



# STATE OF CONNECTICUT

## PUBLIC UTILITIES REGULATORY AUTHORITY

DOCKET NO. 21-05-15  
PURA INVESTIGATION INTO A PERFORMANCE-BASED REGULATION  
FRAMEWORK FOR THE ELECTRIC DISTRIBUTION COMPANIES

### NOTICE REGARDING DOCKET TIMELINE AND PROCESS

On May 26, 2021, pursuant to Section 1 of 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), the Public Utilities Regulatory Authority (Authority or PURA) initiated the above-captioned docket to investigate, develop, and adopt a framework for implementing performance-based regulation (PBR) for the electric distribution companies (EDC) in Connecticut, The Connecticut Light and Power Company d/b/a Eversource Energy (Eversource) and The United Illuminating Company (UI). As stated in the Authority's June 17, 2021 Notice of Proceeding, PURA may also examine additional topics relevant to establishing a PBR framework in Connecticut through this docket.<sup>1</sup> Further, as indicated in the December 14, 2021 Revised Notice of Proceeding, the Authority has selected Strategen Consulting, LLC (Strategen) to supplement existing staff expertise in developing a PBR framework.<sup>2</sup>

The Authority is conducting this uncontested proceeding pursuant to Section 1 of the Take Back Our Grid Act and Conn. Gen. Stat. §§ 16-11, 16-19a, 16-19e, 16-19kk, 16-19mm, 16-32h, 16-32n, and 16-244i.

### **Take Back Our Grid Act**

Section 1 of the Take Back Our Grid Act states that the framework adopted by the Authority shall: (1) establish standards and metrics for measuring such EDC's performance of objectives that are in the interest of ratepayers or benefit the public; (2) identify the manner, including the timeframe and extent, in which such standards and metrics shall be used to apply the principles and guidelines set forth in § 16-19e of the General Statutes of Connecticut (Conn. Gen. Stat.) and to determine the relative adequacy of the EDC's service and the reasonableness and adequacy of rates proposed and considered pursuant to Conn. Gen. Stat. § 16-19a; and (3) identify specific mechanisms to be implemented to align utility performance with the standards and

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<sup>1</sup> Notice of Proceeding, dated June 17, 2021, p. 1. Available at: <https://view.officeapps.live.com/op/view.aspx?src=http%3A%2F%2Fwww.dpuc.state.ct.us%2Fdockcurr.nsf%2F8e6fc37a54110e3e852576190052b64d%2F9eadf42f1e6f7747852586f700638c53%2F%24FILE%2F21-05-15--Notice%2520of%2520Proceeding.docx&wdOrigin=BROWSELINK%20>.

<sup>2</sup> Revised Notice of Proceeding, dated Dec. 14, 2021, p. 2. Available at: [http://www.dpuc.state.ct.us/dockcurr.nsf/8e6fc37a54110e3e852576190052b64d/2b3a4675595f5a9c852587ab003a2075/\\$FILE/21-05-15%20Revised%20NOP.pdf](http://www.dpuc.state.ct.us/dockcurr.nsf/8e6fc37a54110e3e852576190052b64d/2b3a4675595f5a9c852587ab003a2075/$FILE/21-05-15%20Revised%20NOP.pdf).

metrics adopted pursuant to Section 1 of the Take Back Our Grid Act and Conn. Gen. Stat. § 16-19a(b), including, but not limited to, reviewing the effectiveness of the EDC's revenue decoupling mechanism.

### **Equitable Modern Grid (EMG) Context**

The Interim Decision dated October 2, 2019, in Docket No. 17-12-03, PURA Investigation into Distribution System Planning of the Electric Distribution Companies, established the Authority's framework approach to investigate methods for equitably modernizing the electric grid in Connecticut (Equitable Modern Grid or EMG framework). The objectives of this framework include: (1) supporting the growth of Connecticut's green economy; (2) enabling a cost-effective, economy-wide transition to a decarbonized future; (3) enhancing customer access to a more resilient, reliable, and secure commodity; and (4) advancing the ongoing energy affordability dialogue in the State.<sup>3</sup>

Establishing an advanced PBR framework is consistent with, informed by, and directly supportive of the Authority's stated objectives through its Equitable Modern Grid approach. As such, a PBR proceeding is the next logical step in the evolution of advancing an Equitable Modern Grid.

### **Opportunities of Performance Based Regulation**

PBR enables regulators to reform legacy regulatory structures to facilitate innovations within modern power systems. The legacy regulatory paradigm is built to ensure safe and reliable electricity at reasonable prices from capital-intensive electricity monopolies. That paradigm must now adjust to a new era of disruptive technological advances that change the way utilities make money and what value customers expect from their EDC.

