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Witness: Elli Ntakou and Lavelle A. Freeman
Request from: Office of Consumer Counsel

Question:

Targeted System Performance Plan Exhibit CLP-TSP-1: Reliability PIMs
The Company proposes a sliding penalty structure for each Blue-Sky SAIDI and Blue-Sky SAIFI PIM, with penalties beginning at one standard deviation above the five-year average and increasing through two standard deviations.

a. Please explain how the Company developed this penalty structure and provide any analysis demonstrating how the proposed financial consequences are expected to maintain or improve reliability performance, consistent with the company's stated goals.

b. Were any other five-year periods considered for the five-year average threshold? If yes, explain why the period 2022-2026 was selected for the calculation of the five-year average.

Response:

a. The Company developed this penalty structure consistent with industry standards for non-symmetrical PIMs and with considerations for yearly deviations of blue-sky SAIDI and blue-sky SAIFI.

Major events are excluded from blue-sky reliability metrics because these events are significant outliers for the purposes of determining reliability. However, the reliability metrics maintain volatility because of the inclusion of impacts from the numerous minor storm events that occur across a year and that do not reach the exclusionary threshold. A well-designed PIM should base a penalty on the degree to which a value exceeds the threshold, and whether deviations are driven by factors within the Company's control or exogenous factors. For example, slight deviations due to weather patterns should be penalized less or not at all, as compared to larger deviations indicative of influence by the Company's own actions. Therefore, the Company's proposal accounts for normal deviations by establishing a standard for performance and gradual penalties, starting at the threshold of "average plus one standard deviation" and full penalty for performance exceeding "average plus two standard deviations".

In addition, although, PIMs set standards for performance, the penalty structure does not drive reliability performance. The PIM objectives or deadbands set the expectation for what level of performance the Company should target; however, absent regulatory approval of

a commensurate spending level that enables the Company to achieve the identified objectives, penalties alone, regardless of their size or structure, will not be able to drive performance relative to PIM objectives.

b. No, the Company did not consider other 5-year periods. The 2022-2026 timeframe is the most recent complete 5-year data set at the time the PIMs and their penalties are expected to become applicable (i.e., 2027). Selecting a recent time period as a baseline has the benefit of incorporating the most recent system performance measures, with the associated standards and asset types. In contrast to resilience, where time periods further back may be needed in the baseline to capture major events that rarely occur, selecting the most recent time period for use as reliability baseline is necessary for a valid metric.