

OPINION | COMMENTARY

## How Utilities Team Up With Greens Against Consumers

Oregonians are learning that electric companies like renewables because costlier systems increase profits.



Vehicle charging stations at Portland General Electric headquarters in Portland, Ore. PHOTO: ASSOCIATED PRESS

By **TRAVIS KAVULLA**

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If you can't beat 'em, join 'em. This is the attitude that large electric utilities in Oregon have brought to their state's 2016 legislative session. Threatened with a sure-to-pass ballot initiative from energetic green activists, Portland General Electric and Pacific Power decided to forestall the referendum by cutting a deal instead.

The utilities' bargain—tucked inside Oregon's H.B. 4036, which the House passed last week, and S.B. 1547, which it is expected to take up soon—gives the greens what they want: no coal serving Oregon customers within two decades and a huge expansion of renewables to 50% of the power supply by 2040.

What do utilities get in exchange? Oregonians already have little choice in which company serves them, but the legislation restricts competition even further—in case customers of a newly clean-and-green utility have second thoughts when they see their power bills rise. Under the proposal consumers would essentially buy out power companies for their remaining investment in coal plants, as well as cover the projected cost of decommissioning these plants before the

end of their useful lives. The bill also carves out special ratemaking treatment for everything from investments in renewables and energy storage to charging stations for electric vehicles.

Legislators and much of the Oregon press have heralded the bill as a historic compromise, the moment when the clouds parted and citizen climate activists forced big, greedy corporations to recognize the error of their ways. They're forgetting that utilities typically enjoy a "cost of service" revenue model. Every dollar they spend, they get back from a captive base of customers over time—together with an annual return on the undepreciated amount of their investment.

In other words, unlike companies doing business in a competitive market, for whom unnecessary spending is a deadweight on earnings, utilities actually profit from building a more costly system, so long as it is politically popular. If Egyptology suddenly came into fashion in Oregon, and enthusiasts convinced the state to use its ratemaking powers to advance the cause, utilities would gladly build a pyramid in Portland, and they would make money doing so.

So it goes: Environmentalists put their feel-good sentimentalism into action by leaning on their lawmakers; the state uses its power to make regulated electric companies into a vessel of green activism; and utilities agree in exchange for being able to drive shareholder returns with risk-free investments on the backs of captive customers.

That is what lobbyists call a win-win—and not only in Oregon. Similar arrangements have coursed through legislative or regulatory processes in Nevada and Colorado, and are pending in Ohio and Washington. In some cases, lawmakers include a kickback for labor interests or an opt-out for industrial firms that might flee if their power rates rise. But everywhere the generic template is the same.

State lawmakers considering these kinds of deals ought to mull the concept of legislative modesty. Not every topic calls out for grand compromise, or horse trading between interested parties. Utility regulation is pretty boring—and it is meant to be. The goal is to simulate a competitive market as best as it can, to ensure that power companies procure the lowest cost, most reliable service. Deals like the one in Oregon only muddy the waters.

This isn't to say that regulators have no business considering carbon-dioxide and air pollutants. Once the Environmental Protection Agency or a state air-quality board establishes a lawful standard, utilities and state public-utility commissions should hit those targets, while minimizing costs.

But that is not what these logrolling initiatives in state capitols do. The one thing absent from all of these efforts is a straightforward attempt to deal with emissions. They are, at best, a roundabout way of

dealing with them—and only then by spending double the money to appease special interests.

In a paramount irony, the Oregon bill probably will not result in the closure of a single coal plant, even though consumers are being charged for the cost of decommissioning. One utility subject to the legislation, Pacific Power, has a stake in coal plants that serve customers in six states. It could simply reallocate coal-generated power to customers outside Oregon. The other utility, Portland General Electric, co-owns a coal plant with several Montana utilities. It could easily sell its interest in the plant in 2030 or swap its output with another utility for an allocation of hydroelectric or gas-fired power.

At least green activists will get to say they meant well.

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