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PUBLIC UTILITIES COMMISSION OF NEVADA ISSUES CONCEPT PAPER IN ALTERNATIVE RATEMAKING DOCKET

Carson City, NV – The Public Utilities Commission of Nevada (PUCN), in consultation with the Regulatory Assistance Project (RAP) and Rocky Mountain Institute (RMI), has issued a concept paper outlining the next phases of its rulemaking docket investigating alternative ratemaking mechanisms for electric utilities.

This rulemaking docket, Docket No. 19-06008, was opened in response to Senate Bill (SB) 300. SB 300 requires the PUCN to adopt regulations for an electric utility to apply for approval of an alternative ratemaking plan.

Alternative ratemaking mechanisms represent a shift from the traditional cost-of-service ratemaking that the PUCN and most other state utility commissions have applied to electric utilities for decades. The electric utility industry is changing rapidly and, as a result, regulators across the country are evaluating whether changes in ratemaking are required to align regulatory mechanisms with industry changes. SB 300 includes a menu of possible alternative ratemaking mechanisms, including performance-based rates, subscription-based pricing, formula rates, decoupling, earnings sharing mechanisms and multiyear rate plans.

The first concept paper released this week focuses on the development of goals and outcomes by utility stakeholders, in addition to outlining future work in the alternative ratemaking proceeding. The goals and outcomes that emerge from the stakeholder process will inform implementation of alternative ratemaking in Nevada. To facilitate stakeholder participation, the concept paper provides useful framing of key issues to support constructive dialogue during the rulemaking proceeding. The concept paper also summarizes the process to date in the alternative ratemaking docket, the planned next steps for the remainder of the proceeding and design principles for alternative ratemaking.

The PUCN plans to release a second concept paper on Nevada's existing regulatory structure in advance of stakeholder workshops planned for June 25 and June 26. These workshops will address the topics covered in the first two concept papers. The date of those workshops will depend on developments and possible adjustments due to the coronavirus pandemic.

The workshops will be facilitated by RMI and RAP, who will organize and lead the discussions at the workshops, facilitating opportunities for participants to collaboratively review issues and provide input on key questions to inform the PUCN's assessment of alternative ratemaking options. Details as to further stakeholder engagement planned for the remainder of 2020 are outlined in the just-released concept paper.

Information about Docket 19-06008, including the first concept paper, is available on the PUCN's website at puc.nv.gov.

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Concept Paper 1: The Facilitated Stakeholder Process Plan and Development of Goals and Outcomes

**Nevada Alternative Ratemaking Proceeding
Docket No. 19-06008**

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**In consultation with
The Public Utilities Commission of Nevada**

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Introduction and Overview

Docket No. 19-06008 was opened by the Public Utilities Commission of Nevada (PUCN) on June 6, 2019, in response to Senate Bill (SB) 300, which the Nevada Legislature passed in 2019. SB 300 requires the PUCN to adopt regulations for an electric utility to apply for approval of an alternative ratemaking plan.

Since Docket No. 19-06008 was opened, the PUCN has solicited three rounds of comments from stakeholders and held four PUCN-led workshops. The next step for this rulemaking docket is a stakeholder-driven process supported by the Regulatory Assistance Project (RAP) and Rocky Mountain Institute (RMI). Beginning in March, the PUCN retained RMI and RAP to support the PUCN with the mandates of SB 300. In addition to releasing concept papers like this one that set the stage for the stakeholder-driven process, RMI and RAP will organize and lead a series of facilitated workshops, at which participants will have the opportunity to collaboratively review issues and provide input on key questions to inform the PUCN's assessment of alternative ratemaking options. The first two facilitated workshops are planned for June 25 and 26, pending developments and possible adjustments in light of the worldwide coronavirus pandemic.

SB 300 requires the PUCN to determine what alternative ratemaking mechanisms an electric utility may include in an alternative ratemaking plan. Alternative ratemaking mechanisms represent a shift from the traditional cost-of-service ratemaking that the PUCN and most other state utility commissions have applied to electric utilities for decades. The electric utility industry is changing rapidly, and as a result, regulators across the country are evaluating whether changes in ratemaking are required to align regulatory mechanisms with those industry changes.

SB 300 includes a menu of possible alternative ratemaking mechanisms, including, but not limited to, performance-based rates, subscription-based pricing, formula rates, decoupling, earnings sharing mechanisms and multiyear rate plans. Although the PUCN has already implemented many of the alternative ratemaking mechanisms listed in SB 300 in some form, it has not undertaken a holistic review of how various alternative ratemaking mechanisms interact or of how traditional ratemaking may be improved by the application of such alternatives.

SB 300 also tasks the PUCN with determining the information that a utility must include in an alternative ratemaking application and establishing the criteria for the evaluation of such a plan; the legislation includes nine criteria that the PUCN may consider. Moreover, SB 300 gives the PUCN full flexibility in evaluating the appropriateness of alternative ratemaking for Nevada, stating that the Commission "is not required to accept applications to establish an alternative ratemaking plan if [it] determines, after a reasonable investigation, that the use ... is not consistent with the criteria" that the PUCN adopts.

