



REGULATORY AND POLICY UPDATE

Quarter 3, 2021

This brief update is designed to share with S&C's clients where we see important government-related drivers for changes 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.

THIS QUARTER'S TREND: NO TREND

As countries around the world and states in the U.S. develop policy and regulation to modernize the electricity system, the one clear trend is the lack of action uniformity. It appears local policymakers are focusing strongly on the perceived local needs for the electricity sector. This makes sense because different areas are experiencing different drivers. In the U.S., Louisiana dealt with resilience challenges from Hurricane Ida while California dealt with drought threatening to spark new wildfires while also shutting down hydropower plants. China, meanwhile, dealt with increasing demand outstripping supply.

While we see things such as encouraging renewables, energy storage, and transportation electrification across the board, the areas of real progress feel highly specific to the locality. If there were one trend across all action we are seeing today, it is a willingness to change. Everywhere we look there seems to be an acknowledgement the energy world is changing, and electricity policies and regulations must be updated, retargeted, and clarified to help the industry keep up.

U.S.

Federal – Negotiations are still underway on Capitol Hill around the Infrastructure Investment and Jobs Act, which passed in the Senate in August and is awaiting a deal in the House. The impact of this act on electric utilities would be primarily focused on transmission improvements because there is little in the present bill that would address the distribution grid.

Negotiations also continue on the more extensive Build Back Better Act, which could potentially have a much larger amount of funding. The present iterations of this act include considerable funding for advanced energy technologies and grid modernization demonstrations.

California – On July 30, Governor Gavin Newsom signed an emergency proclamation to expedite clean-energy projects and relieve demand on the electrical grid during extreme weather events. This proclamation, the "California Comeback Plan," includes:

- Increasing the diversity of clean energy, including solar, battery storage, onshore and offshore wind, geothermal, and pumped storage
- Modernizing California's grid and incorporating distributed energy resources
- Increasing long-duration energy storage projects
- Hardening the grid and adding resiliency to make transmission and distribution lines more fire resistant, increasing undergrounding of lines, improving fault detection, and strategically placing remote grids in vulnerable communities
- Reducing carbon emissions through electrification of our transportation systems, homes, and businesses

In August, an administrative law judge requested proposals and formal comments on potential solutions (including around renewables, microgrids, and resilience solutions) for the commission action to address this proclamation.

Illinois – In September, Governor J.B. Pritzker signed SB2408, which will transition the state to 100 percent clean energy by 2045, with benchmarks along the way. The new law replenishes funding for the state's Renewable Portfolio Standard at nearly \$500 million per year, extends utility energy-efficiency targets out to 2040, establishes a new multi-year integrated grid-planning process, and creates incentives for the deployment of electric vehicles and associated charging infrastructure across the state. As part of the regulatory changes, utilities will now need to prepare multi-year rate plans that incorporate performance-based regulation metrics.

Maine – In a new law signed in July, the state allocates American Rescue Plan State Fiscal Recovery dollars. Among other things, this bill provides funding of \$8 million to expand state, municipal, and other publicly accessible electric vehicle (EV) charging stations and related infrastructure. The funds will support the continued expansion of EV charging stations at town buildings, school buildings, state facilities, and other public facilities and private businesses open to the general public.

Governor Janet Mills also signed a new law requiring each transmission and distribution utility in Maine to submit a proposed incentive rate schedule to promote the installation and operation of EV charging stations to the Maine Public Utilities Commission (MPUC) on or before November 1, 2021. These proposals must be designed to align with and support relevant strategies of the state's climate action plan and help achieve the state's target greenhouse gas emissions reduction levels.

Nevada – In August, the Public Utilities Commission of Nevada published draft regulations and an alternative ratemaking straw proposal following more than 18 months of discussions, workshops, and comment periods about what alternative ratemaking can do for Nevada and what it should look like. This is in response to a law passed directing state regulators to explore an alternative ratemaking process—including performance incentives, decoupling mechanisms, and earnings-sharing mechanisms—that aligns utility business models with meeting the state's 100% clean energy statute and other state public policy goals.

Oregon – In July, Governor Kate Brown signed a HB2021, which requires retail electricity providers to reduce greenhouse gas emissions from the electricity sold to Oregon consumers by 80% by 2030, by 90% by 2035, and by 100% by 2040. Electric companies must develop clean-energy plans, which the Public Utility Commission must evaluate to ensure they are in the public interest and are consistent with the state's clean-energy targets. This bill allows performance incentives for early compliance.

