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April 1, 2025

Ms. Brinda Westbrook-Sedgwick
Commission Secretary
Public Service Commission
of the District of Columbia
1325 G Street NW, Suite 800
Washington, DC 20005

Re: Formal Case No. 1176

Dear Ms. Westbrook-Sedgwick:

On March 21, 2025, the Lessons Learned Working Group convened. Attached are the meeting minutes and copies of the two presentations that were delivered at that meeting. Please contact me if you have any questions.

Please feel free to contact me if you have any questions. Thank you.

Sincerely,

/s/ *Dennis P. Jamouneau*

Dennis P. Jamouneau

Enclosure

cc: All Parties of Record

FC 1176 – Lessons Learned Working Group Minutes – Meeting 3 – March 21, 2025

Due to send to distribution list: March 25, 2025

Due to file: March 28, 2025

Prepared and filed by Pepco

I. Introduction

Staff began the meeting by requesting that Pepco prepare the Minutes and reviewed the ground rules.

II. OPC Presentation

Goals: cost controls, transparency, efficiency, customer benefits, and that MRP structure supports these goals – OPC presentation provides selection of states that they say are referenced in Commission orders.

Starts with Illinois: legislation makes explicit requirements for MRP. MYP/MRP contingent on "multiyear grid plan," which is a 5-yr grid modernization plan. Includes PIMs, which influences MRP ROE. IL also uses independent audit to develop Grid Plan as well as other audits to assess success of plan. A cap in over-spending as 5%.

MD – discusses BGE and Pepco filings in MD, which OPC says was rejected for Pepco.

OPC continues with premise that reason for adopting AFOR such as multiyear rate plan by Commission was because it presented a way to achieve District policy goals, which are listed at high level in slides. OPC states that Lessons Learned and Policy objectives means lessons learned in terms of mechanics – how can 1156/76 inform improvements (reconciliation and prudency)? But, OPC also wants to look at how to achieve objectives (noted above) and how to measure whether objectives are being achieved.

OPC says looking at traditional regulation is important in order to compare how MYPs work. Clear and transparent objectives are key for MRPs, including how other jurisdictions have crafted outputs and inputs to determine success.

OPC shows reliability compared to rate increases, linking rate increases under traditional regulation to SAIDI and SAIFI improvements.

Points to GHG emissions and shows Pepco trends in emissions. OPC considers GHG emissions a big picture goal.

OPC shows states using some form of alternative forms of regulation and the position that MYPs lead to higher rates

GSA asked: have any other jurisdictions returned to traditional regulation – OPC says yes, or at least to some extent (like PBR). Also asked if there are other jurisdictions where AFOR was under consideration, but they didn't go through – OPC not sure. Will take it back and answer. Does OPC have any preliminary conclusions/takeaways as pertains to Pepco's MRPs – yes, these were in testimony in the last rate case.

Staff: are there other states to look at beyond MD and IL – OPC says NY (strong performance incentive standard) and Hawaii.

Pepco questions: to clarify that in MD, the PSC preserved the reconciliation and approved a one-year forward projected test year rather than as a traditional test year. Pepco then asked about how we view their presentation in terms of concrete measures to use: OPC says defining high-level objectives and notes that states with best practices tend to have the most stakeholder engagement but this may impact optimization and burden. OPC sees movement now from reliability to DC policy goals/laws. OPC reminds that it is emphasizing "outputs" (goals being achieved) rather than solely focusing on inputs. Staff asked OPC to provide docket and order numbers to get more details on different jurisdictions.

AOBA questions/comment – explained AOBA's position on the MYP/traditional case in MD and reconciliation. Explains status of Pepco MYPs and BGE's as well. DPL MD also has an MYP (Case 9681).

Staff question: asks for the difference between PBR and MRP – OPC says that a PBR structure is something like a revenue/price cap structure (formula), including negative productivity factor. Staff asks about IL – OPC says some states with these mechanisms can use PBR/MRP interchangeably. OPC will check on this.

Pepco clarifies that IL/ComEd had formula rates but now is an MRP-style case with PIMs.

III. **Pepco Presentation**

Pepco notes commonalities with OPC presentation. Presents multi-jurisdictional approach to how MYPs are done in other states. Presents potential path forward for WG – today, evaluation framework and then building on these findings to use measurement points and best practices (determine local objectives) and benchmarking to determine how to develop framework to evaluate MRPs.

Pepco benchmarked a sample of utilities across the country, balancing diversity of jurisdictions; states with decarbonization targets; more maturity of AFORs and experience post-traditional ratemaking – general observation is that there are many forms of alternative forms of regulation.

Looked at 7 jurisdictions – reviewed evaluation framework – uses local objectives to form metrics and measures that can be defined and tracked, specifying analyses and measures that can be tracked and benchmarked compared to other utilities. The framework is both quantitative and qualitative with stakeholder input. Explains the over-arching study, including starting with objectives, the evaluation methodology, and then forums and outcomes that evaluate the utility's performance. Describes the "end to end" process, which begins with the filing of the MRP to the actions/assessments after a plan is approved. Then, Pepco provides high-level overview of the seven states/utilities, but notes that no one state is necessarily a model, rather that there are some takeaways from each or several and explains the diversity in approach for each of the states. States that success is often linked to objectives that have been agreed upon, but that accountability and enhancements are also key.

Pepco presentation shows District AFOR principles and how they are applied against subject jurisdictions. Outcomes should be measured against objectives.

Provides takeaways regarding prudency based on the seven states and how prudency can be measured in different ways by different states (before, during, after rate case or mix).

Key takeaways: objectives are key but vary from jurisdiction to jurisdiction and can vary over time; evaluation methodology allows review of MRPs over time, but should be reviewed with objectives in mind but many of the jurisdictions do not compare against counterfactual (traditional regulation); continuous improvement is also possible and well-utilized.

Pepco wrapped up by explaining its view of next steps: define objectives; how to measure those objectives; how/when will evaluations be made and to what effect or with what outcomes in mind.

Comments about April meeting and defining local objectives, including interconnection and MEDSIS objectives.

Question from Staff: about appendix and Pepco stated it would provide more material on the various sections as the WG progresses. Pepco agrees to provide docket numbers and case order numbers with the meeting minutes, noting there will be some overlap with OPC. These docket numbers/orders are in Part V, below.

Staff asked about 'ex-ante' prudency approach: Pepco/West Monroe (notes that ex-ante is an uncommon approach), but typically will address targeted or discrete issue/project-type (CA example and wildfire planning).

IV. Next Steps

States that policy goals/objectives should be considered, including noting the AFOR order (20273) and Order 22238 in FC1176. OPC asked about the goals/policies/questions that AOBA/OPC/GSA provided and how they fit in. Pepco stated that the next meeting could discuss objectives and other parties could provide their objectives, including those pre-identified in the spreadsheet circulated already.

OPC stated that the next meeting could be about benefits. Pepco said that benefits and objectives could be complementary and that Pepco could present on both. Pepco also asked that parties bring their ideas for benefits and objectives. OPC asked that the meeting after next be focused on benchmarking.

Parties then discussed how to approach next steps and how to evaluate 1176 and future MYP/MRPs.

Staff – next meeting – Pepco can present benefits of MRP and propose any initial objectives goals for MRPs; also asks if other parties have any proposed objectives/goals to be part of evaluating an MRP, they can propose them as well. The next meeting is scheduled for April 29 at 10am. Suggests that May meeting will be a check on progress and determining next steps.

V. Follow up Item for Pepco (Dockets/Orders from Other Jurisdictions)

California:

Rate Case for 2025-2028: CA – SCE – Docket A.23-05-010

Rate case for 2021-2023: CA – SCE – Docket A.19-08-013

Rulemaking order transitioning from 3-year MYPs to 4-year MYPs: CA – Docket R.13-11-006

Rulemaking order setting regulatory timelines and establishing implementation working group: CA – SCE – Docket R.22-07-005

Hawaii:

Rate Case for 2021-2026: HI - HECO – Docket 20129-0085

PBR framework development: HI – Docket 2018-0088

Massachusetts:

Rate Case for 2023 - 2028: MA – Eversource – Docket 22-22

Rate Case for 2018-2022: MA – Eversource – Docket 17-05

Rulemaking order establishing electric decoupling and moving away from PBR: MA – Docket 07-50

New York:

Rate case for 2023-2025: NY – ConEd – Case 22-E-0064

Rate case for 2020-2022: NY – ConEd – Case 19-E-0065

Rate case for 2016-2017, establishing PIMs: NY – ConEd – Case 15-E-0229

Maine:

Rate case for 2023-2025: ME – CMP – Docket 2022-00152

Rate case for 2020: ME – CMP – Docket 2018-00194

Rate case for 2014, initially filed as a 5-year MYP: ME – CMP – Docket 2013-0016

Minnesota:

Rate case for 2022-2024: MN – Xcel – Docket GR-21-630

Rate case for 2016-2019: MN – Xcel – Docket GR-15-826

Transmission recovery rider (2023): MN – Xcel – Docket M-21-814

Washington:

Rate case for 2024-2026: WA – PacifiCorp – Docket UE-230172

Power Cost only rate case for 2022-2023: WA – PacifiCorp – Docket UE-210532

General rate case for 2021: WA – PacifiCorp – Docket E-191024

Multiyear Rate Plans

Structures and Frameworks

Framework and Structure: Initial Focus

- Cost controls
- Transparency
- Efficiency
- Benefits for Ratepayers
- MRP Structure helps achieve purported goals and benefits

