# Briefing on Performance-Based Regulation in Hawaii
## Docket No. 2018-0088 (active)

Before the Senate Committee on Commerce and Consumer Protection

June 24, 2025

# What is Performance-Based Regulation (PBR)?

# Cost of Service Regulation (COSR)

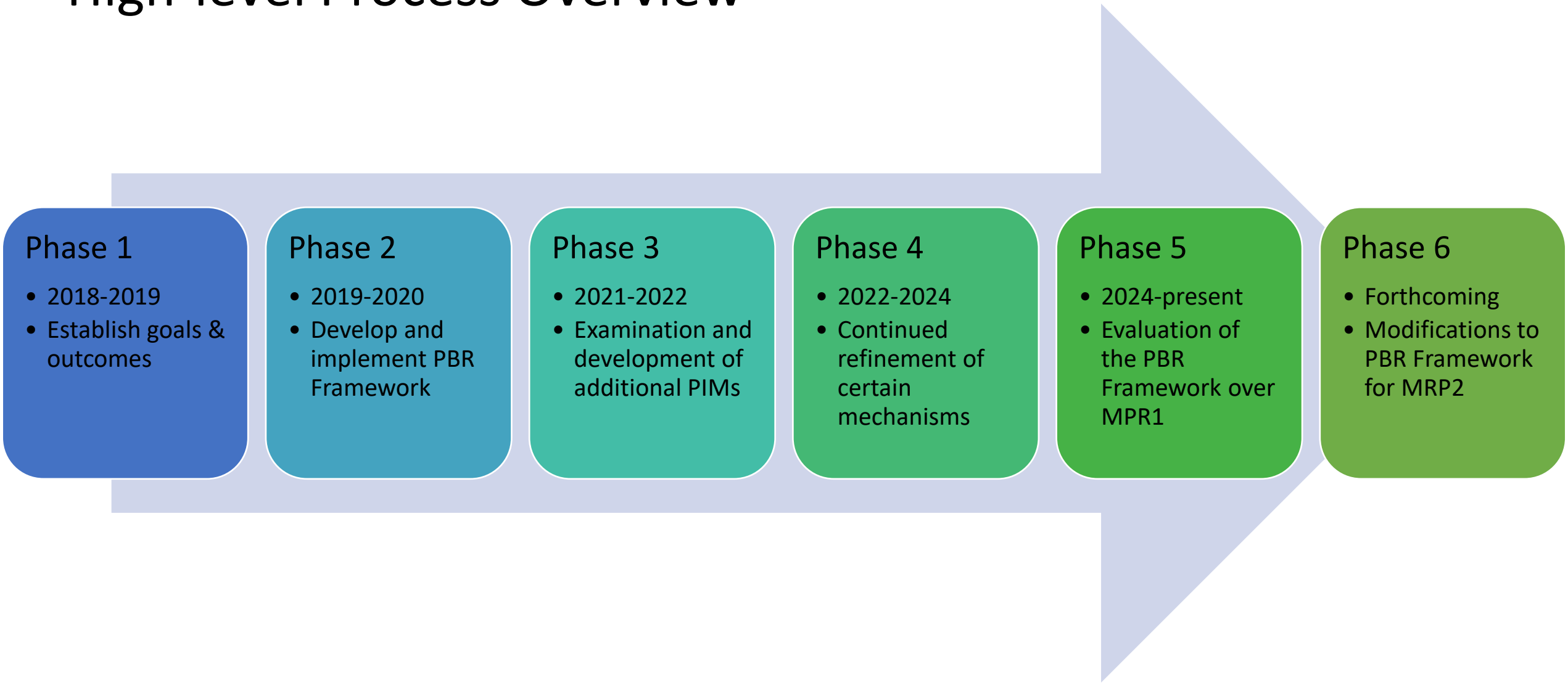
- Traditionally, utilities make their money through “cost of service ratemaking”
  - Generally, cost of service ratemaking is:
    - How much it will cost the utility to provide you electricity (and other services)
    - A rate of return on capital expenditures
  - Utilities collect that amount from you via your electricity rates

# PBR Offers an Alternative to COSR

- Revenues are increasingly tied to utility performance, not utility costs.
- Benefits
  - Greater accountability for cost management
  - Can mitigate capital expenditure (CAPEX) bias
  - Mechanisms to incentivize desired policies or outcomes
  - Dynamic and flexible
- Hawaii's PBR Framework features more PBR concepts than any other state.