PBR addresses specific issues and disincentives inherent in traditional cost-of-service regulation (COSR) through a set of alternative regulatory mechanisms intended to focus utilities on performance and alignment with public policy goals, as opposed to growth in capital investments or other traditional determinants of utility earnings under COSR. Stated differently, PBR provides a path forward to both improve customer and public policy outcomes while also providing the EDCs with an opportunity to earn fair compensation through a modified business model.

### **PURA's Investigative Approach**

Through this investigative proceeding, the Authority intends to set the foundation for a successful relationship between the EDCs and their customers by holistically assessing and evaluating the current regulatory framework to ensure that the various regulatory mechanisms in place today are working efficiently, in concert, and as intended. Informed by stakeholder feedback, the Authority expects to refine or modify the present regulatory framework so that it better aligns the EDCs' interests with the public interest in

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<sup>3</sup> Interim Decision dated October 2, 2019, in Docket No. 17-12-03, p 1. Available at: [http://www.dpuc.state.ct.us/2nddockcurr.nsf/8e6fc37a54110e3e852576190052b64d/0e5fc32986954bf78525875200798b44/\\$FILE/171203-100219%20InterimDecision.pdf](http://www.dpuc.state.ct.us/2nddockcurr.nsf/8e6fc37a54110e3e852576190052b64d/0e5fc32986954bf78525875200798b44/$FILE/171203-100219%20InterimDecision.pdf).

this new era of disruptive technologies, utility business model innovation, evolving customer needs, and increasing frequency and magnitude of impacts due to climate change. More specifically, the Authority seeks to examine PBR elements, such as revenue and incentive mechanisms,<sup>4</sup> that encourage exemplary EDC performance aligned with the public interest.

Therefore, the Authority, in collaboration with stakeholders, will establish goals and outcomes to inform the development of an updated regulatory framework, assess the existing regulatory framework for its efficacy in incenting achievement of desired regulatory and public outcomes, and identify regulatory tools and/or changes necessary to create an advanced PBR framework aligned with the principles and objectives established by the Authority's Equitable Modern Grid framework.

### **Investigation Phases**

To help ensure a successful outcome, the Authority has bifurcated the proceeding into two phases. Phase 1 will consist of five (5) steps: (1) consider regulatory goals to inform a performance-based regulatory framework; (2) establish optimal public outcomes of a PBR framework in Connecticut; (3) evaluate the current regulatory framework and examine which existing incentive mechanisms and regulatory components may not be functioning as intended or are no longer aligned with the public interest, and identify specific areas of utility performance that should be targeted for improvement; (4) assess which regulatory mechanisms that can drive improved public outcomes; and (5) identify specific performance metrics, where appropriate.

In Phase 2, the Authority intends to continue the collaborative process 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.

