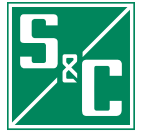


# REGULATORY & POLICY UPDATE

QUARTER 3  
2023



This brief update is designed to share with S&C's clients. It describes where we see 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 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.

## This Quarter's Trend: The Renewed Focus On Delivering Net-Zero Targets

Across the globe, federal, state, and local jurisdictions have set a range of decarbonization targets. In the last quarter, there was evidence of several initiatives reinforcing those targets. In some cases, the support took the form of additional funding; in others, it involved launching new roadmaps to either guide or prioritize actions. Overall, there is a recognition the electricity sector has a key role to play in achieving net-zero goals. In turn, that means a key role for reliable and resilient electric grids.

### United States

**Federal**—The U.S. Department of Energy has begun allocating funding for investments in grid resilience under the Formula Grant Program. The funding was made available under the Infrastructure Investment and Jobs Act. To date, 750 million dollars has been allocated to 48 states and 49 tribal nations, Puerto Rico, and Washington, D.C. This represents funding for the first two fiscal years of the program. More funding is expected over the next three years.

The application processes under the Energy Improvements in Rural or Remote Areas program have closed for the first funding round. The program is intended to improve the reliability, environmental impact, and climate resilience of energy systems in communities with 10,000 or fewer people. More rounds of funding are expected, with the associated process to be announced soon.

In July, the application process opened for securing approximately 11 billion dollars in grants and loans from the U.S. Department of Agriculture. Two initiatives that are part of the Inflation Reduction Act—the Empowering Rural America program and the Powering Affordable Clean Energy program—are making the funding available. In the first stage, applicants were required to provide “Letters of Interest.” Awards are expected to be announced starting in September 2023.

**Colorado**—Plans were announced to update the state's Greenhouse Gas Pollution Reduction Roadmap. First published in January 2021, the roadmap details the pathway to reduce statewide greenhouse gas pollution. The state is now working on “Roadmap 2.0” to guide near-term actions and has published details on open meetings and sector roundtables. The overarching aim is to finalize the roadmap by the end of 2023.

**Delaware**—The Delaware Climate Change Solution Act 2023 passed both legislative chambers. The bill creates a framework to achieve the state's emission-reduction targets for 2030 and 2050. Among the key areas of focus are creating a pathway to reduce greenhouse gas emissions and increasing the state's resilience to the effects of climate change.

**Maine**—Governor Janet Mills signed legislation (LD 952) directing the Governor's Energy Office to launch a study into the design of a distribution system operator. The announcement is part of wider plans to modernize Maine's grid to meet the challenges associated with the growth of distributed energy resources, such as solar photovoltaic panels, electric vehicles, and batteries. A key focus is meeting the combined objectives of reducing costs,

improving reliability performance, and achieving the state's climate goals.

Also in Maine, the state's Public Utilities Commission issued an order approving the adoption of service quality standards for Versant Power and Central Maine Power. Among a range of factors, the order approved reliability benchmarks and associated enforcement provisions for failure to achieve those benchmarks. This represents a step toward performance-based metrics reflecting a trend experienced in some other U.S. states.

**Maryland**—The Maryland Department of the Environment released Maryland's Climate Pathway Report outlining how the state can meet its climate goal to reduce greenhouse gas emissions by 60% by 2031. The report contends the largest contributions would come from the electricity and transportation sectors. To realize the reduction needed in the electricity sector, the report suggests focusing on phasing out coal, stabilizing the grid, and accelerating the deployment of renewables. For transportation, a key barrier identified was putting an infrastructure in place to support the transition to electric vehicles.



**Michigan**—DTE Electric Company filed a settlement agreement in relation to its Clean Vision Integrated Resource Plan covering the period to 2042. Highlights of the plan include discontinuing coal use by 2032 while increasing the focus on renewables to power approximately 4 million homes, investing 11 billion dollars over the next 10 years to support Michigan's sustainability goals, and investing 100 million dollars to support vulnerable customers. The Michigan Public Service Commission planned to consider the settlement agreement.