# Development of PBR in Hawaii

# High-level Process Overview



# Phase 1 (2018-2019)

- Background
  - Some PBR elements already incorporated as early as 2010
- Phase 1 Objectives
  - Priority outcomes for PBR
  - PBR mechanisms to be implemented

# Phase 2 (2019-2020)

## Design and Implementation

- Formal process

- Parties weigh in on:
  - Revenue adjustment mechanisms
  - Performance mechanisms
  - Safeguards

- December 2020: PUC D&O 37507

# Development of PBR in Hawaii cont'd

- Phase 2.5 (2020-2021): Implementation of PBR Framework
  - Development and review of tariffs
  - Finalization of PIMs, Scorecards, and Reported Metrics
  - Streamlining reporting requirements

- Phase 3 (2021-2022): Examination of additional PIMs
  - Explored PIMs for:
    - Grid Resiliency
    - Timely Retirement of Fossil Fuel Units
    - Interconnection of Large-Scale Renewable Energy Facilities
    - Cost Control for Fossil Fuel, Purchased Power, and other Non-ARA Costs
    - Utilization of Grid Resources from DERs
  - Resulted in three additional PIMs and two new reports

# Development of PBR in Hawaii cont'd

- Phase 4 (2022-2024): refinement of PBR mechanisms
  - Sunset/limited extension of interim PIMs
    - DER Grid Services PIM
    - DER Interconnection Approval PIM
    - AMU Utilization PIM
    - LMI-EE PIM
  - Addressing proposed modifications to certain PIMs
    - Long-term DER Grid Utilization PIM
    - Accelerated RPS PIM
    - Call Center PIM
  - Modifications following the Maui Wildfires
    - Suspension of the ESM
    - Suspension of the T&D Service Reliability PIM
- Phase 5 (2024-present): Evaluation of PBR Framework

# The PBR Framework in MRP1

# PBR Framework Goals and Outcomes

**Guiding Principles**

**A customer-centric approach,** including immediate "day 1" savings when the new regulations takes effect;

**Administrative efficiency** to reduce regulatory burdens to the utility and stakeholders; and

**Utility financial integrity** to maintain the utility's financial health, including access to low-cost capital.

| Goal | Priority Outcome | |
|---|---|---|
| **Enhance Customer Experience** | Traditional | Affordability |
| | | Reliability |
| | Emergent | Interconnection Experience |
| | | Customer Engagement |
| **Improve Utility Performance** | Traditional | Cost Control |
| | Emergent | DER Asset Effectiveness |
| | | Grid Investment Efficiency |
| **Advance Societal Outcomes** | Traditional | Capital Formation |
| | | Customer Equity |
| | Emergent | GHG Reduction |
| | | Electrification of Transportation |
| | | Resilience |

# Hawaii's PBR Framework

**Revenue Adjustment Mechanisms**

- A 5-year **multi-year rate plan**
- **Allowed revenues adjusted annually** for inflation and a "customer dividend"
- An **Exceptional Project Recovery Mechanism** for extraordinary projects
- **Revenue Decoupling** to reconcile target revenues to what's collected

**Performance Mechanisms**

- Portfolio of **Performance Incentive Mechanisms (PIMs)**
- Project/program-specific **shared savings mechanisms**
- Portfolio of **scorecards** and **reported metrics**

