

**This presentation is meant for  
informational purposes only and is not  
intended to provide Ulupono Initiative's  
position in the Performance-Based  
Regulation docket**

# Performance-Based Regulation (PBR) Overview

## Hawai'i Context

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June 24, 2025

# Why do we regulate electric utilities?

## Natural Monopoly

- Single provider is most efficient (duplication of infrastructure costly)

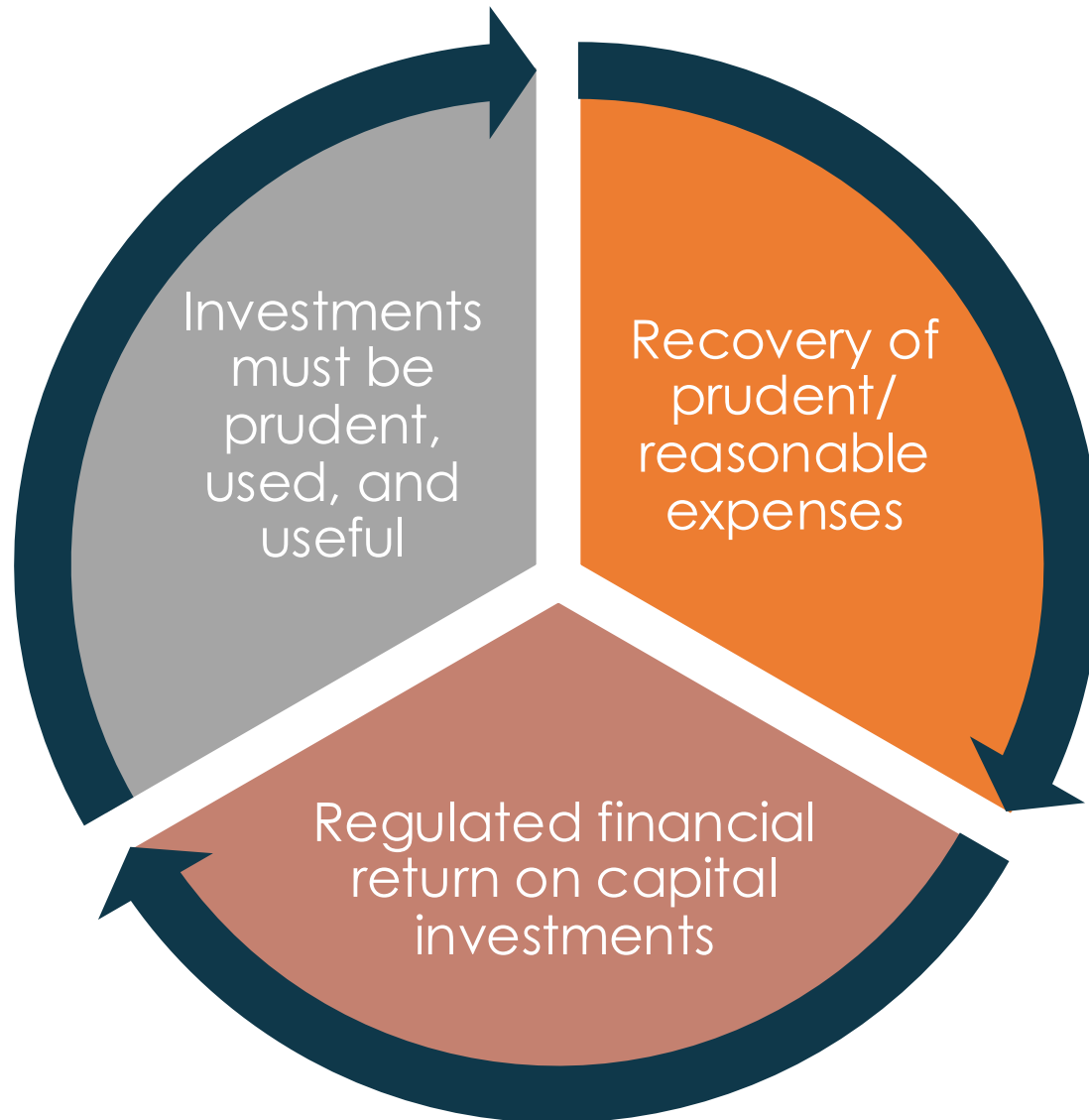
## Regulatory Compact

- Utilities operate under regulatory oversight to protect consumers from monopolies overcharging customers in exchange for limited market competition

