



RE: In the Performance of PREPA, NEPR-MI-2019-0007; Performance Targets for LUMA ENERGY SERVCO, LLC

Case No.: NEPR-AP-2020-0025

Subject: Comments Filed by Rocky Mountain Institute Related to Performance-Based Incentive Mechanism Targets

Date: February 5th, 2021

Comes now, Rocky Mountain Institute (RMI), an independent nonprofit registered in Colorado (hereinafter, 'RMI'), respectfully submits the following comments to the Puerto Rico Energy Bureau (hereinafter, 'PREB') in regards to the performance-based incentive targets proceeding.

RMI thanks the PREB for the clear process, the accessible pre-technical filing, and the opportunity to submit public comments. The input herein is based on RMI's experience supporting a similar proceeding in Hawaii (Docket No. 2018-0088), which concluded on December 23rd, 2020, and is summarized [here \(https://puc.hawaii.gov/energy/pbr/\)](https://puc.hawaii.gov/energy/pbr/). RMI also provides the following additional document for the consideration of the PREB:

- Process For Purpose: Reimagining Regulatory Approaches for Power Sector Transformation, RMI, 2019: <https://rmi.org/insight/process-for-purpose/>



Act 17 of 2019 mandates major changes to the Puerto Rico electricity system and establishes PREB's responsibility to develop performance-based incentives and penalty mechanisms for Electric Power Service Companies ("EPSCs"). As used in other jurisdictions, performance-based regulation can be a powerful tool to align incentives and encourage progress toward a customer-centric, clean, cost-effective, and resilient grid. However, these types of fundamental changes to the regulatory regime come with significant risks. RMI commends PREB for a thorough and responsible process thus far and offers input in service of minimizing any potential risks.

Based on RMI's experience with performance-based regulation (PBR) proceedings, RMI offers four recommendations to PREB regarding the upcoming process. In addition to the aforementioned [Hawaii docket](#), proceedings in [Nevada](#) and [Minnesota](#) offer compelling examples and have informed these recommendations.

1. Indicate a clear vision upfront
 - a. PREB should set a clear direction and a set of guiding principles, even before discrete proposals have been considered and analyzed.
 - i. In the Hawaii example, in the first phase of the PBR process, the Hawaii Public Utilities Commission (PUC) set a framework with three main goals and three associated principles. The goals were, 1) Enhance Customer Experience, 2) Improve Utility Performance, and 3) Advance Societal Outcomes. The guiding principles were 1) A customer centric approach emphasizing 'day 1' savings, 2) Administrative efficiency to reduce regulatory burdens on the utility and stakeholders, and 3) Utility financial integrity to maintain a strong position including access to capital. The Hawaii PUC also established 12 regulatory outcomes that reflected both traditional and more emergent utility responsibilities and opportunities. These outcomes were used to prioritize the development of performance mechanisms.
 - b. Setting this initial vision allowed all stakeholders to work toward a known end point. This thereby reduces the risk of an inefficient proceeding involving proposals not aligned with the vision. With the established parameters of Act 17, RMI believes PREB has the tools required to set this vision and shape the process. Furthermore, setting this vision will help clarify how this process will interact with the performance metrics defined in the Executed Consolidated O&M Agreement for LUMA Energy.



2. Encourage a collaborative stakeholder process
 - a. Specifically, the performance-based incentive mechanism process should allow for stakeholders to propose performance-based incentive mechanisms, as long as they align with the pre-established vision. There may be productive overlaps between these proposals, and they will reveal a set of options not known in advance.
 - i. In Hawaii, the proceeding incorporated a series of [collaborative working groups](#), where [diverse stakeholder groups came together](#) to strengthen their proposals to the PUC.
 - ii. Given that proposals from PREPA and others have already been emerging in this proceeding, PREB can direct clearly if and how proponents of such proposals could collaborate to improve their inputs.

3. Enable data sharing
 - a. To ensure the aforementioned stakeholder proposals are informed will require working from a common set of data (while ensuring confidential information is appropriately protected). PREB has already made strides in this regard on multiple fronts in the last two years with the integrated resource plan proceeding providing a good example. This can include a core set of pre-determined metrics, and the flexibility to add select metrics if necessary during the dynamic process.
 - i. In Hawaii, the PUC balanced the desire for exhaustive data, with the knowledge that requiring the utility to furnish and update that data is a burden to be minimized. The Hawaii team, according the principle of a customer-centric process, focused on data on interconnection processes and timing and other customer-facing activities were particularly supportive to the process. Other incentives were established for;
 1. Accelerated renewable penetration standards (RPS) achievement
 2. Distributed energy resource (DER) grid services
 3. Energy efficiency for low and moderate income customers
 4. Advanced metering infrastructure (AMI) utilization
 - ii. Scorecards (metrics with targets) focused on: interconnection, cost control, customer engagement, greenhouse gas reductions, and electrification of transportation; Reported metrics will focus on: customer equity, grid investment efficiency, DER asset effectiveness, affordability, resilience, and capital formation.
 1. Given the many ongoing activities to bring private and public capital into the Puerto Rico system and support a mandated shift toward a renewable future, this process could prioritize data on



the renewable energy procurements and ability to interconnect at both transmission and distribution level.

4. Assess the current regulatory incentives
 - a. To best address the specific goals and objectives of this proceeding, it can be useful to first inventory the existing regulatory incentives, and how those do or do not support the public welfare. This inventory process comes at a time of significant turbulence, given the ongoing pandemic, recent grid and key generator disruptions, and the transition period for important PREPA responsibilities to LUMA Energy. However, even an expedited assessment can help align all stakeholders to the critical gaps in the current regulatory incentive regime, and help reduce any risks of new incentive mechanisms not addressing the most important gaps, or even producing any perverse incentives.
 - i. This activity can align well with the required baseline setting that will need to be done by PREPA / LUMA in advance of measuring against the eventual performance metrics.

RMI offers these recommendations in support of the ongoing and important proceedings, and thanks the Puerto Rico Energy Bureau and all participants.