Public Utility Commission (Commission or PUC) Questions and Answers

Further Comments on Planning Implications

Recommendations to Commission

Discussion



PIM Status Update

2020

- Council Approved PIM in 2021 Annual Plan, submitted to PUC
- PUC proposed modified PIM, solicited and received comments

Jan - Feb 2021

- PUC hosted Technical Session to discuss with intervenors
- PUC hosted open meeting in which Commissioners discussed updated Commission PIM Proposal
- PUC solicited comments, hosted workshop to answer clarifying questions

March 2021

- March 18th: Council to vote on which comments to offer PUC, if any
- March 19th: Comments from intervening parties due back to PUC

Next Steps

- Commission's decision whether to host further technical sessions and open meetings, issue a ruling, or take a different approach



PIM Disconnected from RI Test

The Commission PIM Proposal (‘Proposal’) **introduces a disconnect** between the narrowed set of program impacts counted in the Proposal (‘eligible benefits’), which **focus on electric and gas system benefits**, and the broader program impacts appropriately captured by the **RI Test**, which have **historically guided program design**.



Specific PUC Questions

As part of comment solicitation, the Commission included several specific questions

Exact text and full responses covered in memo documenting all proposed Council comments

Next slide provides summary



Responses to PUC Questions

Question	Response
Anything that remains unclear?	The C-Team identified one ambiguity in proposal and has suggested a resolution.
How should regulatory costs be allocated?	Proportional to either spending budget or eligible total benefits (not evenly divided).
Does Proposal address concerns re: abrupt changes in prior proposal?	The specific concerns about abrupt changes are addressed, though others remain.
Should certain gas resource benefits be categorized as system benefits?	PIM should include all benefits in RI Test, including gas and delivered fuel resource benefits
Should the PUC adopt Commission PIM Proposal for one or three years?	At most a single year. Concerns remain regarding impacts on planning process.
Would Commission PIM Proposal impact National Grid's ability to deliver programs to renters?	Yes. Concerned Proposal disincentivizes National Grid from pursuing robust Residential and Income Eligible programs in future years.
Should rules covering National Grid's ability to transfer funds between programs be modified?	No. The rules as written balance the need for flexibility with the need for oversight.



Planning Implications Overview

Four Priority Areas where concerns are raised

Equity: Disincentive for robust Residential and Income Eligible programs

Reducing Greenhouse Gas Emissions: The Commission PIM Proposal excludes avoided emissions

Collaborative Process: The included Service Quality Adjustment (SQA) may lead to risk aversion and an adversarial tone during planning

All Cost-Effective Energy Efficiency: Incentivize Grid to pursue only eligible benefits rather than all cost-effective under RI Test



Disincentive for Robust Residential and Income Eligible Programs

- Narrower programs promoting cheaper, lower-impact measures
- Possible to set low goals, exceed them, and earn outsized incentive even though programs would be smaller, less equitable, and not meet other priorities

Regressive Subsidization

- Since C&I produce relatively more eligible benefits, significant funding likely to be allocated to this sector
- Under current electric SBC, low-income Rhode Islanders would be likely to subsidize C&I programs
- Strongly regressive and burdens those least able to afford it



Reducing Greenhouse Gas Emissions

Consistency with State Energy Policy

- Reducing emissions core to many state policies
- Including 100% clean electricity by 2030, a nation-leading policy

Build Capacity for the Future of Energy Efficiency

- Truly clean energy requires many new efficiency technologies to develop and mature
- Robust programs in all sectors are needed to achieve this goal, but not supported by Proposal



Collaborative Process

Obligated or Incentivized, Part 1

- Service Quality Adjustment in Res and IE risks reducing earnings opportunity in C&I
- Such structures associated with risk-averse program design, to avoid losing income and just meet obligations
- Can be seen as too risky to pursue historically underserved populations, emerging tech, or other innovations, because not sufficiently reliable, and missteps may reduce C&I earnings
- Proposal positions Council in 'adversarial' role, pushing Company to pursue all cost-effective when their financial incentives are restricted to eligible benefits
- Easy to imagine this corroding working relationships and sapping resources away from needed efforts in improvement and innovation