## Public Interest

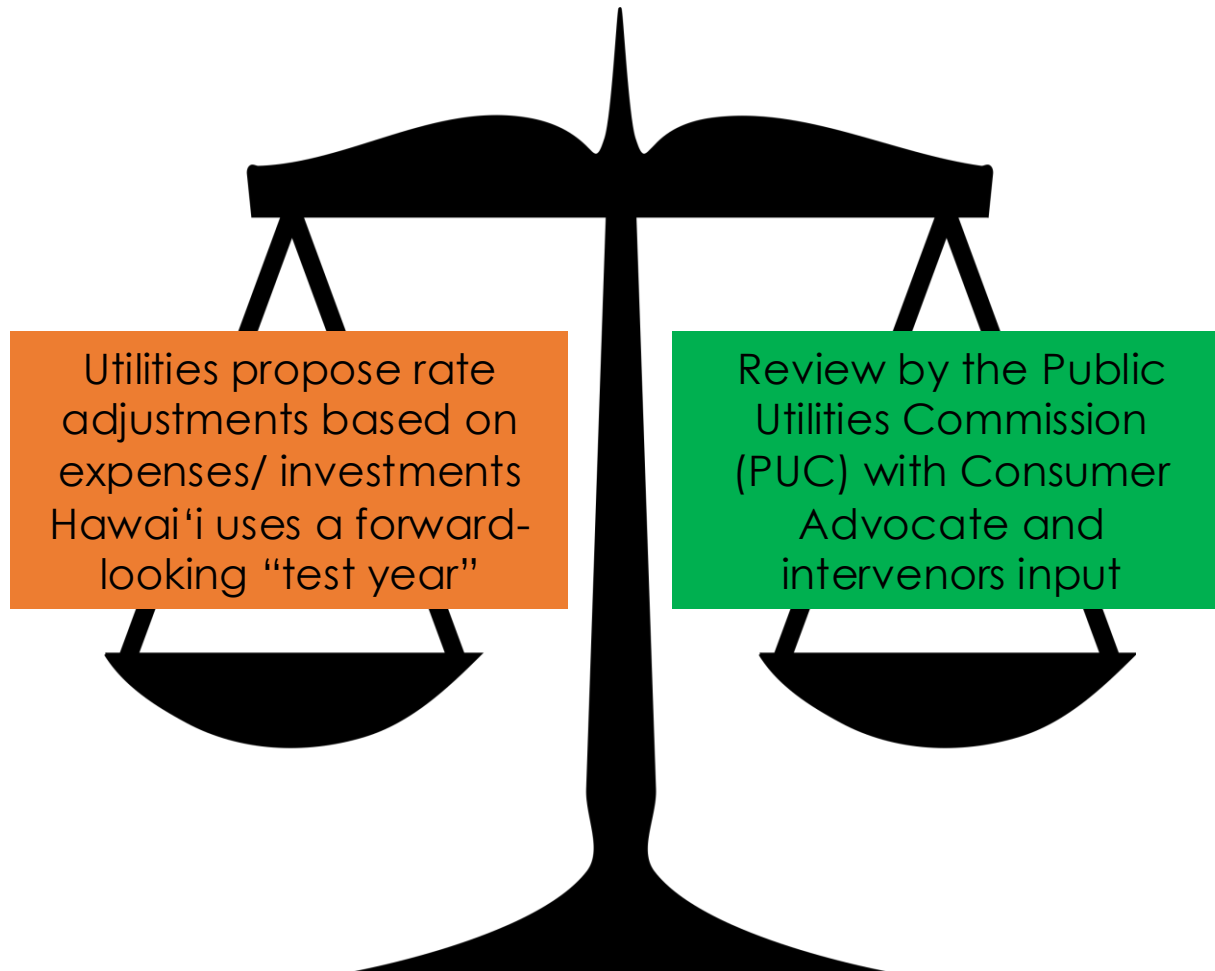
- Utilities have an obligation to serve

# Publicly regulated utilities make money differently than normal businesses



# Rate case process is used to determine rates

## Balance fair returns and affordable consumer rates





# The traditional regulatory construct has a 'Capital Bias'



Expenses  
reimbursed  
vs. returns  
earned on  
investments

Preference  
to invest  
over  
controlling  
costs

Tight  
regulation  
needed to  
control  
capital  
spending

# To address capital bias and help advance clean energy goals...

ENERGY

## Hawai'i adopted alternative ratemaking

Original compact incentivized infrastructure expansion  
