

SECTION 2: PERFORMANCE BASED REGULATION

THE EXPANDING SCOPE OF UTILITY REGULATION

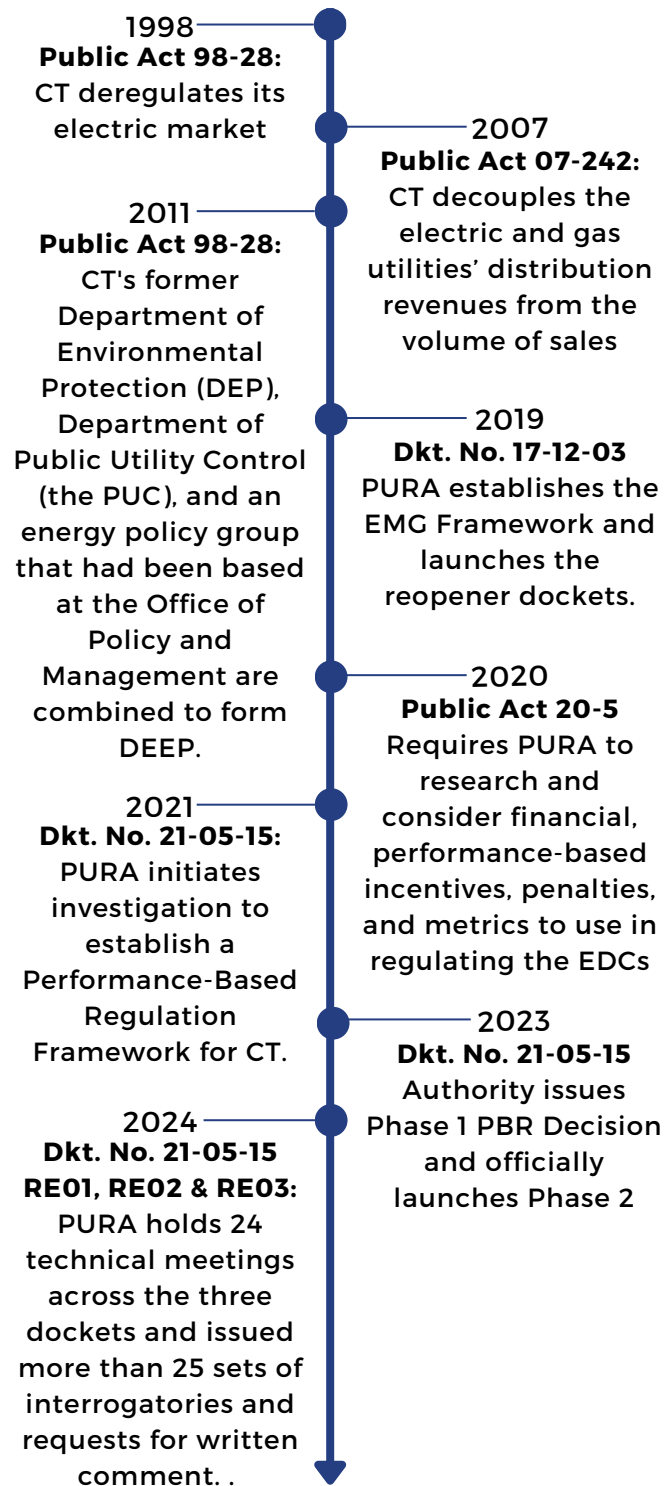
At both the national and state levels, the scope of utility regulation has expanded beyond safety, reliability, and affordability to now also include the cost-effective achievement of certain public policy goals as directed and informed by state legislatures. States across the country are implementing policies and programs to reduce greenhouse gas emissions and to modernize electric distribution systems. In Connecticut, Public Act 08-98, An Act Concerning Connecticut Global Warming Solutions, set a goal to reduce economy-wide emissions to 80 percent below the 2001 level by 2050. Additionally, the state legislature has directed PURA and the utilities to develop and implement multiple programs in pursuit of Connecticut's public policy goals. More recently, PURA catalyzed Connecticut's grid modernization efforts through the 2019 establishment of the Equitable Modern Grid Framework in Docket No. 17-12-03, PURA Investigation into Distribution System Planning of the Electric Distribution Companies (EMG Framework), deploying programs and regulatory procedures across a range of topics from reliability and resilience standards to energy storage solutions.