This concept paper is provided by RAP and RMI to utility stakeholders in Nevada to provide useful framing of key issues and to support constructive dialogue among stakeholders during subsequent phases of the proceeding. It includes the following sections:

- I. Summary of the Process to Date
- II. The Planned Process for the Remainder of the Proceeding
- III. Development of Goals and Outcomes
- IV. Design Principles for Alternative Ratemaking
- V. Immediate Next Steps

Section III is of particular importance, as it establishes a framework for the development of the goals and outcomes by stakeholders. The goals and outcomes that emerge from the forthcoming stakeholder engagement process are of key importance, as these goals and outcomes will inform whether and to what extent alternative ratemaking is right for Nevada. This concept paper only presents stakeholders with sample goals and outcomes as a framework for discussion. Section III includes the following four sample goals and sample outcomes for consideration, with further discussion and identification of sample activities and metrics for each:

Table 1. Sample Goals and Outcomes for Alternative Ratemaking

Sample Goals	Sample Outcomes
Promote Just and Reasonable Rates	<ul style="list-style-type: none"> <i>Rates are consistent with Nevada Revised Statutes (NRS) 704.110 and take advantage of flexible pricing options for specific customer classes.</i> <i>Cost of service accurately captures the utility's cost of doing business.</i> <i>Administrative costs are lowered.</i> <i>Rates support utility financial stability and protect customers from excessive costs of capital.</i>
Enrich Customer Engagement and Satisfaction	<ul style="list-style-type: none"> <i>Innovative services and options that customers value are introduced.</i> <i>Customer privacy and cybersecurity are ensured.</i> <i>Customer engagement and satisfaction increase.</i> <i>Quality of service is enhanced.</i>
Maintain and Enhance Efficiency, Reliability, Safety and Resiliency of Utility Operations	<ul style="list-style-type: none"> <i>Utilities deliver the desired level of safety, reliability and resilience for all customers at a reasonable cost of service.</i> <i>Critical needs are met through electric service reliability, electric system safety and grid resilience.</i> <i>Safety standards are maintained or improved.</i> <i>Reliable service is consistently provided across all customer classes.</i>
Support State Public Policy Goals	<ul style="list-style-type: none"> <i>Renewable energy targets are achieved.</i> <i>Energy efficiency and conservation targets are attained.</i> <i>Electric vehicle (EV) charging targets are achieved and EV adoption is increased.</i> <i>Carbon emissions are reduced to targeted levels.</i>

These sample goals and outcomes will be the subject of additional attention in planned workshops with stakeholders in the months ahead. For purposes of this paper, they are provided to establish a conceptual understanding and framework to help guide further engagement and consideration of alternative ratemaking possibilities.

Section I: Summary of the Process to Date

The Nevada Policy Context

SB 300 and the alternative ratemaking dialogue in Docket No. 19-06008 are part of a larger regulatory and policy discussion that has been underway in Nevada for several years. Changes in Nevada's electric

industry, spurred by changes in technology and customer preferences, have pushed policy and regulatory discussions in a number of specific directions. These changes have prompted the passage of legislation for net energy metering, energy efficiency requirements, low-income solar, storage and electric vehicle adoption, distributed resource planning requirements, expanded solar access, a more robust renewable portfolio standard and more stringent requirements for customers departing retail service, among other things. A more complete list of regulatory and statutory changes that may interact with the implementation of alternative ratemaking is below.

From the 2017 legislative session:

- Assembly Bill (AB) 223 — Energy efficiency and conservation goals and requirements, regulations adopted in Docket No. 17-07011
- AB 405 — Net energy metering rates and solar customer “bill of rights,” related to Docket No. 17-07026
- SB 65 — Carbon costs in integrated resource planning, regulations adopted in Docket No. 17-07020
- SB 145 — Low-income solar, energy storage and EV infrastructure goals and incentives, regulations adopted in Docket No. 17-08021
- SB 146 — Distributed resource planning, regulations adopted in Docket No. 17-08022
- SB 150 — Energy efficiency and conservation, regulations adopted in Docket No. 17-08023 and in conjunction with Docket No. 17-07011 (see above)
- SB 204 — Energy storage targets, regulations adopted in Docket No. 17-07014

From the 2019 legislative session:

- AB 465 — Expanded solar access, regulations being considered in Docket No. 19-06028
- SB 154 — Renewable natural gas, regulations being considered in Docket No. 19-06006
- SB 254 — Carbon reduction (PUCN acts in consultation, not as the primary agency)
- SB 299 — Electric school transportation, regulations being considered in Docket No. 19-06007
- SB 329 — Natural disaster planning, regulations adopted in Docket No. 19-06009; additional regulation amendment being considered in Docket No. 20-01038
- SB 358 — Revised renewable portfolio standard and utility-owned renewables, regulations being considered in Docket No. 19-06010
- SB 547 — Customers eligible to depart bundled retail service, regulations being considered in Docket No. 19-06029

In addition, Governor Steve Sisolak’s Executive Order 2019-22 clearly identifies the importance of energy efficiency, renewable energy and transportation electrification in advancing toward Nevada’s carbon reduction goals.

Taken together, the legislative and executive policy declarations indicate a substantial change in the future of Nevada’s electric industry, and alternative ratemaking mechanisms may better align electric industry outcomes with state public policy goals.

Activity in Docket No. 19-06008 to Date

The PUCN opened its rulemaking for SB 300 on June 6, 2019. Since then, it has solicited three rounds of stakeholder comments and led four workshops. The workshop and comment opportunities have included:

- **Workshop 1** (August 12): Focused on determining a schedule for comments.
- **Comment Round 1** (September 19): Solicited party responses regarding desired goals and outcomes that can be achieved through the alternative ratemaking paradigm established in SB 300. Respondents in this round included PUCN Staff, the Bureau of Consumer Protection (BCP), NV Energy, Gaming Group (representing several casino and hotel operators), data services provider Switch Ltd., and Conservation Advocates (Western Resource Advocates et al.). A synopsis of comments is provided in Table 2.