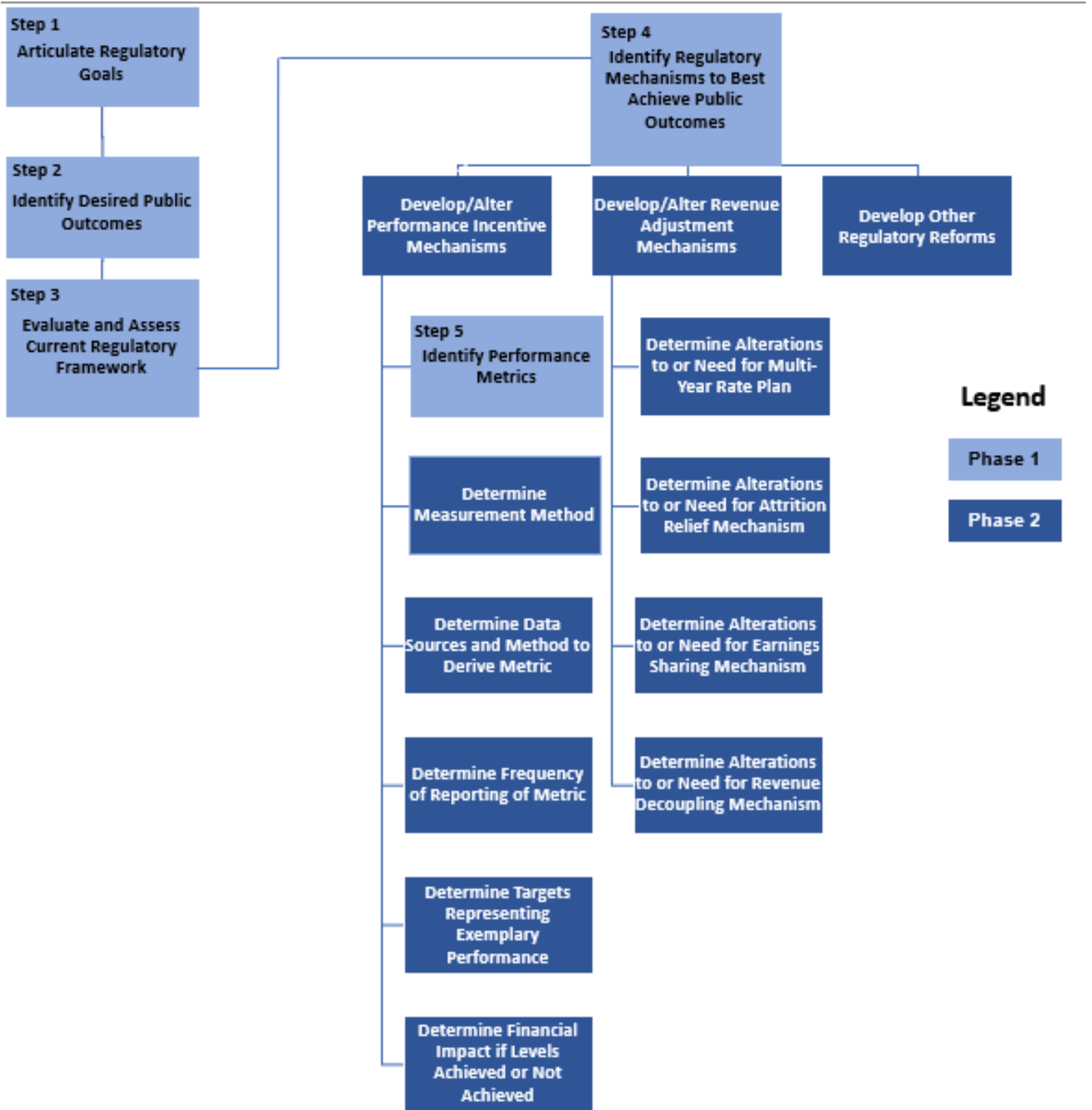
Phase 1 is described in greater detail in Figure 1 below, while Phase 2 will be addressed in a future Notice.

Figure 1 provides an illustrative overview of the two investigation phases, and the steps contained within each. Specifically, the Phase 1 actions map to the five (5) steps outlined in the above paragraph and below section describing Phase 1.

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<sup>4</sup> PBR generally includes two critical components: (1) revenue adjustment mechanisms (e.g., multi-year rate plans, revenue decoupling, etc.); and (2) performance mechanisms (e.g., performance incentive mechanisms, benchmarking, earnings sharing mechanisms, etc.). These two, complementary components of PBR give utilities targets, a way to measure utility performance relative to the targets, and incentives to achieve the performance targets.

