



REGULATORY AND POLICY UPDATE

Quarter 3, 2019

This brief update is designed to share 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 that 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.

U.S.

Federal – The National Association of Regulatory Utility Commissioners (NARUC) and utilities have partnered to sue the Federal Energy Regulatory Commission (FERC) in the U.S. Court of Appeals, District of Columbia Circuit, over Order No. 841. The FERC directive opens the door for batteries and other energy storage technologies to participate in wholesale electricity markets, even if they are behind a retail meter. The Energy Storage Association contends Order No. 841 will open more markets for the storage industry, which will allow broader deployment of energy storage to support grid reliability and higher penetrations of renewables. NARUC, however, argues FERC went outside of its own jurisdiction and has created an “arbitrary and capricious” order.

California – PG&E on October 9 shut off power to 800,000 Northern California customers in a preemptive measure to reduce the risks of power lines causing a wild fire. PG&E had previously shut off power to 24,000 customers in September through permission granted earlier this year by the California Public Utilities Commission (CPUC). Now, CPUC has opened a docket to evaluate the use of de-energization to refine and improve this approach, with the ultimate goal being a balance between improving public safety and avoiding impacts on residents and businesses. New legislation is also focused on this issue. Gov. Newsome in October signed 22 wildfire-related bills, tackling measures such as increased oversight of PG&E, requiring utilities to mitigate the negative effects of power shut-offs, and increasing the focus on undergrounding lines.

On the microgrid front, in September CPUC through rule-making implemented SB1339, a law enacted in September 2018 that directs the creation of regulations, standards, and guidelines around who can own microgrids, how they are regulated, and how the state can best deploy them. CPUC is accepting stakeholder input on this proceeding.

Florida – The Florida Public Service Commission is developing rules to implement SB796, a law enacted in June to allow utilities to collect additional money to place more of their lines underground. Instead of building this into the rate base, the law allows for a separate process to collect money from end-users to pay for storm-hardening efforts. At least every 3 years, utilities must submit updated 10-year plans to harden their grids to reduce the prospects of long-term, widespread power outages following hurricanes. Commission staff members have solicited feedback from utilities to help better understand what they’ll need to make this happen, and they have begun receiving responses. Draft rules were presented to commissioners on October 3. Once the commission approves the final rules, the utilities will file their 10-year plans.

Hawaii – Hawaii is working to implement HB2110, a law passed in July 2019 directing the establishment of a microgrid-services tariff to encourage more microgrid development on the Hawaiian Islands. A working group led by the state’s electric utilities is gathering stakeholder input around a microgrid-tariff design, and experts from around the world are participating to help craft this first-of-its-kind mechanism. The stakeholder group will present its findings to the Hawaiian Public Utilities Commission in early 2020.

Hawaii has also completed phase one of its performance-based regulation proceeding designed to set intended goals and to lay out steps to reach them. The second phase will be focused on the development of specific performance-improvement mechanisms. Initial working group meetings were held in August 2019. Subsequent proposal updates and technical workshops will occur through May 2020. The working groups’ final proposals will be reviewed during a formal briefing period lasting through October 2020. The phase two decision and order is anticipated for December 2020.

Maine – The Maine Public Utility Commission (PUC) has opened rulemaking to implement LD1494, the 2019 act to reform Maine’s renewable portfolio standard. The act, which became effective September 19, 2019, made several adjustments to Maine’s renewable portfolio requirements, including:

- Changes to resource eligibility
- Creation of a new renewable resource portfolio requirement of 80% by 2030 and 100% by 2050
- Application of a 300% multiplier for the output of a generator fueled by municipal solid waste

Nevada – In July 2019, the Nevada PUC opened a docket to implement SB300, a bill directing the exploration of alternative ratemaking. The PUC will look at performance incentives, decoupling mechanisms, and earnings-sharing mechanisms. The goal of this effort is to improve utility performance and help achieve the state’s goal of transitioning to 100% clean energy. The PUC held a stakeholder workshop in September 2019 to garner input on this issue.

New York – The New York State Energy Research and Development Authority has developed a [new clean energy dashboard](#)● to track progress of its programs and utility energy efficiency investments. The tool enables users to explore—by clean energy program—budgets and emissions reductions, among other metrics. It pulls data previously provided in documents filed with the state’s PUC.

Ohio – Ohio’s legislature has approved HB6. Signed by Gov. DeWine in July 2019, the law provides a financial bailout to two coal plants and two nuclear plants because they are not economically viable. At the same time, the law reduces Ohio’s renewable portfolio standard from 12.5% in 2027 to 8.5% by 2026, exempts large industrial customers, and eliminates the standard after 2026. The law also reduces the utility energy efficiency standard from 22.5% to 17.5%. Critics view the law as being environmentally regressive and anti-competitive.

