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 and distribution performance moving forward.	Case No. U-21400

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") December 21, 2023 Order and accompanying Financial Incentives and Disincentives Workgroup December 2023 Status Update and Revised Straw Proposal for Reliability Metrics ("Revised Straw Proposal") in Case No. U-21400.

We continue to agree with the Commission and Staff that reliability is a pressing issue in Michigan. Michigan EIBC/United share the Commission's concern that Michigan utilities' performance has been worsening and falls far below industry median performance. A reliable and resilient grid is important to our member companies, and 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, penalties, and incentives.[4] Michigan EIBC/United are grateful for the Commission's efforts to investigate appropriate financial incentives and penalties to address outages and distribution performance moving forward, 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 comments on the Revised Straw Proposal.

[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] Michigan EIBC/United would welcome a discussion of performance incentive mechanisms or other types of financial incentives and disincentives that target new and novel ways of improving reliability, such as supporting customer or third-party-owned distributed energy resources and microgrids.

Comments

Financial Penalties

Michigan EIBC/United applaud the Staff'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 Chief Executive Officer. Our member companies stand ready to partner with the utilities to deploy innovative energy technologies in the pursuit of improved reliability.

No Incentives for Meeting Basic Service Obligations

Michigan EIBC/United cannot emphasize enough that incentives should not be used to provide financial rewards to a utility for meeting its basic service obligations, for which the utilities are suitably rewarded via the traditional cost-of-service business model. We agree with the Commission that the recently updated Service Quality rules should be viewed as a minimum starting point for the utilities to be deemed as meeting their basic service obligations. As long as performance is subpar, performance incentive mechanisms ("PIMs") for reliability should emphasize penalties and not offer additional incentives.

Michigan EIBC/United note that there has been an effort in the Revised Straw Proposal to eliminate inconsistencies with the Service Quality rules adopted on March 24, 2023. However, we believe the Revised Straw Proposal still includes incentives for the utilities to meet their basic service obligations under the Service Quality rules in ways that conflict with the rules.

First, a utility must not be considered eligible for an incentive until it continuously exceeds all service quality and reliability standards for at least 12 months. A key provision of the Service Quality rules states that a utility is eligible to receive a performance incentive only if: "The electric utility's performance shall have exceeded all of the individual service quality and reliability standards." (R 460.742) The rules also state: "An electric utility shall not file an application seeking approval of an incentive mechanism until it has exceeded all of the service quality and reliability standards adopted by these rules continuously for a period of not less than 12 months." (R 460.741) In contrast to these rules, as detailed below, the Revised Straw Proposal would provide utilities incentives in several cases for improvements over a shorter duration.

Second, while it is reasonable to penalize utilities for failing to meet the Service Quality rules, it is not reasonable to provide for additional incentives (beyond those inherent in the traditional cost-of-service business model) for minimum compliance with the rules. The following incentives proposed by Staff appear to provide additional incentives for meeting basic service obligations and should be eliminated:

- For performance related to outage duration, Staff proposes an incentive mechanism that would operate symmetrically for metric values below the incentive threshold of 116 minutes and earn the maximum incentive value for performance below 93 minutes. While an average outage duration of 93 minutes may represent movement in the right direction, it does not reflect performance that surpasses basic service obligations. Along with the penalties proposed by Staff, the existing compensation inherent in the traditional cost-of-service business model should be sufficient to encourage reductions in outage duration.

- For all weather performance, the Revised Staff Proposal includes an incentive for a 10% improvement relative to recent performance with the addition of a deadband to reduce the likelihood that a utility could earn the incentive solely due to favorable weather.
    - Given the fact that in recent years and particularly for 2023, utilities' all-weather performance has been worsening and falls far below industry median performance, a 10% improvement "relative to recent performance" may be a step toward meeting basic service obligations, but it does not merit an additional incentive.
    - For an incentive to be appropriate here, the utility should first exceed all of the service quality and reliability standards adopted by the Service Quality rules continuously for a period of not less than 12 months. On top of that, the utility should be required to demonstrate exemplary performance relative to industry standards, not simply show improvement over its own recent performance.

- With regard to 48-hour storm restoration, Staff proposes that to earn an incentive, utilities must surpass a 1% annual improvement rate and remain above the 90% established in current Service Quality rules.
    - This metric makes explicit reference to the Service Quality rules, which already include a catastrophic conditions standard stating that 90% of customers must be restored within 48 hours. Performance incentive mechanisms must not be used to provide financial rewards to a utility for meeting the basic service obligations reflected in the Service Quality rules.
    - For an incentive to be appropriate here, the utility should first exceed all of the service quality and reliability standards adopted by the Service Quality rules continuously for a period of not less than 12 months. On top of that, the utility should be required to meaningfully exceed the 90% established in current Service Quality rules (rather than simply "remain above" the minimum requirement of the rules).

Gaming Worst-Performing Circuits

Michigan EIBC/United are also concerned that the Staff's proposed structure for penalties and incentives around the performance of the utilities' worst-performing circuits may encourage the utilities to game the system with regard to the timing of circuit repairs, and may discourage timely

maintenance, given the requirement that a circuit appear twice in a 5-year timeframe to trigger a penalty. Requiring utilities instead to address their worst-performing circuits on an annual basis would be less susceptible to potential exploitation and more in line with Service Quality rules requiring annual reporting.[5]

Conclusion

Overall, Michigan EIBC/United 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 has acknowledged, 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.

Creating a reliable grid is critical to achieving the state's energy policy goals, and Michigan EIBC/United look forward to continuing to work with Staff, the Commission, and other stakeholders. Because improving reliability and distribution system performance can be accomplished in a growing number of ways, future consideration of incentive and disincentive mechanisms should also broadly address resilience, enhancing and sharing hosting capacity information, exceeding allowed interconnection timeframes, integration of distributed energy resources and microgrids, and implementing other aspects of grid modernization. Such efforts are essential to ensure that electric utilities are taking all of the necessary steps to meet Michigan's clean energy goals.

[5] Service Quality rules require a utility to file an annual report containing: "a list of its 10 worst performing circuits for the prior year in terms of SAIDI and SAIFI." (R 460.732(m)).