Also in July, the governor signed a transportation bill that, among other things, provides for electric utilities to recoup any costs associated with prudent infrastructure measures to support transportation electrification. Prudent infrastructure investment measures include some allowances for distribution system infrastructure, communication and control technologies, and behind-the-meter infrastructure that is owned by an electric company or by a customer.

Rhode Island – In July, Governor Daniel McKee signed S0994, which requires the Department of Transportation, along with the Division of Motor Vehicles and the Office of Energy Resources, to develop a statewide plan for an electric vehicle charging station infrastructure by no later than January 1, 2022.

AUSTRALIA

Regulator publishes updates on grid and market performance – The Australian Energy Regulator has published two reports that provide insight into the performance of the energy sector in the Australian National Energy Market in 2020.

Published in July, the agency's State of the Energy Market 2021 report provides an annual overview of key developments for the wholesale and retail markets as well as for the regulated networks. The report highlights the range of components of the energy transition and the different ways they are impacting the energy market, including the changing technology mix, the rapid uptake of distribution energy resources, the varied geographical spread of energy resources, and the significant changes in the demand profile.

In September, the agency published its Electricity Network Performance Report 2021 focused on the performance of electricity-distribution and transmission-grid companies. Among the key findings of the report were:

- Overall network expenditure was down by an average of 3% compared with the previous year.
- Customers experienced fewer distribution network outages in 2020 than at any time in the data series. However, the average outage duration rose slightly, reflecting the impact of external factors, including bushfires.
- COVID-19 appears to have had limited impact on the revenue, expenditures, and allowed returns of the grid utilities.

CANADA

Ontario energy regulator publishes natural gas and electricity yearbooks – The Ontario Energy Board, which regulates Ontario's natural gas and electricity utilities, has published the 2020 Yearbook for electricity distributors. Published in September, the yearbook provides data on a range of areas, including financial and operating information as well as data on service quality and system reliability.

Among the main findings were a slight fall in both total energy delivered as well as in distribution revenues. Over the same period, there was a slight rise in both the average frequency and duration of interruptions across the province, although performance varied significantly across the utilities.

Hydro One announces significant investment plans focused on reliability and resilience – In August, distribution utility company Hydro One filed its first combined transmission and distribution rate application for the period 2023–2027 to the Ontario Energy Board. In its 5 Year Investment Plan, Hydro One has placed a significant emphasis on reducing the impact of power outages for its customers in northeast Ontario and in preparing its system for the impacts of climate change. It highlighted its intention of “building a grid for the future.”



In total, the plan includes C\$17 billion of investment over the five-year period. Among the specific areas of investment highlighted are the use of automation and innovation to reduce power outages by up to 25% as well as installing “smart” devices to improve resilience and reliability for customers who traditionally experience the highest level of power outages.

CHINA

Strained energy system creating challenges for manufacturing – China has been dealing with an increasingly strained energy system and is seeing blackouts and brownouts in numerous provincial jurisdictions. The causes of the power shortages stem from tightening coal supplies, more stringent energy intensity and environmental restrictions, and rapidly increasing industrial power demand. These increased outages are particularly troubling for China’s industrial manufacturing sector, which provides one-quarter of the world’s total industrial production. Goldman Sachs has estimated that as much as 44% of the country’s industrial activity has been affected by power shortages.

NEW ZEALAND

Enhanced information disclosure requirements announced for Aurora – In late August, New Zealand’s competition, consumer, and regulatory agency – the Commerce Commission – published its final decision on additional information distribution utility Aurora Energy Limited must publish. The purpose is to improve stakeholder visibility into how the company plans to spend additional money granted to it to repair and upgrade its network

to address safety and reliability issues. The additional requirements follow a decision by the commission to allow Aurora to recover up to NZ\$563.4 million over five years to invest in its network.

As part of the next steps, by March 31, 2022, Aurora will be required to develop forward-looking plans for spending on the network throughout the five-year period.

UNITED KINGDOM

Large energy price rises in the UK – During September and October 2021, the UK has been experiencing a sharp rise in energy prices and has seen 12 energy retailer bankruptcies. This has resulted from a broad range of factors. With coal and nuclear plants closing, generation margins have become tighter. Two nuclear plants (Dungeness B and Hutton B) are due to be shut down by the coming winter, and the margin is forecast to be down to 3.9 GW, or 6.6%.

Natural gas has been in short supply in Europe, with low reserves and a limited supply from Russia into Europe. This is driving up electricity prices because the UK still has a large proportion of gas-fired generation, despite the transition toward renewables. There has also been a fire affecting the IFA1 electricity interconnector between England and France, which means a significant loss of capacity until March next year.

The rise in the wholesale price of energy has resulted in a number of energy retail businesses, which are subject to a regulatory price cap for residential customers, going out of business.



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