STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter, on the Commission's own motion,	)	
to establish a workgroup to investigate appropriate	)	
financial incentives and penalties to address outages	)	Case No. U-21400
and distribution performance moving forward.	)	
	)	

Introduction

The Michigan Energy Innovation Business Council ("Michigan EIBC")[1] and Advanced Energy United ("United"; collectively "Michigan EIBC/United")[2, 3] appreciate the opportunity to provide comments in response to the Michigan Public Service Commission's (the "MPSC" or the "Commission") August 23, 2023 Order and accompanying Straw Proposal for Reliability Metrics ("Straw Proposal") in Case No. U-21400. We agree with the Commission and Staff that reliability is a pressing issue in Michigan, especially as more end uses become electrified. A reliable and resilient grid is also important to our member companies. At the same time, many of our member companies offer products and services that can support higher levels of reliability and resilience in innovative ways that we believe should be considered in the development and implementation of reliability performance metrics, incentives, and penalties.

As the grid continues to evolve and new technologies become available for meeting grid needs, including improving reliability, properly aligning utility financial incentives with desired outcomes is paramount. Therefore, Michigan EIBC/United are grateful for the Commission's creation of a financial incentives and disincentives workgroup as part of the MI Power Grid Initiative and its work in Dockets U-20147[4] and U-21122.[5] We also understand that financial

[1] The Michigan Energy Innovation Business Council is a trade organization tasked with growing Michigan's advanced energy economy by fostering opportunities for innovation and business growth and offering a unified voice in creating a business-friendly environment for the advanced energy industry in Michigan.
[2] Advanced Energy United is a national business association representing leading companies in the advanced energy industry. United supports a broad portfolio of technologies, products, and services that enhance U.S. competitiveness and economic growth through an efficient, high-performing energy system that is clean, secure, and affordable.
[3] The views expressed by Michigan EIBC/United in these comments do not necessarily reflect the views of any individual member company of Michigan EIBC or United.
[4] *In the matter, on the Commission's own motion, to open a docket for certain regulated electric utilities to file their distribution investment and maintenance plans and for other related, uncontested matters*.
[5] *In the matter, on the Commission's own motion, to review the response of Alpena Power Company, Consumers Energy Company, DTE Electric Company, Indiana Michigan Power Company, Northern States Power Company,*

rewards and penalties tied to reliability metrics, generally called performance incentive mechanisms ("PIMs"), can be part of the approach. PIMs must be thoughtfully designed and implemented to ensure that they align with public policy goals, produce customer benefits, and provide meaningful but appropriate earnings opportunities within the broader utility business model. We appreciate the Commission's efforts to this end in the Straw Proposal and we look forward to continuing to work with the Commission, Staff, stakeholders, and interested parties on these important policies in Michigan. Below, we offer general comments on performance metrics and the Commission's Straw Proposal.

Comments

Financial Penalties

As a general matter, we view PIMs as a complement to, not a substitute for, cost-of-service regulation. In other words, PIMs should not be used to provide financial rewards to a utility for meeting its basic service obligations, for which they are suitably rewarded via the traditional cost-of-service business model. Because maintaining acceptable levels of reliability is a core utility function, it would seem reasonable that PIMs for reliability would emphasize penalties as long as performance is subpar and the Straw Proposal appears to recognize this.

In its draft Straw Proposal, the Commission proposes to impose a financial penalty on utilities under the following circumstances:

- More than 6% of a utility's customers experience four or more sustained interruptions (in 2030, this threshold decreases to 5%). The metric for this proposed penalty would be customers experiencing multiple interruptions ("CEMI").
- A percentage of customers that experience a high number of interruptions each year (an initial threshold of 7 outages is proposed) – the specific threshold would be established upon review and discussion with the Financial Incentives and Disincentives Workgroup ("the Workgroup"). The metric for this proposed penalty would also be CEMI.

In general, Michigan EIBC/United share the Commission's concern that Michigan utilities continue to perform in the 4th quartile on key reliability metrics, particularly outage duration. We applaud the Commission's proposed use of financial penalties to encourage the utilities to improve their reliability. By tying each utility company's financial performance to reliability improvements, the Commission is ensuring that motivation and accountability is shared across the company, from the engineers working in distribution system operations to the Chief Financial Officer and CEO. Our member companies stand ready to partner with the utilities to deploy innovative energy technologies in their pursuit of improved reliability.

Upper Michigan Energy Resources Corporation, and Upper Peninsula Power Company to recent storm damage in their service territories.

Financial Incentives

Once reliability reaches an acceptable level, PIMs can consider both penalties and rewards to drive additional improvements, provided that care is taken to ensure that the available rewards are consistent with driving net benefits for customers. It's also important to ensure that the PIMs do not unnecessarily drive capital investment, which already provides the utility with a financial reward that is independent of how those investments ultimately impact reliability. In that sense, we would be open to exploring PIMs or other types of financial incentives that target new and novel ways of improving reliability, like supporting customer or third-party-owned distributed energy resources ("DERs").

