STATE OF MINNESOTA

BEFORE THE PUBLIC UTILITIES COMMISSION

Katie Sieben	Chair
Dan Lipschultz	Commissioner
Valerie Means	Commissioner
Matthew Schuerger	Commissioner
John Tuma	Commissioner

In the Matter of a Commission Investigation to Identify and Develop Performance Metrics, and Potentially, Incentives for Xcel Energy's Electric Utility Operations

PUC Docket Number E-002/CI-17-401

Comments of the R Street Institute

The R Street Institute (R Street) appreciates the opportunity to submit these comments in response to the Minnesota Public Utilities Commission's (Commission or PUC) Notice for Comment Period issued on November 1, 2019.[1] R Street participated in the workshop hosted by Xcel and facilitated by the Great Plains Institute (Great Plains) on October 1, 2019, and provided comments to Xcel and Great Plains in advance of that workshop. R Street thanks Xcel and Great Plains for their openness in engaging with stakeholders during these discussions. R Street found the conversation and content informative and provided a tremendous opportunity for a rich dialogue amongst those in attendance.

Introduction

R Street congratulates the Commission for the on-going interest in performance-based regulation (PBR), and the recognition of the importance of PBR to the future of electricity ratemaking. R Street's participation in these discussions is focused on identifying metrics that can best bring about meaningful change to the existing cost-of-service ratemaking framework by adopting metrics and incentives that change the interest of utilities away from capital projects but towards a model of performance. As such, R Street reiterates its position from prior comments submitted in this docket that merely collecting metrics for the sake of collecting metrics will not be a successful result of this initiative.[2] Furthermore, the number of metrics adopted by the Commission in its September 18, 2019 Order and submitted by Xcel on October 31, 2019 are simply too many to result in reasonable changing of the ratemaking model towards one based on performance. For PBR to be successful, the number of metrics must start with as few as possible and be focused on utility behavior, which will incentivize action towards performance.

[1] "Notice of Comment Period on Xcel's Metric Proposals," Docket No. E002/CI-17-401 (issued November 1, 2019).
[2] "Comments by the R Street Institute," Docket No. E002/CI-17-401 (May 6, 2019).

R Street appreciates the time and attention provided by the Commission and Commission Staff to this initiative and will now address the questions identified in the Notice for Comment Period.

Comments

1. **Are there calculation or data sources proposed by Xcel that do not adequately measure utility performance as identified in the Commission's September 18, 2019 order? If so, please describe in your comments as follows:**
   a. Please list each metric by outcome and include Xcel's proposal and where it does not correspond to the Commission's request. If possible, include modifications to better align it with the Commission's order.
   b. Parties are asked to be as specific as reasonably possible with any proposed modifications including source information.

R Street believes several of the metrics do not adequately measure utility performance. Some of the metrics are salvageable and some are unsalvageable.

<u>Affordability Metric 2- Average monthly bills for residential customers</u>

Xcel proposes to calculate this metric as simply dividing total residential class revenue divided by 12 months by total number of residential customers served. As was discussed in the workshop, this simple calculation can easily misrepresent the intent of this metric, which is to ensure that residential rates are "reasonable." As R Street has recommended several times, this metric fails to consider any other economy-wide metrics to show how customer's bills are reflective or not reflective of the economy as a whole. Furthermore, other parties during the workshop noted that with the focus on electrification, a "higher" average residential customer bill may frustrate initiatives related to electric vehicle shopping or electrification of greater amounts of residential customer services, such as heating, laundry, or cooking. As R Street stated previously, "A valid metric on affordability must, by definition, consider how far a consumer's dollar gets her, as well as the efficiencies that firms economy-wide are obtaining in the provision of services to those consumers. If a metric on affordability were to exist only in relation to a national utility average, it would be unduly referential to a utility's costs and not to what customers can afford and are paying for elsewhere in the economy."[3] We reiterate that average customer bills remain a valid metric, but without an associated balancing metric it may not provide the Commission and the public as valuable information as it could.

<u>Customer Service Quality Metrics 1 and 2-</u>

1. Initial customer satisfaction metrics:

a. Existing multi-sector metrics, including ACSI and J.D. Power – NEW METRIC

Calculation Proposed: We recommend reporting from the Company's subscription to J.D. Power and public information published by ACSI.

2. Possible future customer satisfaction metrics

a. Commission-approved utility-specific survey – POSSIBLE FUTURE METRIC

R Street harbors significant concerns as to the benefit or purpose of either of these metrics to provide useful information to the Commission or the public, and whether these metrics should be used at all for future performance incentives. Xcel is a vertically-integrated monopoly with a captive customer base.

