



Reforming the Energy Vision (“REV”) in New York

Future Utility Business Models for Pennsylvania

June 1, 2015

Kleinman Center *for* Energy Policy



Today's Discussion



New York is not alone. CA, MA, HI, MN, and IL are also looking at new electricity business models – but perhaps none as aggressively as New York.

These developments have the potential to look like “Electric Industry Restructuring: Round 2,” focused initially on high cost/environmentally concerned states.

1. Why are New York and other regulators interested in changing the electricity business model and regulatory framework?
2. What is the REV value proposition?
3. How might the role of the distribution utility change?
4. What changes in regulation and ratemaking are being contemplated?
5. What are non-utility stakeholders looking to gain from the proceeding?
6. What is the potential impact for utilities in terms of fixed cost recovery, earnings, and growth opportunities?
7. Will customers and “society” be better off?
8. What regulatory process might be considered for Pennsylvania should it decide to pursue a similar path?



Electricity Industry Change Drivers (National)



These drivers appear in many states but to varying degrees.

Technology & Innovation



- Declining costs and improved efficiency of emerging energy technologies
- IT/IS: ability to manage “big data”
- Ability to monitor and control flows on distribution networks

Concern for the Environment



- Active engagement of stakeholders in energy development with NIMBY now redefined to imply “not on my planet”
- Willingness of policy makers (and some customers) to pay more for green

Wholesale Markets



- Frustration with FERC electricity capacity market outcomes

Policy-Maker Leadership



- Competition among certain states to be “first” in the United States, inspired by RIIO

Customers



- Diminishing tolerance for outages
- Desire to lower energy costs
- Increased responsiveness to new products and services