(~100 years old)

Current context (Hawai'i): Grid static but incentives  
expansion-focused

Alternative ratemaking: Performance based regulation (PBR)  
bases incentives on performance, efficiency, and cost control

Adopted internationally (USA, Canada, UK)

# Legislative intent: 'Break the direct link'

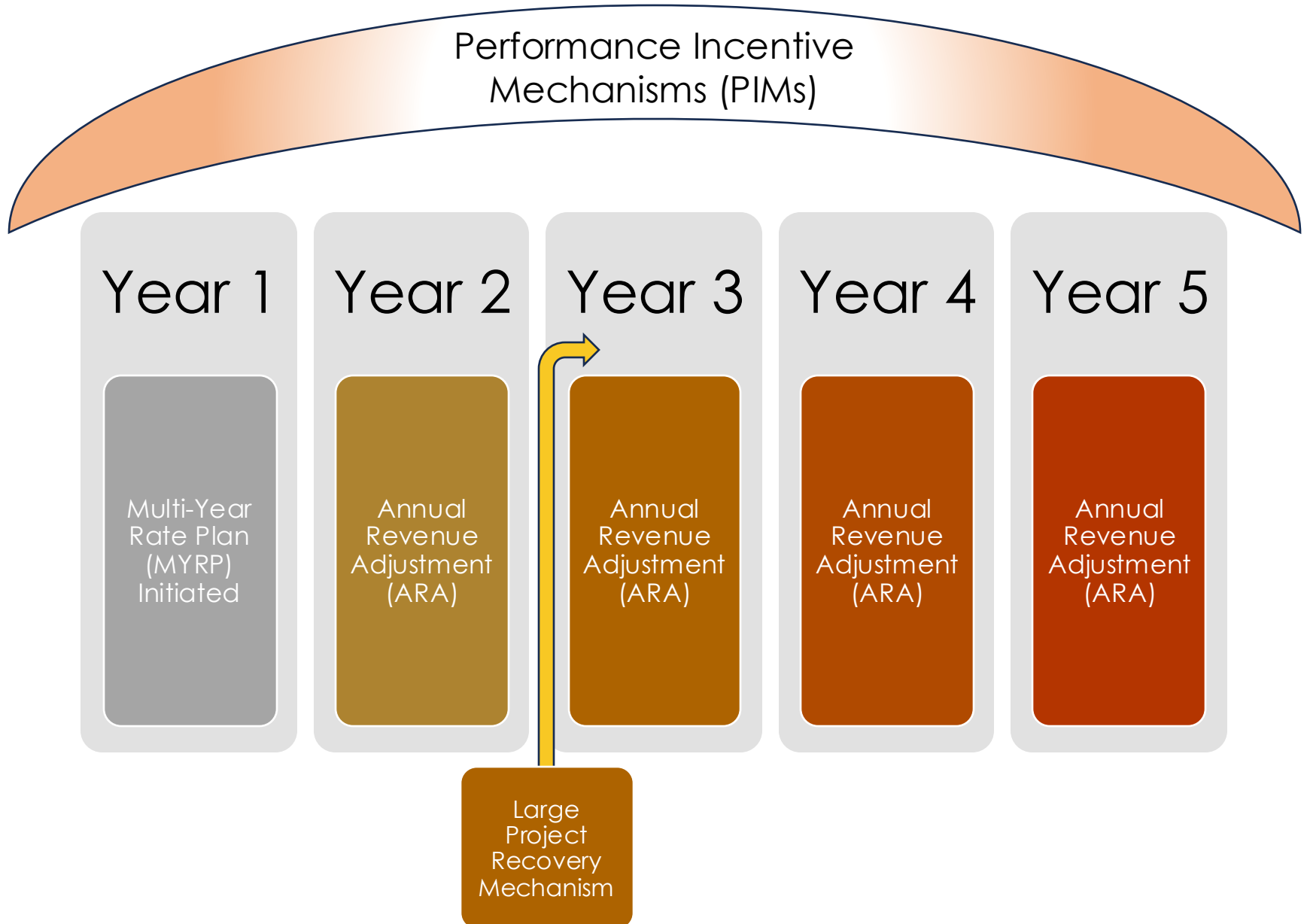
- The 2018 Hawai'i Legislature, in passing [Senate Bill 2939 SD2](#), concluded that a change to the regulatory compact was necessary to promote decisions and strategies that will maximize public benefit, reduce ratepayer risk, and meet Hawai'i's energy goals
- Signed into law as Act 5, SLH 2018, and codified as [Hawai'i Revised Statutes \(HRS\) section 269-16.1](#)

