



# PERFORMANCE BASED FORMULA RATES IN ILLINOIS

Mid-Atlantic Distributed Resources Initiative  
Working Group Meeting # 47  
“Exploration of Emerging Revenue Recovery Models”  
October 10, 2017  
Trenton, New Jersey

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# DISCLAIMERS

- The information I present today should not be construed to represent the opinions or viewpoints of the Illinois Commerce Commission or of its staff.
- The information I present today is intended to promote understanding and discussion of the topics presented and may not reflect my professional opinion on a specific issue when testifying as an expert witness.



# PERFORMANCE BASED RATES: HOW ILLINOIS GOT HERE (BASE RATES)

- Public Act 97-0616, enacted in 2011
- Energy Infrastructure Modernization Act (“EIMA”)
  - Current language is located in 220 ILCS 5/16-108.5.
  - Requires the two participating utilities to invest over \$3 Billion combined for projects including Illinois electric grid modernization, smart grid, training facilities, and energy low income support programs.
  - In return, participating utilities are permitted to implement performance-based formula rates in lieu of traditional base rates.
  - EIMA provides for PBR-related ROE penalties, but provides no PBR-related benefits outside of the ability to utilize formula rates in lieu of traditional ratemaking.



# PERFORMANCE BASED RATES: HOW ILLINOIS GOT HERE (ENERGY EFFICIENCY COSTS)

- Public Act 99-0906, enacted in 2016
- Future Energy Jobs Act (“FEJA”)
  - Current Energy Efficiency (EE) PBR language is located in 220 ILCS 5/8-103B.
  - Applies to electric utilities serving more than 500,000 retail customers (essentially the same two utilities that participate in EIMA).
  - Requires participating utilities to file a series of multi-year EE plans that meet specific EE goals.
  - Provides for EE costs to be recovered through PBR.
  - Provides for EE costs to be deferred as a regulatory asset that is amortized and recovered over the EE measure lives.
  - Provides for both EE PBR-related ROE benefits *and* penalties.



# ILLINOIS PERFORMANCE BASED RATES: EIMA PBR — SUMMARY OF MAIN FEATURES

- Traditional revenue requirement formula but some inputs are mandated:
  - $ROE = 580 \text{ bp} + \text{US T-Bond yield monthly average in past calendar year.}$
  - Based on prior year actual operations.
  - Reconciliation: rate base is measured at year end; interest rate reflects the ICC approved weighted average cost of capital (WACC) for rate year.
- Annual reconciliation proceeding.
- No rate design determination (separate proceeding every 3 yrs).
- ROE penalties for missing performance metrics, but no ROE rewards.



# ILLINOIS PERFORMANCE BASED RATES : EIMA PBR – COST RECOVERY PROTOCOLS

Formula rates “[p]ermit and set forth protocols, subject to a determination of prudence and reasonableness consistent with Commission practice and law” for the recovery of:

- Incentive Compensation
- Pension and Other Post Employment Benefits (“OPEB”) Expense
- Employee Severance Costs
- Return on Pension Asset
- Rate Case Expense
- 5-year Amortization of Certain Costs (i.e., storm damage)
- Existing Regulatory Assets
- Historical Weather Normalized Billing Determinants
- Allocation Methods for Common Costs

# ILLINOIS PERFORMANCE BASED RATES : COMPARISON OF RATEMAKING PROCEEDINGS (BASE RATES)

## Traditional Rate Case

- Utility files a new rate case when its earnings are deemed insufficient. Rates are set for an indefinite period.
- Rates are set to recover representative costs on a going forward basis. Utility chooses either a historical or future test year.
- 11-month process
- No reconciliation or “true-up” to actual costs
- Includes a rate design determination

## EIMA PBR Formula Rate Case

- Utility files updates every May 1 to set rates for the next calendar year. Rates set annually and takes effect the following January.
- Rates are set to recover actual costs for the next year using estimates based on the prior year.
- 240 day process
- Includes annual reconciliation or “true-up” to actual costs
- No rate design determination



# ILLINOIS PERFORMANCE BASED RATES : EIMA PBR – PERFORMANCE METRICS

220 5/16-108.5(f) states, “...each participating utility shall develop and file with the Commission multi-year metrics designed to achieve, ratably (i.e., in equal segments) over a 10-year period, improvement over baseline performance values as follows” for the following metrics:

- 20% improvement in the System Average Interruption Frequency Index (SAIFI);
- 15% improvement in the Customer Average Interruption Duration Index (CAIDI);
- 75% improvement in total number of customers who exceed certain service reliability targets;
- Utility specific reductions in number of estimated bills;
- 50% improvement in non-technical line loss unaccounted for energy (ComEd);
- Utility specific reductions in uncollectible expense; and
- Utility-designed metric regarding opportunities for minority-owned and female-owned business enterprises.