Table 2. Summary of Comments, Round 1

Party	Comments
Bureau of Consumer Protection	<ul style="list-style-type: none"> • Any alternative ratemaking mechanism should be subject to the limitations and checks identified in existing Nevada law and the best practices of other jurisdictions. Any such mechanisms should also be weighed against the ability of the existing ratemaking structure to deliver affordable and reliable energy to ratepayers, while incorporating policy goals.
Gaming Group	<ul style="list-style-type: none"> • SB 300 represents the potential for a significant shift in ratemaking in Nevada. Given the level of significance, we are still developing our view of what goals can and should be achieved through alternative ratemaking. • Preliminary thoughts include: <ul style="list-style-type: none"> ○ Any implementation of alternative ratemaking should start by examining the impacts of traditional cost-of-service ratemaking on stakeholders — including whether alternative ratemaking undermines Nevada stakeholders' interests in a financially viable utility. ○ Alternative ratemaking should also seek an appropriate balance among achieving (a) reasonable, competitive electric rates; (b) a viable, accountable electric utility; and (c) favored policy objectives. ○ The PUCN's evaluation of whether and how to employ alternative ratemaking should be transparent and based on data and analysis that provides a clear comparison of outcomes. This includes a comparison between any alternative ratemaking structure and the existing regulatory lag construct — which was designed to incentivize cost control and protect customers from rising costs between rate cases. The comparison should evaluate whether, and to what extent, alternative ratemaking provides a more efficient means of incentivizing cost control measures at the utility than the incentives provided under the traditional regulatory lag construct.
NV Energy	<ul style="list-style-type: none"> • The following goals would support the current rulemaking process by providing a foundation for alternative ratemaking proposals: <ul style="list-style-type: none"> ○ Consensus around the legislative intent and objective of SB 300. ○ A full understanding of the various alternative ratemaking mechanisms available (i.e., performance-based rates, formula rates, multiyear rate plans, subscription pricing, earnings sharing mechanisms and decoupling).

	<ul style="list-style-type: none"> ○ Administrative clarity around the methodology and procedures for any alternative ratemaking proposal that the utility files.
PUCN Staff	<ul style="list-style-type: none"> • The goal with this docket is to ensure that each potential alternative ratemaking methodology is fully vetted and understood before being put into practice. • Because some performance-based ratemaking reforms use comparisons to utility benchmarks to adjust utility rates outside of rate cases, it would be useful to get a sense of how the utilities are currently meeting those performance metrics and where those benchmarks should start. The PUCN may therefore want to ask the utility to begin measuring and reporting on particular performance metrics to allow the PUCN and participants to get a sense of the ramifications of installing any particular ratemaking methodology.
Switch Ltd.	<ul style="list-style-type: none"> • Any alternative ratemaking proposal should be consistent with the PUCN statutory responsibility to regulate the utility and provide for nondiscriminatory, fair, just and reasonable rates; develop and use renewable resources; and foster statewide improvements to the economic and operational efficiency of the electrical grid. The primary purpose of any regulations proposed should be to ensure that any form of alternative regulation does not erode the customer protections — including price regulation — afforded by traditional ratemaking. • The PUCN should carefully review any alternative ratemaking proposal that unfairly benefits any specialized party or the monopoly utility, or any process where the monopoly is afforded undue weight in its proposals, to ensure the regulatory compact is not abrogated.
Conservation Advocates (Western Resource Advocates et al.)	<ul style="list-style-type: none"> • The rulemaking should result in goals and outcomes that support reduced greenhouse gas (GHG) emissions, consistent with the goals of the U.S. Climate Alliance, of which Nevada is a member. This rulemaking provides the PUCN with an opportunity to create rewards and penalties through performance incentive mechanisms (PIMs) to encourage the reduction of GHG emissions via different activities. • The PUCN should be mindful of other rulemaking dockets that have a direct link to the goals and outcomes discussed in this proceeding. In particular, SB 254 (establishing annual GHG emissions inventory reporting) and SB 358 (setting a renewable portfolio standard of 50% by 2030) may create conditions where PIMs or other PBR mechanisms could induce utilities to accelerate reductions required by statute and set the responsible state agencies up for success. • The PUCN should adopt a multiyear rate plan with decoupled revenue requirement in addition to PIMs as an outcome of the proceeding. • The goals of this rulemaking should include: <ul style="list-style-type: none"> ○ Reduced GHG emissions. ○ Accelerated growth of distributed energy resources. ○ Energy efficiency savings beyond statutory requirements. ○ Energy storage capacity exceeding regulatory requirements. ○ Increased support of EVs. ○ Beneficial electrification of buildings. • Outcomes from this proceeding should also include: <ul style="list-style-type: none"> ○ A robust stakeholder process. ○ Easily understood, symmetrical metrics. ○ Regular updates on utility performance. ○ Targets that go beyond statutory or regulatory requirements. ○ Well-designed incentives for meaningful results.

- **Workshop 2** (September 26): Focused on stakeholder education on alternative regulatory mechanisms. Presentations by guest experts, including RAP and RMI, contained material on each of the alternative ratemaking approaches specifically identified in SB 300, including earnings sharing mechanisms, multiyear rate plans, decoupling mechanisms, performance-based rates, formula rates and subscription pricing.
- **Comment Round 2** (October 21): Allowed stakeholders to update their comments on desired goals and outcomes that can be achieved through alternative ratemaking in light of Workshop 2. Three stakeholders filed comments: the PUCN Staff, BCP and NV Energy.

