



REGULATORY AND POLICY UPDATE

QUARTER 3 | 2022

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 – INCREASED FOCUS ON DECARBONIZATION OF ENERGY SYSTEMS

During the last three months, numerous initiatives were introduced aimed at supporting the energy sector in tackling climate change. Decarbonization targets are driving policies at both the federal and state level in the U.S., as well as in a number of other jurisdictions.

The specific approaches adopted and the areas of focus often vary, but common themes include the requirement for investment in grid modernization to support future needs. This includes support for the connection of distributed energy resources (DERs) and providing infrastructure for increased electrification. In turn, such measures generally include a focus on improving grid reliability and resilience to address customer demand.

U.S.

Federal – At the start of July, the Department of Energy opened its application window for distributing \$2.3 billion of federal funding to support resilience efforts under the Formula Grant Program. The department will accept applications annually and make \$459 million available each year from 2022 to 2026. Recipients must use the funding on initiatives to prevent outages and improve grid resilience. The 2022 deadline for receiving applications closed on September 30. This represents only one part of the investment package

made available under the Infrastructure Investment and Jobs Act (IIJA), with further funding available for enhancing grid resilience and for reliability and resilience research.



In addition, Congress passed further legislation in August that provides expenditure on clean energy and climate change. The Inflation Reduction Act represents the largest investment in climate change in U.S. history, with \$370 billion committed through a range of components that include clean-energy and manufacturing tax credits, provisions to support electrified transportation, and loans and grants for developing transmission infrastructure.

In July, the North American Electric Reliability Corporation published its 2022 State of Reliability Report, which provides a full overview of 2021 Bulk Electricity System reliability performance. Among the key conclusions was that severe weather events presented ongoing grid-resilience challenges. In 2021, the number of days identified as “extreme transmission days” rose to 17 from 14 in 2020.

The U.S. Energy Information Administration published a report in September that identified renewables as the fastest-growing electricity generation source. The Electric Power Monthly report showed 24% of U.S. electricity generation sources came from renewables in the first half of 2022. This reflected both a record amount of new solar capacity installed in 2021 and a 10% rise in wind capacity between June 2021 and June 2022.



California – Both state legislative chambers approved a bill (AB-2700) requiring publicly owned electric utilities and electrical corporations to upgrade their distribution grids to support the required level of electric vehicle charging. Distribution system electrical grid needs will dictate investment requirements based on forecasting provided by the State Energy Resources Conservation and Development Commission in collaboration with the State Air Resources Board, the Public Utility Commission, and other relevant stakeholders.

Illinois – ComEd has submitted its “Beneficial Electrification Plan” to the Illinois Commerce Commission. The plan supports the adoption of beneficial electrification technologies, including the adoption of electric vehicles (EVs), the deployment of charging infrastructure, and other electrification technologies. ComEd is proposing to commit \$100 million annually over the next three years.

Massachusetts – Gov. Charlie Baker signed into law climate change legislation designed to support the state’s drive to achieve net-zero emissions by 2050. Among the law’s key elements are arrangements to reshape the way the state connects offshore wind, support for an EV charging infrastructure, the development of energy storage, and grid-modernization schemes.

Michigan – The Public Service Commission has initiated a docket to develop guidelines for its low-carbon Energy Infrastructure Enhancement and Development (EIED) grant program. The program enables grants to businesses, non-profit organizations, and local governments to invest in planning design and construction of low-carbon facilities, including electrification programs. Funds totaling \$50 million would be made available. The commission is seeking comments on the proposed program guidelines.

Also, as part of the ongoing Michigan Power Grid initiative (MI Power Grid), the commission issued an order requiring distribution utilities to file their next distribution investment and maintenance plans by September 30, 2023. These plans must place a greater focus on performance metrics, including momentaries, reporting of major event days, and trade-offs between grid hardening, undergrounding, and upgrading lines based on cost-benefit analysis. The commission also indicated its interest in incorporating metrics for DER integration.

Minnesota – As part of wider grid-resilience plans, the state’s Public Utilities Commission approved Xcel Energy’s \$9 million resilience project. The project will involve testing resilience hubs in three Minneapolis neighborhoods. The hubs will comprise combinations of solar, battery storage, and microgrid technology at each location. Xcel Energy expects the projects to be up and running by summer 2023.

Ohio – Ohio Edison Company, The Cleveland Electric Illuminating Company, and the Toledo Edison Company initiated a proceeding seeking authorization for a second phase of their distribution



grid modernization plans. The utilities' plans include more advanced meters, a smart thermostat rebate program, and planned upgrades to distribution circuits.