**Pilot process**

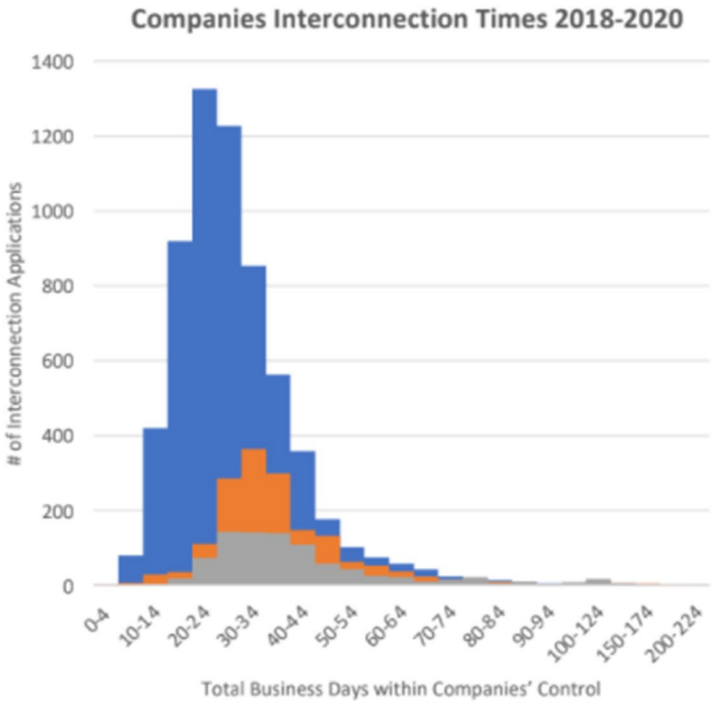
- A framework for **expedited review for pilot projects** to incent innovative programs and projects

**Safeguards**

- An **Earnings Sharing Mechanism** to protect the utility and customers from excessive earnings or losses
- A **Re-Opener** mechanism that allows the PUC to examine all or parts of the PBR framework

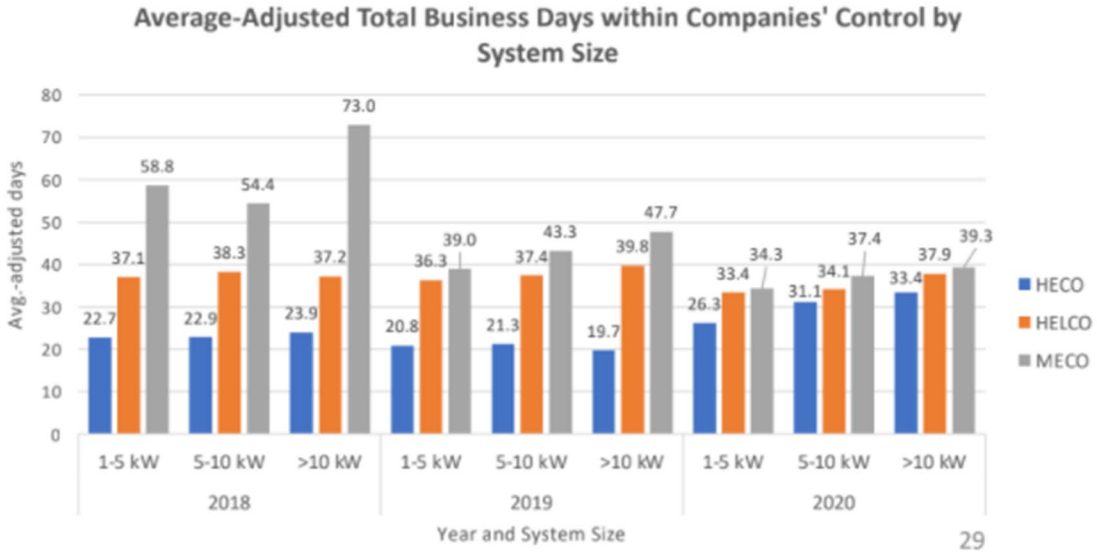
# Example: DER Interconnection Approval PIM

## Companies' 2018-2020 DER Interconnection Data




* this graph excludes 7 outliers from all three companies whose interconnection applications took >=225 days.

| Adj-Avg Total Business Days w/in Companies' Control | HECO | HELCO | MECO |
|---|---|---|---|
| 2018 | 23.01 | 37.55 | 56.60 |
| 2019 | 20.95 | 37.28 | 43.62 |
| 2020 | 29.72 | 34.49 | 37.47 |
| % Improvement | | | |
| 2018 -> 2019 | 9% | 1% | 23% |
| 2019 -> 2020 | -42% | 7% | 14% |



