

Performance Based Regulation (PBR)

Our Experience
Six years in

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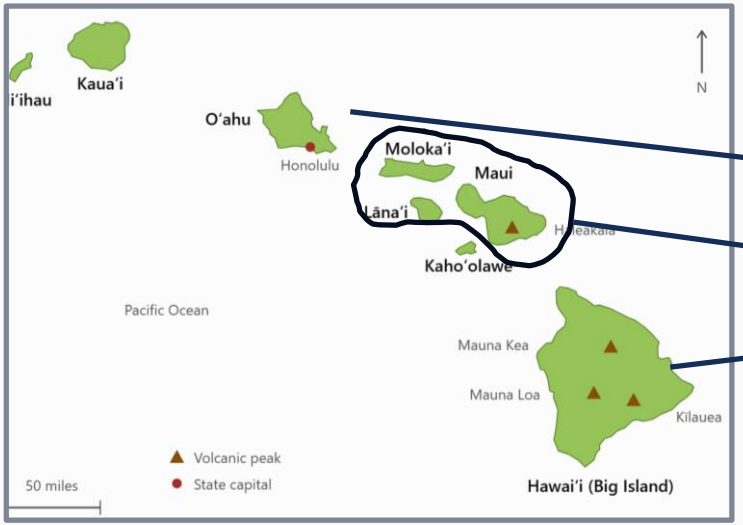
How PBR came to Hawaii and the challenges it intends to address.

- **Need modernized and lower cost generation**
- **Regulatory challenges – utility asserted right to rate case**
- **Recommendations**
- **Further discussion:**

How the process to rebase target revenues has proceeded

<u>What to be aware of from Consumer Advocacy perspective</u>

Background



"1" Investor-owned utility

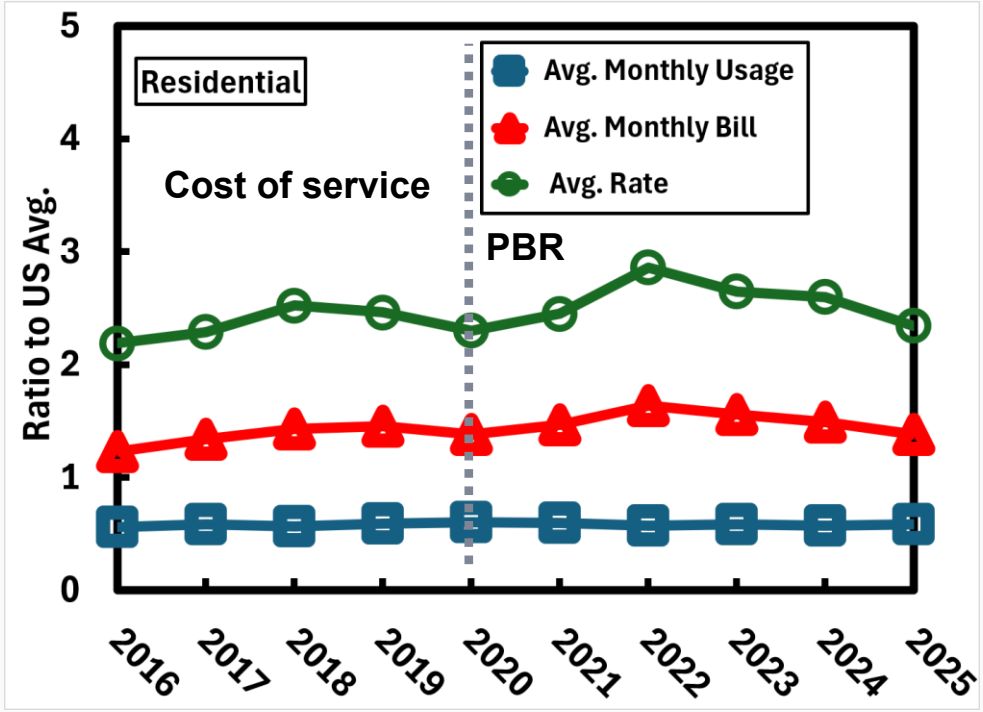
- Hawaiian Electric Industries
  - Hawaiian Electric Co.
  - Maui Electric Co.
  - Hawaii Electric Light Co.

Before PBR

- Triennial rate cases
- 1 Electric rate case per year

Renewable Portfolio Standard: 100% electricity generation by 2045
Fossil fuels: Fuel oil (Low-sulfur, diesel, naptha)

Hawaii is No. 1. . .
But not in the right categories



Residenital - (2016 – 2025):

- Highest avg. bills
- Lowest avg. usage
  - Except 2022 and 2025 (No. 2)
- Highest avg. rates
- Similar statistics for commercial customers

Source of data for analysis: EIA Form 861
https://www.eia.gov/electricity/data/state/

PBR seeks reasonable cost control and better performance in key areas

Enacted with the presumption increased renewables decreases costs

“As fewer funds are spent to purchase fossil fuels, those funds will be redirected to capital projects.”