All Cost-Effective Energy Efficiency

Obligated or Incentivized, Part 2

- If Commission locks in PIM, this eliminates a key tool for Council during plan development
- May become hard to push for all cost-effective efficiency

Spending Constraints above 100% of Planned Budget

- Prior plans allowed pursuit of all cost-effective savings above 100% of budget, up to a point
- Proposal only supports additional savings if highly cost-efficient

Market Transformation

- Risk aversion and narrow eligible benefits will reduce programs' ability to drive market transformation, which produces lasting benefits for all



Recommendations to the PUC

Adopt a PIM for only a single year, regardless of the final structure

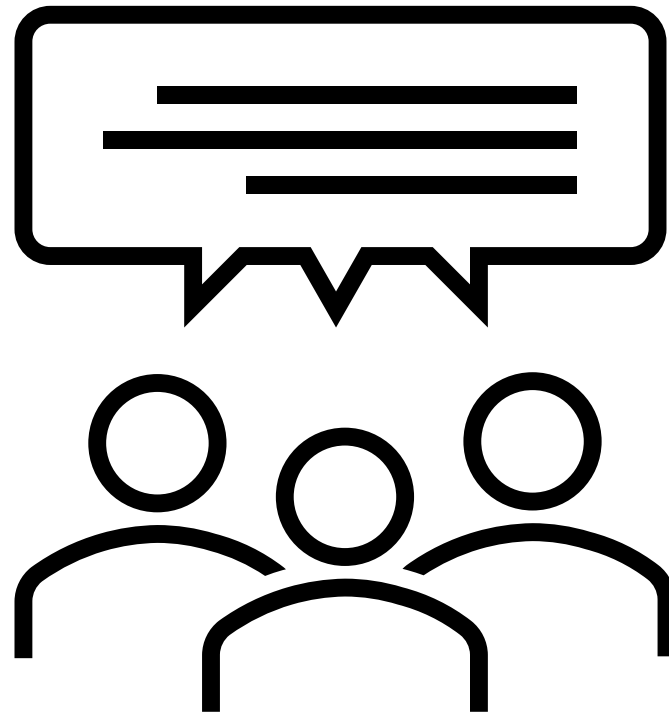
- Clear value in opportunity to put forward new ideas for 2022 and 2023
- Many outstanding concerns unresolved, so should not lock in one approach

Align performance incentive mechanism with RI Test

- Best to fully align all benefits and costs between the two mechanisms
- Second best would be to make the following recommended changes:
 - Include all resource benefits at 100%, including delivered fuels
 - Include avoided greenhouse gas emissions
 - Maintain symmetry between benefits and costs that are included