**Figure 1: PBR Proceeding Flowchart**



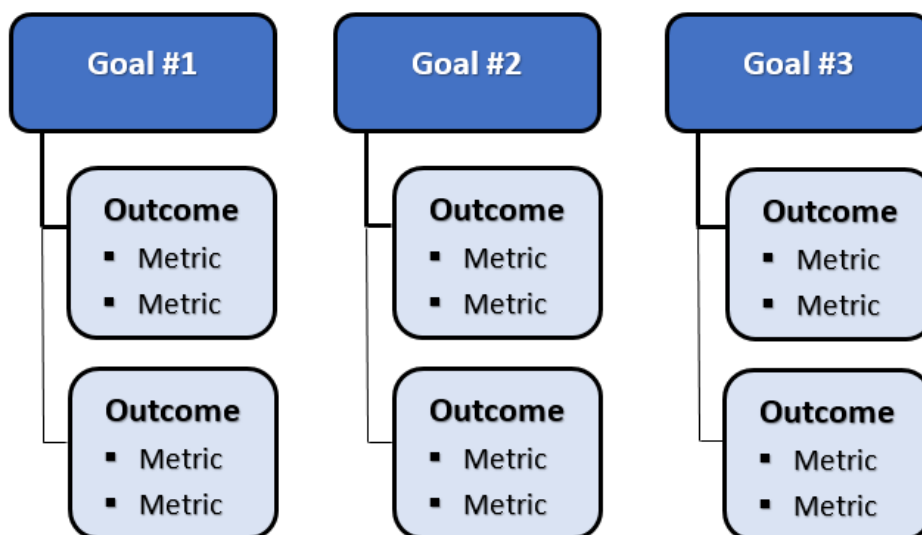
## Phase 1

Phase 1 of this proceeding will establish a foundation from which to implement modifications and/or refinements to the current regulatory framework in Phase 2. Initially, the Authority and stakeholders will identify regulatory goals and outcomes to serve as guiding principles and support the regulatory framework assessment. Second, through the lens of regulatory goals and outcomes, the Authority and stakeholders will determine which outcomes are well-served by the current regulatory framework and which require greater focus and examination. Finally, once a distilled subset of outcomes has been identified, the Authority and stakeholders will determine which regulatory mechanisms are appropriate to successfully realize each outcome, while articulating specific metrics to measure the utility's performance in achieving that particular outcome. Phase 1 will consist of five (5) steps as detailed below.

### Building a Foundational Goals-Outcomes Hierarchy

The first two steps of the PBR Design Process establish a hierarchy that can be used as a framework for the analysis itself. This two-level hierarchy begins with broad regulatory goals, which inform desired regulatory and public outcomes. The goals-outcomes hierarchy, in turn, informs possible performance metrics. This structure is visualized in Figure 2 below.

**Figure 2: Goals-Outcomes Hierarchy**



The foundational hierarchy helps to transform broad regulatory goals, which are high-level by nature, into more specific regulatory and public outcomes. This two-level hierarchical approach provides a lens through which to evaluate whether the existing regulatory framework is adequately achieving desired regulatory outcomes. The ensuing assessment of the existing regulatory framework will, in turn, illuminate which specific areas of interest and/or EDC performance warrant greater focus. Upon narrowing the scope of focus, the next step of the PBR Design Process is to evaluate which regulatory mechanisms are best-suited to address the specific areas of interest. These first four steps are described in greater detail below.

### *Step 1: Articulate Regulatory Goals.*

The first step of the process is to identify and articulate regulatory goals that the State wishes to achieve. Once identified, these goals can ultimately help to focus the identification and selection of potential metrics to track. These regulatory goals should be broadly defined while still providing sufficient certainty and flexibility. Regulatory goals should be responsive to the fundamental reasons for utility regulation, which are necessarily informed by a utility's core obligations of service, as well as the needs of the modern power system and the Authority's Equitable Modern Grid objectives. In other words, utilities are obligated to meet certain goals that are important to regulators and the public, and are in line with their statutory obligations. These high-level goals form the top portion of the foundational goals-outcomes hierarchy.

### *Step 2: Identify Desired Public Outcomes.*

Once the regulatory goals have been identified, the next step is to determine the desired outcomes of utility service. Outcomes describe how utility services affect ratepayers and society. These outcomes add specificity to the broader, aspirational regulatory goals. Identifying desired outcomes inherently requires an assessment of the existing regulatory structure and incentives. In particular, this assessment can identify functions that a utility should perform at a high level, and those that it may find difficult to accomplish. The foundational goals-outcome hierarchy is designed to accommodate existing and emerging regulatory outcomes, as they are compatible with the broader regulatory goals established in the previous step. There should also be a reassessment of existing regulatory tools and/or metrics, especially those related to the desired regulatory outcomes. For instance, there are a number of existing metrics for service quality and reliability. Gathering this information can yield insight into current utility performance and help the Authority and stakeholders take stock of how well the metrics themselves illuminate utility performance. This cataloging and assessment process will occur in Step 3 of the PBR Design Process.

## Regulatory Assessment

### *Step 3: Evaluate and Assess Current Regulatory Framework.*

Even as the identification of desired regulatory outcomes necessarily involves some level of assessment (as described above), Step 3 of the PBR Design Process involves a more explicit and deliberate analysis of the existing regulatory framework. Through the lens of identified regulatory outcomes, the current regulatory framework can be evaluated for relative effectiveness. Such analysis should illuminate which regulatory outcomes or specific areas of utility performance are currently well-served by the existing regulatory framework, as well as which specific areas of utility performance are currently not well-served. This evaluation and assessment should yield a distilled and focused list of regulatory outcomes and/or areas of interest to be addressed further.

#### *Step 4: Identify Regulatory Mechanism to Best Address Each Public Outcome.*

Having outlined a focused list of regulatory and public outcomes and areas of specific utility performance to be addressed, Step 4 examines which regulatory mechanisms are best-suited to effectively achieve each desired outcome. This regulatory mechanism assessment should result in the grouping of regulatory outcomes into one or more of three PBR element pathways: (1) Performance Incentive Metrics (PIMs); (2) Revenue Adjustment Mechanisms; and/or (3) Other Regulatory Reforms.

