



REGULATORY AND POLICY UPDATE

Quarter 4, 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.

THIS QUARTER'S TREND: REGULATORY COMMISSIONS PLANNING FOR THE FUTURE.

Regulatory bodies all over the U.S. are taking major steps forward to support the transition of the energy system. This includes transitioning to performance-based rate-making, requiring or approving major investments in transportation electrification, and working through federal channels to get approval for interstate transmission investments and offshore wind development. It appears that, both because of state-level legislation and regulator discretion, there is considerable appetite to change the status quo to engender a transition to the future grid.

U.S.

Federal – Congress passed the Infrastructure Investment and Jobs Act, commonly referred to as the Bipartisan Infrastructure Bill. The final statute included \$1.2 trillion in infrastructure funding, \$550 billion of which was previously unplanned spending. Besides things such as transportation, clean water, and broadband access, the legislation funds several aspects of energy system investment, including:

- \$65 billion for grid modernization
- \$7.5 billion in grants for new alternative-fuel stations, including hydrogen, electricity, and natural gas
- Creation of the Office of Clean Energy Demonstrations to bring new energy technologies to market faster

President Biden's Build Back Better Act, which would have included much more in the way of direct investment in alternative energy sources, failed to secure congressional approval. As an alternative, Biden focused on transitioning the government itself to a cleaner footprint, including an executive order directing the federal government to use its procurement power to achieve 100% carbon-

free electricity by 2030, 100% zero-emission vehicle acquisitions by 2035, a net-zero emissions building portfolio by 2045, and net-zero emissions from federal procurement and overall federal operations by 2050.

Arizona – The Arizona Corporation Commission approved the Transportation Electrification Plan, which directs regulated electric utilities to file proposals around transportation electrification every three years and to report their progress annually. The plan's electric-vehicle (EV) adoption scenario anticipates 1.1 million EVs on Arizona roads by 2030. The barriers to adoption identified in the plan include an insufficient charging infrastructure, a lack of access in underserved communities, grid-planning and capacity needs, and the need for an effective rate design. Utilities will file their first plans by June 2022.

In December 2021, the commission's staff proposed an order that, if adopted by the commission, would require utilities to develop 15-year integrated resource plans in even-numbered years. These plans would require a comprehensive analysis of power system resilience to extreme weather.

California – In December 2021, the California Public Utility Commission (PUC) issued Decision D2112011 relating to energy-efficiency actions to enhance 2022 and 2023 summer electricity reliability. The decision approves \$180 million in new energy-efficiency spending and allows utilities to shift other efficiency funds previously allocated to address summer reliability objectives.

Illinois – The Illinois Commerce Commission held a series of stakeholder workshops in fall 2021 to better understand which performance metrics might be used to evaluate electric utility performance. The initiative was in response to passage of the Climate and Equitable Jobs Act that, among other things, requires a transition to performance-based rate-making for utility rate cases. The workshops solicited ideas around performance metrics for affordability, interconnection, customer service, reliability and resilience, peak load reduction, supplier diversity, and pollution reduction. ComEd and Ameren were expected to release their proposed performance and tracking metrics in January of 2022.

Other workshops started in December 2021 around multiyear integrated grid plans. Public Act 102-0662 (enacted in September 2021) requires electric utilities serving more than 500,000 retail customers in Illinois to implement distribution-system planning to accelerate progress on the state's clean-energy and environmental goals and to hold electric utilities publicly accountable for their performance.

Texas – The state's PUC issued an order providing new customer protections for retail electric customers. The order alters the Provider of Last Resort rate formula, limits price volatility, restructures the maximum price cap and removes the alternative price cap, requires utilities to provide information about load-shed and critical customers, and implements Acknowledgment of Risk requirements. The added customer protections are in response to 2021 power system shutdowns.

AUSTRALIA

Annual benchmarking reports highlight the importance of reliability – The Australian Economic Regulator published its Annual Benchmarking Reports for both distribution and transmission electricity network service providers in the national electricity market. The report shows how efficient the network companies are at providing services when compared with their peers. Among the outputs measured is reliability, based on customer minutes of power disruption.