States to Examine

- Illinois, Maryland, Hawaii, New York
  - States with Renewable Portfolio Standards
  - Referenced by the Commission in its Orders
  - Other similarities

Common Features

- Performance Incentive Mechanisms
- Targets and Goals of the Plan
- Evidentiary Hearings
- Regulations outlining administration

Illinois

- Utility is required to submit for approval
  - Multiyear Grid Plan – contains potential investments to help reach State's RPS & Climate goals
  - Multiyear Rate Plan contingent on approval of Multiyear Grid Plan
  - PIMs
  - ROE adjusted based on whether PIMs are achieved
    - Addition up to 60 basis points
    - Deduction up to 20 basis points

Illinois

AUDIT IS PERFORMED OF PAST INVESTMENTS

REPORT IS USED TO DEVELOP GRID PLAN IN RECENT COMMONWEALTH EDISON CASE

AUDIT ASSESSES PROGRESS ON GRID MODERNIZATION/MULTIYEAR GRID PLAN

Maryland

Pilot for BGE recently completed and evaluation ongoing

- $152 million reconciliation request over and above what was approved

Pepco Rate Plan rejected – Traditional Test Year Approved

Overview of Major District Policies

- D.C. Code § 34-1504 (d)(2)(C) authorizes the PSC to adopt AFORs that, inter alia, are "in the interest of the public"

- D.C. Council's public interest objectives include:
  - Clean Energy DC
  - Sustainable DC
  - RPS
  - Transportation Electrification

- PSC's public interest initiatives include:
  - Power Path DC
  - Modernizing the Energy Delivery System
  - Energy Efficiency and Demand Response

Linking Major District Policies to Regulation

Effective regulation aligns a private company's behavior with the public interest

- General rule applies to traditional regulation and AFORs

Under AFORs, alignment can only be achieved where desired behavior is identified and the costs for advancing the public interest are quantified

- Economic results and desired behavior are embedded in D.C. Code § 34-1504 (d)(2)(A)-(B), which requires that AFORs protect consumers and ensure the quality, availability, and reliability of service

<u>THEREFORE</u>, AFORs in the District must:

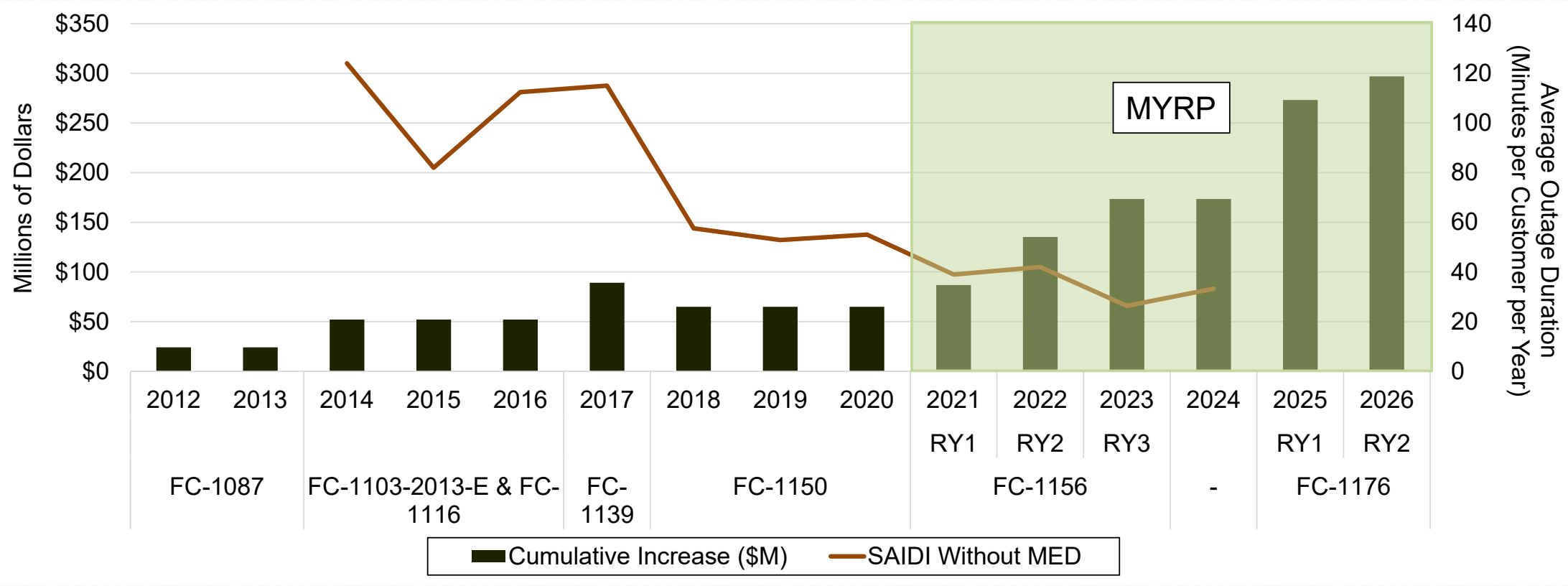
- identify specific behavior (e.g., utility investments) that will achieve specific outcomes (i.e., measurable advancements toward achieving District goals and policies);
- establish the costs ratepayers must pay to receive the specific outcomes that result from the utility's behavior; and
- contain accountability mechanisms (e.g., PIMs, reporting targets, etc.) to ensure ratepayers get what they pay for.

Remaining Concerns in Evaluating AFORs

- Traditional regulation has been effective in the District in getting the types of outcomes all stakeholders would like to see arise from a MYRP.
- Clear, transparent high-level metrics have to be considered.
- In examining other states as a template for an alternative regulation framework, it is important to look at their outputs (rates, capital and cost efficiency, etc.) not just their inputs (filing requirements, expenditure allowances, caps, etc..

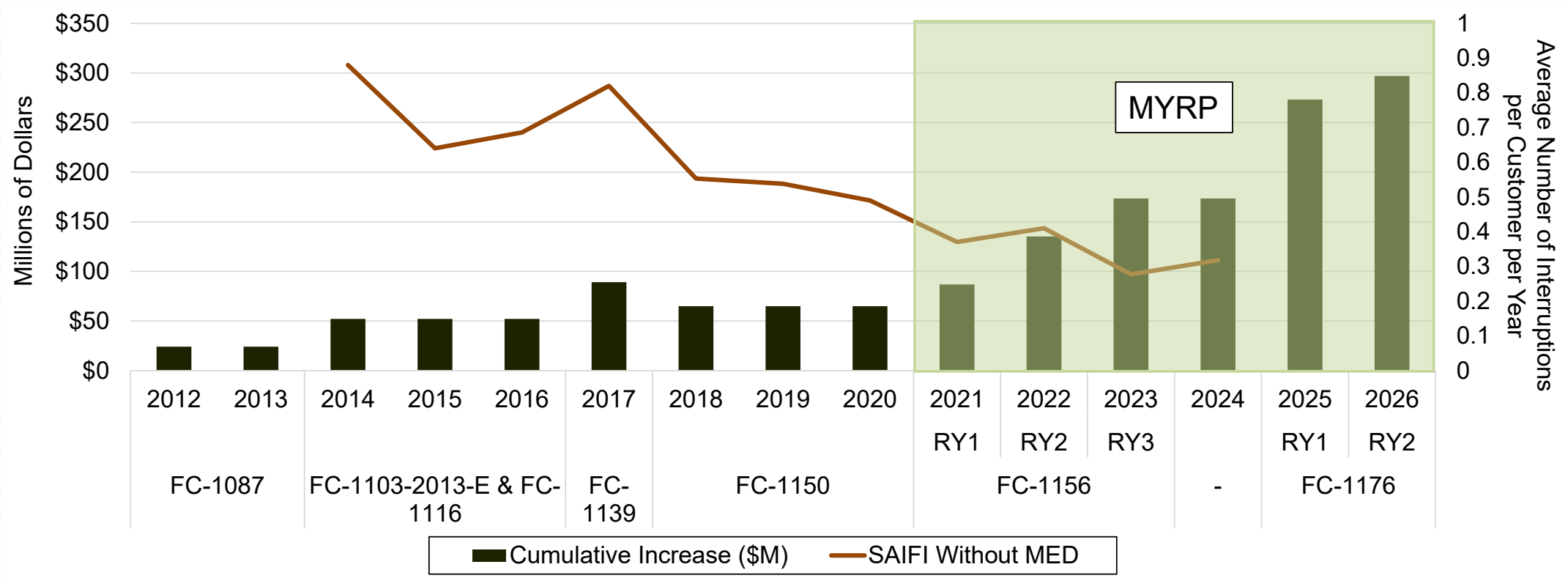
District regulatory framework and SAIDI improvements

Traditional regulation, with firm metrics, standards, and penalties, **assured consistent improvement in reliability for the better part of the decade**. The **returns from those improvements are decreasing rapidly.**