Table 3. Summary of Comments, Round 2

Party	Comments
Bureau of Consumer Protection	<ul style="list-style-type: none"> • Alternative ratemaking is not the only way to achieve GHG emissions reduction goals; these goals can also be achieved through the setting of larger renewable energy targets. • Ratepayers may have to pay additional costs to implement SB 358 and should not have to pay again for PIMs to achieve what the law already requires. • NV Energy already has a “strong, viable” demand-side incentive program and doesn’t need to further address this issue. • NV Energy already has a (recently adopted) earnings sharing mechanism in place. • The BCP has concerns about the potential of decoupling to increase electric bills during an economic downturn. • Utilities should not be incentivized to perform tasks they are otherwise lawfully obligated to provide.
NV Energy	<ul style="list-style-type: none"> • NV Energy’s main goals in this docket are to keep rates flat and extend the amount of time between general rate cases. • NV Energy already meets most of the criteria outlined in Section 16.7 of SB 300. • A longer rate case cycle would address Section 16.7(g) of SB 300 in that customers benefit from lower regulatory administrative costs where appropriate. • NV Energy has already achieved a 44% reduction in million tons of carbon dioxide per megawatt-hour between 2005 and 2017.
PUCN Staff	<ul style="list-style-type: none"> • The goal of PUCN Staff in this proceeding is to understand and vet each potential alternative utility ratemaking mechanism before it is put into practice. Staff members are reviewing documents filed in other similar proceedings and discussing related issues with regulatory staff from other states.

- **Workshop 3** (October 28): Focused on reviewing comments and determining next steps.
- **Comment Round 3** (January 24-February 7): Focused on soliciting answers from stakeholders on 12 issue areas. For each issue, the PUCN asked specific questions about existing and needed data, current utility practices, and whether an incentive/disincentive is warranted, among other things. Table 4 summarizes comments provided in these 12 issue areas. The following stakeholders filed comments or reply comments: NV Energy, PUCN Staff, BCP, Conservation Advocates, ChargePoint, Gaming Group, Smart Energy Alliance, Vote Solar and Advanced Energy Economy (AEE).

Table 4. Summary of Comments, Round 3

Topic	Party and Comment Summary
Off-system sales	NV Energy and several other stakeholders say an off-system sales sharing mechanism is worth considering. BCP, Gaming Group and PUCN Staff say it may not provide incremental benefits to ratepayers and, if considered, should be carefully designed to protect ratepayers.
Time between rate cases	BCP and Gaming Group express a strong concern that lengthening the time between rate cases will deprive ratepayers of an opportunity to share in projected revenue requirement decreases, while NV Energy and some stakeholders (e.g., Vote Solar and AEE) express strong support for extending time between rate cases.
EV charging infrastructure	ChargePoint says that NV Energy and the PUCN should focus on taking action that promotes private investment in charging infrastructure, and NV Energy expresses support for this approach. BCP and Gaming Group oppose any incentives for NV Energy associated with EV charging infrastructure, and AEE, Smart Energy Alliance and Conservation Advocates say that well-designed programs should be considered.
Rate schedules	Commenters all note the existing time-varying rates for both residential and commercial customers. BCP says that time-of-use schedules can evolve as grid needs do. Smart Energy Alliance says a tariff could be designed to contain a real-time energy rate. PUCN Staff supports the use of hourly load and cost data in the baseline, relying on smart meter data and statistical methods to determine if rate schedules are effective.
Aging infrastructure	BCP, Smart Energy Alliance and Gaming Group argue that incentives to replace aging infrastructure are not needed. NV Energy agrees with this and believes that an incentive is not needed to encourage timely repair. PUCN Staff agrees but also states that if incentives are to be considered, they should be focused on maximizing ratepayer benefit. Conservation Advocates says that NV Energy's reports on aging infrastructure should be made public in a usable format.
Projects that enhance environmental, resiliency and other goals	Commenters all argue that incentives are not needed to encourage NV Energy to invest in projects that provide ancillary services or for locating projects on brownfield sites. PUCN Staff, BCP and NV Energy note that NV Energy already evaluates power purchase agreements on environmental outcomes, but NV Energy notes that past projects may not be helpful as baselines for determining the success of future projects. Conservation Advocates appears to support tracking metrics to determine whether there should be incentives for nonwires alternatives.
Rule 9 and interconnection	PUCN Staff argues that NV Energy does not need to improve in the area of Rule 9 line extension interconnection times and that data for generator interconnection times is not reported to the PUCN but could be. PUCN Staff, BCP and NV Energy say that incentives for generator interconnection times are not appropriate. Conservation Advocates says NV Energy should collect and report metrics around interconnection.
Smart meter data	NV Energy says existing smart meter data already informs business operations and that data is used effectively, but the company is open to ways to improve. Gaming Group, BCP, NV Energy and Smart Energy Alliance do not believe NV Energy needs an incentive to prudently manage smart meter data. PUCN Staff states that more information is needed on how smart meter data is currently used before determining if an incentive is needed.
Carbon emissions reductions	Most commenters argue that incentives are not needed for meeting statutory requirements like the renewable portfolio standard. Gaming Group and BCP say that incentives for carbon reduction are not needed. PUCN Staff says the PUCN should

	require NV Energy to report carbon emissions every year, broken out by generating resource; Conservation Advocates agrees that better data needs to be available. All commenters except NV Energy do not support incentives for renewable power purchase agreements. NV Energy says there could be some benefit to customers.
Demand-side management programs	Gaming Group, Smart Energy Alliance and BCP do not support additional incentives related to demand-side management (DSM) programs. PUCN Staff does not support incentives to improve total resource cost results or disincentives applied to DSM programs but says program design could include incentives to customers that effectively shift their energy usage. Conservation Advocates appears to agree with this, stating that incentives could be applied to promote certain outcomes such as maximizing energy savings. BCP and Smart Energy Alliance support consideration of the rate impact measure test for certain DSM measures. Vote Solar and Conservation Advocates support consideration of decoupling.
Flexible pricing options	Commenters generally argue that NV Energy should be allowed to offer discounted pricing as long as it doesn't harm captive customers. PUCN Staff additionally argues that flexible pricing options must not harm the public interest. Conservation Advocates additionally argues that such pricing options must not result in increased GHG emissions. Vote Solar notes that this topic is not central to an investigation of performance-based regulation.
Other	No commenters argue for promoting additional policies through ratemaking mechanisms.