Ratepayer Protection Act (Act 5, 2018)

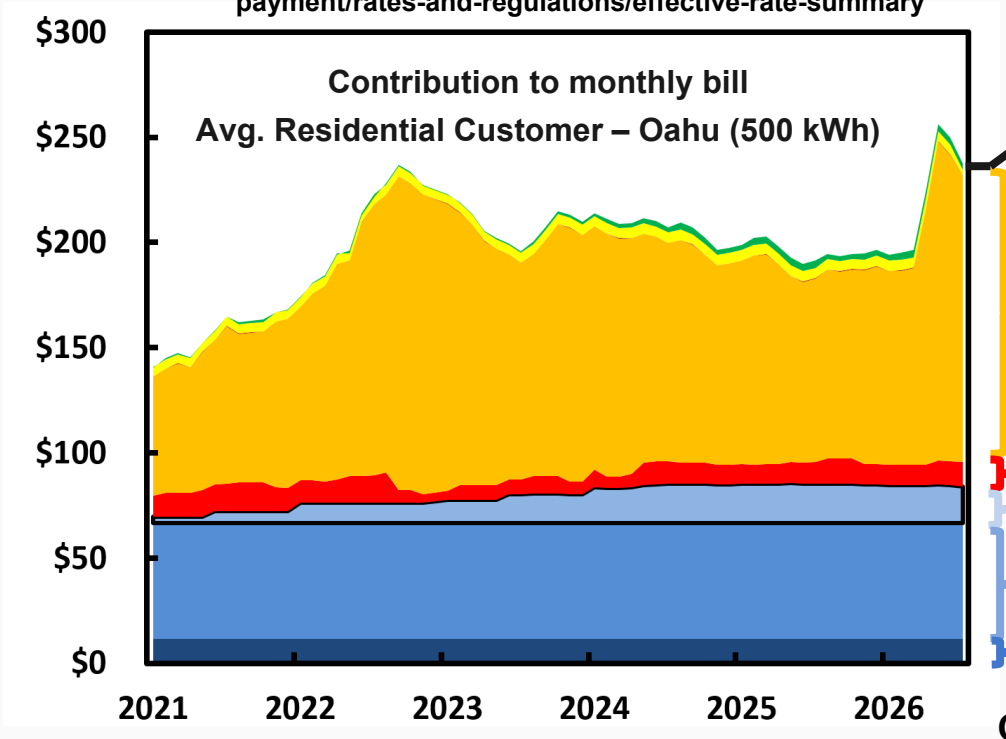
“[PUC] shall establish performance incentives and penalty mechanisms that directly tie an electric utility revenues to that utility’s achievement on performance metrics and break the direct link between allowed revenues and investment levels.”

Ratepayer Protection Act (Act 93, 2026)

[PUC] may adopt,…, alternative ratemaking procedures to establish electric utility rates and performance-based incentives …. ; provided that the rates shall be derived from a performance-based model for determining utility revenues

Generation is primary component of bills

Source of data - https://www.hawaiianelectric.com/billing-and-payment/rates-and-regulations/effective-rate-summary



Others
(e.g., 3rd party managed customer programs)

Fuel (utility) &
Purchased Energy (IPPs)

Purchased Power

Fossil &
Renewable

PBR Adjustments
(Exceptional CIPs, Annual, PIMs, etc..)

Base rates

Customer charge

Hawaiian Electric Companies' Generation Mix - 2025

Utility-owned (Fuel Oil units): 48%

Purchased Energy from IPPs:

- **Non-renewable: 14%**
- **Renewable: 19%**
- **Battery Storage 2%**

Customer-sited solar: 17%
(Many circuits saturated for mid-day export)

Hawaii's PBR Framework

Multi-year rate period (MRP) – 5-year period

Revenue Balancing Account (Revenue Decoupling)

Annual Revenue Adjusment (ARA) Mechanism:

- **Inflationary (I) – Productivity (X) + Exogenous (Z) – Customer (CD)**

Exceptional Project Recovery Mechanism (EPRM)

- Interim recovery for capital AND operating cost

Performance Incentive Mechanisms (PIMs)

- Penalties (reliability) and rewards for achieving targets

Metrics and Scorecards

How and whether Target Revenues should be rebased?