#### Performance Metrics

#### *Step 5: Identify Possible Performance Metrics.*

For those regulatory outcomes best addressed by PIMs, Step 5 of the PBR Design Process continues the transformation of broad regulatory goals to desired outcomes and ways of measuring performance. If an outcome describes the topic of regulatory interest, then a metric is the way to measure a utility's performance in achieving that particular outcome. A metric should be quantifiable and verifiable, when possible, as well as consistent with State energy policies. Metrics are grouped according to the corresponding regulatory outcome. For example, call answer time and customer complaints are traditional performance metrics related to the regulatory outcome of service quality. Similarly, traditional metrics like System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI) are used to measure performance of the desired regulatory outcome of reliability. There are numerous performance metrics available to measure more traditional aspects of utility service, like service quality and reliability. Performance metrics related to emerging regulatory outcomes, such as PURA's EMG framework, deployment of distributed energy resources, and environmental issues exist, but are still developing in many cases. Notwithstanding their emergent nature, such metrics will be important to consider in this docket. Once the difficult task of selecting performance metrics has been completed, the next step is to determine how the metrics will be reported.

### **Investigation Process**

Given the complexity of this undertaking, stakeholder input and collaboration will be of the utmost importance. The Authority intends to utilize a series of facilitated workshops, each followed by the opportunity to submit written comments from stakeholders, in order to focus objectives and advance the proceeding in an expeditious and productive manner. The Authority will endeavor to provide stakeholders with substantive prompts before each workshop.

The Authority's planned procedural schedule for Phase 1 of this proceeding is outlined below in Table 1. The Authority will provide the date and time of each stakeholder workshop through a separate notice issued in this docket. Such notices will outline the expected stakeholder engagement during each stakeholder workshop, and may request stakeholder presentations.

**Table 1: Tentative Schedule and Outline of Process**

| <b>Event</b>                                                    | <b>Proposed Date</b> | <b>Phase</b> |
|-----------------------------------------------------------------|----------------------|--------------|
| <b>Stakeholder Workshop #1 – Goals-Outcomes</b>                 | April 2022           | Phase 1      |
| <b>Participants’ Goals-Outcomes Comments</b>                    | May 2022             | Phase 1      |
| <b>Stakeholder Workshop #2 – Regulatory Assessment</b>          | August 2022          | Phase 1      |
| <b>Participants’ Regulatory Assessment Comments</b>             | September 2022       | Phase 1      |
| <b>Stakeholder Workshop #3 – Mapping Outcomes to Mechanisms</b> | November 2022        | Phase 1      |
| <b>Participants’ Mapping Outcomes to Mechanisms Comments</b>    | December 2022        | Phase 1      |
| <b>Phase 1 Straw Proposal</b>                                   | January 2023         | Phase 1      |
| <b>Participants’ Comments</b>                                   | February 2023        | Phase 1      |
| <b>Draft Decision and Procedural Schedule for Phase 2</b>       | March 2023           | Phase 2      |

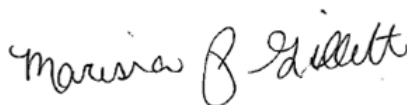
Based on stakeholder input, and subsequent to all scheduled workshops, the Authority may take additional steps, as needed. During Phase 1, the Authority anticipates issuing one or more staff concept papers to enhance stakeholder understanding, capture written comments from participants, and track progress across the timeline.

Lastly, at the conclusion of Phase 1, the Authority plans to issue a Straw Proposal. The Authority will revise the straw proposal to reflect further stakeholder input requested through an additional Notice of Request for Written Comments. Subsequent steps may take the form of a Proposed Interim Decision. At the commencement of Phase 2, the Authority will issue a Notice providing information similar to that contained herein, detailing the steps included as part of Phase 2, identifying additional topics, and expanding on supplemental procedural events.

Information related to the above uncontested proceeding is accessible on the PURA’s website (<http://www.ct.gov/pura/>) under the "Docket Info" link. The PURA case coordinator assigned to this docket is Laura Lupoli, who can be reached at [laura.lupoli@ct.gov](mailto:laura.lupoli@ct.gov).

Dated at New Britain, Connecticut this 31<sup>st</sup> day of January, 2022.

PUBLIC UTILITIES REGULATORY AUTHORITY



Marissa P. Gillett  
Chairman