

e21 Initiative

MN PUC Planning Meeting
February 26, 2015



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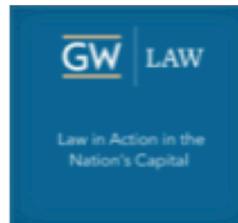
e21 is Convened by the Following Partners

For more information,
visit: www.betterenergy.org/projects/e21



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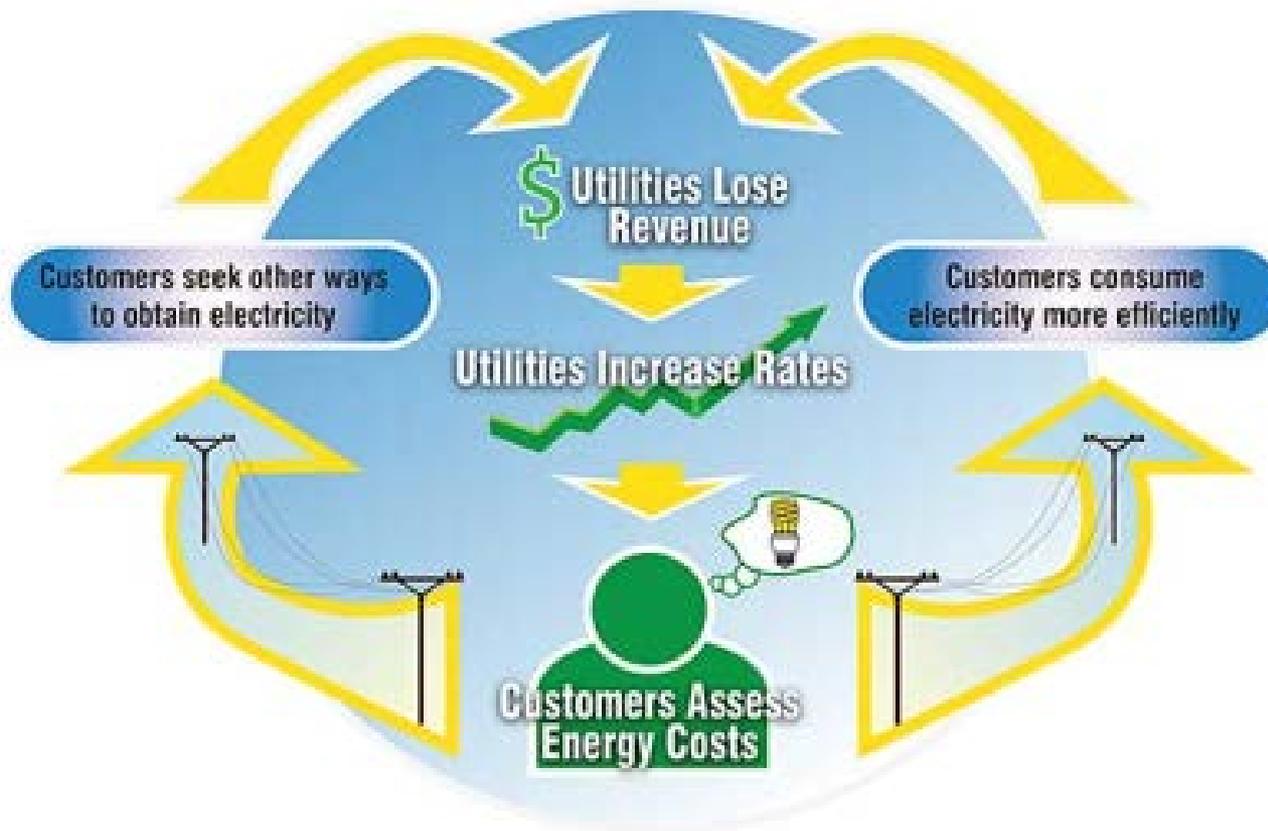
WHO IS INVOLVED?



Support for the e21 Initiative:

The Energy Foundation, the Joyce Foundation, Xcel Energy, and Minnesota Power have funded the e21 Initiative, with in-kind contributions from CEE, ESCS, and GWU.

