Wired Group

Unleashing latent value in distribution utility businesses

HOLDING UTILITIES ACCOUNTABLE: GRID PLANS AND PERFORMANCE-BASED RATES

What consumer, business, and environmental advocates need to know

Utilities are planning to invest billions in their grids. How should stakeholders hold them accountable for performance?

Investor-owned utilities (IOUs) throughout the US are announcing multi-billion-dollar grid investment plans with increasing frequency. In many cases, IOUs are requesting state regulatory approval to begin implementing these plans. While utilities claim the investments are immediately required for safe and reliable service, other utility motivations exist.

After decades of IOU lobbying to build ever more plants, there is now excess generation capacity in most of the US. Little new plant investment is needed, and transmission lines require more than a decade to plan, site, and build. This leaves distribution grid investment as the only avenue for IOUs to achieve aggressive earnings per share growth promised to Wall Street, and IOUs are seizing the opportunity with gusto:

- DTE Energy (MI): $4.2 billion
- Ameren Missouri: $6.4 billion
- Southern California Edison: $15.0 billion
- Dominion (VA): $3.1 billion
- Duke Energy (NC & SC): $13.5 billion
- Consolidated Edison (NY): $1.4 billion
- Consumers' Energy (MI): $3.0 billion

Wired Group experience delivers challenging but fair performance metrics & targets for grid plans & performance-based rate programs

Due to their discretionary nature & highly variable outcomes, the performance of modern grid investments must be objectively measured against targets.

Measurement is an important part of holding utilities accountable for grid modernization plan performance, and for distribution business performance in general. Metrics and targets should be part of every grid modernization plan and performance-based ratemaking construct. But prioritizing outcomes, defining metrics, and establishing targets can be challenging for stakeholders.

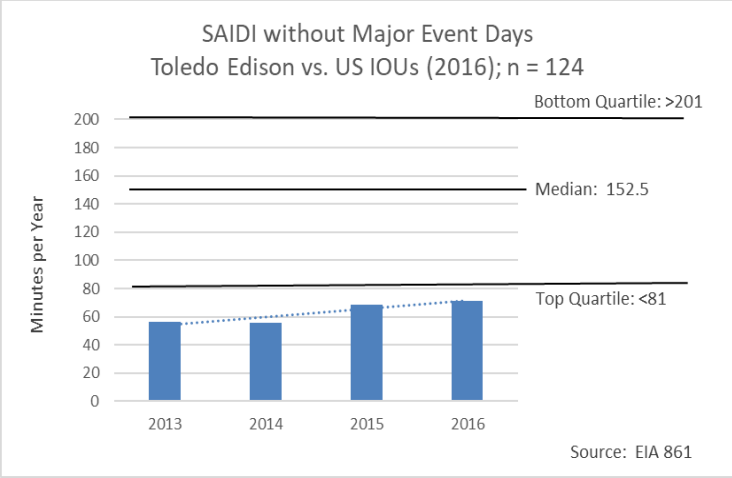
Wired Group experience can help advocates make the case for a challenging but fair portfolio of performance metrics. To set targets, the Wired Group uses proprietary *Utility Evaluator*™ benchmarking software. It readily identifies strong, average, and poor performance of peer utilities in a variety of categories, from reliability and O&M spending to customer satisfaction and demand-side management program cost and results.

The advantages of designing metrics and establishing targets relative to peers' performance

In articles appearing in the Electricity Journal, Wired Group associates made the case for using peer performance to design metrics and establish targets in grid plans and performance-based ratemaking programs. In 2017, Wired Group research proved that utility characteristics did not dictate performance on most metrics, and furthermore, that peer grouping could confidently be utilized to adjust targets for metrics which do vary with utility characteristics.[1] In 2018, the Wired Group pointed out the benefits of using peer performance to design metrics and establish targets, including:[2]

1. Targets based on an individual utility's historical performance do not take into account the performance or best practices of top performers;
2. Targets based on performance relative to peers need not be modified for circumstances which change over time;
3. Targets set through peer group comparisons are relevant and credible;
4. The performance of peers cannot be manipulated by a subject utility;
5. The use of peer comparisons to design metrics/set targets promotes efficiency in performance program administration.

While all these benefits deserve advocate attention, one example is particularly striking. In 2017 First Energy asked the Ohio PUC to approve capital spending of over ½ billion dollars to improve reliability of three utilities, including Toledo Edison. Toledo Edison's reliability had been deteriorating, with SAIDI (System Average Interruption Duration Index) growing from 56 minutes in 2013 to 71 minutes in 2016, or 27% worse. Looking only at historical data, the reliability investment in Toledo Edison appeared warranted. However, after comparing Toledo Edison's SAIDI trend to US IOU averages, the Ohio consumer advocate identified that the level of SAIDI performance delivered by Toledo Edison was still better than that of 75% of US IOUs. The Ohio advocate then opposed the exceptional investment as unnecessary.



What can advocates do?

When designing performance metrics and setting targets, advocates should consider engaging objective technical expertise. With the right resources, advocates can hold IOUs accountable for performance through fair but challenging metrics and targets.

[1] Alvarez P and Leonard J. *Busting Myths: Investor-owned Distribution Utility Performance Can be Credibly Benchmarked*. Electricity Journal 30, pp 45-48.

[2] Alvarez P and Ericson S. *Measuring Distribution Performance? Benchmarking Warrants Your Attention.* Electricity Journal 31, pp 1-6.