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July 12, 2024

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

RE: In the matter, on the Commission's own motion, to open a docket to establish a workgroup to review and consider issues related to the creation of financial incentives and penalties involving outages and distribution performance.
MPSC Case No. U-21400

Dear Ms. Felice:

Attached for electronic filing in the above-captioned matter are the Comments of DTE Electric Company in Response to the Commission's June 6, 2024, Order in Case No. U-21400.

Very truly yours,

Andrea E. Hayden
Digitally signed by Andrea E. Hayden
Date: 2024.07.12 11:29:27 -04'00'

Andrea E. Hayden

AEH/cdm
Attachment

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter on the Commission's own motion, to open a docket to establish a workgroup to review and consider issues related to the creation of financial incentives and penalties involving outages and distribution performance	))))))	Case No. U-21400

Comments of DTE Electric Company in Response to the Commission's June 6, 2024, Order in Case No. U-21400

July 12, 2024

Introduction

DTE Electric Company ("DTE" or "Company") extends its appreciation to the Commission and Staff for their efforts in developing both the initial performance-based ratemaking (PBR) straw proposal and the revised proposal. These comments respond to the version of the straw proposal included within the Commission's June 6 Order, as well as initial comments focused on "Reliability Plus".

The metrics and targets in the revised proposal are challenging but reasonable

The reliability metrics and targets included in the Staff's May straw proposal and summarized in the Commission's June 6 Order are challenging but reasonable given the imperative of improving reliability. The Company is focused on achieving the goal the financial incentives and penalties proceeding seeks to achieve.

Having to achieve all Service Quality and Reliability Standards (SQRS) as a threshold to receive a net incentive effectively makes the proposal a penalty-only mechanism

While the Company believes the targets in the proposal are broadly reasonable for the individual metrics, using three SQRS-based PBR metrics as "must-achieve" thresholds for utilities to eligible for a net incentive is punitive. These metrics (48-hour Catastrophic Storm Restoration, 24-hour Gray Sky Restoration, and CEMI-4) all have standalone incentives/penalties in the proposal. If a utility were to not meet targeted performance for any of these metrics, the utility would be assessed a penalty for the metric that was missed. However, the straw proposal adds a provision to use these three metrics as "must-achieve" to earn any net incentive, even if performance across the rest of the plan exceeds target.

Effectively, as proposed this creates an unfair double penalty for missing the targeted performance for these three metrics – (1) the utility would be assessed a standalone penalty for missing the targeted performance for the metric, and (2) the utility would become ineligible for a net incentive regardless of performance across the other metrics.

In addition, the SQRS were developed under a separate proceeding and are extremely challenging to meet. For example, as can be seen in Table 1, the CEMI-4 threshold in the SQRS is near 1st quartile performance and will be de-facto at 1st quartile in 2030. While the Company acknowledges that continued improvement is necessary, the SQRS standard for CEMI-4 is likely unachievable in the near term and is likely defined by utilities with much newer infrastructure, redundant systems and potentially less vegetation (e.g., the desert southwest).

Table 1 – CEMI-4 Benchmarks

CEMI-4 Quartiles (2022 Benchmarks[1])	
1st Quartile	4.9%
SQRS Standard	6% (5% in 2030)
2nd Quartile	8.5%

Simply put, as proposed the PBR mechanism is effectively penalty-only. Utilizing the SQRS as gating requirements essentially eliminates any reasonable opportunity for utilities to earn a net incentive.

It should also be noted that the company already pays penalties when it does not meet targets set in the SQRS standards. In the last three years, the company made the following payments:

Table 2 – SQRS Storm Credits Issued to Customers

Storm Credits Issued	
2021	$11.1M
2022	$1.1M
2023	$8.2M

With that said, the Company is not recommending that the metric targets themselves, even if aggressive, be modified. Instead, to achieve a more symmetric structure and to give utilities a reasonable opportunity to earn a net incentive through improved performance, the Company recommends that the requirement that SQRS thresholds be met in order for utilities to be eligible for a net incentive be eliminated.

The overall proposal is not symmetrical even if the SQRS thresholds were to be removed

While the revised straw proposal allows for incentives and penalties for each metric, the design of the metrics makes earning an incentive much more difficult than being assessed a penalty. In some cases, earning the maximum incentive is virtually impossible. Three examples highlight this point:

[1] Source: 2022 EEI Reliability Survey (most recent available data)

- SAIDI metrics – the downside only deadband means that missing the target by a single minute incurs a penalty, but the Company must exceed the target by ~20% to earn the first dollar of incentive.
- Restoration metrics – all three restoration metrics require 100% performance (i.e., zero customers experiencing an outage of a given duration). This is extremely challenging to achieve and will require significant investments over time, while the penalties accrue fairly quickly up to the maximum.
- CEMI-4 – the maximum incentive for CEMI-4 is earned only at 0% performance (i.e., zero customers experiencing four or more outages). For context, the top two utilities nationally for CEMI-4 have performance of 1.18% and 1.75%[2]. Described differently, the current Straw Proposal would provide only ~80% of the maximum incentive for the best performing utility in the country.

