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Testimony of Representative Gerry Runte introducing
LD 2172 An Act to Enhance Electric Utility Performance-based Ratemaking
Before the Energy, Utilities and Technology Committee

Senator Lawrence, Representative Ziegler, and fellow members of the Joint Committee on Energy, Utilities, and Technology, I am pleased to present **LD 2172, a bill that directs the Public Utilities Commission to enhance utility performance by developing a comprehensive performance-based rate design.**

This legislation represents a departure from traditional utility regulation, designed to align regulation with the urgent needs of climate change, energy affordability, and the reliability of our utility systems.

I want to speak first about the role of regulation, then about definitions, what this bill attempts to accomplish, and some additional thoughts.

Our rate regulatory structure establishes the foundation and basis for how our electricity system operates. When utilities began to be regulated and given monopoly franchises, the goal was to encourage the rapid build-out of the electricity system and maintain affordability by moderating utility profits.

A set of rules was created—termed "cost of service regulation"—and they succeeded exceptionally. Most businesses and residences could get all the power they needed at an affordable rate, and electricity became an essential driver in growing our economy.

Regulated utilities are rules-driven entities - they responded to a set of rules designed to achieve those original goals. But times – and our goals - have changed. Cost of service regulation never contemplated our current climate goals, needs for greater operational efficiency, demand management, or the multidirectional electricity flow that occurs with locally generated power coming into the grid.

We cannot expect utilities to meet our expectations if the rules under which they operate are not aligned with our goals.

What do I mean by "performance-based ratemaking" (PBR)? PBR is a regulatory approach that has been around for many years and has taken many forms. About 17 states have initiated modern versions in the last five years.

I suspect the common understanding of PBR is that it just modifies the cost of service-based return in a rate case up or down based on how the utility performs on common standards, such as reliability. Or that PBR doesn't work- "we've tried that in the past and it didn't work".

I am not proposing a rate adjustment mechanism that applies awards or penalties to traditional rates, or exhuming poorly designed programs in the past is what is being proposed.

What I am proposing is that the commission assess and perhaps implement innovative regulatory reforms incorporating performance. That may seem like semantics, but the distinction between the two is essential. Equally important is to develop this rate reform in the context of a holistic look at the functioning of the grid and how rates, structure, incentives, and technology all work together to achieve our goals.

The commission requested section 1 of the bill to clarify its authority to apply performance metrics in regular rate cases.

Section 2, part 1, requires the commission to open a proceeding to consider a far more comprehensive version of the scorecard system initiated by LD 1959 in the 130th Legislature. This proceeding begins with identifying clear goals for utility performance that consider and support Maine's Climate Action Plan, integration of distributed energy resources, climate resilience, grid modernization, and the currently underway grid planning process.

Once these goals are established, with stakeholder input, the commission would identify specific objectives for utility performance and then translate them into metrics to evaluate performance, as detailed in Section 2, part 2.

Section 2, part 3 requires the commission to evaluate and consider innovative rate designs to align performance with metrics. Alternatives and possible changes to traditional rate design are described.

Section 2, part 4 assures significant stakeholder engagement, and part 5 sets up a reporting requirement to ensure accountability and continuous improvement and alert the Legislature to any recommended additional legislation necessary to maintain the program.

Developing new rate designs, administering the development of goals, objectives, and metrics, implementing the results, monitoring progress, and modifying the program in the future is a non-trivial exercise and will only happen after some time. We have witnessed how long it has taken

to implement the scorecard from LD 1959. Section 3 directs the commission to create a technical policy group focused solely on PBR, augmented with three additional full-time employees. This group will play a vital role in ensuring that the commission's regulatory approach is informed by the latest technical insights and responsive to evolving challenges and opportunities in the energy sector.

It is important to note that some view PBR as a collection of punitive adjustments to traditional ratemaking administered in an adversarial environment. Such a situation would be counterproductive and a recipe for failure.

LD 2172 emphasizes the development of innovative regulatory reforms and the importance of stakeholder input in all process stages. It ensures that the perspectives of all affected parties, including state agencies, ratepayers, environmental advocates, and especially the utilities themselves, are considered in shaping the future of our energy system.

This inclusive approach is crucial for developing fair, adequate, widely supported regulatory frameworks.

This bill represents a crucial step forward in modernizing our utility regulation to meet the demands of the 21st century. It promises to improve our utility services' efficiency and reliability and significantly contribute to our state's environmental and climate objectives. Setting clear expectations can drive innovation and investment in our utility infrastructure, benefiting Maine's ratepayers and the environment for future generations.

Thank you for considering this important legislation. I look forward to your questions and the opportunity to work together in refining this bill.

Gerry Runte