

SB 978 – ACTIVELY ADAPTING TO THE CHANGING ELECTRICITY SECTOR

The PUC stands ready to use the powerful tools of economic regulation—traditional and evolving—to achieve the objectives that the Legislature prioritizes for Oregon’s regulated electric utilities.

For more than a century, the Public Utility Commission of Oregon (PUC) has adapted to industry changes and new technologies—maximizing public benefits and protecting customers across the state who rely on essential utility services. By passing SB 978, the Legislature identified a moment of significant change in the electric industry and for the PUC.

SB 978 directed the PUC to use a public process to explore how investor-owned electric utilities are regulated in a rapidly changing industry and policy environment. The law asked the PUC to identify changes that could “accommodate developing industry trends and support new policy objectives without compromising affordable rates, safety and reliable service.”

The PUC engaged participants in a dynamic and inclusive public process. By a wide margin, participants’ top priorities were for the PUC to directly address climate change and equity. Participants also recognized the challenges and

tradeoffs the regulatory system faces in responding to accelerating technology change and customer desires for new solutions to meet their environmental, resilience, and economic goals. Participants worked together—collaborating and challenging one another—to explore areas for action by the PUC and the Legislature.

Informed by this dialogue, the PUC offers a roadmap for actively adapting to the changing electric sector. This roadmap represents a dynamic strategy to:

- update and clarify PUC objectives and
- develop modern regulatory tools, market structures, and processes to achieve those objectives.

It is the strategy for change that the PUC believes will most effectively achieve legislative goals and produce the best overall outcomes for all customers of Oregon’s regulated electric system.

Legislative Action

The PUC will collaborate with the Legislature and stakeholders to make progress on climate and equity—two issues that most SB 978 participants prioritized.

- ▶ **Climate Change**—Reducing greenhouse gas emissions is a high priority goal for the State of Oregon and the PUC’s stakeholders, but the PUC lacks a clear mandate to address emissions except as an economic risk. The Legislature should take up this regulatory gap.
- ▶ **Affordability, Equity and Environmental Justice**—The Legislature should consider ways to improve equitable and affordable access to energy services. The PUC can and will take some steps without legislative action, but approaches used successfully elsewhere, such as rate discounts, may not be possible within the PUC’s current authority.

The PUC’s authority to regulate utilities is delegated from the Legislature. The PUC’s legislative mandate is to use economic regulation to ensure that regulated utilities make safe and reliable electricity available to everyone in their service territories at reasonable, non-discriminatory rates. SB 978 participants reaffirmed that these goals remain central to the PUC’s mission.

The PUC cannot require utilities to accomplish societal objectives that are outside the scope of utility regulation and that impose costs that the Legislature has not required utilities and their customers to bear.

The Legislature has directed the PUC to implement policies motivated by other societal objectives, such as the renewable portfolio standard, low-income bill assistance, direct access for large customers, and others. The PUC must implement these specific policies against the backdrop of its general legislative mandate, which does not expressly include reducing greenhouse gas emissions—from the electric sector or other sectors, such as transportation—or creating service classifications based on factors other than costs of service.

This report and the work of SB 978 participants (presented in Appendix E) offers a variety of approaches for the Legislature to consider if it wishes to include these or other emerging objectives in the PUC’s mission. These objectives should complement the core economic regulatory objectives of safety, reliability, and affordability. The PUC is ready and willing to support this legislative process.

PUC Action

The PUC's strength is using unbiased, economic analysis and independent decision-making that balances trade-offs among competing priorities. In response to accelerating technology and industry change, the PUC will adapt its regulatory tools in two areas with wide-ranging impacts. The PUC also will deepen its engagement with regional actors and with stakeholders in its public process.

► **Retail Customer Options**—The PUC will enable customer and competitive options to be **fully and accurately valued** and, therefore, encouraged to expand in alignment with legislative goals and the overall strength and efficiency of the utility system.

One priority area is distribution system planning transparency, which can reveal where customer and competitive options can provide maximum value to all customers.

A goal of this effort will be to achieve more consistent pricing methodologies for distributed energy resources—including solar, storage, and demand side measures—in order to provide responsive pricing signals that keep pace with rapidly changing technology and supply options.

Throughout, the PUC will actively monitor new products, services, and markets, and encourage utilities to integrate service relationships with innovative third parties, including Energy Trust of Oregon.

► **Utility Incentive Alignment**—The PUC will launch a **performance-based regulation** process to align utility incentives with customer objectives. Proposals will be invited under the PUC's existing "alternative form of regulation" statute.

The long-standing economic incentives for utilities to invest significant capital in order to earn a return for investors and to realize earnings through sustained load growth have produced the highly reliable, low cost, centralized utility system that we enjoy today. The PUC recognizes that adjusting a utility earnings model that has worked well for utility investors and customers is a complex endeavor. It requires deliberation and careful design.

Exploring discrete areas of utility service where the PUC can allow utilities to earn a return on outcomes rather than on capital expenditures will reduce tensions with competitive providers and provide incentives for innovation while leading to the best results for utility customers.

► **Regional Market Development**— The PUC will participate with other states and agencies to **promote regional market development**. This is a foundation for enabling efficient wholesale competition and regional resource diversity to lower costs and risks to customers.

The PUC does not recommend consideration of more fundamental changes to Oregon's wholesale or retail market structure at this time. An organized regional market is foundational to further evolution and is supported by a broad consensus of SB 978 participants.

► **Participation**— The PUC will implement a strategy for **engagement and inclusion in PUC processes**, particularly from community based groups new to the PUC.

The PUC's SB 978 process benefited from a diverse range of perspectives, including participation by groups and individuals new to the PUC process. The PUC will carry these benefits forward beyond the SB 978 process, including by promoting discussion of new funding mechanisms for participation.

SB 978 Process

The innovative SB 978 public process exceeded its goals by engaging a wide range of participants, including many new stakeholders. Thoughtful, candid dialogue allowed them to:

- **Educate each other** and the Commission on their perceptions of the existing system and trends;
- **Surface** foundational **assumptions** about the electricity sector;
- **Identify** traditional and new public **policy objectives**; and
- **Reflect** on whether **new authorities, structures, and tools** could help accomplish those policy objectives in today's environment.