

SB 688 A STAFF MEASURE SUMMARY

Senate Committee On Energy and Environment

Action Date: 03/24/25

Action: Do pass with amendments. Refer to Ways and Means by prior reference. (Printed A-Eng).

Vote: 4-1-0-0

Yeas: 4 - Golden, Pham, Smith DB, Sollman

Nays: 1 - Robinson

Fiscal: Fiscal impact issued

Revenue: No revenue impact

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Meeting Dates: 3/12, 3/17, 3/24

WHAT THE MEASURE DOES:

The measure authorizes the Public Utility Commission (PUC) to adopt a framework for carrying out performance-based regulation of electric companies. In addition, the Act appropriates \$500,000 from the General Fund to the PUC for the biennium beginning July 1, 2025, for the purpose of investigating, developing, adopting, implementing, or reporting on performance-based regulations.

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.

Authorizes Commission to investigate, develop, and adopt, no later than January 2, 2027, a **framework** for carrying out performance-based regulation (PBR) of electric companies. Allows the PUC to use PBRs to provide incentives and penalties to induce electric companies to bring operations in line with the Act's declared public interest and:

- 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.

Provides that a framework adopted must:

- 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 incentives or penalties based on an electric company's performance.

Requires Commission to take the impact of incentives and penalties on rates into consideration when developing them. Authorizes Commission to establish reportable **performance metrics** not subject to incentives or penalties and authorizes PUC to require an annual report on electric company's performance as measured by metrics.

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Appropriates \$500,000 from the General Fund to the PUC for the biennium beginning July 1, 2025, for the purpose of investigating, developing, adopting, implementing, or reporting on performance-based regulations.

ISSUES DISCUSSED:

- Traditional cost of service structure
- Other states that have enacted performance-based regulations
- Recent electricity rate increases

EFFECT OF AMENDMENT:

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. Modifies certain required actions of measure to be permissive. Eliminates Public Utility Commission (PUC) reporting requirements and the deadline associated with the adoption of the framework. Appropriates \$500,000 from the General Fund to the PUC for the biennium beginning July 1, 2025 for the purpose of investigating, developing, adopting, implementing, or reporting on performance-based regulations.

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 adjustment 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."