

SB 688 -1, -2, -3 STAFF MEASURE SUMMARY

Senate Committee On Energy and Environment

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Sub-Referral To: Joint Committee On Ways and Means

Meeting Dates: 3/12, 3/17

WHAT THE MEASURE DOES:

The measure directs the Public Utility Commission to adopt not later than January 2, 2027, a framework for carrying out performance-based regulation of electric utilities. The Act requires the use of incentives and penalties to induce electric utilities to bring electric utility operations in line with the public interest and certain objectives and establishes reporting requirements.

Detailed Summary:

Declares **public interest** for purposes of the Act are to:

- reduce greenhouse gas emissions;
- increase energy efficiency;
- improve electric utility reliability and resiliency;
- develop distributed energy resources;
- enhance services for low-income customers; and
- improve efficiency of utility operations to reduce costs to ratepayers.

Directs the Public Utility Commission to investigate, develop, and adopt, no later than January 2, 2027, a **framework** for carrying out performance-based regulation of electric utilities. Requires the framework adopted by the Commission:

- provide for performance standards and a baseline from which performance is measured;
- provide for clear, objective, verifiable, and achievable performance metrics;
- describe how performance standards and metrics are to be carried out;
- identify actions and mechanisms an electric utility may do to meet performance standards; and
- provide an electric utility incentives or penalties based on an electric utility's performance.

Requires Commission to use **performance-based regulation** to provide incentives and penalties to induce electric utilities to bring electric utility operations in line with the public interest and at a minimum:

- reduce anthropogenic gas and atmospheric pollutant emissions;
- expand use of distributed energy resources, community solar projects, microgrids, demand response programs and energy efficiency programs;
- enhance quality, reliability and resiliency of electricity services;
- offer flexible payment plans that reduce disconnections for low-income customers and other programs that address the quality and affordability of electricity services for all customers; and
- improve all aspects of utility operations to reduce costs and pass on savings to ratepayers.

Requires Commission to take the impact of incentives and penalties on rates into consideration.

Require Commission to establish **reportable performance metrics** not subject to incentives or penalties and requires electric utility to annually report on electric utility's performance as measured by metrics.

Requires Commission to **report** on framework for carrying out performance-based regulation to interim Legislative committees related to energy no later than March 15, 2027. Requires, no later than November 15, 2028, the Commission to report on the progress and effectiveness of using performance-based regulation of

electric utilities to interim Legislative committees related to energy. Repeals reporting requirement January 2, 2029.

ISSUES DISCUSSED:

EFFECT OF AMENDMENT:

- 1 Modifies required actions of measure to be permissive. Eliminates Public Utility Commission (Commission) reporting requirements. Appropriates **\$1.5 million** from the General Fund to the Commission for the biennium beginning July 1, 2025 for the purpose of investigating, developing, adopting, implementing or reporting on performance-based regulations.
- 2 Modifies required actions of measure to be permissive. Eliminates Public Utility Commission (Commission) reporting requirements. Appropriates **\$500,000** from the General Fund to the Commission for the biennium beginning July 1, 2025 for the purpose of investigating, developing, adopting, implementing or reporting on performance-based regulations.
- 3 Limits Act to electric company, which is an entity engaged in the business of distributing electricity to retail electricity consumers in this state, and does not include a consumer-owned utility.

BACKGROUND:

According to the National Conference of State Legislatures' (NCSL) [Performance-Based Regulation: Harmonizing Electric Utility Priorities and State Policy report](#), the traditional regulatory framework, or "cost-of-service" (COS) regulation was developed throughout the 20th century and is how the majority of utilities in the U.S. operate. The COS framework typically allows a utility to petition a Public Utility Commission for a rate adjustments to compensate the utility for changes to the cost of providing service. In a simplified example, a rate case is a proceeding in which a utility provides regulators with information detailing a variety of historical and projected costs to justify how much its customers will be charged as well as establishing the operating parameters for a utility's business model, including utility profit earnings.

Legislatures in at least 17 states and Washington, D.C., have at some level enacted policies that would reform the traditionally designed COS regulations with policies intended to be designed to encourage utility performance in specified areas. These alternative practices are broadly referred to as "performance-based regulation." NCSL define performance based regulation as an "approach to utility regulation designed to strengthen utility incentives to improve performance and align utility priorities with those of customers and public policy."