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February 2, 2024

Ms. Lisa Felice
Executive Secretary
Michigan Public Service Commission
7109 West Saginaw Highway
Lansing, MI 48917

Dear Ms. Felice:

Re: <u>MPSC Case No. U-21400</u> – *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.*

In its December 21, 2024, order in Case No. U-21400, the Commission requested comments from interested parties regarding the revised straw proposal presented by the Commission Staff (Staff) at the Workgroup Collaborative meeting on November 30, 2023. The revised straw proposal aims to define a common template for a mechanism of financial incentives and penalties along with performance metrics for Michigan electric utilities to propose and implement in a future rate case. The key objectives of the incentives and penalties mechanism are directed at reducing power outages, improving service restoration time, and increasing the overall reliability of the electric distribution grid operated by the electric utilities. The Commission requested interested parties to address at least the following areas in their comments.

- Feedback on revised metrics
- Incentive/disincentive potential
    - Allocation by metric
    - Symmetric incentive for SAIDI and Storm response metrics
- Focus area for worst performing circuit metric (system vs. circuit level)

The Attorney General is pleased to provide comments with proposed additions and refinements to Staff's revised straw proposal. Although the revised straw proposal is a significant improvement over the initial proposal, it still requires major improvements. The Attorney General has identified the following areas that need further development, improvement, expansion, and revision to achieve the desired results of improving the performance of the utilities and the distribution grid.

A. The four proposed metrics by Staff are insufficient. At least three other metrics need to be added.

B. Target performance metrics and bands are overly complex and hide failing performance and performance improvements.

C. No back-testing has been performed to assess how the proposed metrics would have worked if implemented in prior years.

D. There is no overall score of the level of performance that the utility will have achieved for a given year against the performance benchmarks.

E. Incentive payments and penalties are disconnected from the revenue the utility collects from customers.

F. Worst performing circuits should be identified and tracked on a system-wide basis.

Each of these major areas of concerns are discussed below.

A. <u>Four proposed metrics by Staff are insufficient</u>

Staff's revised straw proposal has the following four metrics: SAIDI-excluding MEDs, SAIDI-All Weather, 48-hour (Catastrophic) Storm Restoration, and Worst Performing Circuits. All four metrics have merit and should be included in the performance mechanism. However, they are insufficient to drive performance in key areas of concern to customers, the Commission, and the Attorney General. Long restoration time during catastrophic storms, repetitive outages, and performance improvement during non-catastrophic storms are not adequately addressed in the four metrics but are critical areas that should be reflected in a proposed group of metrics.

The Attorney General recommends that the Commission also include metrics for percentage of customers restored within 72-hours during catastrophic[1] events, a CEMI-4 or CEMI-5 target (Customers Experiencing 4 or 5 Interruptions in a 12 months period), and a target percentage of customers restored within 24-hours in Grey-Sky conditions.[2] These metrics are needed to focus utility management at reducing long power restoration time, repetitive power outages, and the timely restoration of power in weather conditions where significant customers are still affected by a power outage that may not reach a catastrophic level.

[1] A Catastrophic event is defined as 10% or more of customers experience a sustained power outage.
[2] Grey Sky event when 1% to less than 10% of customers experience a sustained power outage.

B. Target performance metrics and deadbands are overly complex

Staff has proposed to set target performance metrics with percentage improvements from historical average SAIDI results with a deadband of one standard deviation. Under the revised straw proposal, no penalties and incentives would be assessed or paid if annual performance results fall with the deadband. For example, for DTE Electric (DTE) the 5-year average baseline SAIDI-All Weather result is 770 minutes. The deadband at one standard deviation is 95 minutes or approximately 12 percent. Therefore, if in given year the utility improves or falls short of target performance by up to 12%, it would not receive a reward or suffer any penalties. For Consumers Energy (CE), Staff's proposal shows a standard deviation of 106 minutes on an average 5-year SAIDI-All Weather results of 773 minutes. The deadband for CE would be in a range of 14%.

For SAIDI-excluding Meds, the deadband is even wider at 16% for DTE and 13% for CE. Although standard deviations and deadbands have been incorporated within a few PBR mechanisms, they are difficult for the average customer to understand. Most customers understand average historical performance and simple targets established off that historical performance. They also want to easily understand how current performance by the utility measures against those simple targets without creating the impression that utilities are being given a break when performance falls within the deadband and no penalties are assessed.

They also understand that if there is small improvement over the performance target the reward is small and if there is large improvement the reward is larger. Similarly, if performance false short of the target, the penalty amount is commensurate with the shortfall in performance. Staff's proposal obscures this direct link between gradual performance improvements or performance shortfalls and incentives or penalties.

The Attorney General recommends that the Commission not adopt a mechanism with deadbands or standard deviation metrics and instead set targets with annual improvements off of historical performance with a simpler mechanism.