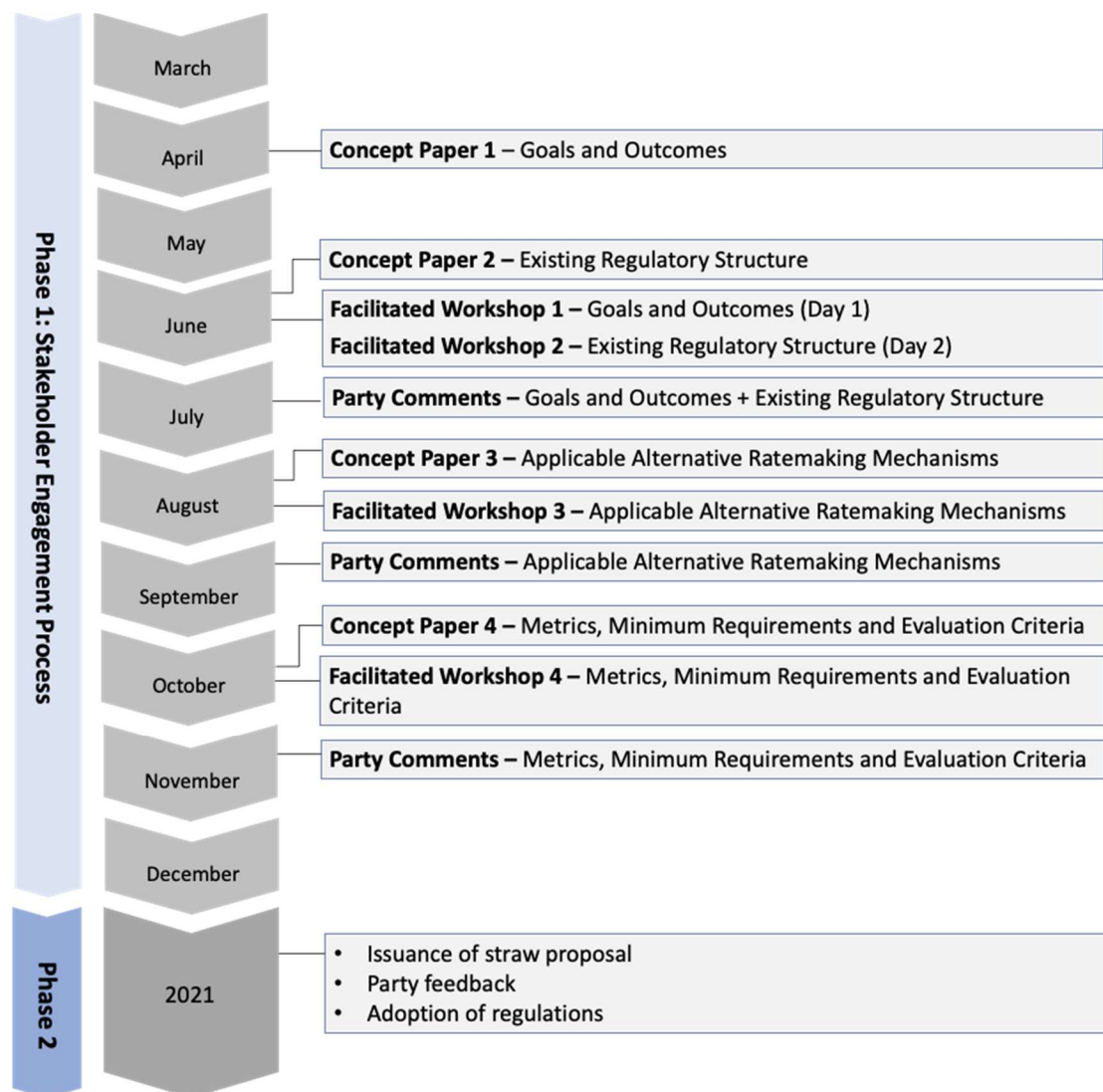
- Workshop 4** (February 18): The presiding commissioner opened the workshop, thanking participants for the comments received, and noted that the comments have been helpful in determining the next steps for this proceeding. The presiding commissioner noted that several commenting stakeholders said establishing goals and outcomes is an important first task for this proceeding. The comments filed on specific issue areas, as well as previous comments as to potential goals and outcomes, will be used as background to guide the PUCN as it undertakes the fundamental task of determining goals and outcomes. The presiding commissioner said eliciting active stakeholder input on goals and outcomes is very important. The PUCN wants the goals and outcomes to emerge as the discussion deepens, rather than asserting them from the start; it is very important that participants understand that the goals and outcomes have not been predetermined. The presiding commissioner noted that RMI and RAP were selected in a competitive procurement process to guide this stakeholder effort.

Stakeholders provided summary remarks at this workshop, which largely followed the points noted in Table 4 above. The stakeholders also provided answers to PUCN questions at this workshop. Many of the stakeholders agreed that the electric utility industry is changing and that an investigation of alternative ratemaking mechanisms in Nevada may be appropriate given changes in the industry. All stakeholders present indicated their desire to participate in, or at least observe, the stakeholder process.