**§269-16.1 Performance incentive and penalty mechanisms.** (a) On or before January 1, 2020, the public utilities commission shall establish performance incentives and penalty mechanisms that directly tie an electric [utility's] revenues to that utility's achievement on performance metrics and **break the direct link** between allowed revenues and investment levels. The performance incentives and penalty mechanisms, as may be amended by the public utilities commission from time to time, shall apply to the regulation of electric utility rates under section 269-16.



# Overview of a Multi-Year Rate Plan in Hawai'i

ENERGY



# PIMs encourage stronger performance in agreed upon areas

RPS-A

- Rewards exceeding renewable energy benchmarks

Interconnection  
PIM

- Faster renewable connections

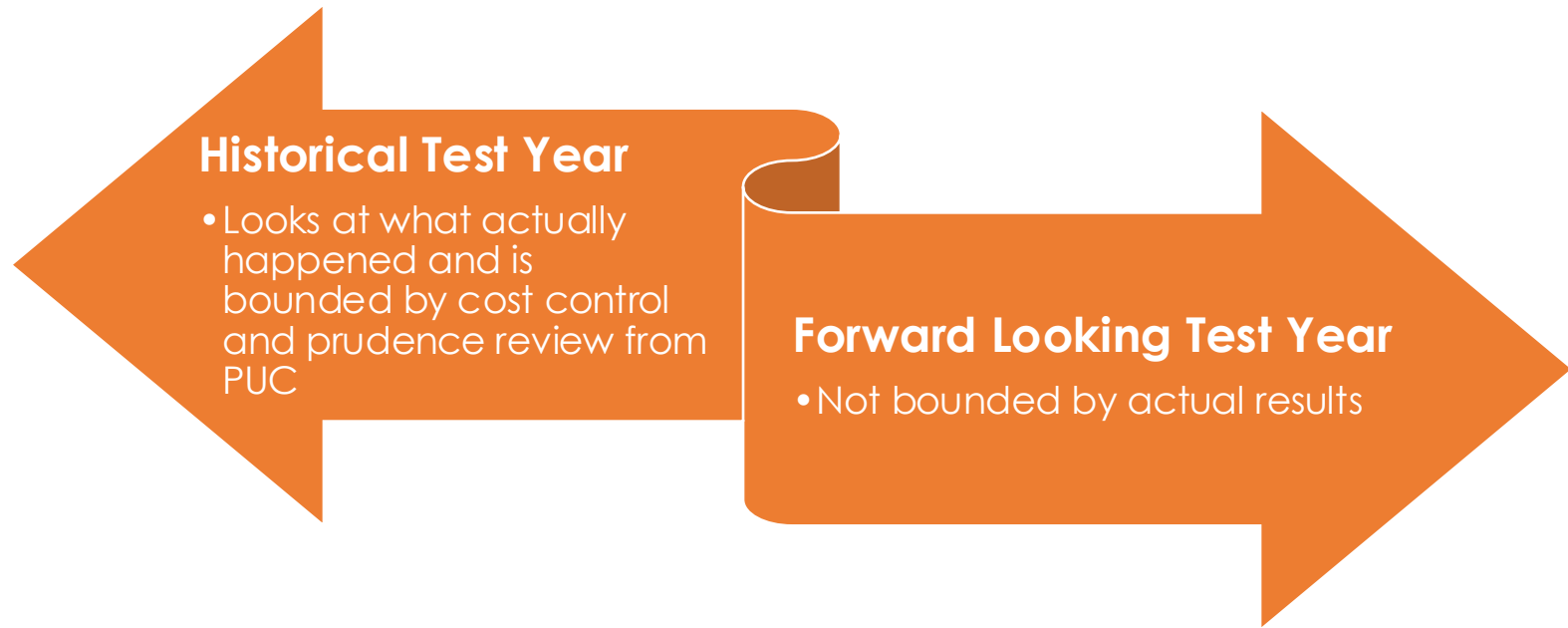
Shared Savings  
Mechanism (SSM)

- Low-cost renewable projects

Reliability PIM

- Service reliability rewards/penalties

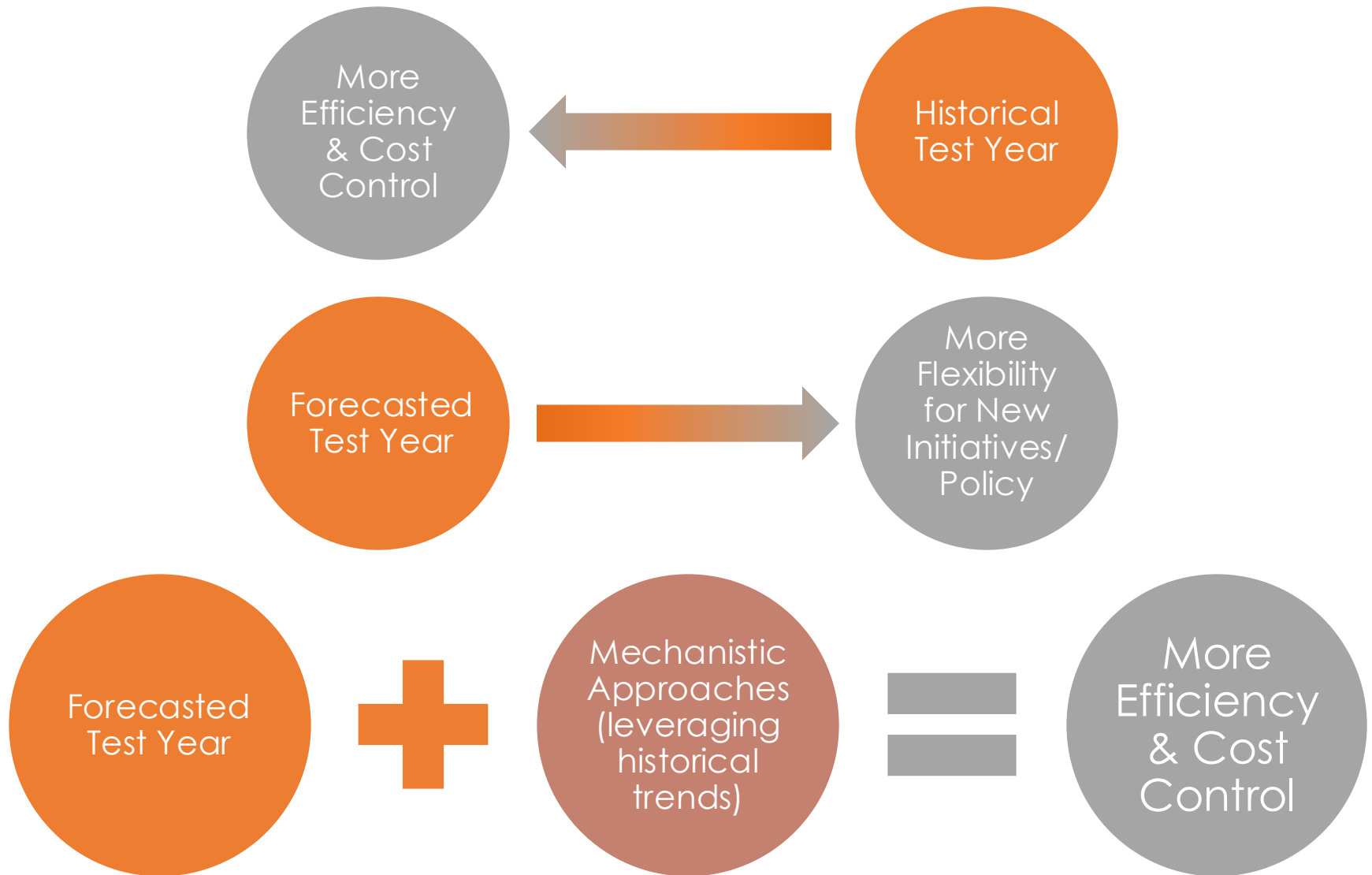
# Fully Forecasted Test Year (FLTY) vs. Historical Yest Year (HTY)



