Challenging the Traditional Utility Business Model

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Characteristics of Ancien Regime

• Limited Upside Potential
• Asymmetric Downside Risks
• Absence of Meaningful Price Signals
• Limited Spectrum for Socializing/Privatizing Risks
• Bundled non-Discreet Services and Incentives
Critical Industry Changes

- Rapidly Changing Technology
- Changing Nature of Consumer Needs and Demands
- More Consumer Options
- Greater Awareness of Externalities
Emergence of Competition and Unbundling

- Potential of Service Specific Focus:
  - Generation
  - Transmission
  - Distribution
  - Energy Sales
  - Metering and Billing
  - Demand Side Services
Core vs. Non-Core Services

- Core: Transmission and Distribution
- Non-Core: Everything Else
- Who Is Best Positioned to Perform Core Services?
- Who Is Best Positioned to Perform Non-Core Services?
Erosion from Core Services Revenue Example: Net Metering

- Inefficient Pricing of Distributed Generation
- Treating More Costs as Fixed
- Diluting Efficient and “Green” Price Signals
- Socially Regressive Allocation of Revenue Responsibility
- Inefficient Resource Allocation
Misalignment of Risks and Rewards (Example: Smart Meters)

- Risks and Risk Allocation
- Technology Risks (Telephony Visits Electricity)
- Recovering Costs of Assets Whose Technological Obsolescence Occurs Prior to its Physical Demise
- Keeping Pace with Rapidly Changing Technology
- Lost Revenue Risks (Decoupling Sales and Revenues)
Risks and Risk Allocation (Cont.)

- Who Is Best Equipped to Cope with Risks:
  - Utilities and Alternative Supplier Perspectives
  - Risk Minimization or Benefit Maximization
  - Regulatory Considerations (e.g. Depreciation Schedules)
  - Recovery
  - Fear of Stranded Costs
  - Regulatory Pre-Approval
  - Symmetry between Risk and Control (Socializing Risks)
  - Managers or Regulators Making Technology Choices
  - Agility in Responding to Change
  - Regulatory or Customer Focus
  - Best Positioned to Capture Supply Side Benefits?
  - Best Positioned to Capture Demand Side Benefits?
  - Best Positioned to Seize Innovation Opportunities?
Conclusion

- Greater Unbundling of Services
- Service Specific Focus
- Limit Utilities to Core Services
- Open Market for Non-Core Services