Section II: The Planned Process for the Remainder of the Proceeding

The planned process for this Docket, which includes the scheduled facilitated workshops, is expected to occur in two phases, as depicted in Figure 1. The emergency declaration of the Nevada Governor and closing of the PUCN offices to the public as a result of COVID-19 has affected the timing of parts of this proceeding. The schedule outlined in Figure 1 seeks to take into account any impediments to in-person meetings that may affect the process in the near term. Further adjustments may be necessary.

Figure 1. Stakeholder Process Timeline and Activities



Phase 1 begins with the provision of this concept paper, which is intended to be background for the process to follow. This paper also tees up areas for discussion around goals and outcomes. While this paper and the upcoming first facilitated workshop are focused on developing goals and outcomes, the workshop may begin to consider activities associated with goals and outcomes, as well as any relevant metrics required to determine if the sample outcomes can be achieved.¹

As shown in Figure 1, RMI and RAP plan to release two concept papers in advance of the first two stakeholder workshops scheduled for June 25 and 26. The goals and outcomes discussion, corresponding to Concept Paper 1, will occur June 25. A review of existing regulations mechanisms in Nevada, corresponding to Concept Paper 2, will be taken up on June 26. This discussion will begin to evaluate how Nevada's current regulatory structure operates and whether alternative ratemaking plans can offer improvements. Stakeholders will have an opportunity to submit written comments on the papers and related discussions after the workshops.

Concept Paper 3 will be issued in early August. It will consider alternative ratemaking mechanisms consistent with SB 300 that address the goals, outcomes and regulatory opportunities discussed in the first two papers and in the corresponding facilitated workshops. Concept Paper 3 will also continue the emerging discussion of metrics. In particular, the discussion in the third facilitated workshop will consider how stakeholder preferences for certain alternative ratemaking mechanisms can be connected to specific activities and metrics. A third facilitated workshop is planned for late August. The comment round after this workshop will provide stakeholders an opportunity to state preferences for various alternative ratemaking mechanisms, as well as to modify or add activities and metrics to those introduced in Concept Paper 3 and discussed at the third workshop.

Concept Paper 4 will build off the metrics discussion from the third facilitated workshop comments and will propose a set of metrics consistent with identified goals and outcomes. In addition, Concept Paper 4 will introduce the potential filing requirements for an alternative ratemaking plan to be filed by an electric utility and propose a set of evaluation criteria for PUCN consideration of a filed alternative ratemaking plan. The fourth facilitated workshop is expected to occur in October. It will consider the topics teed up in Concept Paper 4 and include a dialogue on the set of alternative ratemaking mechanisms consistent with the PUCN's goals and outcomes that are feasible for PUCN adoption in regulation given current statutory authority. This workshop may address additional legislative direction that is required for the PUCN to accomplish its stated goals and outcomes. A final opportunity for Phase 1 comments will follow the final facilitated workshop.

When Phase 1 is complete, the PUCN may issue a straw proposal that incorporates stakeholder feedback on goals and outcomes, alternative ratemaking mechanisms to accomplish those goals and outcomes, metrics, filing requirements and evaluation criteria. After the straw proposal, a more formal regulatory review will be conducted to adopt regulations.

¹ Activities and metrics will primarily be the focus of Concept Paper 4 and the corresponding facilitated workshop (more on this below). However, some comments filed to date in this Docket may inform the future activities and metrics discussion. Moreover, consideration of activities and metrics early on in this stakeholder process may better reveal the connection between specific goals and outcomes and identifiable activities and metrics. As such, a "light touch" discussion of activities and metrics may occur in the early facilitated workshops.

Section III: Development of Goals and Outcomes

Establishing priority goals and outcomes is a critical step toward achieving success in this proceeding. Suggesting goals is not difficult, but arriving at the right set of goals will be challenging. Active and broad stakeholder engagement will be necessary for the PUCN to determine a useful set of goals for Nevada to satisfy the mandates of SB 300. To support this discussion, the following definitions are offered to better distinguish between these two concepts:

- A goal is a high-level objective of regulation that identifies a desired change or end state, but which may be too broad to be directly measurable.
- An outcome, by contrast, is a concrete result that shows progress toward a goal. Outcomes are observable and measurable, though there may be multiple ways or associated metrics to measure any given outcome.

Some stakeholders have asked the PUCN to offer guidance on the goals and outcomes. This concept paper outlines sample goals and outcomes below. But choosing the right goals and outcomes for Nevada cannot be done without stakeholder input. The electric utility, and all other entities that regularly participate in PUCN proceedings, have ideas of what is and is not working in the existing regulatory paradigm. These stakeholders might also have creative or innovative solutions for achieving legislatively mandated public policy goals or satisfying shifting customer demands in the face of the rapidly changing electric utility industry. As such, stakeholder input is paramount to arriving at a set of goals and outcomes that is appropriate for this SB 300 rulemaking.

In SB 300, the Nevada Legislature provided some criteria in Section 16.7 to consider in exploring alternative ratemaking mechanisms, which are relevant to what might be considered a goal or outcome. The criteria specifically laid out in SB 300 are:

- i. Aligns an economically viable utility model with state public policy goals.
- ii. Provides for just and reasonable rates that are comparable to rates established pursuant to NRS 704.110.
- iii. Enables the delivery of electric service and options for services and pricing that customers value including, without limitation, the development and the use of renewable resources by customers that prioritize such resources above other factors, including price.
- iv. Fosters statewide improvements to the economic and operational efficiency of the electrical grid.
- v. Furtheres the public interest including, without limitation, the promotion of safe, economic, efficient and reliable electric service to all customers of the electric utility.
- vi. Enhances the resilience and security of the electrical grid while addressing concerns regarding customer privacy.
- vii. Ensures that customers of an electric utility benefit from lower regulatory administrative costs where appropriate.
- viii. Facilitates the research and development of innovative electric services and options to benefit customers.
- ix. Balances the interests of customers and shareholders by providing for services that customers want while preserving reasonable shareholder value.