To truly be a system of incentives and penalties, the proposal should be adjusted to introduce balanced incentive designs and at least an actual opportunity for both penalties and incentives, such that the maximum incentive could be earned at a level less than perfect performance.

CEMI-4 incentive design should include a deadband

As proposed in the Straw Proposal, the CEMI-4 incentive design assesses a penalty on sliding scale from the target of 6% to a maximum penalty at 12% and greater. The incentive range is from 6% to 0%. As discussed previously, the target is based on the SQRS for CEMI-4 which the Company is not recommending be changed.

However, as also discussed previously, average industry performance (i.e., second quartile) is 8.5%. Therefore, as proposed, Michigan utilities can be penalized for having *better than average* CEMI-4 performance if their actual performance falls between 6% and 8.5%. The Company feels that penalizing Michigan utilities for better than average performance is an unreasonable standard.

With that said, the Company also acknowledges that better than industry average performance alone is not necessarily a basis to earn an incentive. Instead, an appropriate CEMI-4 design would be to maintain the current incentive target (i.e., 6% through 2029), but utilize a deadband between that target and 2nd quartile (i.e., a 6-8.5% deadband). Penalties could continue to be assessed on a sliding scale for worse than 2nd quartile (i.e., average) performance. This design change would both maintain incentives for exceptional performance and eliminate the penalty for better than average performance. As applied to DTE, this design would have yielded penalties in three of the last five years and performance within the dead band in two of the last five years.

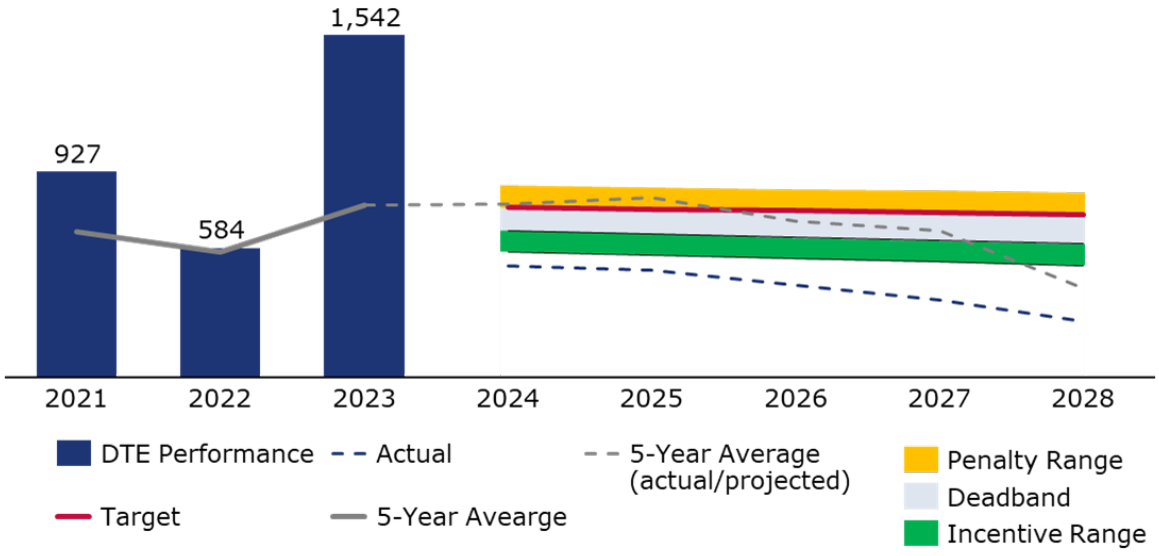
[2] Source: 2022 EEI Reliability Survey for utilities with >1 million customers (most recent available data)

SAIDI All Weather should either be assessed on a year-actual basis or include a symmetric deadband

The revised proposal maintains a five-year average of performance for determining the financial outcomes for the SAIDI All Weather metric. As a basis for establishing the baseline, the five-year average performance appropriately accounts for the weather-driven variability in the metric. The Company is supportive of this approach. However, utilizing the five-year average to determine annual performance means that trailing performance (i.e., four previous years) will impact the determination of the current year measure utilized in the PBR Plan. The two primary concerns with this approach are (1) it masks actual performance relative to the target, and (2) anchors the current year's outcome to prior years in such a way that consistent improvement in performance could still yield penalties (or vice versa, and consistent declines could still yield incentives).