PIMs can also be used to provide rewards to a utility to make extra efforts (consistent with providing additional benefits to customers), develop innovative programs, and pursue solutions to benefit customers that a utility would otherwise lack financial motivation to provide. But as it relates to financial rewards, Michigan EIBC/United believes that PIMs can be particularly effective when they target outcomes that, if achieved, would reduce a utility's traditional earnings opportunity under the traditional cost-of-service model. Perhaps the clearest example of this is a PIM targeting peak demand reduction since increased performance directly cuts against a utility's opportunity to invest in its network and earn on new capital investments to serve a growing load.

Additionally, PIMs should not incentivize utilities to unnecessarily increase spending (capital investments or otherwise) just to achieve payouts under the PIM, if those investments yield only incremental benefits. This can be achieved by capping rewards once a level of performance can be attained. Furthermore, as proposed in the Straw Proposal for some of the PIMs, the use of "deadbands" around a baseline level of performance, where a utility would not be penalized or rewarded, can help ensure that incentives or penalties are properly applied.[6] The exact performance levels associated with the deadband and the maximum penalties and rewards can be determined and properly aligned through a benefit-cost analysis.

Beyond the above-listed penalty-only mechanisms, the Straw Proposal contains proposed performance incentives that are structured symmetrically with proposed penalties, including a deadband around the target before an incentive or penalty would be triggered. The Commission proposes to provide a financial incentive to the utilities under the following circumstances:

- Achievement of the target improvement trajectory based on the Customer Average Interruption Duration Index ("CAIDI") excluding major event days ("MEDs") set by the

[6] Goldenberg, C., Cross-Call, D., Billimoria, S., & Tully, O. (2020). *PIMs for Progress*. Rocky Mountain Institute. https://rmi.org/insight/pims-for-progress/. p. 25.

Commission and informed by analysis on expected system improvements in the utility's distribution system plan.

- Achievement of a target improvement trajectory based on the Customer Average Interruption Duration Index ("CAIDI") including only major event days ("MEDs") to be set by the Commission and informed by the Workgroup and the utility's distribution system plan. The Commission notes that the utilities are currently performing badly on this metric and are "far above the thresholds (higher values are worse performance)."[7]
- Achievement of the target improvement trajectory based on the System Average Interruption Frequency Index ("SAIFI") excluding MEDs set by the Commission and informed by analysis of SAIFI improvements in the next utility distribution system plans.

While we applaud the proposed use of performance penalties, as noted above, we have concerns about providing financial incentives to the utilities in exchange for providing reliable service. Notably, the Commission's proposed design in the Straw Proposal appears to take these concerns into account. It will be important for details like the proposed deadband and the inclusion of symmetric penalties (alongside any proposed incentives) to remain in the final design. We strongly believe that incentives alone are not appropriate in cases where utilities are not meeting their basic reliability obligations.

We also prefer PIMs that are tied to a particular and measurable outcome rather than the inputs or actions taken by a utility, as the proposed PIMs in the Straw Proposal appear to be.[8] By focusing on outcomes, PIMs give utilities flexibility to establish new programs or modify existing ones to maximize net benefits to customers. This is because utilities have the most knowledge of their own systems. Thus, PIMs reduce information asymmetry that utilities possess while at the same time ensuring the Commission can conduct proper regulatory review and issue additional guidance, as needed, to achieve desired goals. With this Straw Proposal, we believe that the Commission has laid a good foundation for further development of a framework for addressing Michigan's reliability challenges.

Conclusion

Overall, we appreciate the Commission's focus on performance penalties to encourage the utilities to reach a reliability baseline. In the future, if the utilities are able to go above and beyond their essential responsibility to provide reliable service, we agree that there may be an opportunity to provide a financial incentive for such exemplary performance. However, as the Commission

[7] Michigan Public Service Commission, Performance-Based Regulatory Framework: Straw Proposal for Reliability Metrics. Case No. U-21400**,** https://mi-psc.force.com/sfc/servlet.shepherd/version/download/0688y000009hGtzAAE, p. 7.

[8] Incentivizing specific investments, especially capital, over others can lead to utilities focusing on deploying specific measures rather than achieving the desired outcomes.

acknowledges in its Straw Proposal, the utilities have a long way to go before such incentives are likely, given that the state of current performance is “far above thresholds” in terms of unreliability.

Although creating the right incentives and penalties is not easy, we believe our recommendations will help to ensure fairness to customers, third-party providers, and utilities. Creating a reliable grid is critical to achieving the state’s energy policy goals and we look forward to continuing to work with Staff, the Commission, and other stakeholders on this important topic.