



MASSACHUSETTS
**DEPARTMENT OF
ENERGY RESOURCES**

Performance Mechanisms

Targeted Conversation | November 19, 2025

This presentation will be used to guide the Massachusetts Electric Rate Task Force's targeted conversation, designed to facilitate an open, inclusive dialogue and frame critical questions and opportunities.

Note: The contents of this presentation do not necessarily reflect the views or positions of the Massachusetts Department of Energy Resources.

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Ground rules & engagement

This work is complex – and your insight matters; let's focus on learning, listening, and shaping together!

Participation, Engagement, & Respect

- Everyone's perspective is valuable – this space works best when all voices are heard
- Respect differences in background, experience, and priorities
- Bring curiosity – ask questions and offer potential answers
- Focus on understanding others' goals and values, not just their positions
- It's okay not to have a solution – help us shape the right questions

Collaboration, Not Consensus

- This body is deliberative, it is not a decision-making space
- We don't need to agree on everything, but we should work toward shared understanding
- Where we disagree, help clarify what the tension is and why it matters

Transparency & Trust

- We'll be clear about how input is used
- Share what you can; identify when you're speaking on behalf of your organization or personally
- Materials, summaries, and key findings will be shared openly to support accountability

Focus & Productivity

- Stay on topic and honor the scope of the Task Force
- Raise related concerns, but help us stay anchored in the rate design and regulatory issues at hand
- Use the structures provided (i.e., expert sessions, targeted conversations, office hours) to deepen discussion
- Avoid discussion about open and ongoing proceedings at the DPU



Targeted Conversations

The Rate Task Force brings together diverse stakeholders to reimagine how electric rates and the regulatory framework can drive an affordable, equitable, and decarbonized energy future.

- Targeted conversations are intended to facilitate open, inclusive dialogue and frame critical questions and opportunities
- The Rate Task Force will use the Massachusetts Interagency Rates Working Group's Long-Term Ratemaking Study and Recommendations as a starting point for discussion and knowledge building on rate designs, ratemaking, and regulatory mechanisms.

Facilitate open, inclusive dialogue

Engage in **open, inclusive dialogue** about complex ratemaking and regulatory issues outside of a regulatory proceeding

Frame critical questions and opportunities

Empower stakeholders to identify **critical questions and opportunities** for the advancement of rate design and ratemaking reform

Expert Presentations

I. Performance Mechanisms in Massachusetts

Massachusetts Electric Distribution Companies

Present on the current use of performance Mechanisms, including PBR metrics, service quality standards, and timeline enforcement mechanisms

II. Performance Mechanisms in Other Jurisdictions

Synapse Energy Economics, Melissa Whited

Present on performance mechanisms utilized in other jurisdictions (e.g., load factor PIM, DER interconnection PIM, shared savings mechanisms)

III. PIMs: From Design to Evaluation

RMI, Carina Rosenbach

Present on the PIM lifecycle and design approaches

IV. Performance Mechanisms on Load Management

Massachusetts Department of Energy Resources, Charles Dawson

Present on forthcoming analysis and policy recommendations of DOER's [Peak Potential Study](#), exploring load management strategies for an affordable net-zero grid.

Reminder

Expert presentation sessions are not for substantive deliberation amongst participants. Questions for each speaker will be taken as time allows.

Performance mechanisms are one incentive-based tool

Performance mechanisms are one tool in the clean energy and affordability toolbox

- Performance mechanisms can support alignment between utility incentives and public policy goals
- Performance metrics typically take three forms:
 - Reporting – reporting only, no explicit financial incentive
 - Scorecard – reporting with a target, no explicit financial incentive
 - Performance incentive mechanisms (PIMs) – target with financial incentive
- Performance metrics have been used in Massachusetts for decades

Other regulatory mechanisms also are incentive-based

- Cost of service regulation
- Return on equity
- Reconciling mechanisms
- Cost of service studies
- Historical and future test Year
- CapEx/OpEx Equalization
- Multi-year rate plans
- I-X regulation, revenue-cap, price-cap formulas
- Capital cost trackers and K-bar
- Revenue decoupling and recoupling