However, the legacy business model and operations of the EDCs are fundamentally at odds with such trends in public policy. The EDCs' ability to meet the core requirements of delivering safe, clean, reliable, and affordable electric service to customers is becoming increasingly complex and challenging in the midst of significant industry change and the present and future impacts of climate change. Technology advances and falling costs have accelerated the adoption of distributed energy resources (DERs), giving

customers greater control over their ability to generate and consume electricity independently from the grid. Additionally, the proliferation of DERs requires a more distributed electric grid that can better accommodate and manage bidirectional flows of energy and is likely to require additional investment to upgrade systems and infrastructure to optimally integrate and utilize these resources. Further, these conditions are all occurring against a backdrop of increasingly severe and frequent weather events.

Against this backdrop and in recognition of these trends, in 2020 the General Assembly enacted Public Act 20-5, An Act Concerning Emergency Response by Electric Distribution Companies, The Regulation of Other Public Utilities and Nexus Provisions for Certain Disaster-Related or Emergency-Related Work Performed in The State (Take Back our Grid Act). This landmark bipartisan legislation required PURA to, among other things, initiate a proceeding to research and consider financial, performance-based incentives, penalties, and metrics to use in regulating the EDCs. In other words, PURA is required to design a performance-based regulatory framework (PBR Framework) that cost-effectively incentivizes the EDCs to achieve the outcomes desired from Connecticut’s electric grid, including but not limited to: reliability, safety, affordability, emergency responsiveness, cost-efficiency, equity, customer satisfaction, municipal engagement, resilience, and the advancement of the state’s environmental and climate policy goals. This PBR Framework will provide a set of tools to reform legacy regulatory structures to enable innovations within modern power systems.

Figure 4: Historical Evolution of Utility Regulation in Connecticut



PBR INVESTIGATIONS IN CONNECTICUT

PBR Phase 1 Summary (Docket No. 21-05-15)

On May 25, 2021, the Authority initiated Docket No. 21-05-15, [PURA Investigation into a Performance-Based Regulation Framework for the Electric Distribution Companies](#), to investigate, develop, and adopt a PBR framework in Connecticut. To help ensure a successful outcome, the Authority established a two-phase process. The purpose of Phase 1 was to: (1) consider regulatory goals and (2) desired public outcomes to inform a PBR framework; (3) evaluate the current regulatory framework in Connecticut to examine which incentive mechanisms and regulatory components may not be functioning as intended or are no longer aligned with the public interest, and to identify specific areas of utility performance that should be targeted for improvement; (4) assess which regulatory mechanisms can best address the specific areas of interest; and (5) identify specific performance metrics, where appropriate.

On April 26, 2023, the Authority issued a [Decision \(Phase 1 Decision\)](#) in Docket No. 21-05-15 concluding Phase 1 and establishing the official goals and priority outcomes of PBR in Connecticut, as shown by Table 3 below.

Table 3: PBR Priority Outcomes Established in Phase 1

Goals	Priority Outcomes
Excellent Operational Performance	<ul style="list-style-type: none"> • Business Operations and Investment Efficiency • Comprehensive and Transparent System Planning • Distribution System Utilization • Reliable and Resilient Electric Service
Public Policy Achievement	<ul style="list-style-type: none"> • Social Equity • GHG Reduction
Customer Empowerment and Satisfaction	<ul style="list-style-type: none"> • Customer Empowerment • Quality Customer Service
Reasonable, Equitable, and Affordable Rates	<ul style="list-style-type: none"> • Affordable Service

Additionally, the Phase 1 Decision formally launched PBR Phase 2 by initiating three reopener dockets, each focused on further investigating a distinct element of PBR:

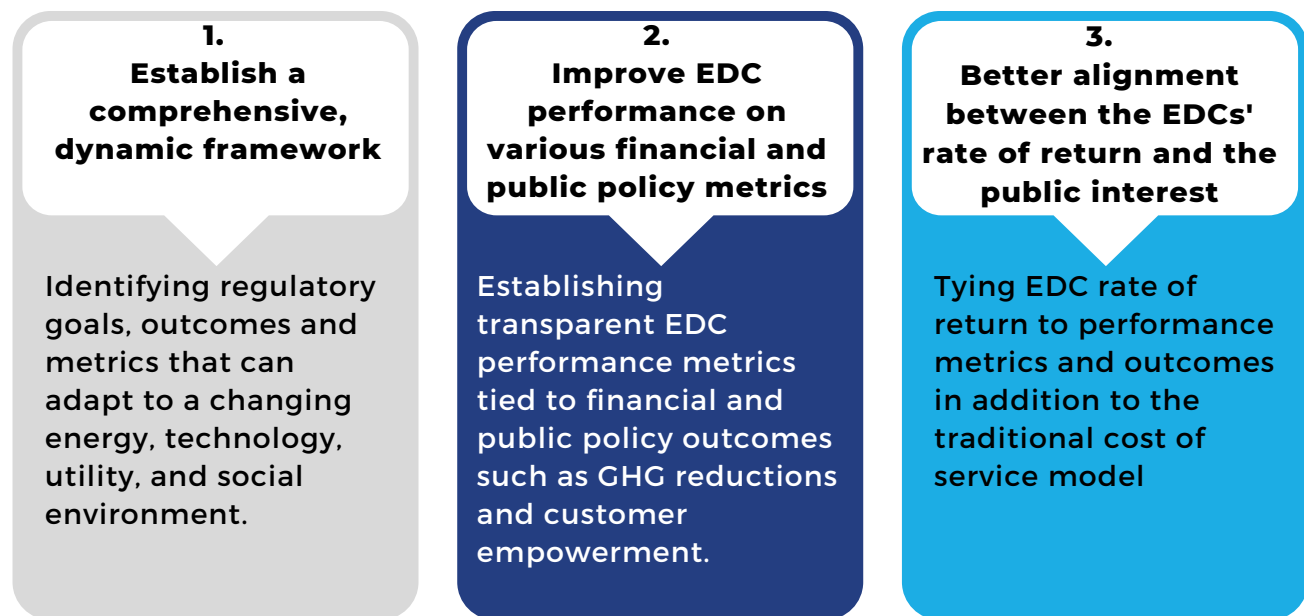
- Docket No. 21-05-15RE01: Revenue Adjustment Mechanisms
- Docket No. 21-05-15RE02: Performance Mechanisms
- Docket No. 21-05-15RE03: Integrated Distribution System Planning

Through these three Phase 2 proceedings, the Authority continues to collaborate with stakeholders to streamline and/or refine elements of the existing regulatory framework,

develop incentive mechanisms to better address specific objectives or areas of utility performance, and implement other improvements to the regulatory framework that meet the goals and outcomes established in Phase 1.

The PBR Framework is anticipated to alter the way utilities are regulated in Connecticut. The legacy regulatory framework used to ensure safe and reliable electricity at reasonable prices from capital-intensive electricity monopolies is now adjusting to a wave of disruptive technological advances that impact the way utilities earn revenues and what value customers expect from their own EDC. Indeed, the Authority views PBR as a means to revisit the principles of utility regulation and to re-apply these core tenets in the context of an increasingly decarbonized, digitized, and distributed electricity system. The benefits of PBR converge around three main issues:

Figure 5: Objectives of PURA’s PBR Proceedings



PBR Phase II Progress in 2024

The Authority launched all three reopener PBR dockets in 2023 and has remained committed to advancing the PBR reopener dockets at an ambitious pace throughout 2024. However, a foundational element of each reopener, and the PBR investigation broadly, is that they encourage and rely upon diverse, robust, and comprehensive stakeholder participation. Without the time, input, and expertise of a diverse array of participants, such advancements in the state’s regulatory reform would not be possible.

By June of 2024, PURA had already hosted more than 20 technical meetings, four working group meetings, eight written comment opportunities, and issued numerous interrogatories gathering invaluable insights and information. Two of the technical meetings in particular, Technical Meeting No. 8 in Docket No. 21-05-15RE01 and No. 5 in Docket No. 21-05-15RE02, yielded particularly productive dialogue. These meetings, both

held in early June, were conducted in a “roundtable” style, which supported significant engagement and discussion between stakeholders. The Authority concluded that the roundtable discussion format paired with additional discovery presented an opportunity to delve further into the necessary details for successful future implementation of Connecticut’s emerging PBR Framework.

Accordingly, the Authority revised the procedural schedules of Docket Nos. 21-05-15RE01 and 21-05-15RE02, extending each by approximately six months to accommodate an additional 12 roundtable technical meetings. The schedule in Docket No. 21-05-15RE03 remains underway as well and is expected to conclude in Q3 of 2025. A summary of each reopener’s objective, and the technical meetings (i.e. roundtables) held throughout 2024, is provided below.

Docket No. 21-05-15RE01: Revenue Adjustment Mechanisms

The first PBR reopener is investigating potential modifications and additions to Revenue Adjustment Mechanisms (RAM). Specifically, these include: Multi-Year Rate Plans (MRP); Earnings Sharing Mechanisms (ESM); the Revenue Decoupling Mechanism (RDM); and potential Capex / Opex Equalization Measures. As the MRP is the primary mechanism governing EDC cost recovery through base rates, it will be the main focus of this investigation. By necessity, the ESM, RDM, and Capex / Opex Equalization will also be reviewed as mechanisms related to the MRP; however, such review may or may not result in reforms during Phase 2 if none are deemed necessary to advance priority outcomes. Moreover, the Authority is reviewing, considering, and investigating the MRP, ESM, RDM, and Capex / Opex Equalization as a group of Revenue Adjustment Mechanisms in Phase 2 to account for the interrelationships and collective results of such mechanisms and proposed modifications.