# 2024 Results

Since 2020, DER Interconnection times have improved by 65% on Oahu, 62% on Hawaii Island, and 59% on Maui despite processing more applications

The Companies collectively claimed a $2.4 million reward for 2024

HECO: $2,100,000

HELCO: $225,000

MECO: $75,000

| HECO | | HELCO | | MECO | |
|---|---|---|---|---|---|
| **Days** | **Applications Executed** | **Days** | **Applications Executed** | **Days** | **Applications Executed** |
| 10.55 | 3,458 | 13.21 | 1,036 | 15.18 | 889 |

# Example: AMI Utilization PIM

| Targets | Years | Performance | Reward |
|---|---|---|---|
| • % of customers with advanced meters and utilize two of the three customer features: Customer Authorization; Energy Usage Alert; Program Participation | 2021 | • Only 0.001% of customers at HECO and 0% of customers at HELCO and MECO qualified for 2 of the 3 benefits. | $0 |
| | 2022 | • Only 0.003% of HECO customers, 0.002% of HELCO customers, and 0.003% of MECO customers qualified for 2 of the 3 benefits. | $0 |
| | 2023 | • Only 0.015% of HECO customers, 0.016% of HELCO customers, and 0.012% of MECO customers qualified for 2 of the 3 benefits. | $0 |

# Comprehensive Evaluation of the PBR Framework

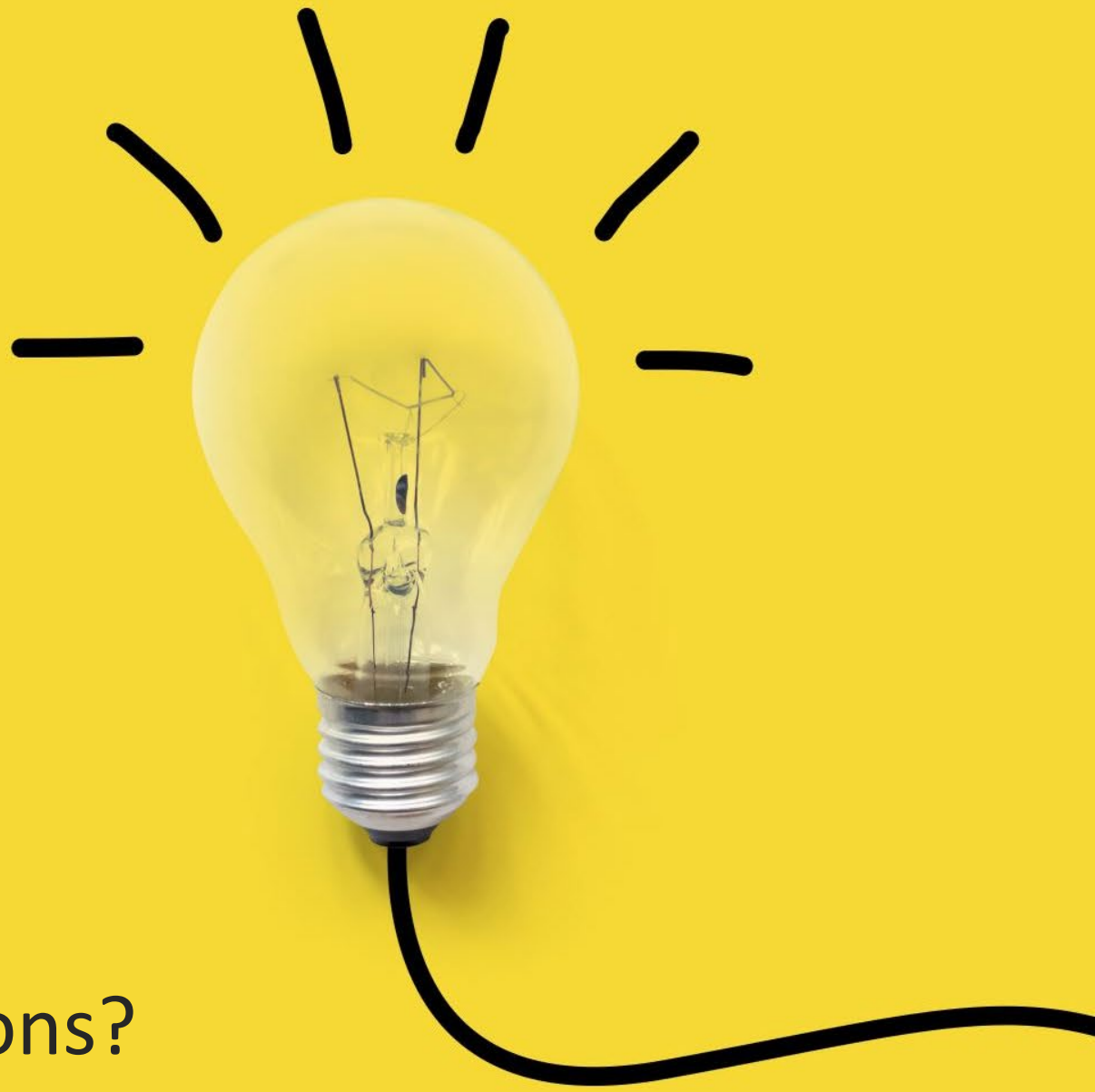
- Phase 5 (June 2024 to present): Evaluation of the PBR Framework
  - Informal working group meetings
    - Commission-facilitated
    - Evaluation of PBR mechanisms
  - Informal assessment of PBR mechanisms
    - Mechanisms with no modifications needed for MRP 2
    - Mechanisms that may need modifications for MRP 2
  - Discussion on necessity and means of re-basing rates for MRP 2

