Oregon Citizens' Utility Board

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To: Chair Sollman, Vice-Chair Brock Smith, and members of the Senate Energy and Environment Committee

From: Bob Jenks, Executive Director, Oregon Citizens' Utility Board (CUB)

Re: Support for SB 688

The Oregon Citizens' Utility Board (CUB) is a statewide nonprofit consumer advocacy organization developed by citizens' initiative in 1984. CUB represents the interests of Oregon households by advocating utility regulations and policies that protect your wallet. To date, we have saved Oregon ratepayers over $10 billion. **CUB supports SB 688 because performance-based regulation provides for the opportunity to consider ways to incentivize utility investments that focus more on community needs, rather than capital investments that maximize returns for for-profit utility shareholders.**

The current utility regulatory structure is dominated by utility requests for higher rates and not affordability for customers. Currently utility regulation incentivizes utilities to make capital investment. This current regulatory structure is problematic, including because:

- it incentivizes utilities to spend money;
- utilities can request dozens of rate increases a year;
- it is designed so regulator looks at individual utility projects, not total rates;
- costs can be updated even after they are approved by regulators; and
- utilities are not transparent with rate increase information.

A system that incentivizes spending has led to a utility-centered regulatory system that focuses on cost recovery associated with that spending.

For-profit utilities earn a profit on the invested capital provided by shareholders. When inflation doubled the price of steel a couple of years ago, it increased the cost of building generating assets and distribution systems. But by increasing the utilities' costs, it also increased their profit for making investments. Competitive businesses facing doubling steel costs must worry about their ability to pass on higher costs so when the cost of steel goes up, they look for ways to delay investments or offset higher costs. The utility's incentive is to push ahead, pay higher costs, pocket the higher profits, and pass the cost to customers.

The current utility regulatory structure model was developed in the early 20th century and made sense when we were building a system to bring electricity to all homes. Times have changed and so should we consider changing the utility regulatory model to a system that better balances the utility's ability to provide safe and reliable service with affordability for its customers.

Today, there are separate cost recovery mechanisms for fossil fuel prices, renewable investments, energy efficiency, wildfire mitigation, storm recovery, transportation electrification, community solar, coal retirement, environmental cleanup, and others. Currently, there are no incentives for utilities to control costs, minimize the number of rate cases, reduce disconnections, or meet clean energy goals. A system that uses incentives/disincentives to get utilities to focus on community needs, not just capital investments, makes a lot of sense. We cannot keep on growing our system for growth's sake–we need to efficiently and affordably grow our system to meet its new needs.

The goal of performance-based regulation is to tie some of the for-profit utilities' profit margins to other goals. Though incentives and disincentives, it allows us to incentivize keeping rates affordable, reducing disconnections, meeting clean energy targets and other goals. There will be work to identify the goals we want to incentivize and then to create mechanisms that create incentives and disincentives. It will take rate cases for each utility to implement these. And probably some time for utilities to internalize how to respond to incentives. But over time, changing incentives should change utility behavior. The concept is simple—if we want to get utilities to focus more on affordability, we need to tie some of their profits to affordability.

In Oregon, utility rates have gone through the roof in recent years. There were record residential customer disconnections last year.[1] We believe that this bill is a great companion to the FAIR Energy Act HB 3179 and the POWER Act HB 3546. Those bills deal with ways to immediately improve utility regulation. The three bills could make this the most pro-customer legislative session I have ever seen. They are urgently needed. This bill's focus is utility incentives which will have an impact over time. This should improve the regulatory system over time.

Thank you for the opportunity to provide testimony in support of SB 688.

[1] In the Matter of Energy Utility Quarterly Report of Residential Disconnections for non-payment and subsequent reconnections per OAR 860-021-0408, the Disconnect Reporting Rule, Docket No. RO 12 (opened 11/14/2018)), available at https://apps.puc.state.or.us/edockets/DocketNoLayout.asp?DocketID=21694.