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[3] *Id.* at 2-3.

As a result, Xcel is not subject to competitive pressure that would naturally push a company to be more customer responsive. Where there is some amount of competition, such as via Minnesota's successful community solar garden program, a metric such as customer satisfaction may lead to Xcel exercising its monopoly power to weaken that program in order to raise its customer satisfaction number. Furthermore, as a monopoly provider of service to a captive customer base, a customer's perspective of Xcel may simply be focused on reliability, which is already a metric included here. Absent competition, a customer has no real sense as to whether their rate is reasonable or not since the customer has no competing offer to compare it against. Lastly, the presentation from Xcel at the October 1 meeting on the JD Power methodology exposed significant weaknesses in its viability as a reasonable source of this metric. In essence, R Street does not believe that the JD Power methodology adequately captures a meaningful measurement of customer satisfaction with their utility. Xcel's alternative proposal suffers from the same flaws as JD Power's methodology in that it is simply not a sufficient representation of a customer's satisfaction with its utility, not the least of which is due to the lack of choice or competition to allow a customer to compare the service and offerings from Xcel to a competitor. As such, R Street does not believe these metrics themselves, nor the underlying methodology to support these metrics should be used by the Commission for consideration in this docket.

Cost-Effective Alignment of Generation and Load

R Street believes that this topic has the most potential related to identifying metrics that can best be tailored towards a PBR regime. A more cost-effective alignment of generation and load should focus the utility on utilizing all available resources to meet demand, including non-utility resources. This shift away from centralized power plants and towards more distributed resources, including non-wires alternatives, has the potential to yield the greatest benefit to customers through lower bills and better utilization of the distribution system. Unfortunately, at present it does not appear that Xcel is well-suited to implementing this direction. As described in the October 31 report, Xcel's use of demand response is almost entirely dedicated towards Midwest ISO emergency conditions and not towards a better utilization of its system or towards a more cost-effective alignment of generation and load.

R Street appreciates the Commission's reference towards the LBNL report on demand response potential in California by 2025. However, as evidenced in the October 1 report, participants, including R Street, struggled to translate the terminology from the LBNL report to the Minnesota context, especially considering the LBNL report had not been part of the stakeholder discussion until raised by the Commission towards the end of their August 16, 2019 Open Meeting. R Street supports broadening the definition and use of demand response to be more than traditional AC cycling programs and other curtailment programs tied to the MISO market. R Street supports using demand response, and a host of other distributed energy resources, as part of their everyday resource mix which would get much closer to the Commission's goal of a cost-effective alignment of generation and load.

As such, R Street recommends that the Commission be more explicit in how it views "demand response" in the context of both the LBNL report and how it can result in a more cost-effective alignment of generation and load. For example, does demand response encompass all distributed energy resources? Is demand response limited only to traditional utility demand response programs, or can this be used to encourage Xcel to engage in procuring resources from demand response aggregators, customers, or other providers? To what extent should Xcel move to more time and location-based procurements based on distribution needs? What programs or measures should be taken that would result in demand response (and distributed energy resources) being used more meaningfully than only in an emergency? These questions are raised merely to note that much more work is needed before this topic can result in meaningful metrics that get at the Commission's intent to more cost-effectively align generation and load.

2. **Are there metrics that do not have an agreed-upon formula or data source that requires further development? If so, please explain.**

R Street notes two metrics that may benefit from better information sources or program development to enhance the metric.

Utility Performance Metrics 3c- Number of customer complaints – EXISTING METRIC

Calculation Proposed: In our 2015 multi-year rate case, we proposed that the number of Customer Complaints be based on the number of complaints per 1,000 customers to regulatory agencies to ensure that performance is measured in relation to its total customer base.

R Street agrees that number of customer complaints is a valid metric for Xcel to report to the Commission. However, R Street, and other attendees at the October 1 workshop, were surprised that this metric is based on complaints to the Commission as opposed to complaints fielded by Xcel. In an effort to make this metric more meaningful, R Street notes that there are differing types of complaints and it is unclear what is the definition of a complaint being recorded for this metric. To illustrate this, it may be useful to use an example from California.