Since PBR's Inceptions

<u>Performance based regulation must deliver better performance</u>

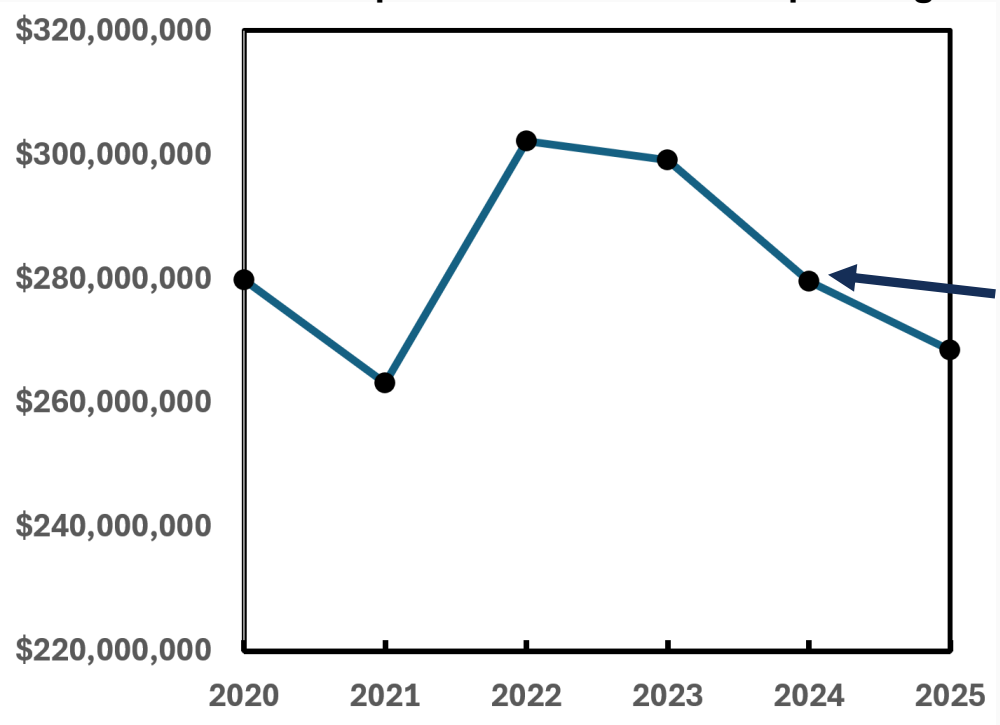
The Companies' performance since 2021

- **Contributed to cause of catastrophic Maui wildfire**
  - **102 killed, settlement of $1.99 billion**
- **Significant storm-related damages and outages**
  - **"Kona Lows" and brushes with tropical storms and hurricances**
- **Fires in conduits downtown Honolulu multi-day outages in the most secure network in the State (critical loads, State government center)**
- **Continuous requests to suspend reliability penalty PIMs**

Source: Hawaiian Electric Companies' Consolidated Statement of Income, Operating Income.
As reported in the Hawaiian Electric Industries (HEI)Annual Reports to Shareholders:
https://www.hei.com/investor-relations/reports-and-filings/default.aspx

What about financially?

Hawaiian Electric Companies' Consolidated Operating Income



2024 reported by the Companies was about -$1.6 Billion

The figure removes the $1.875 billion expense, which was for the Companies' wildfire settlement

Companies have committed to not seeking recovery of wildfire settlement from customers

The challenge for the regulator: The utility's position on its right to a rate case

The Companies' right to a rate case arises out of the Due Process Clause of the Fourteenth Amendment.

To preserve the integrity of the Due Process Clause of the Fourteenth Amendment, rates imposed by regulators must allow a utility to recover its costs with a reasonable rate of return on the value of the property being used by the state to provide a public service.

As a matter of procedural due process, a regulated utility cannot be deprived of its opportunity to demonstrate a need for rate relief to achieve the level of profitability that satisfies constitutional requirement

Reference: Phase 2 Statement of Position of the Hawaiian Electric Companies, filed on June 18, 2020, in HPUC docket No. 2018-0088, Exhibit N1, Page 1,.

Recommendations

Have a rebasing process determined at start of PBR!

PBR must deliver better performance:

- **Continue to investigate utility's financial performance in a proceeding**
- **Focus on limited number of customer-centric PIMs**
  - **Affordability drivers**
  - **Improved reliability and resilience**

- **Develop meaningful reporting requirements that help determine the underlying causes of affordability and quality of service issues**

- **Build-in a process for reviewing utility performance and tie it to rebasing**

Now about that rebasing process…

Hint: Utilities, like people, will act in their best interest and learn and to leverage any system to maximize their advantage

Regulators and advocates will have to adjust