## 3 examples

- A HTY is 100% actual expenditures, but is not updated for future changes in policy/expectations
- FLTY is just about future forecasts and is not directly connected to prior results or PBR cost control incentives
- FLTY with mechanistic streamlining combines these two by allowing forward looking estimates, but basing a share of revenues based off of historical expenses and trends

# Further improvements for administrative efficiency and better cost control



Grounding forecasts to actual past results, unless there is a reason to deviate

# PIM rewards are currently insufficient

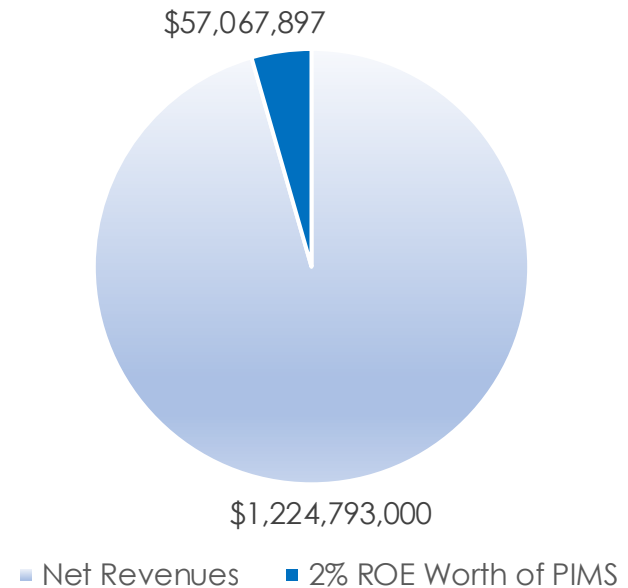
2021 PIM awards  
(highest total PIMS  
achieved to date)

Ulupono proposes to  
increase PIM awards to  
Equal 2% of ROE

PIMs Compared to Net Revenues (0.13% of Equity)



PIMs as 2% of Net Revenues



# Questions and feedback are welcome

**Mahalo!**

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