Performance incentives are a useful regulatory mechanism when used to positively influence utility behavior not directly aligned with public service obligations

The DPU relies on review criteria when considering proposed PIMs, including threshold principles and design guidelines

- First, DPU determines whether the PIM satisfies the **threshold principles**, which help identify whether an action addressed in the PIM is appropriate to consider for a performance incentive
 - The burden of proof for an “incentive plan,” including performance incentives is that it improves company performance beyond current regulation

Threshold principles	<u>Approved</u> : Low-Income Discount (National Grid)	<u>Rejected</u> : First Call Resolution (National Grid)
Advances specific public policy goals	DPU identifies affordability as important public policy goal	
Affected activity clearly outside a utility’s public service obligation	DPU persuaded utility will be incentivized to go beyond statutory obligation to conduct substantial outreach to customers	DPU found that customer service nature of PIM is substantially encompassed in the utility’s public service obligation

If a proposed PIM meets both threshold principles, DPU then reviews whether it meets its design guidelines

Design guidelines	<u>Approved</u> : Low-Income Discount (National Grid)
Encourages utility performance that best achieves Commonwealth's energy goals	DPU found that PIM will increase customer enrollment in low-income discount rate advancing affordability
Has clearly defined, monitorable, and verifiable metrics to compare costs and benefits	DPU found the target measured in additional customers enrolled in the low-income discount rate
Applies only where the utilities plays a distinct, causal role in achieving the outcome	DPU found that utilities enhanced outreach efforts, while not exclusive factor in enrollment, plays clear and distinct role
Is consistent across the EDCs, unless differences are well justified	DPU reviewed and found that PIM met guideline, but made no further specific findings
Avoids perverse incentives	
Avoids duplicative incentives	

Financial incentives can be designed and applied differently

PIMs are one tool in a packed toolbox. Overreliance on PIMs can weaken incentives and undermine the rate affordability, electrification, and decarbonization.

Penalty-only (asymmetric)

- Assess financial penalty for underperformance, no reward for desired outcome (e.g., service quality standards, interconnection timeline enforcement mechanism)

Reward-only (asymmetric)

- Provides financial reward for desired outcome, no penalty for underperformance

Penalty and reward (symmetric)

- Provides financial reward for desired outcome and penalty for underperformance (e.g., National Grid's Low-Income Discount, DER Interconnection, Three-Year Energy Efficiency Plan)
- DPU has previously expressed a preference for symmetrical structure, reward for overperformance and penalty for underperformance

- Inform the DPU's consideration of authorized return on equity (ROE) in rate case
 - DPU may consider qualitative factors, including management performance and customer service, in authorizing an ROE at higher or lower end of a reasonable range
- Increased revenues or decreased revenues through reconciling mechanism
 - Determine a \$/output metric or an established amount of available performance incentives



Outcome-based performance mechanisms

Outcome-based PIMs can promote innovation

Activity-based PIMs

- Reward specific measures or activities (e.g., deployment of a specific non-wires alternative) support known solutions, but not necessarily innovation

Outcome-based PIMs

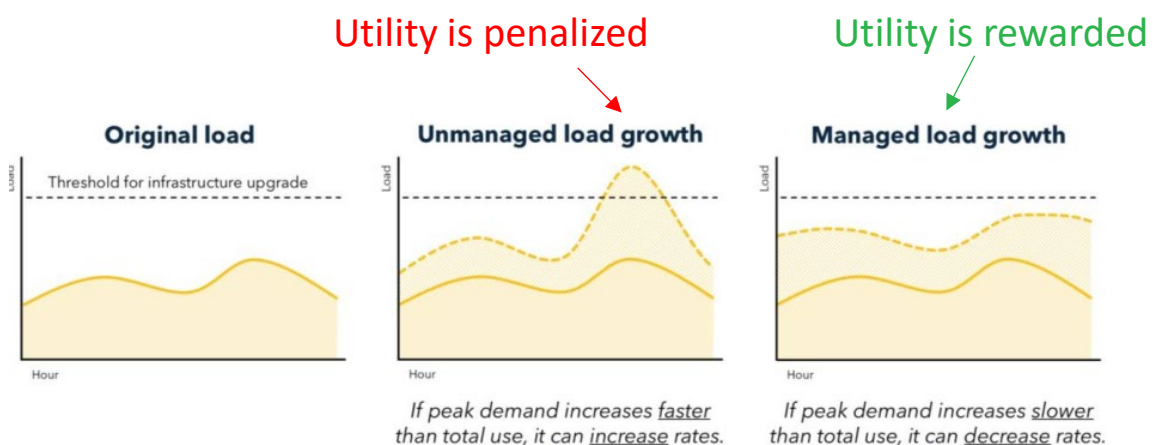
- Reward desired outcomes (e.g., system load factor) to incentivize the utilities to seek out innovation or underutilized opportunities