DISRUPTIVE TRENDS TO THE 100+ YEAR-OLD UTILITY MODEL



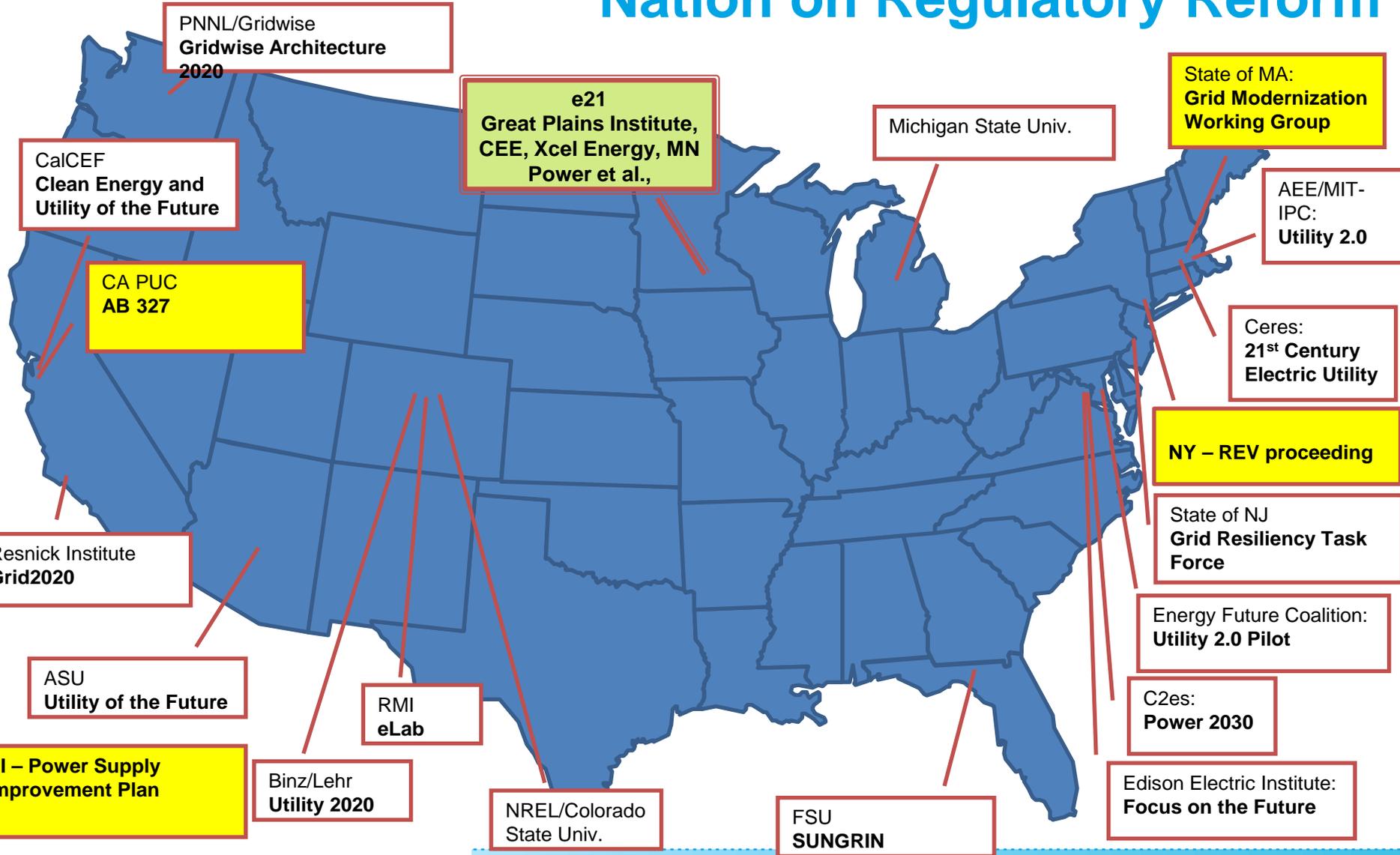
“Disruptive Challenges: Financial Implications and Strategic Responses to a Changing Retail Electric Business,” Edison Electric Institute, January 2013.



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MN One of 5 States Leading Nation on Regulatory Reform



[GreenTech Media names MN one of 5 leading states](#)

e21 Guiding Principles

- Align an economically viable utility model with state and federal public policy goals.
- Provide universal access to electricity services, including affordable services to low-income customers.
- Provide for just, reasonable, and competitive rates.
- Enable delivery of services and options that customers value.
- Recognize and fairly value grid services and “distributed energy resource” services.
- Assure system reliability, and enhance resilience and security, while addressing customer privacy concerns.
- Foster investment that optimizes economic and operational efficiency of the system as a whole.
- Reduce regulatory administrative costs where possible (e.g., results in fewer rate cases or otherwise reduce the burden of the regulatory process).
- Facilitate innovation and implementation of new technologies.



e21's Consensus Recommendations Support:

- **A shift to a more customer-centric and sustainable framework for utility regulation in Minnesota** that better enables innovation, new customer options, modernization of the grid, and achievement of public policy goals.
- **A new utility business model that places less emphasis on selling an increasing amount of electricity** and more on providing the energy services and options that customers value.

The e21 Initiative proposes these recommendations as a *package* and are intended as a blueprint for the new customer-centric, performance-based regulatory approach.

Our recommendations would begin the shift described above, but we recognize this is a multi-year, multi-phase undertaking.



Problems Addressed by the e21 Recommendations

e21's Recommendations aim to address the following problems, which fall into two high-level buckets, that are **critical to address in order to achieve e21's desired outcomes**:

•**Regulatory reform:** All parties involved (utilities, regulators, intervenors) are spending too much time, money, and energy administering and participating in the current framework.

- Back-to-back rate cases; overlapping issues between resource planning and acquisition proceedings; and other quasi-litigation regulatory processes
- Opportunity cost: dedicating increasing resources to administering current framework, but not able to plan for and respond to accelerating changes in the energy industry

•**Customer Options:** Customers are/will be increasingly asking for rate and service options that respond to their needs/interests.