The results showed overall distribution network productivity increased in 2020, representing a continuation of a trend that began in 2015. Looking at the comparative performance, nine of the distribution utilities had become more productive in 2020, while four had become

less productive. The factor driving most improvement was a reduction in operating expenditure. For the four distribution utilities that became less productive, deteriorating reliability was identified as one of the two main drivers, alongside reductions in the amount of electricity delivered to customers.

NEW ZEALAND

Distribution utilities implementing policies to support decarbonization – The Commerce Commission, New Zealand's competition, consumer, and regulatory agency, published analyses highlighting the increased focus by the 29 electricity distribution utilities on policies to support the government's decarbonization objectives.

A review of the companies' asset-management plans found all were engaged in some way with the issues stemming from decarbonization. In many cases, the commission noted planning was at an early stage but that there was an increased focus on electrification, a consideration of new technologies, and a recognition of the need to consider alternative approaches to traditional solutions. Aligned with this, the review noted a range of measures being taken to reduce emissions, including those from sulfur hexafluoride (SF₆), with several examples provided of utilities moving away from purchasing SF₆ switchgear.

The commission's review is part of a wider process aimed at exploring how it should organize its regulatory work program to reflect the challenges facing the sector, of which decarbonization is a significant factor. The outcome of this review is expected to be announced later in 2022.



CANADA

Bill proposes a measure to modernize Alberta's electricity system – In November 2021, the Alberta legislature introduced Bill 86, the Electricity Statutes and Amendment Act. The bill proposes a range of changes designed to support investments in an innovative electricity system and distributed energy resources, encourage competition, and seek leveraging the financial benefits associated with non-wires alternatives.

If successful, the bill could enable a greater role for energy storage, remove barriers for exporting energy to the grid, and require distribution utilities to prepare longer-term investment plans. Much of what is contained in the bill builds on the Alberta Utilities Commission's Distribution System Inquiry published in February 2021. If the bill passes, amendments are expected to be finalized later in 2022.

GREAT BRITAIN

British electricity distribution network businesses outline five-year investment plans – British electricity distribution utilities submitted their final rate filings under the RII0-ED2 Performance-Based Rate framework in December 2021. Overall, the utilities anticipate spending £23.2 billion (\$30.7 billion) from 2023 to 2028, a 23% increase from RII0-ED1 rate spending but slightly down from their earlier draft plans.

Given the United Kingdom's net-zero emissions targets for 2050 (2045 in Scotland) and the energy transition, these allowances potentially could flex upward during the period. Across the electricity distribution utilities, a range of proposals, if accepted, could enable a further £4 billion to £5 billion worth of investment over the RII0-ED2 period.

Reliability continues to be a growing area of focus for the distribution network companies. The utilities are targeting further improvements in System Average Interruption Frequency Index (SAIFI) of up to 20% and in System Average Interruption Duration Index (SAIDI) of up to 25%. They are also focusing on addressing worst-served customers at the grid edge, collectively targeting improvements for 84,000 customers for a total investment of £111 million, a 10% increase from earlier draft plans.

In total, the electricity distribution companies expect more than 6.7 million new electric vehicles to be on the road by 2028 and the connection of more than 2.8 million additional electric heat pumps. All British distribution utilities will shift to a distribution system operator role for RII0-ED2.

COP26 Climate Change talks and the launch of the international Regulatory Energy Transition Accelerator – During the November 2021 COP26 Climate Change talks in Glasgow, Scotland, Ofgem, the International Energy Agency, the International Renewable Energy Agency, and the World Bank launched the Regulatory Energy Transition Accelerator. Its purpose is to enable regulators from around the world to learn from each other's experiences, bringing forward new thinking and turning climate ambitions into collective real-world action.

Twenty-one regulators from throughout the world, including Ofgem, the Australian Energy Regulator, California's PUC and Energy Commission, the Hawaii PUC, the U.S. Federal Energy Regulatory Commission, the New Zealand Commerce Commission, and partner organizations issued a joint statement supporting the accelerator launch.



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