Texas – A new distributed energy aggregation pilot has been launched. The Aggregate Distributed Energy Resource (ADER) ERCOT pilot project is designed to investigate the scope of DER to support grid reliability in Texas. In August, the composition of a new task force, which will be responsible for guiding the pilot program, was announced. This comprises transmission and distribution service providers, retail electric providers, and ADER providers. The task force will make recommendations for the pilot, present a governing document to ERCOT, and file quarterly reports with the commission outlining progress.

Virginia – Following direction by the Virginia General Assembly, Virginia Energy has launched a process for developing the 2022 Virginia Energy Plan. In accordance with the Code of Virginia, development of a revised plan is required every four years and must identify actions over a 10-year period consistent with the goal of the Commonwealth's Clean Energy Policy.

Wisconsin – The state's Public Service Commission has initiated a docket to determine Wisconsin's approach to administering funding to be made available under the IJA's Formula Grant Program. Among the issues to be considered is how funding will be awarded to eligible entities through a "subaward program." Similar dockets are expected, or are presently progressing, in other states.

CANADA

OEB published performance scorecards for 2021

– The Ontario Energy Board (OEB) has published scorecards detailing performance information for each of Ontario's electricity utilities. Besides updated information for 2021, the scorecards provide details of performance over a five-year period for a range of specific measures covering customer focus, operational effectiveness, public policy, and financial performance.

Among the key points to note from 2021 are that the vast majority of utilities met service-quality targets for the year, and all met customer-satisfaction targets. Regarding system reliability, most utilities experienced improvement in both the frequency and duration of interruptions, although approximately 20 of the 58 utilities experienced a decline in both components of interruptions performance since 2020.



More detailed reports for each utility also were published, providing further context for each company's individual performance.

OEB Framework for Energy Innovation Working Group

– In its work on developing the Framework for Energy Innovation, the OEB is seeking to increase regulatory clarity on the treatment of innovative energy-service technologies and support the deployment of novel, cost-effective utility solutions. Its working group has made several recommendations for the OEB, including that it should:

- Provide guidance on the changing role of local distribution companies and its expectations of them, including their relationships with DER providers and customers and the planning and operation of their systems
- Establish an initial framework and common template for benefit-cost analyses
- Remove DER disincentives, including cost-recovery uncertainties
- Establish an initial DER incentives policy that includes testing incentive structures to determine their impacts
- Establish an initial policy for the sharing information among distribution utilities, DER providers, and customers to support distribution planning and operations

UK

British energy regulator announces innovation funding awards – Ofgem has published its decision to award £8 million to support 18 innovation projects. The funding provided as part of Ofgem’s Strategic Innovation Fund (SIF) will support a range of projects covering whole system integration, digitalization, zero-emissions transport projects, and the electrification of heat.

Ofgem’s announcement is the first of a series of innovation funding decisions expected during the present regulatory period (RIIO-2). The five-year SIF program has made up to £450 million available for projects aimed at supporting the energy transition and helping to meet the UK’s net-zero targets. The next funding phase will open for applications in November 2022.

Responses to Ofgem’s Draft Determinations for RIIO-ED2 – The British electricity distribution utilities and other interested stakeholders have submitted their responses to Ofgem’s draft determination for the RIIO-ED2 performance-based 2023 to 2028 price controls for electricity distribution. Various issues have been raised, including concerns Ofgem has adopted the least ambitious of the forecast scenarios still consistent with achieving net-zero carbon emissions by 2050 and has not placed enough weight on environmental issues.

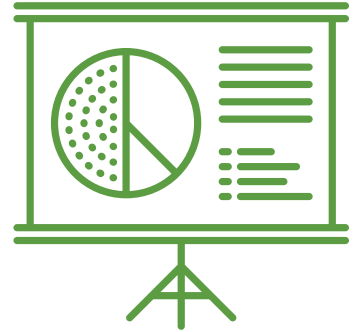
The utilities have also raised issues concerning the scale of Ofgem’s reduction of proposed investment and the approach used for comparative cost assessment. Consumer advocacy Citizens Advice has raised concerns Ofgem’s proposed returns for the distribution utilities are too high and that incentives are not challenging enough. It also has recommended additional work be undertaken to understand the consumer detriment from momentary interruptions.

NEW ZEALAND

Regulator introduces new information-disclosure requirements for distribution utilities

– The Commerce Commission, New Zealand’s competition, consumer, and regulatory agency, published draft decisions on the information 29 electricity distribution businesses will be required to disclose to the public.

The commission divided the review into two parts. Part 1 involves a number of areas identified as “priority issues,” many of which were linked to changes required to prepare for decarbonization. These included enhanced interruptions reporting, qualitative information on both power quality and asset management practices, and reporting on the location and capacity of installed DER. In these areas, revised reporting takes effect in April 2023. Part 2 is not required to kick off until later in 2023.



S&C ELECTRIC COMPANY

100-G515

October 24, 2022

© S&C Electric Company 2022, all rights reserved