In determining incentive payments or penalties, Staff's proposal assigns weights of 30% to SAIDI-All Weather, 30% to SAIDI-excluding MEDs, 20% to 48-hour Catastrophic Restoration Time, and 20% to Worst Performing Circuits. A different weighting for each metric has merit. However, the most sensitive area for customers is power outages and restoration time. This area should get the highest weight in determining incentives and penalties. Based on the recommendation to add three other metrics, the Attorney General proposes that the Commission assign the following weights: 25% to 48-hour Catastrophic Restoration Time, 25% to 72-hour Catastrophic Restoration Time, 15% to SAIDI-All Weather, 15% to SAIDI-excluding MEDs, 15% to 24-hour Grey-Sky Restoration Time, and 5% to Worst Performing Circuits. The lower weight of 5% for Worst Performing Circuits reflects the fact that fewer customers are impacted by those circuits relative to the number of customers affected during a catastrophic weather event.

C. No back-testing performed

When undertaking a performance mechanism with significant financial implications, it is advisable to perform some testing to see what results the mechanism would have given if it had been in place in prior years. Although the mechanism's purpose is to drive changes in behavior and performance, it is instructive to know what results and pitfalls the target metrics would have created. The Attorney General recommends that Staff perform some back-testing of the proposed metrics and targets and modify the mechanism accordingly.

D. No Overall Performance Score

Based on the four metrics proposed by Staff and with the deadbands in place, each metric is independent of the others when awarding incentive payments or assessing penalties. Therefore, the utility can fall short in three of the metrics within the deadband, exceed in one metric above the deadband, and still receive an incentive payment. Potentially, the opposite can also happen where the utility exceeds performance within the deadband in multiple metrics but falls significantly short in one metric and as a result would be assessed a large penalty amount.

This problem can be minimized or resolved if incentive awards and penalties are determined based on an overall score for all metrics added together according to the assigned weights against the overall target score for all metrics. In other words, the utility must exceed performance in multiple metrics in order to receive an incentive payment. In comments filed with the Commission on September 22, 2023, under this docket, the Attorney General presented a proposed approach for an overall performance score.

Furthermore, it is easier to communicate to customers and for customers to understand that on an overall basis for the year, the utility improved its performance or failed short of the target performance. The Attorney General recommends that the Commission direct Staff to modify its current approach and design a mechanism that uses an overall performance score.

E. Incentive payments and penalties are disconnected from what customer pay

Staff's proposed incentive payments and penalties are based on a fixed amount calculated relative to the number of customers served by the utility. This approach is not much different than an expanded bill credit imposed under the Service Quality and Reliability Standards (SQRS) for missing certain standards of performance. Unfortunately, it is disconnected from what customers are paying for the capital expenditures, operations and maintenance (O&M) costs, and other related costs that the utility is recovering in rates.

As stated in previous comments provided by the Attorney General under this docket, it is critical to directly link the incentives and penalties to those costs that the utility is recovering in rates for two reasons. First, it communicates to the utility that if it makes capital investments and incurs other costs to improve the grid and those investments do not yield the expected performance results that a portion of the revenue requirement recovered in customer rates will be returned to customers. Second, from a customer perspective, the Commission can communicate to customers that the performance incentives and penalties assessed against the utility are directly related to what the customer is paying on its electric bill and if the utility does not meet the expected performance improvements a portion of the billed amount will be returned to the customer.

The Attorney General reiterates its previous recommendation, as further outlined in the September 22, 2023, comments, that penalties and incentives be calculated based on the revenue requirement recovered by the utility pertaining to capital investments, O&M expenses, and other related costs made for distribution plant assets.

F. Worst performing circuits should be identified and tracked on a system-wide basis

For worst performing circuits that continue to make the top 10 list in three of the past five years, Staff requested comments from interested parties to better define a solution and how to incorporate necessary metrics within the incentives and penalties mechanism. The Attorney General recommends that the 10 worst performing circuits be identified across the entire distribution system instead of a smaller geographical area. The larger scope will truly identify the worst circuit problems that affect the most customers repeatedly across the entire distribution grid.

The Attorney General also recommends that target performance be set at one repeating incident for the same circuit in the past five years. The utility would receive an incentive payment if there are no repeating circuits in the top 10 worst circuits within the past five years and would receive an increasing penalty amount for each circuit that repeatedly makes the top 10 list in the last five years.

The Attorney General appreciates the Commission opening this docket aimed at improving the electric distribution grid in Michigan and stands ready to assist further through its experts in defining an effective mechanism that can be implemented as early as soon as possible. Adopting a strong proposal immediately to improve electric reliability and adjusting on an ongoing basis is needed in order to help prevent future lengthy power outages.

Sincerely,

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