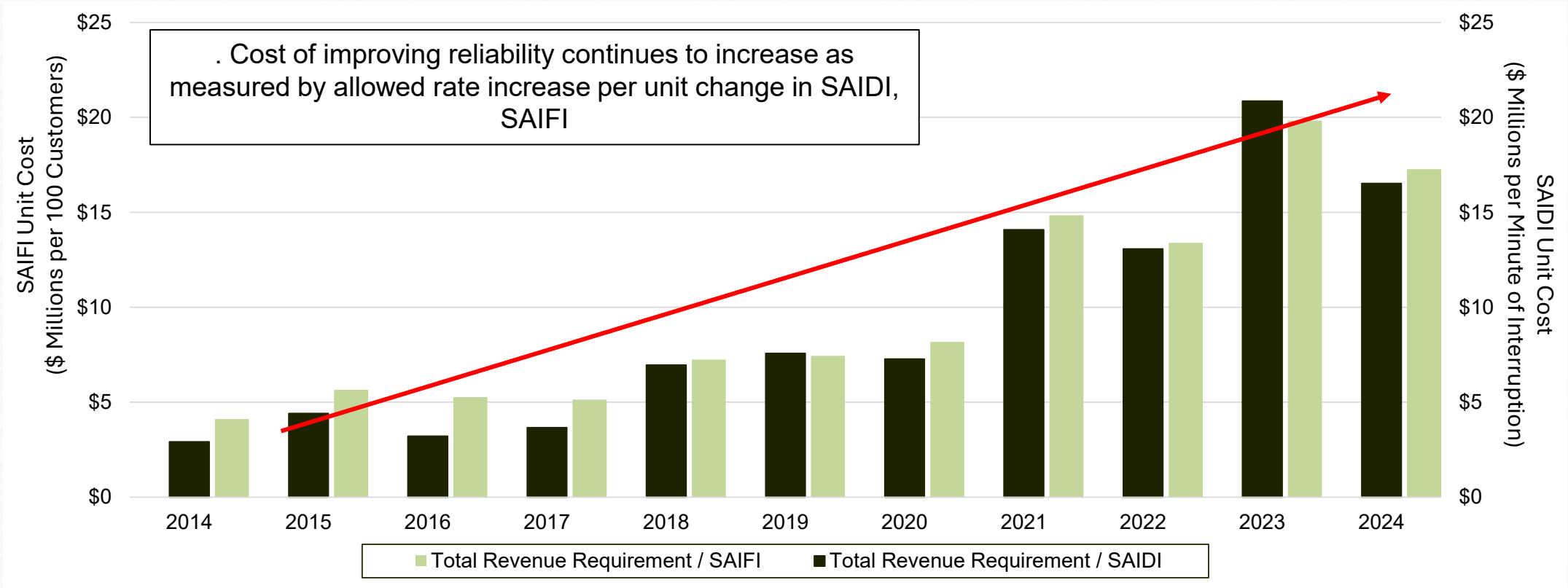
District regulatory framework and SAIFI improvements

The same trends are present with Pepco's SAIFI improvements. Note: the **original reliability problems arose due to a rate freeze with little to no regulatory oversight and less than optimal reliability standards** that even the Commission recognized as being deficient.



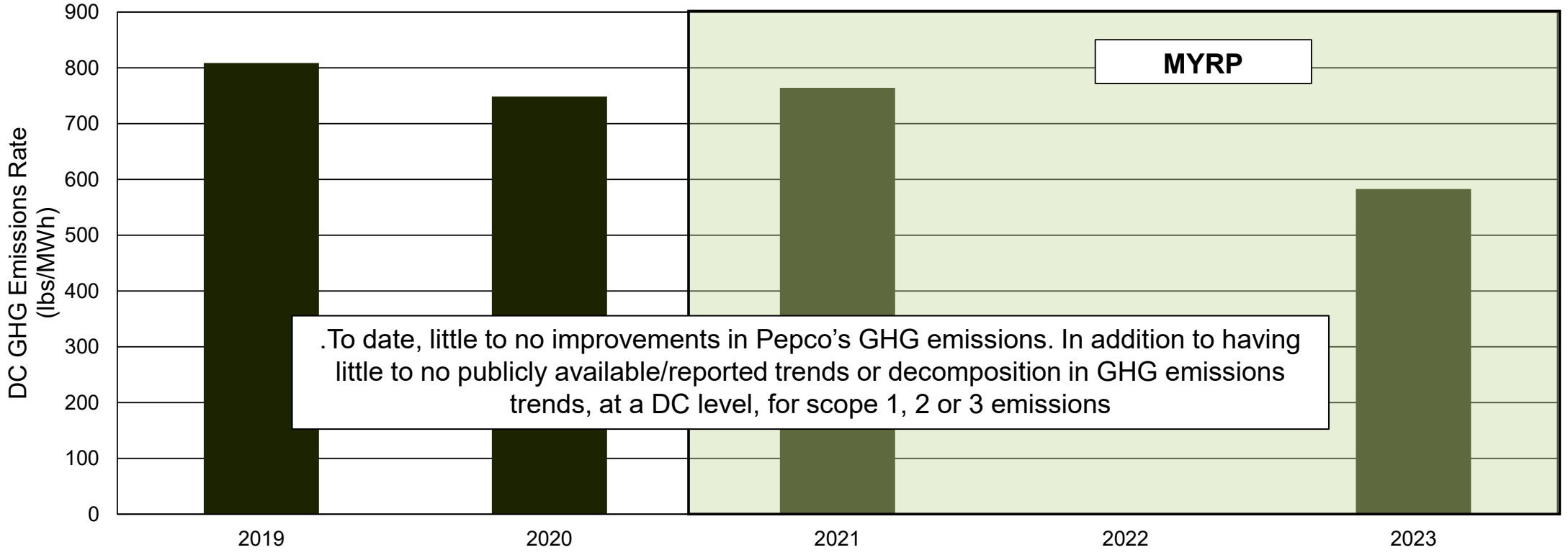
Return on reliability

Some form of **high-level ratepayer return on investment** needs to be considered. What are ratepayers **getting in return for this new form of regulation**.



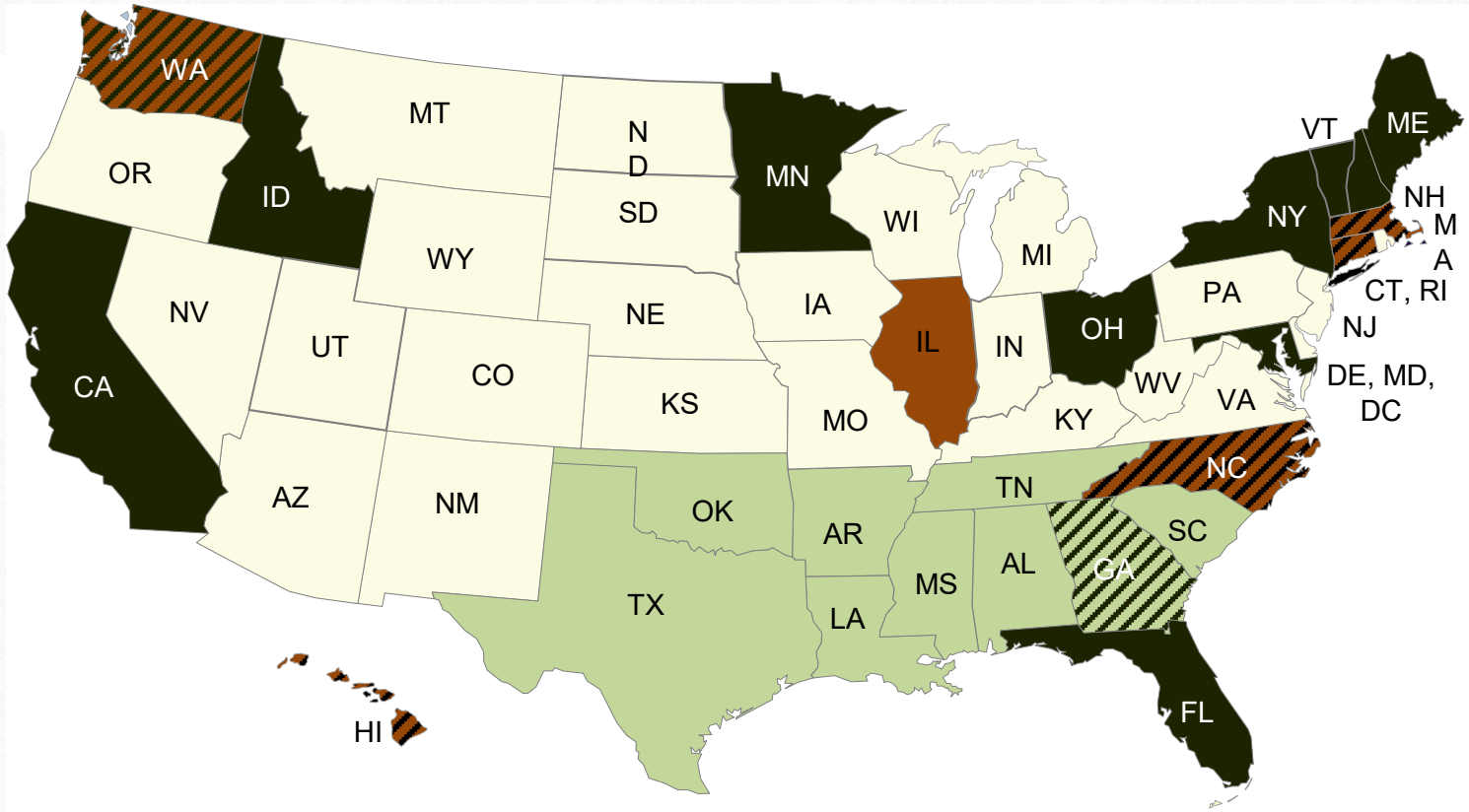
Pepco GHG emission trends

As policy transitions into a **new area of priorities**, the Commission needs to **define the most appropriate metrics to consider**. If you want a **clean climate**, you have to **reduce, at minimum, GHG emissions**.