While the Company continues to believe that it is most appropriate to use year-actual performance as extensively described in prior comments, in the alternative the metric design should extend the deadband to both sides of the target. As proposed, the assessed metric (a five-year trailing average) could lag in either the penalty or incentive direction based on performance from prior years. That dynamic is somewhat accounted for in the incentive direction with the deadband, however the proposal puts the lagging risk (which is essentially the variability in weather) for penalties on the Company. As shown in Figure 1, if the Company achieves its projected performance in 2025, which on its own would be below the target and yield the maximum incentive, it would still be assessed a penalty in this incentive design given the trailing impacts of 2021 and 2023. In the alternative, the Company's recommendation is to create a symmetric deadband around the target for SAIDI All-Weather, so that a deadband would exist for both penalties and incentives.

Figure 1. SAIDI All Weather Performance and Incentive Design



Penalties could be directed to support low-income customers

The Company previously suggested that penalties could be directed to a fund supporting low-income and/or otherwise disadvantaged customers. While this recommendation was not included in the most recent Staff Straw Proposal or in the June 6 Order, the Company continues to believe that such an approach has merit. Available funds should be used to assist customers for whom the additional support would be the most meaningful, compared to the impact of spreading penalties over more than two million customers. Even at the maximum of $10M, each customer would realize only ~$0.36/month on average, whereas $10M that are well targeted toward the most vulnerable members of the community could make a real difference. The Company remains willing to work with all stakeholders' parties to develop and implement such a mechanism.

Foundational comments on Reliability Plus

Define objectives and outcomes. The Commission's June 6 Order solicits comments about four new areas of focus within the Reliability Plus framework: Equity, Grid Modernization, DER Integration, and Resilience. It asks for feedback on "metrics, scorecards, or performance incentive mechanisms" for each of the areas. The Reliability Plus focus areas are emergent in the utility industry, and unlike the generally well-established reliability metrics in the revised straw proposal, there are few broadly understood and utilized metrics for the new focus areas. The Company recommends that well-defined objectives for each new focus area be developed before new metrics or incentive mechanisms are considered. Said differently, the most effective approach to PBR is with outcome-aligned metrics – to identify the most appropriate metrics, one must first identify target outcomes.

No duplication. Well-defined objectives and outcomes will also help guide the discussion towards additionality and not duplication. The latest straw proposal includes seven reliability-focused metrics which collectively and individually have a clear purpose. As stakeholders and the Commission consider the priority outcomes sought from a focus on Equity, DER Integration, Grid Modernization, and Resilience, parties should keep in mind the metrics and targets already included in the Straw Proposal and the Service Quality and Reliability Standards.

Balance. Emergent areas of focus and performance improvement, such as those included in the June 6 Order, typically seek outcomes above and beyond a utility's core focus on safety and reliability. The moniker chosen by the Commission for this second phase of PBR, "Reliability Plus", recognizes this view beyond core reliability. As such, as the discussion of outcomes, metrics and incentive design for these four emergent areas develops, it should be with an understanding that they ought to allow meaningful opportunities for Michigan utilities to earn an incentive and not simply introduce additional penalties and risks.

Given the complexity of metric selection and target setting for this part of the incentive and penalty proceeding, the Company recommends proceeding deliberately, with opportunity for multiple rounds of feedback, as we done for the Reliability-focused metrics and targets.

Conclusion

The most recent Straw Proposal continues to move the discussion forward in a constructive way and the Company appreciates the efforts of Staff in developing the latest iteration. It is important that at an overall level the plan be balanced and provide the Company a reasonable opportunity to earn an incentive for improving performance. As noted in the comments above, the Company believes there are opportunities to improve upon the proposal and eliminate its effectively downside-only construct. The Company's recommendations in these comments will ensure balance while continuing to utilize the Staff's proposed metrics and targets.

In summary, the Company recommends the following:

1. Eliminate the requirement that all SQRS must be met to have an opportunity to earn a net incentive.
2. Adjust incentive designs for CEMI-4 and Storm Restoration such that the maximum incentive could be earned at a level less than perfect performance (e.g., top-decile performance).
3. Include a deadband for CEMI-4 for performance less than target but within the second quartile (i.e., better than industry average).
4. Revise SAIDI All Weather incentive design to include either (1) year-actual performance as the measure instead of the rolling 5-year average or (2) a introduce a symmetric deadband.
5. Consider directing penalties to low-income customers.