

# Utilities 2020

Changing Utility Business Models and  
Transforming Utility Regulation

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# Thesis: Pressures on utilities to change

- Aging plant
  - Brattle Group: \$2 trillion investment over next 20 years
- Tougher environmental requirements
  - Criteria pollutants
  - Greenhouse gases
  - Coal ash
  - Water restrictions
- Flat to declining sales of electricity

# Thesis: Pressures on utilities to change

- New technologies
  - Smarter grid
  - Distributed generation: solar, CHP, micro turbines
  - Electric vehicles
  - Low cost wind—Xcel example
- Changing consumer requirements
  - Disintermediation by third parties
- Weakened industry financial metrics
- **Pressures leading to “restructuring 2.0?”**

# What we've heard from utility CEOs:

- CEOs want a clearer, more consistent direction from state energy policies
- Utilities have inadequate incentives for innovation, firm level efficiency
- Commissions need a better understanding of the utility business and its needs
- Utilities want certainty on climate policy
- Utilities want healthier working relationships with commissioners and staff

# What we've heard from commissioners:

- A primary concern is with increasing utility rates
- Regulators are open to modifying the regulatory model; looking for ideas
- Some commissioners are dissatisfied with the adversarial process
- Many commissioners face severe barriers to communications with stakeholders, and even fellow commissioners
- Commissions have inadequate resources

# Three Possible Utility Roles

- Minimum: markets provide power and services, utilities manage wires
- Moderate: “orchestrator” “smart integrator”
  - Risk aware planning; regulated “make or buy” decisions; consumer service packages
- Maximum: Nebraska, Moorland Commission
  - Disaster recovery
  - Climate adaptation

# Three Potential Regulatory Models

- The UK “RIIO” model
  - Price cap built on RPI-X, with decoupling
  - Output regulation
    - Reliability, Environmental, Innovation, Price, Efficiency, Social Responsibility
- The “Iowa Model”
  - Seventeen years of constant rates, settlements, diminished focus on earnings levels
- The “Grand Bargain”
  - Comprehensive multi-year output-oriented deal
  - Regulator led