Alternative forms of regulation

If you are looking for a benchmark, **then consider what states have seen the best aggregate level performance in their alternative regulation plans**.

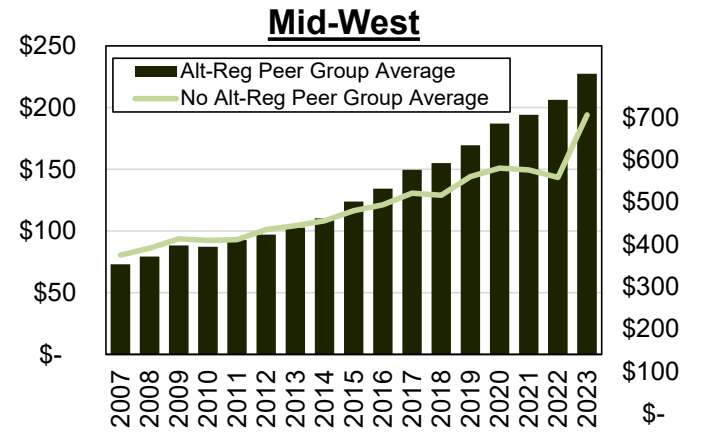


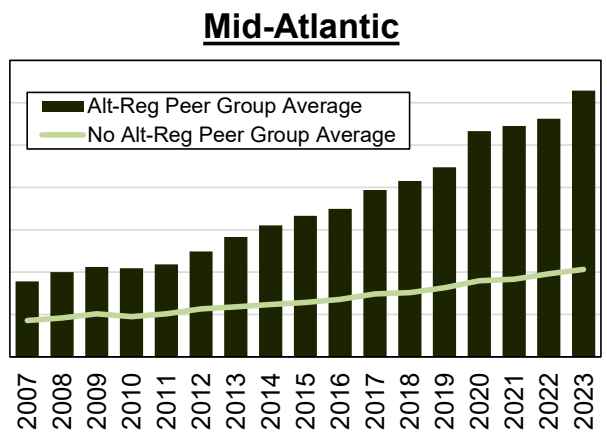
Rate Cases		
Color	Type	States
	MYRP	11
	PBR	1
	FRP	8
	MYRP & FRP	1
	MYRP & PBR	5
	None	24

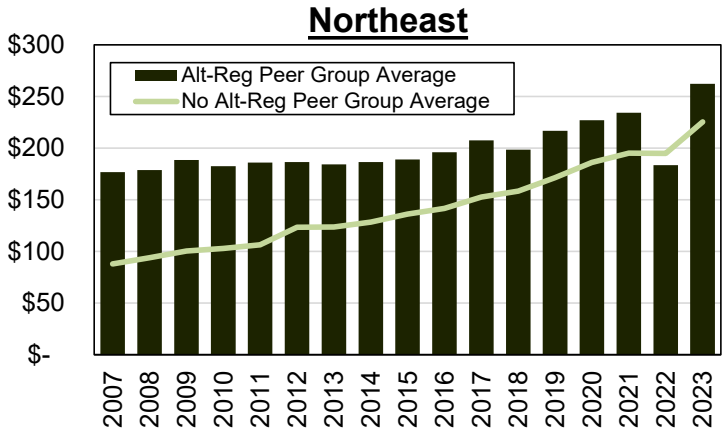
Sources: Electricity Regulation for a Customer-Centric Future – Survey of Alternative Regulatory Mechanisms, Guidehouse (for EEI), 2Q 2020; Idaho PUC Case No. AVU-E-23-01, AVU-G-23-01; DC PSC FC 1156; MD PSC Case No. 9655; VT PUC Case No. 18-1633-PET; NC PUC Docket No. E-2, SUB 1300, S&P Global RRA Regulatory Focus; "Innovative Rates, Non-Volumetric Rates, and Tracking Mechanisms: Current List" American Gas Association, 2016.

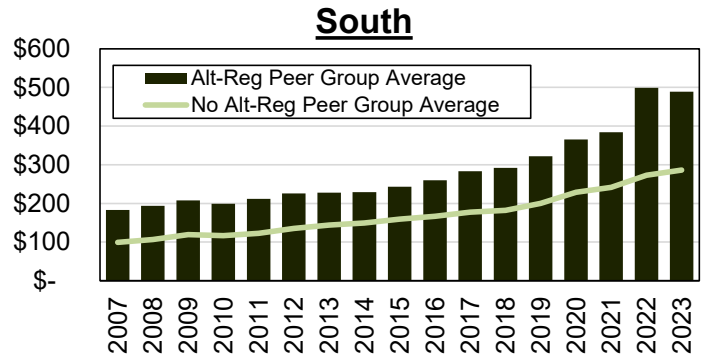
Capital expenditure discipline experience

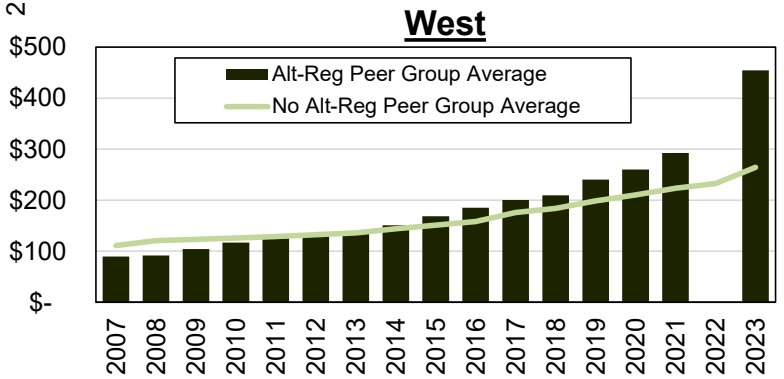
Most AFOR states have seen **less than stellar capital expenditure discipline** relative to utilities without AFORs. However, **some areas have been exceptionally bad like New England and the mid-Atlantic**.











Source: EIA form 861 and S&P Global data.

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March 21, 2025

Pepco-DC
Lessons Learned Working Group
Third Working Group Meeting

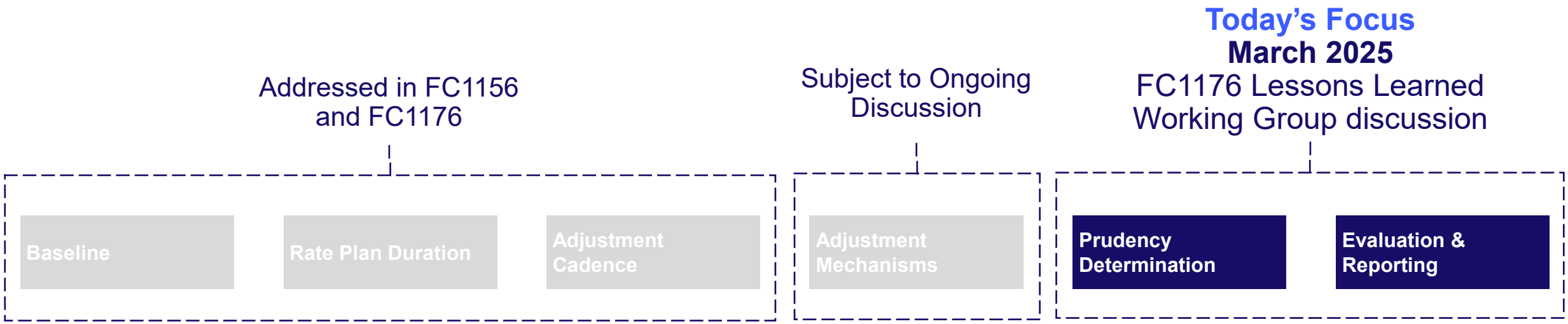
Pepco March Working Group Presentation Content

1. **Today's Objectives** and Scope of Our Research
2. **MYP Evaluation Framework** Alternatives & Benchmarking
3. **MYP Prudency Determination** Alternatives & Benchmarking
4. **Findings & Next Steps**
5. **Appendix**