Regulatory Reform Recommendation: Performance-based Ratemaking

What it is: A portion of a utility's revenue would be tied to achieving agreed-upon performance metrics, measuring things such as customer service, reliability, and environmental sustainability.

Utilities that opt in would file a performance-based 'business plan' covering up to 5 years that provides a roadmap for meeting performance objectives and includes:

- Resource adequacy analysis and five-year action plan.
- Performance metrics.
- Planned investments and expenditures.
- Cost recovery proposal, including annual rate adjustment process and cost allocation.



Regulatory Reform Recommendation : Performance-based Ratemaking Benefits

- **Respite from back-to-back rate cases.** This would replace the current rate case approach and enable the following benefits:
- **More flexibility to manage costs.** Give utilities greater flexibility to manage costs, in exchange for achieving agreed upon performance outcomes.
- **Links earnings to outcomes.** More directly link a utility's financial success to delivering outcomes that customers and policymakers value.
- **More responsive to customers.** Allow utilities to anticipate and respond more quickly to customer interests and to direct additional resources to policy-driven efforts.
- **Greater rate predictability.** This approach would provide greater predictability on rates over a longer time-frame (up to 5 yrs.).



Regulatory Reform Recommendation: Integrated Resource Analysis

Utilities that opt in would also provide regulators with an *Integrated Resource Analysis* (replacing the current Integrated Resources Plan) that will help guide the Business Plan.

This change would provide the following benefits:

- Align policy & electricity generation choices and the ratemaking process.
- Incorporate stakeholder input upfront and evaluate issues holistically.
- Create opportunity to look at big picture of future energy policy.
- Reduce regulatory burden and cost.

Five year action plan and resource acquisition proceedings would continue to receive full regulatory scrutiny.



Regulatory Reform Recommendation : Changes to Regulatory Processes

Institutionalize Use of Collaborative Regulatory Processes

- Encourage the use of settlement agreements.
- Seek opportunities to initiate generic dockets.
- Use facilitated dispute resolution alternatives.
- Initiate forward-looking, collaborative stakeholder processes.

These recommendations would support the transition to the proposed framework by enabling more nimble and flexible decision-making by regulators.



Regulatory Reform Recommendation : Changes to Regulatory Processes

e21 recommends that the MN Legislature should fully fund both MN PUC and DER. This will allow both agencies to:

- Meet their current obligations in a timely fashion.
- Assist in the transition to a new regulatory framework/utility business model.

We will also work with you both to engage external experts as needed and acquire the necessary financial support.



Customer Options Recommendations: Planning Processes

Proactive planning is needed for a system can handle new distributed energy technologies and many more actors on the system.

e21 recommends:

- **Distribution planning and timely grid modernization** through stakeholder processes, which could include workshops and technical conferences.
- Development of opportunities to reduce customer costs by **improving overall grid efficiency** (use of existing grid assets at ~55%).

These recommendations are intended to support a cleaner, more flexible grid that is reliable, resilient, and secure and enables customers to manage and potentially reduce their energy costs.



Customer Option Recommendations

e21's recommendations support a shift to a more customer-centric framework that meets growing expectations of customers regarding service, product, and technology options, enabling:

- **Delivery of services and options** that customers value, while providing universal access to affordable service.
- **Rate design reform**, such as a review and adjustment of time-varying rates.
- **Flexibility for utilities to offer tailored rate and service options** that respond to unique customer needs and interests. For example, tailored rates for energy-intensive, trade-exposed industries that are increasingly higher than competitors' rates elsewhere in the world.
- **Pilot programs or other methods to test, evaluate, and bring to market** more quickly new service options, products, and technologies for customers.



e21 Phase II Next Steps

e21's Phase II began in January & is focused on implementing Phase I recommendations, including:

- Pass enabling legislation in the 2014 – 2015 session.
- Engage a broader set of interests that builds support for the implementation of e21's recommendations.
- Develop the implementation details of Phase I recommendations & further develop approaches to other issues left unaddressed in the 1st phase. This may include the following topics/issues:
 - Performance Metrics
 - Grid Modernization
 - Portion of a utility's revenue tied to performance metrics
 - Integrated Resource Analysis
 - Innovative product and service options and technologies
 - Improved incorporation of distributed energy resources



Factors that will influence Phase II

1) Support of the process by the Commission: e21's goal is to continue engagement with the Commission on the Phase II implementation, through forums such as the Planning meetings or other processes that the Commission deems helpful.

2) Willingness of participants to continue with the effort: The full e21 stakeholder group will have its first 2015 meeting on March 6, with monthly meetings thereafter. Since January, a subgroup of e21 participants has worked on developing legislative language. At the March 6 meeting, e21 stakeholders will agree on a Phase II work plan.



Factors that will influence Phase II

- 3) **Funding.** The e21 Project Team is actively in the process of raising additional financial support for Phase II.

- 4) **The speed with which participants work out the details of the new approach.** The Phase II work plan, including a timeline, will be discussed and agreed to at the March 6 e21 stakeholder meeting.



THANK YOU – We Are Happy to Take Questions

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