Although the criteria do not encompass all potential areas that may be taken up in this stakeholder process, they provide a good start when thinking about potential goals and outcomes. The ultimate

decision as to the right goals and outcomes for alternative ratemaking in Nevada must be made in consultation with stakeholders.

Given the importance of stakeholder input, the sample goals and outcomes introduced in this concept paper are meant as a starting point only. Because goals and outcomes can be abstract and stakeholder input is necessary, this section of the paper also suggests metrics and activities that might feed into the sample goals and outcomes in an attempt to make the examples more concrete. This concept paper uses the word “sample” to convey that the goals and outcomes presented are just examples; the paper does not assert them to be the best goals or the foundational outcomes believed to be essential to achieving a given goal. The intent is to start the facilitated process by casting a broad net, and stakeholders are encouraged to think creatively and broadly at the outset.

Sample Goal 1: Promote Just and Reasonable Rates

Promoting just and reasonable rates is as old as utility regulation, and in Nevada this concept has traditionally been anchored with the language of NRS 704.110, among other statutory provisions. Concurrent changes in distributed technologies, as well as more sophisticated and granular information and communication systems both behind and in front of the meter, suggest opportunities to pair traditional assessment of just and reasonable rates with tailored rates that satisfy changing customer demands and engage customer resources to achieve system benefits.

Sample outcomes associated with this goal might include:

- *Rates are consistent with NRS 704.110 and take advantage of flexible pricing options for specific customer classes.*
- *Cost of service accurately captures the utility’s cost of doing business.*
- *Administrative costs are lowered.*
- *Rates support utility financial stability and protect customers from excessive costs of capital.*

Sample activities that might be introduced to produce these outcomes include:

- Test alternative cost-of-service methodologies to ensure cost allocation is fair and rates are cost-aligned with potential alternatives to the prevailing ratemaking paradigm.
- Coordinate with sister agencies (Governor’s Office of Energy, Department of Transportation, Department of Conservation and Natural Resources) to address interdependent efforts, which may include partnering to seek funding from the Department of Energy’s Advanced Research Projects Agency-Energy (ARPA-E) or from other potential grant sources to support the cost-effective attainment of goals and outcomes.
- Consider a methodology for reflecting any imputed cost of debt associated with renewable power purchase agreements.

Sample metrics to track attainment of this goal with these outcomes might include:

- Rate levels by customer class with and without flexible pricing options for some customers in a customer class.
- Customer satisfaction with rates.
- Availability of tariff options for customers.
- Adoption levels of tariff options by customers.
- Cost of service levels by customer class.
- Tracking of process improvements that result from interagency collaboration.

- Actual return on equity and corporate debt ratings.

Sample Goal 2: Enrich Customer Engagement and Satisfaction

Grid modernization investments, including more granular price and cost information on the distribution grid, and the decreasing cost of distributed resources such as solar, storage and electric vehicles, suggest the opportunity to tailor and enrich customer engagement and satisfaction.

Sample outcomes associated with this goal might include:

- *Innovative services and options that customers value are introduced.*
- *Customer privacy and cybersecurity are ensured.*
- *Customer engagement and satisfaction increase.*
- *Quality of service is enhanced.*

Sample activities that might be introduced to produce these outcomes include:

- Develop special contract rates that benefit the participating customer and all customers.
- Introduce a special small-business rate structure in conjunction with a landlord participation incentive that benefits the participating customer, the landlord and all customers.
- Introduce an income qualifying rate structure (e.g., expanded solar access structure in Docket No. 19-06028) that extends beneficial programs to nontraditional participants.
- Consider modifications to the green rider tariff (see Docket No. 19-11019).

Sample metrics to track attainment of this goal with these outcomes might include:

- Availability of tariff options by customer class.
- Rate of participation in tariff options by customer class.
- Customer satisfaction with tariff options by customer class.
- Customer satisfaction with quality of service.

Sample Goal 3: Maintain and Enhance Efficiency, Reliability, Safety and Resiliency of Utility Operations

Grid modernization investments that support early sensing and response to local reliability events, increased availability of visible and controllable distributed resources to support grid reliability, targeted programs that cost-effectively address emerging local reliability and resilience challenges, and improved measurement and tracking of resiliency offer the opportunity to advance this goal.

Sample outcomes associated with this goal might include:

- *Utilities deliver the desired level of safety, reliability and resilience for all customers at a reasonable cost of service.*
- *Critical needs are met through electric service reliability, electric system safety and grid resilience.*
- *Safety standards are maintained or improved.*
- *Reliable service is consistently provided across all customer classes.*

Sample activities that might be introduced to produce these outcomes include:

- Improve the use of advanced metering infrastructure data to track grid performance.

- Improve the use of distribution grid information systems to identify emerging areas of congestion and plan for least-cost solutions to emerging congestion.
- Improve rate designs so that time-of-use and dynamic rates are better aligned with system costs and customer adoption reflects an underlying value proposition for customers.

