

MEMO



DATE: February 7, 2022

TO: Senate Committee on Energy and Environment

FROM: Michael Grant, Executive Director, Public Utility Commission

SUBJECT: Senate Bill 1518

In response to your request, here is information about the implications for utility customers under Senate Bill 1518. The PUC takes no position on SB 1518, but offers this letter to help inform legislators of the implications of this proposed legislation.

For the reasons explained below, SB 1518 would require customers of investor-owned electric utilities (Portland General Electric and PacifiCorp) to help fund the costs to meet increased energy efficiency standards required by municipalities adopting the Reach Code.

The Oregon PUC

The PUC's mission is to ensure that Oregon utility customers have access to safe, reliable and high-quality utility services at just and reasonable rates. Our agency is led by a full-time, three-member Commission appointed by the Governor and confirmed by the Senate. For our purposes here, we regulate three electric utilities: PGE, PacifiCorp, and Idaho Power. We implement a variety of statutory directives, adjudicate legal disputes, and engage with a wide array of stakeholders and policymakers in the energy, telecommunications, and water sectors across the state.

Energy Efficiency

The PUC is a strong proponent of energy efficiency, and has required energy utilities to plan for and acquire cost effective measures since our adoption of our least cost planning principles in 1989. Energy efficiency is one of the most affordable resources, and benefits customers by helping utilities avoid having to invest in new, higher cost resources to meet customer's energy needs.

Under ORS 757.054, Oregon's three regulated electric utilities, PGE, PacifiCorp, and Idaho Power, are now required under law to pursue and acquire all cost effective energy efficiency measures. Two of these utilities, Portland General Electric Company and PacifiCorp, work closely with the Energy Trust of Oregon, who acquires energy efficiency measures on behalf of the utilities through incentives and other programs.

Senate Bill 1518

SB 1518 allows a municipality to adopt the Reach Code, established by the Department of Consumer and Business Services, as a minimum construction standard for residential and commercial buildings. The Reach Code requires that standards for energy efficiency achieve a site energy use of not more than 90 percent of the site energy use that other statewide residential and commercial codes require.

Section 4(3)(d) of SB 1518 further provides that:

If a municipality adopts the Reach Code and requires adherence to the Reach Code as a minimum construction standard and method, measurement of energy efficiency savings and related incentives must remain subject to the statewide residential and commercial codes, as must measurements of cost effectiveness and payment of incentives under ORS 757.054 and 757.612.

Energy Trust Incentives

This change would impact two Energy Trust incentive programs: New Homes and New Buildings. Over the past six years, Energy Trust provides, on average, approximately \$11 million annually on new homes and new commercial building incentives for electric utilities.

- New Homes Electric: \$4.4 million annually
- New Construction: \$6.6 million annually
- Approximately 9,000 new homes are built annually in Energy Trust territory
- Energy Trust incentives on-average capture about 33 percent of all new homes built annually

Like other energy efficiency incentives, these programs are designed to reduce energy usage. Passage of SB 1518 will increase the amount of energy efficiency these measures would obtain, thus providing value to all utility customers that pay for these incentives.

Although SB 1518 does not modify the incentives offered by Energy Trust, Section 4(3)(d) does require a change to policy regarding the cost-effectiveness test applied to assess the value of the energy-efficiency investment. Currently, the Energy Trust does not provide these energy efficiency incentives to help meet standards mandated by code. It is not considered cost-effective to provide incentives to free-riders—that is, participants who are required to install the same energy efficiency measures if there had been no incentive program.

Impacts to Customers

If passed, SB 1518 will increase the Energy Trust's new homes and new commercial building incentive budgets for PGE and PacifiCorp as municipalities adopt the Reach Code. Under Section 4(3)(d), the cost-effectiveness would be measured based on statewide codes, thus requiring incentives to be paid to meet the higher standards required by the municipality.

With so many variables, it is difficult to estimate the size of the increase. Some of these variables include the number of municipalities adopting the Reach Code, the amount of new construction in those communities, and the number of developers seeking Energy Trust incentives. Energy Trust estimates that the average incentive provided to a home to meet the Reach Code in 2022 would be \$2,355.

Although the increased incentives would help reduce overall energy usage and benefit all customers, the adoption of the Reach Code across the state could potentially raise an equality issue. A municipality adopting the Reach Code is likely to receive a greater proportion of Energy Trust incentives than one who does not. These increased incentives, however, would be funded from rates charged to all ratepayers—not just the residents of the municipalities adopting the Reach Code. Thus, customers of other municipalities will be providing direct support to help fund the Reach Code incentives to other municipalities. While customers currently fund Energy Trust incentives provided in other communities to meet standards above statewide building codes, the passage of SB 1518 would likely increase the amount of the incentives and highlight environmental justice concerns about the equal expenditure and investment of funds by the Energy Trust throughout the service territories of PGE and PacifiCorp.