# Looking Ahead

- Phase 6
  - Formal proceeding
  - Builds off Phase 5
  - Examination of potential modifications to existing PBR mechanisms
  - Effective date: start of MRP 2 in January 2027
- Rate Re-Basing
  - Purpose: re-base Hawaiian Electric's Target Revenues
  - General rate case-like
  - Open to all PBR parties
  - Application is forthcoming

# Summary

- PBR Framework breaks link between revenues and investment levels
  - PIMs
  - MRP
  - ARA
- PBR Framework assessment is currently underway
- PUC Phase 6 decision is pending
- HECO Re-basing Application is pending



# Questions?

# Thank you for your time

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# Additional Slides

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# Specifically Addressing HRS 269-16.1

- Consistent with HRS 269-16.1(b), the PUC has approved PBR mechanisms that address the following:
- (1) the economic incentives and cost-recovery mechanisms described in section 269-6(e) - inter alia, section (e)(1), "shared cost savings incentive mechanism designed to induce a public utility to reduce energy costs and operating costs and accelerate the implementation of energy cost reduction practices (see MRP, ARA, CSSM, IRS PIM, RPS-A PIM).
- (2) volatility and affordability of electric rates and customer electric bills (IRS PIM and RPS-A PIM incentivize transition towards renewable generation, which reduces impacts of fossil fue prices on customer bills; ECRC Fuel Risk Sharing Mechanism requires utility to share in the volatility of fuel prices, which incentivizes transition away from/reduced reliance on fossil fuel).
- (3) Electric service reliability (T&D Reliability PIM and Generation Reliability PIM).
- (4) Customer Engagement and satisfaction, including customer options for managing electricity costs (Call Center PIM and Interconnection Approval PIM)
- (5) Access to utility system information, including but not limited to public access to electric system planning data and aggregated customer energy use data and individual access to granular information about an individual customer's own energy use data (broader system planning is available in other public PUC dockets (e.g., IGP, RFP); as part of PBR, PUC has required utility to file reports on plans for DER integration and retirement of fossil fuel plants; Customer Engagement scorecards have tracked utility's success at empowering customers to access their own data via online portal)
- (6) Rapid integration of renewable energy sources, including quality interconnection of customer-sited resources (RPS-A PIM and IRS PIM; ECRC Fuel-Risk Sharing mechanism)
- (7) Timely execution of competitive procurement, third-party interconnection, and other business processes (RPS-A PIM and IRS PIM; ECRC Fuel-Risk Sharing mechanism)