# ILLINOIS PERFORMANCE BASED RATES : EIMA PBR — PERFORMANCE METRIC PENALTIES

220 5/16-108.5(f-5) states “[t]he financial penalties applicable to the metrics described in subparagraphs (1) through (8) of subsection (f) of this Section, as applicable, shall be applied through an adjustment to the participating utility’s return on equity of no more than a total of 30 basis points in each of the first 3 years, of no more than a total of 34 basis points in each of the 3 years thereafter, and of no more than 38 basis points in each of the for years thereafter [...]”

- There are specific ROE penalties related to the failure to achieve each performance metric. The total ROE penalty for a given year cannot exceed the amounts cited above.
- There are no PBR ROE rewards under EIMA.



# ILLINOIS PERFORMANCE BASED RATES : FEJA (EE) PBR — SUMMARY OF MAIN FEATURES

- Based on the traditional revenue requirement formula but some inputs are mandated:
  - $ROE = 580 \text{ bp} + \text{US T-Bond yield monthly average in past calendar year.}$
  - Based on prior year actual operations.
  - Reconciliation: interest rate reflects the ICC approved weighted average cost of capital (WACC) for rate year.
- Annual reconciliation proceeding.
- EE costs may be deferred and amortized as regulatory assets.



# ILLINOIS PERFORMANCE BASED RATES : FEJA (EE) PBR — COST RECOVERY PROTOCOLS

Similar to EIMA, FEJA (EE) PBR Formula rates “[p]ermit and set forth protocols, subject to a determination of prudence and reasonableness consistent with Commission practice and law” for the recovery of:

- Incentive Compensation
- Pension and Other Post Employment Benefits (“OPEB”) Expense
- Existing Regulatory Assets
- Amortization of deferred EE costs
- Historical Weather Normalized Billing Determinants



# ILLINOIS PERFORMANCE BASED RATES : FEJA (EE) PBR— PERFORMANCE METRICS

220 5/8-103(B)(b-5) states, “Beginning in 2018, electric utilities subject to this Section that serve more than 3,000,000 retail customers in the State shall achieve the following cumulative persisting annual savings goals [...]”:

- 7.8% annual savings for the year ending 12/31/18
- 9.1% annual savings for the year ending 12/31/19
- 10.4% annual savings for the year ending 12/31/20
- 11.8% annual savings for the year ending 12/31/21
- 13.1% annual savings for the year ending 12/31/22
- 14.4% annual savings for the year ending 12/31/23
- 15.7% annual savings for the year ending 12/31/24
- 17.0% annual savings for the year ending 12/31/25
- 17.9% annual savings for the year ending 12/31/26
- 18.8% annual savings for the year ending 12/31/27
- 19.7% annual savings for the year ending 12/31/28
- 20.6% annual savings for the year ending 12/31/29
- 21.5% annual savings for the year ending 12/31/30



# ILLINOIS PERFORMANCE BASED RATES : FEJA (EE) PBR— PERFORMANCE METRICS

220 5/8-103(B)(b-15) states, “Beginning in 2018, electric utilities subject to this Section that serve less than 3,000,000 retail customers but more than 500,000 retail customers in the State shall achieve the following cumulative persisting annual savings goals [...]”:

- 7.4% annual savings for the year ending 12/31/18
- 8.2% annual savings for the year ending 12/31/19
- 9.0% annual savings for the year ending 12/31/20
- 9.8% annual savings for the year ending 12/31/21
- 10.6% annual savings for the year ending 12/31/22
- 11.4% annual savings for the year ending 12/31/23
- 12.2% annual savings for the year ending 12/31/24
- 13.0% annual savings for the year ending 12/31/25
- 13.6% annual savings for the year ending 12/31/26
- 14.2% annual savings for the year ending 12/31/27
- 14.8% annual savings for the year ending 12/31/28
- 15.4% annual savings for the year ending 12/31/29
- 16.0% annual savings for the year ending 12/31/30