Designing and implementing PIMs can be difficult

- Designing a PIM that meets threshold principles and design guidelines can be difficult
- Reviewing a proposed PIM, investigating its structure, and exploring intervenors agreement and disagreement in time-limited rate cases is further challenging
- Appropriately sizing incentives, determining targets, or other design features is often contentious and heavily litigated
- PIMs also may have unintended consequences; too many PIMs can be burdensome and interact with each other with perverse outcomes

Load factor performance incentive mechanism to promote efficient system use

- Load factor PIM supports aligning the utility business model with load management
- A load factor PIM would reward utilities for increasing electricity throughput associated with electrification technologies (e.g., EVs and heat pumps), while seeking solutions to mitigate increases in peak load



Managed charging case study: how PIMs may interact with other ratemaking incentives

Managed charging is a valuable programmatic tool to reduce the peak impacts of EV load

Complementary tools that could be used to encourage managed charging include:

- 1) An explicit PIM
 - Rewards utilities for enrolling customers in managed charging programs (activity-based) or for MW of shifted load (outcome-based)
- 2) Time-varying rates
 - Incentives customers to manage load to reduce peak
- 3) Recoupling revenues with consumption throughput
 - Rewards utilities for the increased electrification necessary to achieve state decarbonization goals

Stacked incentives can encourage optimal outcomes or be duplicative

- **If recoupling is adopted**, utilities are encouraged to enable electrification, including for transportation
- **If a managed charging, or load management, PIM is also adopted**, it can temper the financial effect EV load-driven electrification

PIMs are *a* tool, not necessarily *the* tool

- PIMs are best considered alongside or in the context of other regulatory tools

Vegetation management case study: how PIMs may interact with other ratemaking incentives

Vegetation management is essential to maintaining grid reliability

Two tools that could be used to advance vegetation management efforts include:

- 1) A PIM
 - Rewards utilities for reducing outage frequency and duration
- 2) A vegetation management reconciling mechanism
 - Provides full cost recovery for utilities to implement vegetation management programs

Stacked incentives can create adverse impacts, including double compensation

- **If a reconciling mechanism is adopted**, utilities may have lower incentive to pursue cost-saving vegetation management measures
- **If a PIM is also adopted**, it can create an incentive for further vegetation management innovations

Effective ratemaking requires balancing PIMs with other regulatory mechanism structural tools that create clearer and more fruitful incentives.

PIMs are one tool in a packed toolbox. Overreliance on PIMs can weaken incentives and undermine the rate affordability, electrification, and decarbonization.

- By creating financial incentives, PIMs can be useful mechanisms for driving utility performance and advancing policy objectives.
- But, PIMs are only one option. In some cases, other regulatory tools can more effectively incentivize utility behavior.

Closing

Next Steps

- **Final Presentation: November 24th, 1-3:30pm**
 - DOER will present straw proposal with recommendations on rate design and ratemaking mechanisms for the future
 - Rate Task Force participants are invited to submit written comments in response to the straw proposal by December 19, 2025
 - Written comments will inform DOER's forthcoming petition to the DPU in early 2026
- In-person option available – email Chris Connolly at chris.connolly2@mass.gov by EOD Friday, November 21.

