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On Behalf Of:
Committee: Senate Committee On Energy and Environment
Measure, Appointment or Topic: SB688

Thank you for the opportunity to submit testimony for SB 688. I write in SUPPORT of the bill.

I am Professor (emeritus) of Chemistry at Portland State University and author of the climate change science/policy text for laypersons titled From Knowledge to Power, which has been widely circulated in Oregon.

Performance-based regulation is an alternative to traditional cost-of-service regulation that aims to improve the alignment between the regulatory incentives offered to investor-owned monopoly utilities and the interests of customers and society. Because the traditional model for regulating electricity pricing has been in place for so long, there is naturally some resistance to making the necessary changes set out in this bill. I write to explain why performance-based regulation is a good idea.

Under traditional cost-of-service regulation, capital expenditures deemed prudent by the regulator are added to the utility's rate base upon which the utility earns a return. But the utility earns no comparable return on operating expenses, which are simply passed through to ratepayers.

This traditional model leads to detrimental outcomes. First, it creates a strong financial incentive for utilities to spend more money than needed on infrastructure - simply because their rate of return is directly tied to their level of infrastructure investment. This incentive can lead to overbuilding and also runs counter to the societal need to keep rates as low as possible.

Second, the traditional model incentivizes utilities to prioritize capital expenditures over operating costs. This affects utility decision-making in several areas. For example, a utility will prioritize building its own generation infrastructure rather than purchasing power from a third party through a power purchase agreement. Even when competitive proposals are solicited from independent power producers, the process is often slanted towards utility-owned options. This slows the pace of investment and raises rates, as potentially lower cost supplies are often excluded due to difficulties in accessing interconnection.

A third detrimental outcome is that traditional poles-and-wires projects tend to be preferred over non-wires alternatives, such as demand response pricing, load-control devices, and other behind-the-meter approaches. Such projects are increasingly

susceptible to damage from extreme weather events and wildfires.

It's also important to note that the very real opportunities of distributed power production (DPP) are given much less weight in the traditional model. DPPs confer substantial benefits, including minimization of transmission energy losses, lowering of peak demand, reduction of greenhouse gas emissions, better affordability for low-income customers and enhanced reliability of the overall system. SB 688 thus complements the well-crafted HB 3609 legislation, which promotes expansion of DPPs.

The traditional model also has the effect of inhibiting new clean electricity power producers from entering the market. The problem here is that independent power producers who want to build new solar and wind plants need forward contracts for electric power to attract investors. But if utilities are incentivized to build their own infrastructure instead, the capital that might have gone to new producers will be invested elsewhere. Healthy market competition, which should reduce costs for consumers, is therefore stifled. We see this dynamic in PGE's recent request for proposals for new clean generation, which procured much less capacity than anticipated.

I urge you to support SB 688, which will give the Oregon Public Utilities Commission authority to develop a performance-based regulatory framework. The new approach will continue to provide our public utilities with an adequate rate of return, but will also offer incentives that keep rates as low as possible, and will provide better alignment towards achieving our broader societal goals.