# ILLINOIS PERFORMANCE BASED RATES : FEJA (EE) PBR— PERFORMANCE METRIC PENALTIES

For electric utilities that serve more than 3M retail customers

Through December 31, 2025 :

- If a utility achieves more than 75% of a goal but less than 100% of such goal, then the ROE penalty will be 8 basis points for each percent by which the utility failed to achieve the goal. Maximum ROE penalty is 200 basis points.

January 1, 2026 through December 31, 2030 :

- If a utility achieves more than 66% of a goal but less than 100% of such goal, then the ROE penalty will be 6 basis points for each percent by which the utility failed to achieve the goal. Maximum ROE penalty is 200 basis points.



# ILLINOIS PERFORMANCE BASED RATES : FEJA (EE) PBR— PERFORMANCE METRIC PENALTIES

For electric utilities that serve more 500k – 3M retail customers

Through December 31, 2025:

- If a utility does not achieve 84.4% of a goal, ROE penalty is 8 basis points for each percent by which the utility failed to achieve the goal up to 200 basis points maximum.
- No ROE penalty if utility achieves between 84.4% and 100% of a goal.

January 1, 2026 through December 31, 2030:

- If a utility does not achieve 100% of a goal, ROE penalty is 6 basis points for each percent by which the utility failed to achieve the goal. Maximum ROE penalty is 200 basis points.



# ILLINOIS PERFORMANCE BASED RATES : FEJA (EE) PBR— PERFORMANCE METRIC REWARDS

For electric utilities that serve more than 3M retail customers

Through December 31, 2025 :

- If a utility achieves more than 100% of a goal but less than 125% of such goal, then the ROE reward will be 8 basis points for each percent by which the utility exceeded the goal. Maximum ROE reward is 200 basis points.

January 1, 2026 through December 31, 2030 :

- If a utility achieves more than 100% of a goal but less than 134% of such goal, then the ROE reward will be 6 basis points for each percent by which the utility exceeded the goal. Maximum ROE reward is 200 basis points.





# ILLINOIS PERFORMANCE BASED RATES : FEJA (EE) PBR— PERFORMANCE METRIC REWARDS

For electric utilities that serve more 500k – 3M retail customers

Through December 31, 2025 :

- ROE reward is 8 basis points for each percent by which the utility exceeds 100% of the goal. Maximum ROE reward is 200 basis points.

January 1, 2026 through December 31, 2030 :

- ROE reward is 6 basis points for each percent by which the utility exceeds 100% of the goal. Maximum ROE reward is 200 basis points.



# ILLINOIS PERFORMANCE BASED RATES : EIMA PBR — RESULTS SO FAR

## Results for the two participating utilities under EIMA:

Ameren Illinois Company has met all performance metrics and has incurred no ROE penalties. See related filings in ICC Docket No. 12-0089 for details:

- <https://www.icc.illinois.gov/docket/files.aspx?no=12-0089&docId=223101>

Commonwealth Edison Company has missed its customer service reliability and unaccounted for energy performance metrics and incurred related ROE penalties in certain years. See related filings in ICC Docket No. 11-0772 for details:

- <https://www.icc.illinois.gov/docket/files.aspx?no=11-0772&docId=212640>



# ILLINOIS PERFORMANCE BASED RATES : FEJA (EE) PBR — RESULTS SO FAR

It's too soon to tell.

The first year FEJA EE PBR will be in effect will be calendar year 2018.

Evaluation of calendar year 2018 results will occur in 2019.



# NextGrid Illinois

## **About NextGrid**

NextGrid is an approximately 18-month consumer-focused study to address critical issues facing Illinois' electric utility industry in the coming decade and beyond. Managed by the Illinois Commerce Commission, the study will examine the use of new technologies to improve the state's electric grid while minimizing energy costs to consumers. The study will focus on innovation, technological advancements, economic development, environmental considerations and education.

For more details, please visit: [www.nextgrid.illinois.gov](http://www.nextgrid.illinois.gov).