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NARUC
National Association of Regulatory
Utility Commissioners

New Report Explores States' Performance-Based Regulatory Approaches for Incentivizing Demand Flexibility

WASHINGTON (February 28, 2023) — The National Association of Regulatory Utility Commissioners today released a new research paper, *Demand Flexibility within a Performance-Based Regulatory Framework*, that presents the various components of performance-based regulation and explores how its applications can advance demand flexibility.

Demand flexibility leverages technologies that can enable customers to move beyond traditional energy efficiency programs (reducing overall usage) to shift, shed, increase or modulate electricity usage at specified times and/or locations to support grid stability, lower costs and create a more efficient system.

Performance-based regulation can incentivize demand flexibility through clear alignment and cohesion between policy goals and a utility's business decisions. The report presents a breakdown of the typical process for establishing a performance-based regulatory framework with an examination of the various components and lessons learned from states and experts who have worked through the stages.

"Across state public utility commissions, we see parallel trends in wanting to increase demand flexibility in ways that benefit customers and the grid while also responding to state legislative directives to pursue alternative regulatory frameworks," said NARUC Center for Partnerships and Innovation Senior Director Danielle Sass Byrnett. "This new research offers insights from three states currently working to implement demand flexibility using performance-based approaches and incentive structures, which supports learning across the regulatory community as members navigate these emerging issues."

The Hawaii Public Utilities Commission discontinued cost-of-service regulation to fully leverage a PBR approach, offering both rewards and symmetrical penalties (in some cases) to incentivize the utility to achieve a specified degree of progress toward given outcomes. The portfolio of performance mechanisms — many of which focus on different components of demand flexibility — became effective in June 2021.

"The performance mechanisms we introduced in 2021 include various metrics related to the advancement of demand flexibility, including grid investment, transportation electrification, asset effectiveness, customer engagement, and interconnection experience," said Hawaii Commission Chair Leo Asuncion, Jr. "By collecting a robust data set and establishing transparent and well-defined metrics, our regulatory framework creates clear expectations for the utility."

This report builds on insights from the jointly formed National Association of State Energy Officials and NARUC Grid-Interactive Efficient Buildings State Working Group, <http://bit.ly/41qY5bP>.

Download and read the report at https://bit.ly/CPI_PBR.

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About NARUC

NARUC is a non-profit organization founded in 1889 whose members include the governmental agencies that are engaged in the regulation of utilities and carriers in the fifty states, the District of Columbia, Puerto Rico and the Virgin Islands. NARUC's member agencies regulate telecommunications, energy, and water utilities. NARUC represents the interests of state public utility commissions before the three branches of the federal government.