



# REGULATORY AND POLICY UPDATE

Quarter 2, 2021

*This brief update is designed to share with S&C's clients. It describes where we see important government-related drivers for change in electricity distribution. This is not meant to be a complete list of all legislative and regulatory changes in the energy sector, but a place to highlight those moves S&C believes are most interesting in terms of tracking trends. Any newly introduced legislation referenced below is legislation S&C believes is likely to pass.*

## EXTREME HEAT

The extreme cold in Texas this past winter crippled energy generation and brought widespread blackouts. Now, extreme heat and wildfires are threatening states from Texas to Washington. The heat is driving up energy use and is making already-extreme drought conditions worse, threatening the water supply needed for hydropower, fossil, and nuclear generation.

These challenges are bolstering calls for the establishment of a Western Regional Transmission Organization (RTO). Such an organization could drive better planning for future transmission and help balance power in the region when certain areas have demand that exceeds their capacity. Critics of such a system claim establishing an RTO would create costs with little benefit for customers.

## U.S.

### Federal

Debate continues on Capitol Hill around a potential infrastructure bill. The electric utility part of the plan has largely focused on grid modernization and resilience, though aspects focus on clean energy, electric vehicles, and energy efficiency. One version included \$73 billion for power-infrastructure spending. Democrats recently announced a clean electricity standard, which would require utilities across the country to slash emissions. It would be part of a broad \$3.5 trillion infrastructure deal.

Given a reticence of Senate Republicans to support the infrastructure plan, Democrats will likely attempt to pass it using budget reconciliation. This would allow Democrats to pass the bill with 50 votes (plus the tie-breaking vote of the vice president) but would mean every senator of their party would have to agree on the final language.

**Hawaii** – In June, regulators approved an emergency demand response program to address electricity supply challenges once the

180-MW coal plant on Oahu is retired in September 2022. The plant presently meets roughly 15% of demand on the island. Hawaiian Electric (HECO) is looking to replace it, in part, with a series of renewable-generation and energy-storage projects. Given the lead time for projects such as this, the utility has acknowledged reserves will be tight going into fall 2022. HECO is now developing a plan to implement the program.

**Maine** – Maine Gov. Janet Mills signed LD1682 into law in June. The law adds reducing greenhouse gas (GHG) emissions to the basic purpose of the public utility regulatory system. The Maine Public Utilities Commission must facilitate the achievement of GHG-reduction goals and prioritize proceedings and activities that advance decarbonization in the utility sector.

**Nevada** – Nevada Gov. Steve Sisolak signed SB448 into law in June, aiming to accelerate construction of a massive transmission project (Greenlink Nevada), increase spending on electric vehicle infrastructure (\$100 million), and require the state to join a regional transmission organization by 2030. The law directs utilities to forecast a path to achieve an 80% reduction in carbon-dioxide emissions from 2005 levels by the end of the decade.

**New York** – In June, the state assembly passed five pieces of legislation that impose new requirements on the Long Island Power Authority (LIPA) and its service provider, PSEG Long Island. The bills include a requirement for LIPA and PSEG to conduct an annual stress test of the system's reliability. This legislation is seen as a reaction to widespread outages on Long Island in August 2020 that bill proponents said were avoidable.

**Oregon** – In June, the state legislature passed HB2021, requiring the state's largest utilities to eliminate greenhouse gas emissions from their electricity supply by 2040, making it one of the country's most aggressive state decarbonization timelines. The bill requires Portland General Electric and Pacific Power to craft plans to reduce emissions by 80% by 2030 and by 90% by 2035. Gov. Kate Brown had not yet signed the bill into law.

**Texas** – Gov. Greg Abbott in June signed into law two bills that mandate preparing power generation and transmission for cold temperatures and implementing some market reforms for the Electric Reliability Council of Texas. The laws create a winter storm emergency alert plan, establish a Texas Energy Reliability Council, mandate a renewable energy study, and require changes to the state’s energy scarcity pricing rules.

## AUSTRALIA

**Regulator publishes its decision on utility revenues in Victoria** – On April 30, the Australian Energy Regulator published its final decision on revenues for the five distribution network utilities (DNSPs) in Victoria for investment in their networks during 2021-2026.

For four of the five utilities, overall revenues will drop by between 0.8% and 8% compared to 2016-2021. However, AusNet Services’ revenues will rise by 1.6%. Despite the reductions for the others, at AU\$11.8 billion, the revised revenue proposals represent a significant level of planned investment in Victoria’s distribution networks over the next five years.

Among the areas of focus, approximately AU\$1.8 billion is earmarked for replacing aging assets, AU\$850 million for network growth, and AU\$230 million for the integration of distributed energy resources.

The decision also sees the tightening of reliability targets, including on momentary interruptions, for most DNSPs under the Service Target Performance Incentive Scheme, ensuring a continued focus on grid reliability.

## NEW ZEALAND

**Regulator seeks views on energy network regulatory priorities** – In late April, the Commerce Commission, New Zealand’s competition, consumer, and regulatory agency, published an open letter seeking views on emerging issues for both energy networks and airports. The commission hopes to

prioritize specific issues when planning its future work program. In particular, the commission highlighted the impact of decarbonization and the energy transition.

The commission received 47 responses to its request that are published on its website. Among the issues the views highlight include:

- The need for a step change in distribution network investment if the government hopes to realize its decarbonization goals
- Recognition that customer expectations are changing, thereby supporting the case for consideration of enhanced reliability metrics
- The need to address the increasing resilience challenges posed by climate change

## CANADA—ALBERTA

**Strategic plan announced for 2021-2024** –

The Alberta Utilities Commission (AUC) has published its strategic plan for 2021-2024. The plan details the AUC’s planned approach to regulation. Its key areas of focus are improving the efficiency of rate proceedings and facilitating change in the energy sector.

Among the areas of work the AUC has identified include plans to assess its experience with performance-based regulation to determine how it can be improved. It is also considering reviewing connection practices to address any barriers to distributed energy resources and evaluating distribution planning and reliability requirements to “better coordinate distribution and transmission planning and ensure overall system optimization and control costs.”



## GREAT BRITAIN

**British electricity distribution businesses submit their draft business plans for the RIIO-ED2 period** – British electricity distribution utilities submitted draft rate filings on July 1 for the second round of Revenue through Incentives, Innovation and Outputs (RIIO-ED2). The utilities anticipate spending £23.2 billion from 2023 to 2028, a 24% increase from RIIO-ED1 spending.

The drafts include several key themes:

- RIIO-ED2 emphasizes transitioning utilities to distribution system operator (DSO) roles, growing grid capacity, and changing grid architecture. With more than 8.5 million new electric vehicles expected to be on the road by 2028, electrification of heat, and a high penetration of distributed energy resources, average capacity investment is forecast to double.

- All British distribution utilities would shift to a DSO role for RIIO-ED2. They expect to rapidly grow markets and develop the associated platforms for distribution ancillary services. This shift is important for managing the grid and affordably meeting customer requirements.
- A significant boost in innovation spending is proposed. Targeted broadly, the funds would be used to reduce customer vulnerability, optimize asset management, and modernize the network.
- Reliability improvements in SAIFI and SAIDI are expected. A collective investment of £100 million is planned for worst-served customers at the grid edge. UK Power Networks committed to reduce momentary outages by 10% and to compensate customers who experience 20 or more momentary outages a year. Other utilities plan to improve momentary outage-reporting accuracy and consistency.



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