



To Senate Committee on Energy and the Environment Support for SB 688 – Performance Based Regulation

March 8, 2025

Chair Sollman, Vice-Chair Brock Smith and members of the committee,

My name is Dr. Pat DeLaquil. I am an energy system modeler and climate policy analyst, and I am testifying today on behalf of MCAT (Mobilizing Climate Action Together), a community of volunteers working on advancing a healthy climate and a green economy for future generations.

Performance-based regulation is an alternative to traditional cost-of-service regulation that aims to improve the alignment between how we incentivize our investor-owned monopoly utilities and the interests of customers and society. You will likely hear some comment that we don't need performance-based regulation, but here are reasons why we do need it.

Under traditional cost-of-service regulation, capital expenditures deemed prudent by the regulator are added to the utility's rate base upon which the utility earns a return. But the utility earns no comparable return on operating expenses, which are a pass-through cost to ratepayers. This leads to two perverse incentives.

First, it creates a strong financial incentive for utilities to spend more money than needed on infrastructure because their rate of return is directly tied to their level of infrastructure investment. This incentive is counter to the societal need to keep rates as low as possible.

Second, it incentivizes utilities to prioritize capital expenditures over operating costs. This affects utility decision-making in several areas. For example, a utility will prioritize building its own generation infrastructure rather than purchasing power from a third party through a power purchase agreement. Even when competitive proposals are solicited from independent power producers, the process is often slanted towards utilities-owned options. This slows the pace of investment in clean energy and raises rates, as potential lower cost supplies are often disallowed due to interconnection and transmission access issues that the utilities control. Another example is utility preference traditional poles-and-wires projects over non-wires alternatives, including energy efficiency and distributed resources.

The traditional cost-of-service regulation model is also not responsive to growing priorities such as the need to reduce carbon emissions, enhance customer choice, and improve social equity. PGE's recent request for proposals for new clean generation procured much less capacity than anticipated. PacifiCorp cancelled their latest request for new clean generation, and was found by the Oregon Public Utilities Commission to not be making adequate progress on their HB 2021 targets. Furthermore, new solutions, such as distributed generation and storage, demand-flexibility programs and virtual power plants are emerging solutions that have specific advantages over big utility-owned assets but are not being prioritized in spite of encouragement at the Oregon Public Utilities Commission.



I urge you to support SB 688 and give the Oregon Public Utilities Commission authority to develop a performance-based regulatory framework that continues to provide our public utilities with an adequate rate of return but also provides incentives that keep rates as low as possible, and better alignment towards achieving our broader societal goals.

MCAT Steering Committee

Brett Baylor, Rick Brown, Pat DeLaquil, Dan Frye, Debby Garman, Michael Mitton, Rich Peppers, John Perona, Rand Schenck, Joe Stenger and Catherine Thomasson