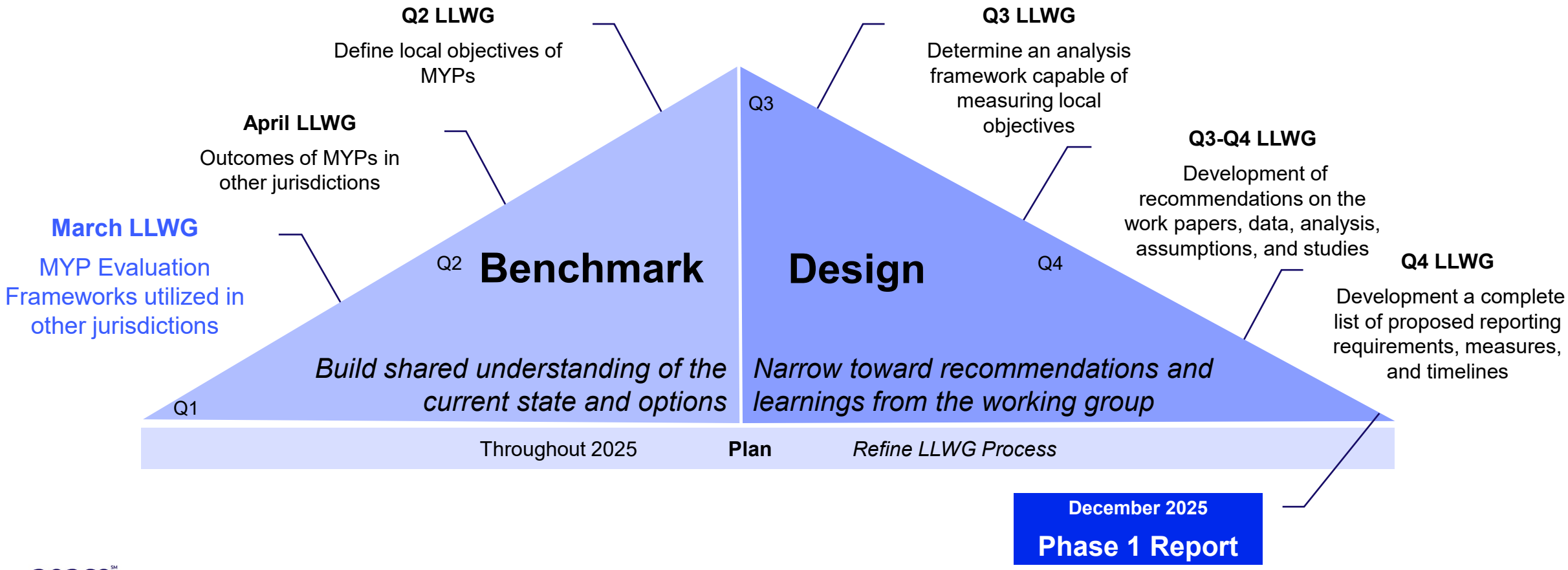
1

Today’s Objectives

Utility rate cases, including MYPs, can be categorized by a matrix of common characteristics



Proposed LLWG Schedule: Study MYP evaluation frameworks alternatives before aligning on DC-specific objectives and frameworks

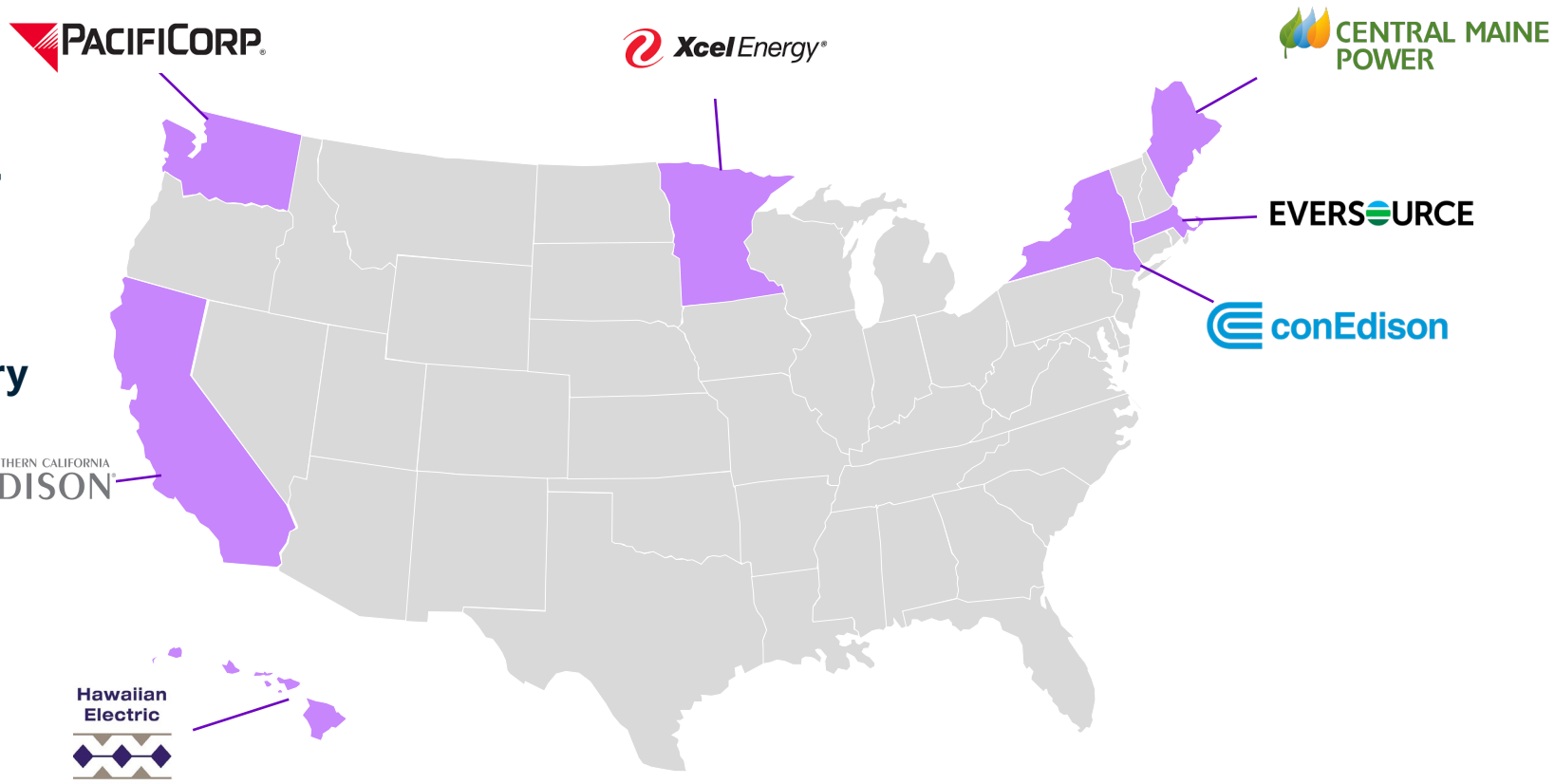


National research was performed to assess the experiences of seven IOUs in separate state jurisdictions, selected for relevance to Pepco and DC's situation

Research Objectives

- **Determine history and precedent of MYPs in other jurisdictions**
- **Determine objectives of MYPs in other jurisdictions**
- **Gain insights on how MYP evaluation frameworks are used across the country**
- **Discover the outcomes of MYP evaluations to date**
- **Determine how different jurisdictions assess utilities' spending prudency**

Peer Jurisdictions Studied



There is diversity in MYP frameworks developed in these jurisdictions, along with the circumstances leading to their adoption. Factors related to both are explored for lessons learned benefiting Pepco and DC stakeholders

2

MYP Evaluation Frameworks

An evaluation framework consists of the objectives, metrics & measures, and forums for rationalization of plans & on-going data (quantitative and qualitative)

Baseline | Rate Plan Duration | Adjustment Cadence | Adjustment Mechanisms | Prudency Determination | **Evaluation & Reporting**

Objectives

Jurisdictional-specific target outcomes that MYPs should be designed to achieve. Objectives are used to inform the data, methodology, and relative importance of individual metrics.

Evaluation Methodology

Metrics and analysis that measures and contextualizes attainment of Objectives. Should provide the ability to make informed decisions related to the ongoing use of MYPs.

Forums & Outcomes

Venues in which evaluation frameworks are delivered and utilized. Optionally, the outputs of an evaluation framework may be used to initiate pre-defined actions.

What are a jurisdiction's collective objectives?

- **Customers:** Customer Value/Benefits, Rate Predictability/Volatility, Satisfaction, Access, Tools, Reliability, Resiliency
- **Utility Viability:** Financial Health, Liberty/Flexibility, Efficiency
- **Climate & Policy:** GHG Emissions, DER growth, EV enablement, System Wide Efficiency
- **Other:** Reduced Administrative Burden, Risk Management, Process/Forecast Accuracy

How should attainment of those objectives be measured?

Metrics and measurements:

- **Customers**: rate trends, rate volatility, LMI programs, CSAT, SAIDI, SAIFI, CAIDI
- **Utility Viability:** ROE, cost of capital, flexibility
- **Climate & Policy:** GHG reductions, interconnection times, asset effectiveness,
- **Other:** regulatory timelines/effort, general stakeholder sentiment, forecast accuracy

Analysis:

- BCA, Best-Fit Least Cost Alternatives, Earned Value Realization, Peer Benchmarking, Data Envelopment Analysis, Econometric Modeling, Stakeholder Input

When will evaluations take place, and to what effect/outcomes?

Forums

- **Periodic reporting** (quarterly, annual, end of term, etc.) quantitative & qualitative metrics
- **Stakeholder Feedback/Working Groups** to align on interpretation of quantitative metrics and to collect qualitative input on MYP effectiveness, impacts, future changes to reporting and/or rate planning in general

Yielding Decisions/Orders & Outcomes

- Plan Refinement
- Prudency Determination
- Revenue Adjustment/Reconciliation
- Continuous improvement of MYP mechanisms

An evaluation framework is a function and a series of processes that takes in inputs and supports outcomes in the form of decisions impacting the MYP

Baseline | Rate Plan Duration | Adjustment Cadence | Adjustment Mechanisms | Prudency Determination | **Evaluation & Reporting**

	Inputs:	**Evaluation Methodology**	**Outputs/Outcomes:**	
Rate Case/ MYP Filing	Rate Case/MYP Filing	• An evaluation framework consists of the objectives, metrics & measures, and forums for rationalization of plans, on-going data, and results (quantitative and qualitative) • Utility and Stakeholders have responsibility to help the commission define objectives, guiding principles, methodologies, and reflection throughout • The Utility will be the first to report and self assess performance and recommendations for others to weigh in on, and the framework should inform rationale of outcomes	Baselines for projects, budgets, outcomes	
During MYP	Actual project, cost, and performance data		Validated progress Tracking of balances or true-ups if applicable	Tactical direction or targeted interventions
End of MYP	Same information as above but end of term More extensive collaboration for reflection (potential for working group)		Final True ups/ Sharing Assessment of Utility Performance Assessment of MYP mechanisms/edits	Set stage for next Rate Case or All-in-one Assessment of Framework, changes to input requirements and on-going reporting