Council Member Discussion





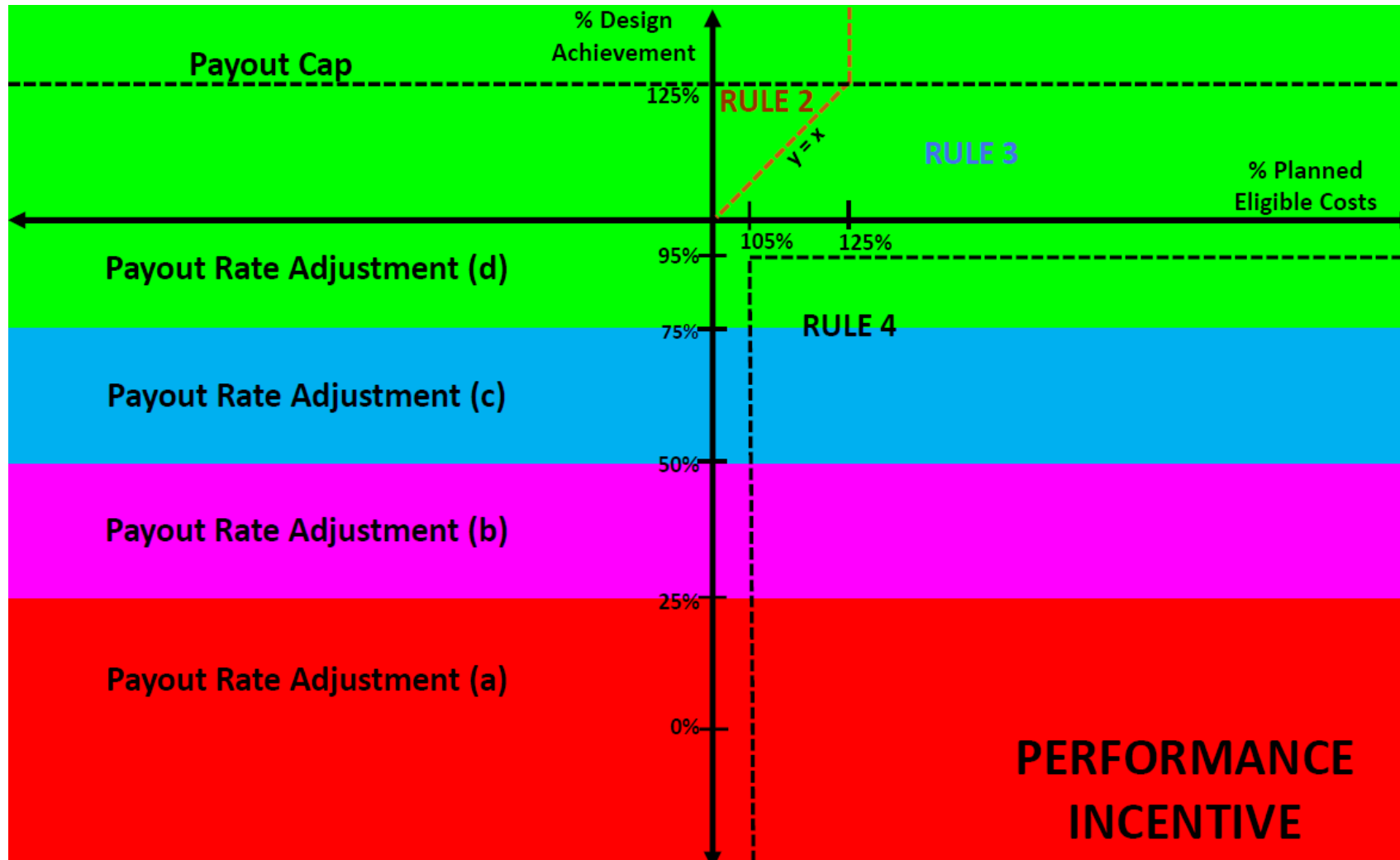
Appendices

Graphical Summary of Commission PIM Proposal

Key PIM Tables from 2021 Annual Plan

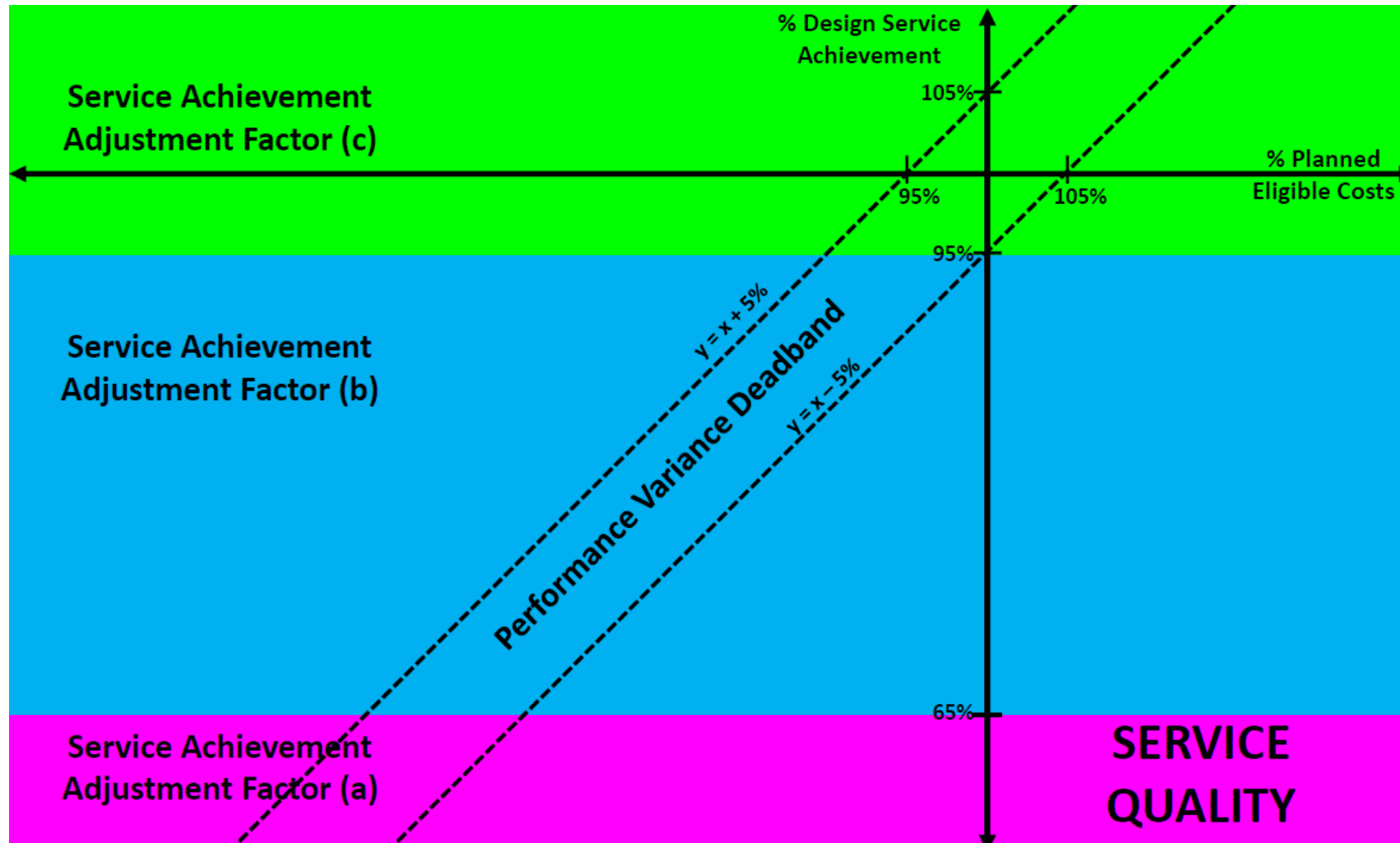


Commission PIM Proposal: Performance Incentive





Commission PIM Proposal: Service Quality Adjustment





PIM as Filed in Annual Plan (1)

Table 22. Allocations of Performance Incentive Earning Opportunity

Sector	Electric Portfolio Allocation of Overall Performance Incentive Pool by Sector in 2021	Gas Portfolio Allocation of Overall Performance Incentive Pool by Sector in 2021
Residential	35%	35%
Income Eligible	20%	25%
Commercial and Industrial	45%	40%
Equity metric	0%	0%



PIM as Filed in Annual Plan (2)

Table 23. PI Earning Rates by Sector – Electric Portfolio

Sector	Planned Net Benefits (ex-Macroeconomic Multiplier)	Design level Incentive Pool Allocation	Performance Incentive Payout Rate
Residential	\$53,889,918	\$1,925,000	11.132%
Income Eligible	\$27,422,570	\$1,100,000	12.617%
Commercial and Industrial	\$197,427,750	\$2,475,000	1.735%



PIM as Filed in Annual Plan (3)

Table 24. PI Earning Rates by Sector – Gas Portfolio

Sector	Planned Net Benefits (ex-Macroeconomic Multiplier)	Design level Incentive Pool Allocation	Performance Incentive Payout Rate
Residential	\$14,459,738	\$425,000	2.939%
Income Eligible	\$11,763,446	\$595,000	5.058%
Commercial and Industrial	\$35,393,410	\$765,000	2.161%