The discovery, analysis, and deliberation of the RAM reopener will culminate in a final Decision to adopt guidance for subsequent EDC rate cases.

Below is a summary of the procedural events that occurred in 2024 and the upcoming events and opportunities for participation in 2025.

Table 4: Dkt. No. 21-05-15RE01 2024 Procedural Events

Date	Event	Primary Topic(s) of Discussion
1/10/2024	Technical Meeting #5	<ul style="list-style-type: none"> • S-factor • Efficiency Carryover Mechanism • Personnel-related costs in base distribution rates

Date	Event	Primary Topic(s) of Discussion
2/14/2024	Technical Meeting #6	<ul style="list-style-type: none"> Earnings Sharing Mechanism (ESM) Tiers Revenue Decoupling Mechanism (RDM) Revenue Category Exception - 120+ Hours Service Outage Regulatory Asset Treatment
3/20/2024	Technical Meeting #7	<ul style="list-style-type: none"> Going-in Rates Financial Analysis Methodologies EDC presentations on Straw Proposal Concepts
6/7/2024	Technical Meeting #8 (Roundtable)	<ul style="list-style-type: none"> I - X Formula Design Potential MRP offramps Capital funding under the I - X Formula or other capital funding mechanism alternatives Relevant topics to the RAM design discussed in the Straw Proposal
8/12/2024	Technical Meeting #9 (Roundtable)	<ul style="list-style-type: none"> Going-in Rates Revenue cap formula, excluding the z-factor
9/13/2024	Technical Meeting #10 (Roundtable)	<ul style="list-style-type: none"> Considerations regarding incremental capital funding in an MRP
10/24/2024	Technical Meeting #11 (Roundtable)	<ul style="list-style-type: none"> Considerations regarding a Z-Factor Operational growth Management audits in an MRP
11/18/2024	Technical Meeting #12 (Roundtable)	<ul style="list-style-type: none"> Considerations regarding a Total Factor Productivity Study for an X-Factor Benchmarking Study for an S-Factor
12/09/2024	Technical Meeting #13 (Roundtable)	<ul style="list-style-type: none"> Return on equity (ROE) calculation used in a PBR rate case Relationship of PIMS to the ROE calculation
3/31/2025	Technical Meeting #14 (Roundtable)	<ul style="list-style-type: none"> TBA
4/7/2025	Technical Meeting #15 (Roundtable)	<ul style="list-style-type: none"> TBA

Docket No. 21-05-15RE02: Performance Mechanisms

The second PBR reopener is investigating potential modifications and additions to Performance Mechanisms. These include: Reported Metrics; Scorecards; and Performance Incentive Mechanisms (PIMs). These elements of the state’s regulatory structure provide transparency of information with respect to EDC performance and will help measure achievement of the regulatory goals and priority outcomes adopted in the PBR dockets. The Authority intends to review this group of performance mechanisms as a portfolio to account for the interrelationships and collective results of such mechanisms and proposed modifications. The relationship between an EDC’s revenues and profits and its performance and financial incentives requires that the substance of Docket Nos. 21-05-15RE01 and 21-05-15RE02 be developed with mutual consideration of each.

The discovery, analysis, and deliberation of the Performance Mechanisms reopener will culminate in a final Decision to align existing reported metrics within the PBR Framework and elsewhere and adopt new metrics effective immediately where necessary. Additionally, this reopener docket’s final Decision will establish scorecards to be implemented as soon as practicable and PIMs likely to be implemented in the subsequent EDC rate cases. The final Decision in Docket No. 21-05-15RE02 will include the requisite detail for implementation, including but not limited to, metric and scorecard reporting frequency, the format and venue for reporting, targets and benchmarks in the case of scorecards, and impact on return on equity in the case of PIMs.

Below is a summary of the procedural events that have occurred to date, and the upcoming events and opportunities for participation.

