



March 11, 2025

Chair Janeen Sollman
Vice-Chair David Brock Smith
Senate Committee on Energy and Environment
Oregon State Legislature
900 Court St NE
Salem, OR 97301

Dear Chair Sollman, Vice-Chair Brock Smith, and members of the Senate Committee on Energy and Environment,

The League of Oregon Cities is pleased to offer our strong support for Senate Bill 688 and the -2 amendment. The LOC represents 241 diverse and unique cities across Oregon that support actions to maintain affordable and reliable energy resources and to build resilient communities.

It shouldn't be a surprise that the electricity sector is experiencing a transformational moment. Our traditional regulatory approaches were first developed more than a century ago – a framework known as “costs-of-service” (COS) regulations. The primary objective of which was to continually and gradually expand services to new customers. These regulations helped accomplish those goals by establishing a predictable regulatory framework that allowed utilities to make desired investments with confidence to recover the full cost of providing service, including a reasonable return on equity.

This form of regulation has dictated utilities' business models for decades by establishing clear incentives for utilities to maximize sales and capital expenditures on infrastructure – costs borne by utility customers. This structure worked for the 20th century. However, much of our technology and the way consumers interact with technology was not even science fiction when this was established. Our current approach was not designed for the 21st century.

Cost-of-service regulations shift too much of the risk for capital projects onto customers and fails to incentivize cost-saving strategies and demand-side management measures that are necessary today to avoid unnecessary capital spending and to encourage more energy efficiency. It's not that this model is completely problematic, but it was designed for a different time than what we face today, and now it's time we modernize the process.

Business conditions have changed in recent decades, leading to more financial uncertainty and more frequent rate cases, which increase regulatory costs and weaken cost-containment incentives. PBRs offer a new framework while still ensuring the main principles of cost-of-service regulations - safe and reliable service. Utilities often lack strong financial incentives to contain costs and the flexibility that is required to meet the challenges our grid is experiencing.

Cities want to see more distributive energy resources and battery storage, energy efficiency upgrades, microgrids, and grid enhancing technologies. We want our grid to reflect 21st century needs while focusing on efficiency and maintaining reliability. We want to see a more modern grid.

PBRs establish a regulatory framework with stronger financial incentives for utilities to deliver on specific goals, targets or performance measures. Alternative practices that have been designed to reduce regulatory costs, and foster better partnerships between utilities, their customers, and the jurisdictions where they operate.

Oregon needs to be able to balance, and accommodate new energy resources, optimize maintenance and operations, and allow for greater consumer participation through emerging technologies. Performance-based regulations or PBRs, were developed to meet this moment.

It's also important to acknowledge that there is no one-size-fits-all approach. It's why the LOC strongly supports SB 688 and the -2 amendment. Instead of mandating that the PUC adopt all the mechanisms that PBRs have to offer, it asks the PUC to investigate PBRs, develop and adopt a framework that may include any of those tools that would enhance the PUC's ability to regulate utilities to align their priorities with those of their customers and public policy. Any recommended PBR tools can be applied incrementally to supplement traditional COS regulations aimed at improving utility performance.

To carry out this investigation, it's important to recognize that the PUC staff need a modest amount of resources to ensure they have the capacity to carry out this investigation and we encourage this body to support that request.

Typically, utilities performance has been assessed on the basis of cost, safety, and reliability. Metrics that are still valuable and important for our members. But we recognize that modernizing our grid takes more. We need to consider other performance metrics that consider improving operational efficiency, enhancing reliability, and offering innovative services to communities.

The LOC strongly urges this committee to support and pass SB 688 and the -2 amendment so that we can modernize our regulatory framework to meet the demands of the 21st century. Thank you for your time and your consideration of this measure.

Sincerely,

Nolan Pleše