Sample metrics to track attainment of this goal with these outcomes might include:

- Evaluation of impacts to cost of service from specified activities.
- Incidence of reliability events (SAIDI, SAIFI).
- Quantity of distributed resources available for active control by the grid operator.
- Deferrals in infrastructure expenditures.
- Use of nonwires alternatives.

Sample Goal 4: Support State Public Policy Goals

Nevada has a history of establishing goals that support new technologies and contribute to carbon reduction, and with the last legislative session and the Governor's executive order, the state has set an even higher bar. Achieving the aggressive goals will require utility support and utility leadership. The PUCN can help the utility be successful by better aligning utility revenue opportunities with public policy goals.

Sample outcomes associated with this goal might include:

- *Renewable energy targets are achieved.*
- *Energy efficiency and conservation targets are attained.*
- *EV charging targets are achieved and EV adoption is increased.*
- *Carbon emissions are reduced to targeted levels.*

Sample activities that might be introduced to produce these outcomes include:²

- Expedite interconnection of high-speed EV charging stations and storage resources.
- Improve visibility and validation of distributed energy resource performance via changes to process and how investments are made.
- Improve planning processes to accelerate use of and dependence on advanced low carbon technologies to meet electric system needs.
- Invest in/sponsor/collaborate on research and pilot programs for new technologies that advance Nevada progress toward state public policy goals with research institutions.

Sample metrics to track attainment of these goals with these outcomes might include:

- Megawatts of storage installed.
- Renewable energy proportion of the resource portfolio.
- Proportion of system services (capacity, energy, frequency support, voltage support and reactive power support) where low carbon energy has the opportunity to participate.
- Percentage of system services provided by low carbon energy resources.
- Time to interconnect storage resources.
- Time to interconnect EV charging infrastructure.

² In the case of public policy goals, particular attention may be needed to aligning any similar existing program or activities with new activities.

Section IV: Design Principles for Alternative Ratemaking

In addition to goals and outcomes to guide the development of alternative ratemaking, a limited set of design principles can provide helpful orientation to support good regulatory development. The design principles introduced here are for application during this stakeholder process, but may also be considered for application to the subsequent implementation and administration of alternative ratemaking, should that be pursued.

The PUCN has expressed a desire for RMI and RAP to conduct the facilitated stakeholder engagement process in a way that will be different from typical regulatory proceedings. Since the public policy goals motivating consideration of alternative ratemaking approaches are broad, this process needs to start differently from traditional ones by allowing for an expansive consideration of various goals and outcomes. After extensive stakeholder input, the process will converge toward a more familiar regulatory process and the objectives will become more narrowly defined, but the initial dialogue will be wide-ranging and open. Given that alternative ratemaking is a new approach, any alternative regulation adopted will need to be monitored openly to ensure the outcomes intended are produced and that unintended negative outcomes are caught quickly.

Best practices for any regulatory process include transparency and accountability, but these principles are especially important when alternative ratemaking approaches are tested and implemented. The transparency and accountability design principles are intended to complement the goals and outcomes. The goals and outcomes establish the foundation for pursuing alternative ratemaking, while the design principles establish the audit mechanism to evaluate and ensure the outcomes achieved comport with the outcomes pursued.

- **Transparency.** The stakeholder process should be conducted in a way that maximizes stakeholder engagement, ensures all participants have similar information (where not protected) and provides updates, as needed, to sister agencies, the Governor, the Legislature and the public at large. The adoption of goals, outcomes and specific alternative ratemaking mechanisms should be openly decided, and the outcomes of mechanisms should be tracked openly and transparently.
- **Accountability.** Any process improvements or insights resulting from stakeholder engagement should be tracked and incorporated as appropriate into future regulatory proceedings. Any adopted alternative regulatory mechanisms should be tracked and audited to ensure that outcomes of the mechanisms are tracked and addressed appropriately in a timely fashion.

Section V: Immediate Next Steps

As outlined in Section II, facilitated workshops will begin with the development of goals and outcomes, followed by an assessment of the “current reality” of utility regulation in Nevada. Stakeholders will have an opportunity to engage in open discussion on goals and outcomes during the workshop scheduled for June 25. To support the workshop, stakeholders should consider and be ready to respond to the questions below. These questions focus on the sample goals and outcomes identified in Section III.

Sample Goals

- Should any new goals be added to the sample set of goals?
- Should any existing goals be removed from the sample set of goals?
- Should any goals be consolidated or changed?

Sample Outcomes, Activities and Metrics

- What outcomes are important to include for each goal?
- What criteria should be used to qualify or eliminate outcomes from consideration?
- What other activities and metrics might be included for each goal and associated outcome?

Stakeholders are encouraged to consider existing Nevada statutes, policies and regulations — including those listed in Section I — when preparing to discuss the questions above. As stated above, Concept Paper 2 is focused on a review of existing regulatory mechanisms, including alternative ratemaking mechanisms already being used in Nevada. The goal of this second discussion will be to develop a common understanding of current structures and identify “leverage points” for possible alternative ratemaking treatment. This review will be informed by the goals and outcomes discussed in the first workshop.

A summary of stakeholder input from written comments and remarks relating to the June 25-26 workshops will be provided to all stakeholders over the summer. Summaries will be used to identify key themes and areas of agreement and disagreement and inform concept paper and workshop discussions throughout the remainder of Phase I.

To ensure a meaningful and inclusive stakeholder engagement process, the PUCN has also indicated its intention to reach out to groups that may not traditionally participate in regulatory proceedings but whose perspectives can help enrich the discussion around the future of Nevada’s utility regulation. These entities may include the Governor’s Office of Energy, city and county governments, environmental groups or others. The PUCN welcomes input from these groups in writing or via participation in the planned workshops.