Senate Bill 978-1 – Utility Business Model Study Bill

This legislation would require the Oregon Public Utility Commission (OPUC) to complete a study of whether the current electric utility business model and regulatory compact should be modified to achieve lower cost and more reliable electricity services for end use consumers. This comprehensive review needs to occur immediately because the utilities have near term plans to burden customers for decades with huge amounts of new, expensive utility owned generation.

The electric utility business model is based on a regulatory compact in which utilities are granted a monopoly electric service territory and authorized to recover all their prudently incurred costs, including a reasonable return on their investments. In exchange, regulatory commissions, including the OPUC, act as economic regulators ensuring that the utilities provide adequate service at fair, just and reasonable prices.

These regulatory and economic incentives result in utility resource procurement that favors more expensive and riskier electric company owned electric generation resources over lower cost and less risk non-electric company owned electric generation resources. This bias for owning generation exists because utilities can earn a profit on their own capital investments, but not when they purchase power from independent power producers.

Oregon law and regulatory policy have failed to protect retail electric consumers against electric utility wholesale and retail market abuses, anticompetitive practices, and the regulatory and economic incentives to electric companies that have resulted in utilities refusing to purchase the lower cost and less risk electricity owned by independent suppliers. Since 2008, approximately 95% of the electric capacity additions through the OPUC's approved request for proposal process have been utility owned generation, including the $150 million over budget PGE owned Carty gas generation resource that is the poster child for how utility self-builds put ratepayers at risk.

In a piecemeal fashion, the legislature has made a variety of efforts to require electric utilities to better serve their customers and fulfil Oregon's energy policy goals. These include adopting a public purpose charge and greenhouse gas reduction goals, requiring the independent management of utility conservation programs, allowing commercial and industrial customers to purchase electricity from an entity other their distribution utility and all customers to sell distributed generation, removing the costs of coal fired generation from rates, requiring investments in renewable energy, community solar, electricity storage and transportation electrification, promoting non-utility owned renewable generation, and modifying utility resource planning and procurement.

None of these legal and policy changes have addressed the fundamental regulatory and economic incentives that drive utility decision making. The OPUC should conduct a study to comprehensively and holistically review whether the state's wide variety of energy laws and policies (which still provide utilities with an incentive to own all generation resources) are sufficient to ensure end use consumer rates are fair, just and reasonable, and that the utilities take actions consistent with Oregon's energy policies.

The legislature needs to act now because Portland General Electric Company and PacifiCorp are planning on significant new capital investments in new electric generation in the near term. Without immediate action, Oregon ratepayers may unwittingly continue to be forced to shoulder the costs of unnecessary and high cost utility owned generation for decades to come.