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MYP **Evaluation Frameworks** in use across peer jurisdictions

	Hawaii HECO	California SCE	New York ConEd	Massachusetts Eversource	Maine CMP	Minnesota Xcel	Washington Pacificorp
MYP Archetype	**Steady-State** **Broad PIM-Focused Ratemaking** **Extensive Working Group Input**	**Steady-State** **Targeted Initiative-Focus (risk reduction)** **Planning and Up-Front Buy-In-centric**	**Targeted Project PIMs-centric Evaluation** **Data-driven Input**	**Exploratory MYP Structure Continuous Improvement focus** **Targeted Climate Goal Initiative Orientation**	**Core Utility Performance-centric** **Exploratory Rate Case Structure Continuous Improvement focus**	**Reconciliation Focus on Forecast Accuracy** **Reporting Check-ins w/ Decision Delegation**	**Exploratory MYP Structure Continuous Improvement focus**
Objectives	• Break the direct link between target revenue and investment levels • Customer-centric • Administrative efficiency • Utility financial integrity	• Better (Wildfire) Risk Management • Better Utility Financial & Operational Management • Increased CPUC Oversight • Less Admin Burden • More time on S-MAP and RAMP proceedings	• Enhanced Customer knowledge and tools • System wide efficiency • Fuel and resource diversity • System reliability and resiliency • Reduction of carbon emissions	• Regulatory Efficiency • Financial Stability of Utility • Climate Goals • Grid Modernization	• Reliability • Affordability and spending oversight • Regulatory efficiency	• Reliability and performance • Customer risk aversion • Regulatory efficiency	• Reduced regulatory lag • Transparency and accountability
Evaluation Methodology *Non-exhaustive*	• Comprehensive evaluation in year 4 of 5-year plan • Evaluation and continuous evolution of performance incentives	• Utility return on equity • Regulatory process length • Wildfire ignition data, outage reports, geospatial fire spread models	• Semi-annual and rate case EAM evaluation • Regular Stakeholder feedback • Quarterly reports tracking Distributed System Implementation Plan spending • Performance Metrics	• Utility Return on Equity • Forecast accuracy review • Progress toward climate plan • Various PIMs • Stakeholder feedback of regulatory process efficiency	• Prudency review in rate case proceeding • In MYPs, must submit additional quantitative evidence that capital projects provide max value • Downwards-only PIMs and penalties	• One-way true-up mechanism for capital costs. • Sales true-up reconciliation mechanism	• Reporting requirements aligned to state policy goals • Assess changes in regulatory timeframe • Stakeholder feedback
MYP Outcomes	• Continuous improvement of MYP structure • Highly PBR-driven rates with annual true-ups	• MYPs eliminate major rate case overlaps • Risk-based Decision-making Framework enhances transparency and assesses risk • Longer MYPs lead to decreased forecast accuracy	• MYP structure drove progress towards metrics and state objectives, especially climate goals	• Continuous improvement efforts by Eversource and stakeholders will ensure continued success of MA's 5-year MYP schedule.	• Structure of MYPs have been in flux since inception, but currently utilize a 2-year plan focused on reliability improvement, affordability/spending efficiency, and regulatory efficiency.	• Delegation to an Administrative Law Judge: Tasks were delegated to a judge throughout the rate case • In recent years, Xcel's SAIDI, SAIFI, and CAIDI scores have fallen short of their goals • Rates lower than peers but have been volatile at rate cases	• PacifiCorp significantly under-earned in 2023, so there would be no deferral under the MYRP Earnings Test, even if applicable.

The Objectives of peer utilities influence the structure of their Evaluation Frameworks and often align partially with the AFOR Framework Principles established in DC Case #1156 Order 20273

DC AFOR Framework Principles *(summarized)*	Hawaii HECO	California SCE	New York ConEd	Massachusetts Eversource	Maine CMP	Minnesota Xcel	Washington Pacificorp
Ensure Quality of Utility Services and Operations	O	O	O	O	O	O	
Avoids Shifting Risks to Customers	O				O	O	O
Supports Public Policy Goals	O	O	O	O			
Transparent Reporting and Revenue Requirements		O		O			O
Measurable MYP Benefits	O		O				
Just and Reasonable Ratemaking					O	O	O
Administrative Efficiency		O			O	O	

This assessment is specifically focused on the stated objectives of each state's MYP, not necessarily the broader mission of the utility or jurisdiction defined elsewhere.

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MYP Evaluation Outcomes

While most MYP Evaluation Frameworks are utilized to effectuate all of the Outcomes listed here, each devotes more focus on a subset of these alternatives

Outcomes	Hawaii HECO	California SCE	New York ConEd	Massachusetts Eversource	Maine CMP	Minnesota Xcel	Washington PacifiCorp
Calculate performance adjustment mechanisms							
Ensure transparency of utility performance and financials							
Determine spending prudency							
Guide utility decision-making and continuous improvement of MYPs							
Outcomes *Directional Only*	• Continuous improvement of MYP structure • Highly PBR-driven rates with annual true-ups	• MYPs eliminate major rate case overlaps • Risk-based Decision-making Framework enhances transparency and assesses risk • Longer MYPs lead to decreased forecast accuracy	• MYP structure drove progress towards metrics and state objectives, especially climate goals	• Continuous improvement efforts by Eversource and stakeholders will ensure continued success of MA's 5-year MYP schedule.	• Structure of MYPs have been in flux since inception, but currently utilize a 2-year plan focused on reliability improvement, affordability/spending efficiency, and regulatory efficiency.	• Delegation to an Administrative Law Judge: Tasks were delegated to a judge throughout the rate case • Xcel has expressed frustrations about their margins under current rate plan	• PacifiCorp significantly under-earned in 2023, so there would be no deferral under the MYRP Earnings Test, even if applicable.

3

MYP Prudency Determination

Within any framework, regulators must decide how and when to determine prudency, balancing the utility's need for clarity and customer benefit

Baseline
Can vary between O&M and Capital

Rate Plan Duration

Adjustment Cadence

Adjustment Mechanisms
Multiple selection

Prudency Determination

Evaluation & Reporting
Multiple selection

Ex Ante (Upfront)
A commission may set rates and approve a utility's investment plan prior to investment, without re-litigation of scope.

- **Low scrutiny reviews typically continue revenue requirements and eligible projects from historical years**, potentially adjusted for inflation or other mechanisms. Entire portfolio of forecasts and projects are deemed approved as prudent if objectives are on-track.
- **High scrutiny involves more bespoke forecasts of all project work, optimized and justified** by resource plans, BCA, benchmarks, engineering, alternatives, etc.
- **Special trackers for difficult-to-forecast expenditures** can be deemed prudent upfront within specified thresholds

Ex Post (After-the-fact)
The commission reviews whether expenditures made during the prior term were "used, useful, and prudently incurred."

- **Low scrutiny reviews typically involve assessing prudency of a limited set of unplanned projects and special trackers or spend variances** incurred in previous period for future recovery and/or claw back.
- **High scrutiny review involves litigation of entire set of portfolio** of expenditures for reconciliation.

Hybrid
Ex Ante used in combination or incrementally with Ex Post determinations, commonly involving claw-backs.

- **Commissions give contingent prudency determination**, typically with pre-specified targets/objectives to be met
- **Portfolio or major projects must pass periodic milestones** (25%, 50%, 75% completion) to confirm continuing prudence
- Commissions can **intervene only if certain thresholds are exceeded** or if scopes change materially **or assess prudency globally** after-the-fact
- **Approved forecasts go into rates provisionally**. Then the regulator performs a "true-up" after the project

Implicit
Regulators approve revenue requirements without offering a prudency determination for specific investments. Can revert to effectively ex-post at regulator discretion.

- **Regulators allow for recovery of rates without explicitly determining prudency**.
- **Similar to hybrid**, Commissions intervene only if certain thresholds are exceeded or if scopes change materially.
- Approved forecasts go into rates provisionally. Then the r**egulator has the option, but not obligation, to perform a "true-up"** after the project

Timing of rates adjustments may not align with prudency determination and can take place before, during, or after a set of expenditures/prudency determinations. Varying application across expenditure types is common.