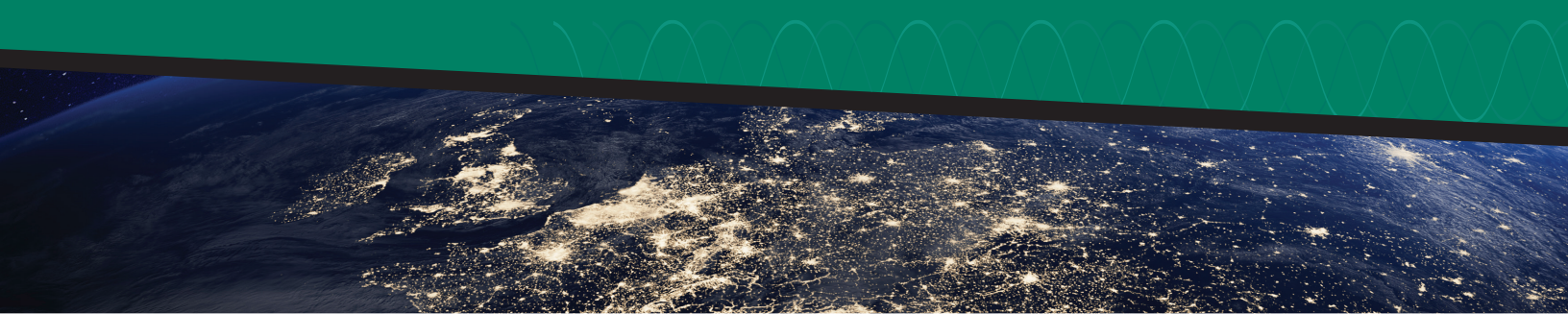
Virginia – Virginia Gov. Ralph Northam issued an executive order in September 2019 setting a goal for Virginia to produce 100% of its electricity from carbon-free sources by 2050. The order sets an intermediate goal of 30% renewables by 2030. The commonwealth’s agencies and executive branch will aim to procure at least 30% of the electricity from renewables by 2022. Virginia’s Republican-controlled legislature has resisted Northam’s attempts to pass legislation limiting power plant carbon emission. Every seat in the legislature is up for reelection in November 2019, so that election will have considerable impact on the pace of clean-energy development in the state.

CANADA

Alberta – The Alberta Utilities Commission (AUC) has requested feedback from utilities, the Alberta independent system operator (AISO) and stakeholder groups around how new technologies such as distributed energy resources (DERs), electric vehicles (EVs), and energy storage will affect Alberta’s grid. In general, the utilities agree these technologies will continue to gain greater ground and will require proactive planning, transition to a two-way power flow system, and provide better data and analytics about the system. Most agreed EV penetration in Alberta would be slower than in other parts of Canada. The Utilities Consumer Advocate, which represents the interests of electricity and natural gas consumers in Alberta, also responded with warnings about rate designs that ignore lower-income customers, either by making investments too quickly or by straddling them with grid costs while others secure third-party energy sources. This query is part of AUC’s efforts to update its regulatory model to help the transition to the grid of the future.

Ontario – The Ontario Energy Board held a three-day stakeholder meeting in September 2019 as part of its effort to update how utilities are paid for their investments in and operation of the grid. There were presentations from utilities, industry experts, and stakeholder groups. Among the noted trends and observations:

● New York State Clean Energy Dashboard (<https://rev.ny.gov/cleanenergydashboard>)



- The energy sector is in flux, and customers will be better served if utilities can adapt.
- There should be flexible regulatory arrangements that can be adapted in tandem with new technologies and as the industry changes.
- Regulatory barriers to the development of DERs and reward innovation must be removed.
- Most presenters indicated the value of DERs on the system will outweigh the costs/complexity; non-wires alternatives were an often-cited example.
- Most presenters discussed the need for any framework to be customer-focused.
- Many non-utility presenters wanted to limit utility activities and promote open competition for DERs and services.
- Some utilities took a more skeptical view about how well markets could deliver new solutions, saying their experience would be a vital part of bringing new solutions to market.
- Many speakers stated that, if a utility is asked to integrate DERs without any financial benefit to that work, the system will not work properly.
- Any changes must consider the huge expected impact of transportation electrification.

U.K.

August Blackout – The British energy regulator, Ofgem, is investigating a blackout that occurred on August 9, 2019, affecting approximately 1 million British customers. A lightning strike on National Grid's transmission networks caused an immediate loss of 150 MW of small distributed generation (DG). Together with the loss of supply with two transmission-connected generators, this caused a rapid fall in frequency, which tripped off a further 300 MW of DG. National Grid Electricity System Operator (ESO) had 1 GW of reserve power. However, factoring in the loss of DG, the cumulative loss of generation was 1.5 GW and a further fault meant that 1.1 million customers (1.1 GW of demand) were disconnected for up to 45 minutes.

Some observers have noted this highlights a growing fragility of the UK electricity system, as transient faults such as lightning can trip off large volumes of DG and cause further problems for the stability of the grid. National Grid makes several recommendations, including increasing the amount of frequency response that's available to 2 GW and reviewing the security standards. Ofgem is considering what action to take in response to the event, including whether to impose any penalties and what changes need to be made to increase system security.

RIIO-2 for Electricity Distribution – Meanwhile, Ofgem recently began work on the second round of RIIO rate-case arrangements (price controls) for electricity distribution, known as RIIO-ED2. The RIIO arrangements are one of the pioneering and best-known examples of Performance-Based Regulation (PBR).

A key aspect of RIIO-ED2 will be the ongoing development of the Distribution System Operator (DSO) role. Ofgem sees the DSO as a set of functions and services that need to happen to run the future smart electricity distribution network. We have set out further thoughts on RIIO-ED2 in a [Grid Talk blog](#) item ●.

● S&C Grid Talk Blog, "[RIIO-2, Reliability and the Energy Transition](https://www.sandc.com/en/gridtalk/2019/august/15/riio-2-reliability-and-the-energy-transition/)," August 15, 2019 (<https://www.sandc.com/en/gridtalk/2019/august/15/riio-2-reliability-and-the-energy-transition/>)



S&C ELECTRIC COMPANY

100-G503

October 21, 2019

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