**Puerto Rico**—On July 31, the Grid Deployment Office released a funding opportunity for up to 450 million dollars to support residential rooftop solar and battery storage installations. The funding is part of the broader Puerto Rico Energy Resilience Fund, which includes 1 billion dollars to support investment in renewable energy and resilient infrastructure on the island. The fund was launched in response to the Hurricane Fiona in October 2022. More opportunities under the fund are expected.



**New York**—The state's Public Service Commission issued an order to identify technologies to address the challenges posed by renewable technologies for future system reliability needs. The order recognizes the significant changes expected to the state's generation base, with the aim that renewable energy would serve at least 70% of load by 2030. As a first stage in the process, the commission launched a 60-day public consultation.

**Texas**—A bill passed that will allow utilities to adjust their distribution rates to account for changes in capital investment between rate-case proceedings. SB1015 increases the number of times an electric utility may adjust rates annually from once to twice and removes the cap on the number of adjustments made between rate-case proceedings. The only limitation is where a utility has a base-rate proceeding pending. In such cases it cannot file before the 185th day after the proceeding was initiated. These changes more closely align the distribution and transmission arrangements.

Also in Texas, Governor Abbott signed a bill enabling electric utilities to file a plan to improve transmission and distribution systems resilience. House Bill 2555 identifies various methods to improve resilience, including hardening/



modernizing facilities, undergrounding distribution lines, and implementing other measures to mitigate the threats extreme weather and cyberattacks pose. A utility would recover its costs through either a rate rider or as a regulatory asset through a rate-case proceeding, subject to Public Utility Commission of Texas approval.

## Global

### Australia

**Regulator publishes annual electricity network performance report**—In July, the Australian Energy Regulator published a report providing insight into the 2022 performance of the energy sector in the Australian National Energy Market.

The Electricity Network Performance Report focused on the performance of the country's electricity distribution and transmission grid companies. Among the key report findings:

- Overall network expenditure (operating and capital expenditure) decreased in 2022. The distribution grid companies also underspent against their forecasts by approximately 15.6%.
- In aggregate, customers experienced a slight increase in both the duration and frequency of distribution outages in 2022 compared with the previous year. However, the longer-term trend (since 2010) indicates improvement in outage performance.

- Rural customers continue to experience longer and more frequent interruptions than urban customers, and the gap widened slightly in 2022.

### Canada

**Ontario regulator reviews policy on utility consolidations**—In July, the Ontario Energy Board launched a consultation on the process used for approving electricity distributor and transmitter consolidations, including the associated ratemaking policies. Specifically, the board is seeking views on changes to the handbook used for mergers, acquisitions, amalgamations, and divestitures. The review is intended to identify barriers to consolidation and measures to ensure customers are protected.

### Great Britain

**British Electricity System Operator publishes Future Energy Scenarios**—In July, National Grid published updated scenarios to support the decarbonization of the energy system. The 2023 Future Energy Scenarios (FES) report provided an annual update on different pathways for Britain's energy system to 2050. Among the key messages from the report were:

- The importance of addressing uncertainty for both investors and consumers
- The critical role of information and incentives in driving consumer behavior

- The requirement for “whole system thinking” to optimize the cost of delivering the required infrastructure

A range of stakeholders in Britain use the FES report for grid-investment and other purposes.



#### **Ofgem announces more innovation funding—**

British energy regulator Ofgem awarded 95.3 million pounds to 10 projects as part of the Strategic Innovation Fund. Introduced as part of the last revenue-setting process, RIIO-2, the fund is designed to support projects that address strategic challenges in one or more energy sectors. The projects cover challenges relating to whole system integration, data and digitalization, heat, and zero-emission transport. Specific projects awarded funding in this round will:

- Use data and artificial intelligence to prevent safety incidents
- Use data to improve forecasting of network faults and risks
- Investigate whether direct current breakers can allow wind farms to connect a direct-current network

In total, the fund will make available 450 million pounds by 2026. The next round is due to open in autumn 2023.