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MYP **Prudency Determination** methodologies in use across peer jurisdictions

- ***Different prudency determination methodologies were found to have been applied to different investment types within individual utilities.***
- ***Some jurisdictions specify ranges of reasonable spend deemed prudent ex-ante, with additional prudency determination required outside that range.***

Legend:
- o – rate case
- o – other filings

	Maryland Pepco	Hawaii HECO	California SCE	New York ConEd	Mass. Eversource	Maine CME	Minnesota Xcel	Washington Pacificorp
Ex-ante			o	o o	o			
Ex-post	o			o	o	o	o	o
Hybrid		o	o	o	o		o	o
None/Implicit		o				o		o
Forums	• Rate Case proceedings • Final reconciliation & prudency review proceeding	• Rate Case proceedings • Fall and Spring Revenue Reports • Exceptional Project Recovery Mechanism	• Rate Case proceedings • Risk Spending Accountability Reports (RSAR) • Safety Model Assessment Proceeding (S-MAP) & Risk Assessment Mitigation Phase (RAMP) filings	• Rate Case Proceedings • Non-Wire Alternatives Implementation and Community Outreach Plan • Major Storms Event Cost Recovery filings	• Rate Case Proceedings • Capital Additions forecasts and reports • Solar MA Renewable Target (SMART) filings	• Rate Case Proceedings • Capital spending is evaluated on a historical basis	• One-way true-up mechanism for capital costs. • Sales true-up reconciliation mechanism, subject to a 3% hard cap on surcharges	• Amortization Threshold: Approved at $17 million. • UCT reserves and maintains authority to determine on a case by-case basis whether to spread charge/credit over multiple years

4

Findings & Next Steps

An Evaluation Framework is an end-to-end process rather than a single quantitative method and must capture the broader dynamics of an MYP

Objectives	Objectives of MYPs **vary between jurisdictions and are tied to localized issues**.
Evaluation Methodology	Evaluation Frameworks developed alongside MYPs aren't exclusively measuring what benefits MYPs deliver and are commonly tied to assessing broader energy goals, making **attribution to MYPs difficult** compared to the counterfactual.
Benefit Realization	Benefit realization is **strengthened by effective mechanisms and guardrails intended to incentivize jurisdictional objectives**. You're not just tracking numbers; you're ensuring that what gets measured directly ties to decision-making and prospective enhancements to maximize objective attainment.
Outcomes	MYP evaluation frameworks **can be used to effectuate a variety of functional outcomes**, including plan refinement, prudency determination, and revenue adjustment/reconciliation.
Continuous Improvement	**MYP evaluations are commonly used to inform continuous improvement of MYP structures**. Ongoing MYP results and local priorities evolving over time are the drivers of change.

There are more next steps required to align on learnings and to collectively recommend an end-to-end evaluation framework in support of key objectives

Q2 (April/May)

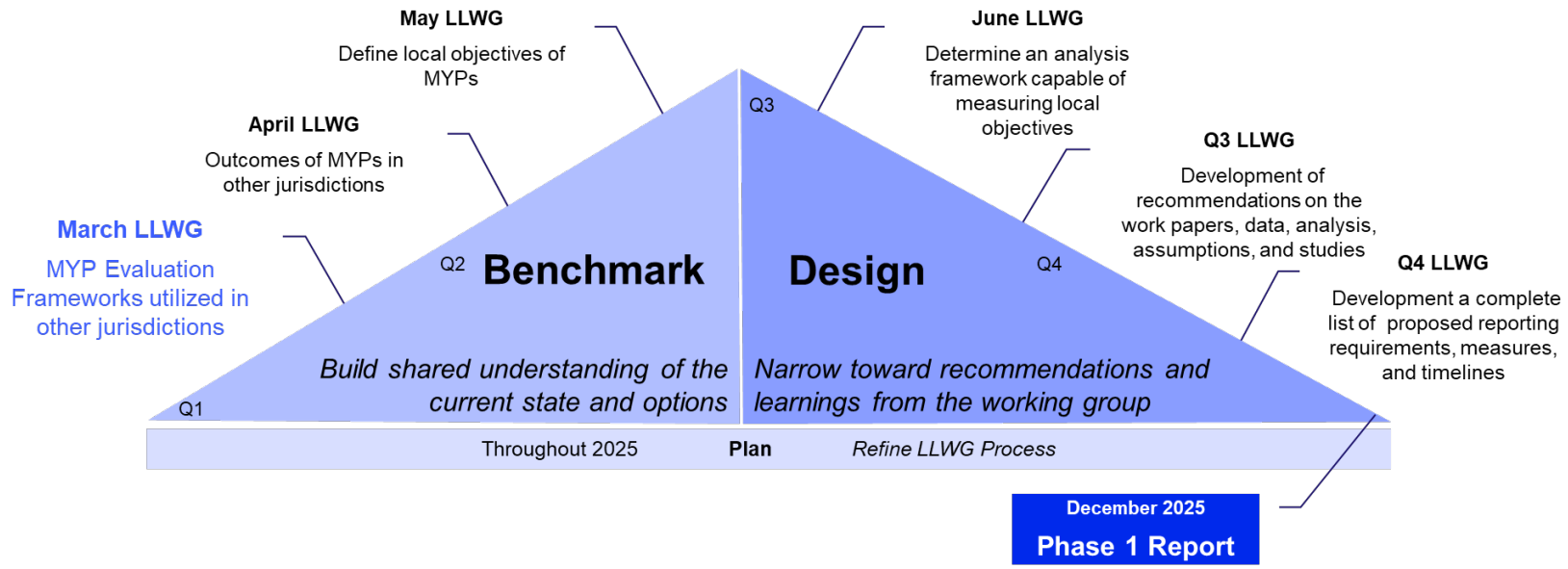
What are DC's MYP objectives?

Q2-Q3 (June-July)

How should attainment of those objectives be measured?

Q3-Q4 (August-November)

When will evaluations take place, and to what effect/outcomes?



5

Appendix

Utility rate cases, including MYPs, can be categorized by a matrix of common characteristics

Baseline *Can vary between O&M and Capital*	**Rate Plan Duration**	**Adjustment Cadence**	**Adjustment Mechanisms** *Multiple selection*	**Prudency Determination**	**Evaluation & Reporting** *Multiple selection*
Historical / # of Years	Single Year	Phase-In	Risk Insulation *(multiple)* ✦	Ex-ante	Objectives *(multiple)*
Forecast / # of Years ✦	Multiple Years *(commonly 2-5)* ✦	Mid-Plan Periodic ✦	Performance Incentives/ Penalties *(multiple)* ✦	Ex-post	Evaluation Methodology *(multiple)*
Hybrid	Indefinite ✦	Mid-Plan Milestones/ Triggers ✦	Automatic/Bounding Adjusters *(multiple)* ✦	Hybrid	Reporting Forums *(multiple)*
		End of Plan	None	Implicit	
		None *(subsequent case)*			

Legend

- Rate Case Characteristics
- Common Alternatives
- ✦ Uniquely Common to MYPs

Multi-year rate cases **share considerable structure with single year planning** and the characteristics uniquely common to MYPs are **not necessarily novel**.

Baseline revenue requirements for MYPs are not necessarily different from traditional rate-making aside from the duration those baselines are in effect

Baseline
Can vary between O&M and Capital

Rate Plan Duration

Adjustment Cadence

Adjustment Mechanisms
Multiple selection

Prudency Determination

Evaluation & Reporting
Multiple selection

Alternatives	Considerations
Historic	• Reliant on potentially outdated conditions, resulting in the need for future adjustments, true-ups, or deferred cost • Low effort of development • Low effort of interpretation/analysis • More common in traditional ratemaking
Forecasted	• Accounts for actual circumstances known at time of filing, resulting in less need for future adjustments • Greater effort to plan and develop • Greater effort to interpret/analyze • More common in multi-year planning
Hybrid	• Capable of treating O&M expenses and capital investment differently • Can benefit from the ease of developing/analyzing historical spend, adjusted for simple forecasted adjustments (e.g. inflation, load growth)

Alternatives	Considerations
Single Year	• Highest long-term administrative burden • Can result in regulatory lag for utility cost recovery • Lowest risk for all parties
Multiple Years *(commonly 2-5)*	• Reduced long-term administrative burden • Requires robust foresight in developing revenue adjustment mechanisms that project both customers and the utility • Can require more robust reporting and additional prudency determination backstops
Indefinite	• Minimizes long-term administrative burden • Assumes ability to develop near-perfect revenue adjustment mechanisms, or else may revert to multiple- or single-year rate cases • Necessitates robust reporting and additional prudency determination backstops • Highest risk for all parties

Multi-year rate planning necessitates the use of mechanisms to insulate all parties from risk, incentivize utilities to act in the best interest of stakeholders, and minimize volatility

Baseline
Can vary between O&M and Capital

Rate Plan Duration

Adjustment Cadence

Adjustment Mechanisms
Multiple selection

Prudency Determination

Evaluation & Reporting
Multiple selection

The cadence of application of adjustment mechanisms should be designed to **balance administrative effort, rate volatility, and reduction of lag**.

Risk Insulation

Mechanisms to insulate utilities and/or customers from phenomena largely out of their control

Inflation
Indexing some or all forecasted costs to inflation metric(s)

New Service Growth
Indexing allowed recovery to the growth in customer accounts or system energy/loads

Economic Growth
Indexing some or all forecasted costs to one or more economic indicator (e.g. GDP, population)

Cost Control*
Indexing some or all allowed recovery to a utility's ability to operate efficiently

Revenue Decoupling
Removal of the link between electricity consumption or market pricing and utility revenue (e.g. Pepco's BSA)

Project Trackers*
Allowance of recovery for actual costs incurred for difficult-to-forecast utility expenditures (storms, major initiatives)

Exogenous Events
Allowance for recovery of costs borne by major events outside the utility's control (e.g. storms, COVID)

**Cost Control and Project Trackers are also commonly utilized to track spending partially or wholly within the utility's control*

Performance Incentives/Penalties

Mechanisms to incentivize or penalize utility performance or specific actions largely within their control

Reliability
Indexing allowed recovery to a reliability metric (e.g. SAIDI, SAIFI, CMI, CI)

DER Growth
Incentivization of the utility to act in a way that contributes to the growth of generation and storage

Power Quality
Indexing allowed recovery to a power quality metrics (e.g. frequency control, voltage stability)

Emissions Reductions
Incentivization of the utility to act in a way that supports local emissions reductions goals

Customer Service
Indexing allowed recovery to a utility's performance on service metrics (e.g. response times, CSAT)