In 2011-2012, the California Public Utilities Commission (CPUC) held stakeholder working group meetings to develop a set of metrics related to Smart Grid investments and utility performance. The CPUC was clear that these metrics were for reporting only, but that parties could use the information in other proceedings. A metric that was agreed upon related to customer complaints. However, all parties agreed that there was a need to differentiate the quality of complaints received by the utility. The consumer advocate in California recommended that the metric report "Escalated Complaints" and track the type of complaints.[4] The use of escalated complaint was to report on those complaints that were more than minor complaints and resulted in additional utility effort to address the complaint. The CPUC ultimately agreed with the parties on use of escalated complaint as the metric and agreed with the consumer advocate to require the utilities to track and report on the type of complaint.[5]

In order to make the customer complaint metric more meaningful to the Commission and the public, R Street suggests that the data source for this metric make clear that the complaints being reported are worthy and quality complaints about utility service, including billing complaints, that the report include complaints fielded by Xcel customer service representatives, and that they be tracked by type, such as billing complaints, service complaints, and so forth.

Utility Performance Metric 4- Equity metric – customer service quality by geography, income or other relevant benchmarks – NEW METRIC

R Street takes no position on this metric but highlights it here to note Xcel specifies the use of a Minnesota area code to track service. With the growth of homes without landlines and an increasing number of residents coming from outside of Minnesota, it is likely that Xcel will see an increase in non-Minnesota area codes as the main number for its customers. R Street does not believe that Xcel is

[4] *Order Instituting Rulemaking to Consider Smart Grid Technologies Pursuant to Federal Legislation and on the Commission's own Motion to Actively Guide Policy in California's Development of a Smart Grid System*, Decision 12-04-025, Docket No. R.08-12-009, at 10 (issued April 24, 2012).
[5] *Id.* at 19.

engaging in any nefarious treatment of customers based on area codes but does expect Xcel to have a plan in place to ensure that customers, regardless of the area code of their phones, are treated equally.

3. **Are there reporting schedules that should be modified from Xcel's proposal so the resulting data would better represent utility performance? If so, please propose modification(s) and provide substantiation.**

R Street provides no comment on this question.

4. **The September 18, 2019 Order set out five additional guiding elements listed below for stakeholders and Xcel. Does Xcel's proposal align with them? Please highlight areas where Xcel's proposal may be inconsistent.**
   a. **Utility performance metrics should be focused on results and outcomes. Metrics should not prescribe detailed or specific tools or tactics. This will provide the utility the opportunity to be flexible and tailored to its unique system and customers' needs.**

Consistent with its comments above and previously in this proceeding, many of the metrics meet this requirement.

   b. **Metrics should not support the deployment of specific technologies such as only one type of electric generation, unless such information is needed for a utility to comply with statutes.**

R Street does not believe that these metrics are sufficient to shift utility interest away from utility-owned capital projects. The metrics identified in cost-effective alignment of generation and load do not lay out a path towards better system utilization and better utilization of customer-side resources. Part of R Street's concern is that Xcel simply does not have the pieces in place today or the incentives to shift their interest towards better utilization of demand response or distributed energy resources generally at the expense of their own resources. Historical demand response programs have focused on MISO emergency demand rather than as resources that can be used on a daily basis as part of the utility's resource mix. Existing cost of service models encourage utility ownership of resources; PBR is one step to disaggregate that relation. A second step, not part of this proceeding, is to implement full decoupling. Combined, decoupling and PBR, would start the state, and Xcel, on a path towards a more responsive and performance-based system and away from a capital-intensive, sales based structure that is in place today.

   c. **Metrics identified to gauge environmental performance should directly measure environmental emissions and impacts.**

R Street provides no comments.

   d. **Parties should develop measurement methodologies and future metrics with an eye toward development of a utility performance dashboard.**

If the purpose of these metrics is to provide a simple accounting of utility performance, then a dashboard may be of use. During the October 1 workshop, stakeholders raised questions related to costs, hosting, and upkeep of a dashboard. Additionally, during the presentation of Michael O'Boyle, it was noted there are a variety of quality dashboards across the industry where dashboards have been implemented. R Street has no opinion as to the benefit of a dashboard at this point in the proceeding until a final list of metrics is developed.

e. Metrics directed by the Commission at this stage of the process are not to be viewed as the final, exclusive list. As stakeholders work forward through the PIM process they may propose reshaping or adding to the metrics outlined above.

R Street appreciates the Commission's work to date on the proceeding and development of a record on metrics. R Street understands the Commission's intention to work through the process but leaves stakeholders struggling to determine how much focus should be provided on these metrics. R Street believes that metrics that lead to PIMs should be limited in number, so this process should lead to fewer metrics than what has been proposed so far.

5. Are there other concerns the Commission should consider as it establishes performance metrics for Xcel's electric utility operations?

R Street provides no comments.

Conclusion

R Street thanks the Commission for the opportunity to provide these comments on the proposed metric methodology on performance-based metrics. We look forward to continuing the conversation with the Commission and all stakeholders on this very important topic.

Respectfully submitted,

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