Table 5: Dkt. No. 21-05-15RE02 2024 Procedural Events

Date	Event	Primary Topic(s) of Discussion
6/10/2024	Technical Meeting #5 (Roundtable)	<ul style="list-style-type: none"> -Performance Incentive Mechanisms (PIMs) Metrics, scorecards, and any specific attributes of PIMs
8/26/2024	Technical Meeting #6 (Roundtable)	<ul style="list-style-type: none"> Continued discussion of modifications to PIMs and impacts on priority outcomes
9/26/2024	Technical Meeting #7 (Roundtable)	<ul style="list-style-type: none"> Scorecards for Quality Customer Service, Affordable Service, and Resilient Electric Service

Date	Event	Primary Topic(s) of Discussion
10/31/2024	Technical Meeting #8 (Roundtable)	<ul style="list-style-type: none"> • Priority Outcomes that include Reported Metrics
11/25/2024	Technical Meeting #9 (Roundtable)	<ul style="list-style-type: none"> • -PIM proposed objectives, structure, target-setting methodology, and incentive structure • Priority Outcomes that include Reported Metrics
12/16/2024	Technical Meeting #10 (Roundtable)	<ul style="list-style-type: none"> • Cancelled
4/02/2025	Technical Meeting #11 (Roundtable)	<ul style="list-style-type: none"> • TBA
4/09/2025	Technical Meeting #12 (Roundtable)	<ul style="list-style-type: none"> • TBA

Docket No. 21-05-15RE03: Integrated Distribution Planning

The third and final PBR reopener is investigating the establishment of an Integrated Distribution System Plan (IDSP). Such planning among EDCs is a growing industry standard to anticipate and optimize the proliferation of DERs and grid-edge technologies on the distribution system. This investigation is expected to encompass three key areas: (1) EDC systems and processes that support IDSP, including but not limited to internal planning, operations, and Information Technology systems; (2) operations and optimization of the grid; and (3) IDSP structure and process.

Given the interrelationship between these topic areas and various other dockets, the Authority intends to take a holistic approach that considers elements of IDSP currently in effect in Connecticut. Various elements of IDSP currently exist in Connecticut, for example, EDC hosting capacity maps and the Non-wires Solutions (NWS) Process recently established in Docket No. 17-12-03RE07, [PURA Investigation into Distribution System Planning of the Electric Distribution Companies – Non-Wires Alternatives](#), (see Section 7 for more information on the NWS Process). Additionally, the EDCs already conduct some version of load forecasting and assess grid needs to inform capital investments – both of which are core practices of IDSP.

As a result, this proceeding is focused on documenting the existing components of IDSP, reviewing and evaluating the systems and processes that support IDSP, making components of IDSP more transparent and better connected where necessary, and establishing a public and transparent IDSP process and reporting standard(s).

Furthermore, the final Decision adopted in Docket No. 21-05-15RE03 will replace the IDSP requirements in the EMG Decision. Though this articulated endpoint may evolve over the course of the proceeding, any material changes will be communicated publicly through Docket No. 21-05-15RE03.

Below is a summary of the procedural events that have occurred to date, and the upcoming events and opportunities for participation.

Table 6: Dkt. No. 21-05-15RE03 2024 Procedural Events

Date	Event	Primary Topic(s) of Discussion
1/11/2024	Technical Meeting #3	<ul style="list-style-type: none"> • Load and Distributed Energy Resource (DER) forecast and modeling
2/06/2024	Technical Meeting #4	<ul style="list-style-type: none"> • Grid needs assessment and distribution system analysis steps currently used in distribution planning.
3/06/2024	Technical Meeting #5	<ul style="list-style-type: none"> • Information technology systems that support the EDCs' distribution planning processes.
4/02/2024	Technical Meeting #6	<ul style="list-style-type: none"> • Cancelled
5/14/2024	Technical Meeting #7	<ul style="list-style-type: none"> • Review of how the EDCs evaluate the efficacy of their distribution planning processes • How distribution system planning processes carry-forward information and insights into future planning cycles.
6/11/2024	Technical Meeting #8	<ul style="list-style-type: none"> • How the EDCs identify, evaluate, and choose solutions to address grid needs within existing distribution system planning processes • Cost recovery for Non-Wires Solutions (NWS) projects
11/19/2024	Technical Meeting #9	<ul style="list-style-type: none"> • Rescheduled
12/17/2024	Technical Meeting #10	<ul style="list-style-type: none"> • Discuss existing components of IDSP in Connecticut as contained in the Concept Paper • Identify opportunities for integration with other PBR and EMG dockets

Date	Event	Primary Topic(s) of Discussion
		<ul style="list-style-type: none">• Discuss a public and transparent IDSP documents, development process, and reporting standards.
5/13/2025	Technical Meeting #11	<ul style="list-style-type: none">• TBA
5/21/2025	Technical Meeting #12	<ul style="list-style-type: none">• TBA