Electrification
Incentivization of the utility to act in a way that contributes to transportation and/or building electrification growth

Safety
Indexing allowed recovery to utility safety metrics

Energy Efficiency & Demand Response
Incentivization of the utility to deliver EE and DR programs effectively

Fixed Bounding

Predetermined adjustments or constraints that limit volatility

Fixed Escalators
Use of predetermined percentage- or $-based increases in revenue as a catch-all for increased cost

Rate Caps
Limits to the rates and/or rate increases seen by customers

Earnings Adjustments
Limits or allowances to converge the actual ROE or ROR realized by the utility to a pre-approved level

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Utilities with multi-year rate plans tend to utilize forecasted test years and a variety of mechanisms that adjust revenue requirements dynamically over time

Jurisdictions		Baseline Revenue Requirement		Adjustment Methods (Subsequent Years)					
State	Utility	Test Year	Rate Base	O&M	Capital	Decoupling	Incentives	Constraints	Phase-In
Hawaii	HECO, MECO, HELCO	Historic rolling formula revenue adjustments (5 years)	Average	I-X-CD	Special Trackers	Revenue	PIM Revenue/Penalty	Stay-Out; Pre-approvals; Pilots; Service Quality Std, Caps; Exogenous	None
California	SCE	Historical with forward-looking modifications	Average	Forecast, Special Trackers	Forecast, Special Trackers	Revenue	None	Service Quality Std, Exogeneous	Step Calculation or Formula
New York	ConEd	Forecast (3 years)	Average	Downward only reconciliation	Downward only reconciliation	Revenue	Earning test/Sharing, PIM Revenue/Penalty	Stay-Out, Service Quality Std, Caps, Pre-approvals; pilots, Exogeneous	Stated Increases
Massachusetts	Eversource	Formula with rolling modifications (5 year)	Year End	I-X-CD	K-Bar, Trackers	Revenue	ESM in place	Stay Out, Pre-Approvals, Pilots, Service Quality Std, Caps, Exogenous	None
Maine	Central Maine Electric Co.	Forecast (2 years)	Average	Downward only reconciliation	Downward only reconciliation	Revenue	Earning test/Sharing, PIM Revenue/Penalty	Stay-Out, Service Quality Std, Exogeneous	Stated Increases
Minnesota	Xcel	Forecast (3 years)	Average	Reconciled	Reconciled	None	None	Caps	Phase-In
Washington	PacifiCorp	Historic/Pro-Forma (2 years)	Average	No Reconciliation	Reconciled	Revenue	Earnings Test	Pre-approvals; Pilots, Stay-Out, Service Quality Std	Stated Increases
Maryland	Pepco	Forecast (3 years)	Average	Reconciled	Reconciled	Revenue	None	Stay-Out	Stated Increases
Washington, DC	Pepco	Forecast (18 months)	Average	Downward only reconciliation	Reconciled	Revenue	None	Stay-Out	Stated Increases

Several paradigms exist among the diversity of state MYPs

Formula Adjustments

MYP formulaic adjustments can be based on the following factors:

- Inflation: Rates are adjusted as a function of inflation that is relevant to the prices of inputs the utilities use, minus a productivity offset.
- Service Growth: Uses a five-yea of actual capital additions and adju for inflation and customer growth.

EVERSOURCE — Service growth-based

Hawaiian Electric — Inflation-based

Project-derived forecast (varying degrees of reconciliation)

Company-developed forecast of future spending

No Clawback, No Reconciliation (w/ Exceptions)

Clawback,

Reconciliation Caps/ Downward Only

conEdison

CENTRAL MAINE POWER

Clawback, Reconciliations w/ some Caps

PACIFICORP

Xcel Energy

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Extensive trackers

Submitting actuals on tracked distribution programs outside of rate case.

SOUTHERN CALIFORNIA EDISON

Hybrid – Most MYP states have some mix of these mechanisms

Additional Mechanisms Coupled with MYP Rate Setting Paradigms Above

These used to be forward looking but recent order changed that.

- **Earnings Sharing Mechanisms:** A system where utilities share excess earnings with customers if profits exceed a predetermined threshold.
- **Performance Incentive Mechanisms:** Incentives designed to encourage utilities to meet or exceed specific performance targets
- **Service Quality Standards:** Benchmarks set to ensure utilities maintain a specified level of service reliability and customer satisfaction.
- **Stay-Out Provisions:** Agreements that prevent utilities from filing for rate increases for a set period, promoting stability and predictability.
- **Caps:** Limits placed on the amount utilities can charge or recover, often used to protect consumers from excessive rates.
- **Trackers:**

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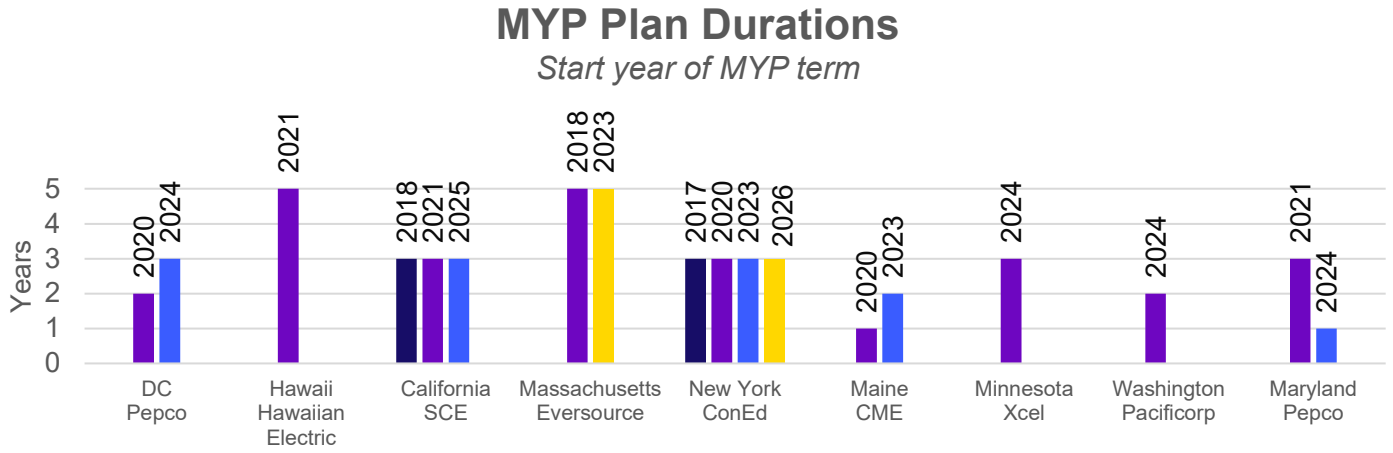
Summary of MYP structures seen across benchmarks

Utilities with multi-year rate plans tend to utilize future test years and/or forecasted adjustments to historical test years to develop revenue requirements.



Baseline
Can vary between O&M and Capital

Rate Plan Duration

	Baseline	Rate Plan Duration
DC – Pepco	**Forecast** for 2 years w/ annual reconciliations	2 years
Hawaii – HECO	N/A, but effectively **Historic** (using existing rates as the baseline)	5 years
New York – ConEd	**Forecast** for 3 years	3 years
California – SCE	**Hybrid** – Historic w/ Forecasted modifications for O&M (inflation) and select capital (custom)	4 years
Massachusetts – Eversource	**Hybrid** – Historic (5-year avg.) w/ Forecasted modifications (predetermined % adjustments)	5 years
Maryland – Pepco	**Forecast** for 3 years with procedural protections and staged review	3 years
Maine – Central Maine Electric	**Forecast** for 2 years	2 years
Minnesota – Xcel	**Forecast** for 3 years	3 years
Washington – Pacificorp	**Hybrid** – Historic w/ Forecasted modifications (custom)	2 years

Baseline methodology and Rate Plan Durations listed reflect the current effective rate plan as of March 2025 and are not representative of all iterations of MYPs.

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MYP **Adjustment Mechanisms** in use across peer jurisdictions

- *Our research of peer utilities with MYPs found that **all are utilizing Risk Insulation mechanisms** to control for factors outside of their control, with **only some utilizing meaningful Performance Incentives/Penalties** to influence utility actions over the term of the period.*
- *We found varying levels of symmetry in the way these adjustment mechanisms were applied – one-way (customer-benefiting only) and two-way (utility and/or customer-benefitting)*

		DC Pepco	Hawaii HECO	New York ConEd	California SCE	Mass. Eversource	Maryland Pepco	Maine CME	Minnesota Xcel	Washington Pacificorp
Risk Insulation	Inflation		o		o	o	o			
	Economic Growth									
	Revenue Decoupling	o	o	o	o	o	o	o		o
	Exogenous Events	o	o	o	o	o	o	o		
	New Service Growth		o							
	Cost Control		o	o		o		o	o	
	Project Trackers		o	o	o	o			o	o
Performance Incentives/Penalties	Reliability	o	o	o		o	o	o		
	Power Quality		o	o						
	Customer Service		o	o		o		o		o
	Safety									
	Emissions Reductions		o	o		o				
	DER Growth		o	o		o				
	Electrification			o						
	EE & DR		o	o		o	o			
Fixed Bounding	Fixed Escalators	o			o		o			
	Rate Caps							o	o	
	Earnings Adjustments	o	o	o		o	o	o	o	o

CERTIFICATE OF SERVICE

I hereby certify that a copy of Potomac Electric Power Company's Lessons Learned Working Group Meeting Minutes has been served via email on this April 1, 2025 on:

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