CapEx > Sales



- 4-6% CapEx growth (much of it non-revenue producing) vs. 1% sales growth

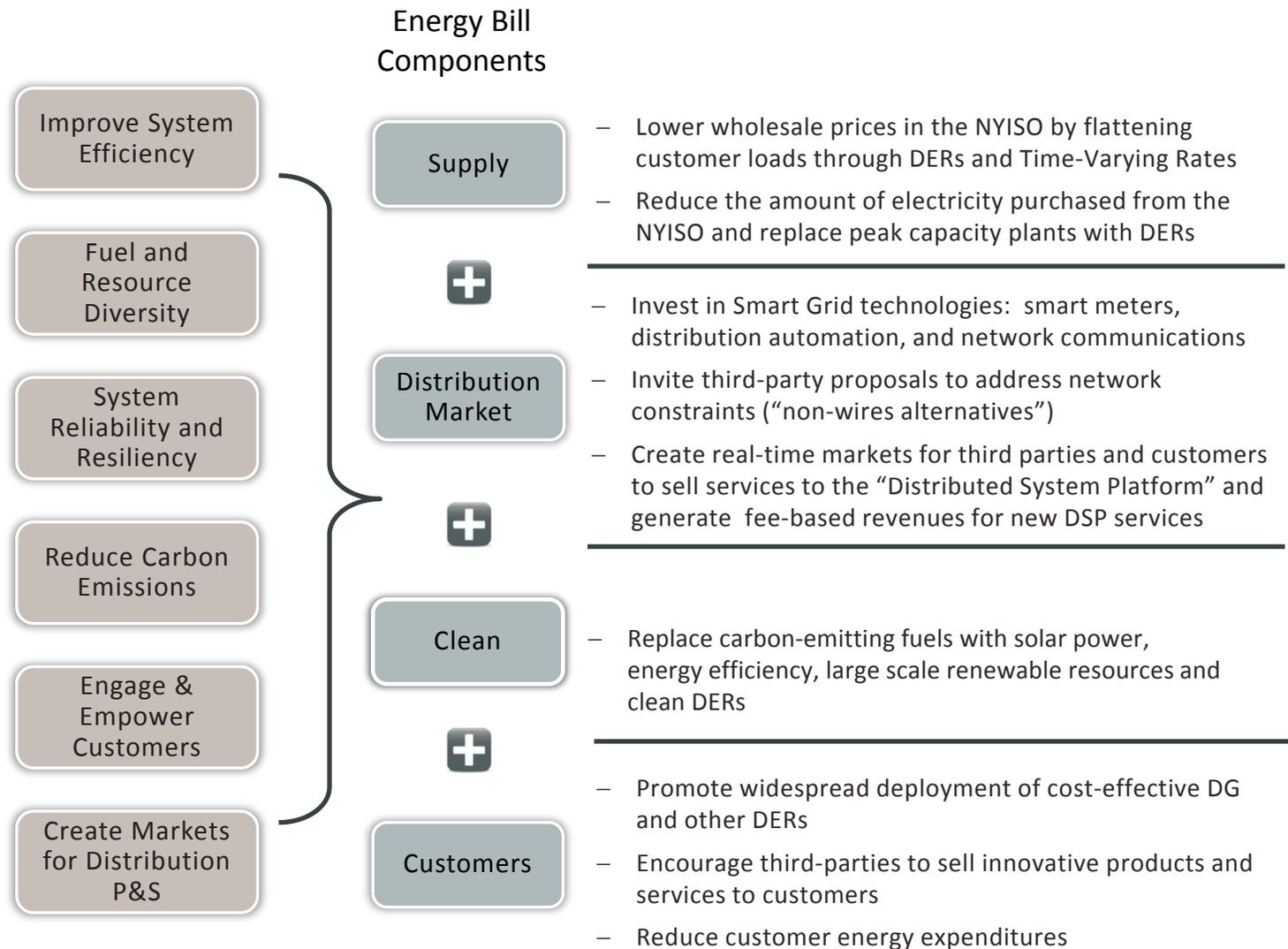




“Energy Affordability” is emerging as a 7th Policy Objective with increasing attention paid to whether low- and moderate-income customers will benefit from REV.

DERs are “Distributed Energy Resources” and include distributed generation (DG), energy efficiency (EE), demand response (DR), microgrids, and electricity storage.

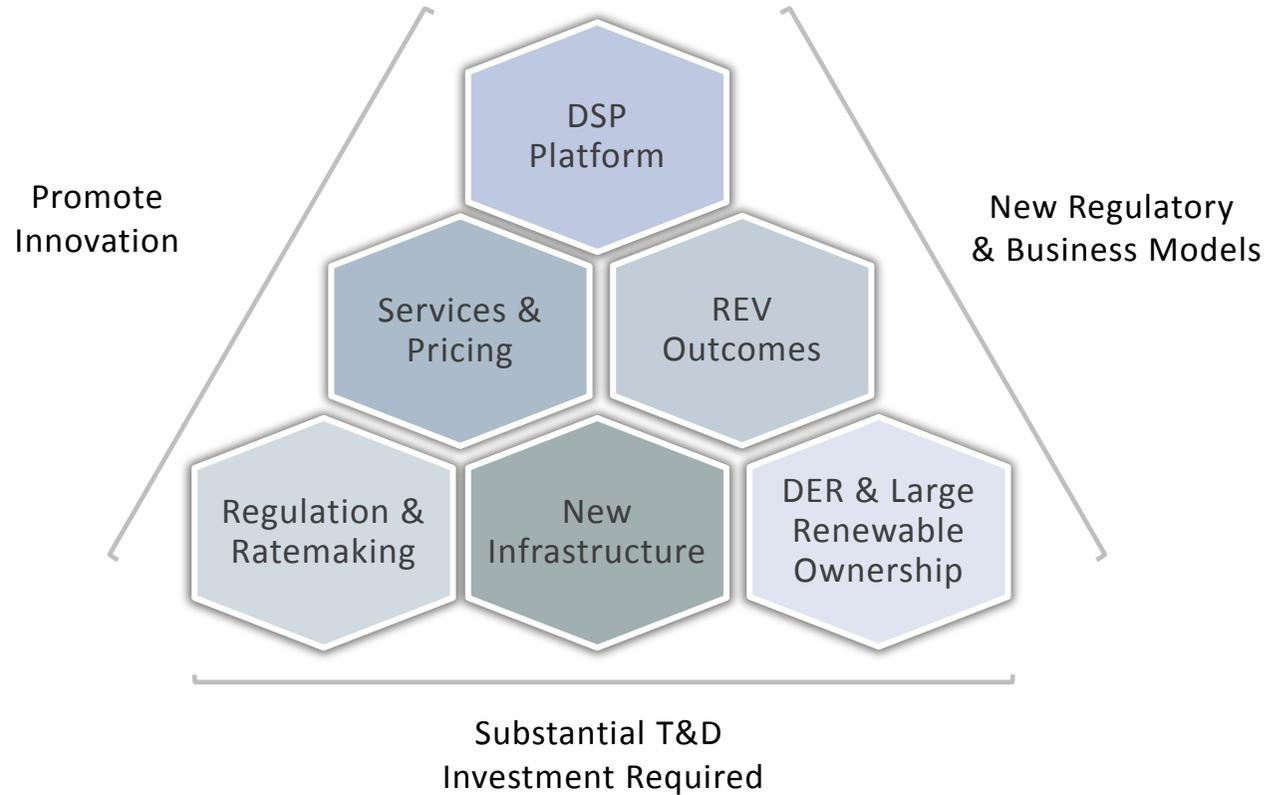
New York’s REV Policy Objectives and Value Proposition



Breadth of REV Issues to be Resolved



Designing REV will require resolution of several complex issues.



The array of REV obligations, processes and working groups is placing incredible demands on the Commission and all stakeholders



The variety of work streams involved in REV are creating resource constraints for the utilities and other interested parties.

REV Proceeding (Utility Obligations)	REV Proceeding (Stakeholder Groups)	REV Proceeding (Staff-Led Initiatives)	Other Related Proceedings
<ul style="list-style-type: none">• REV Track 1• REV Track 2• Non-Wires Alternatives• Demonstration Projects• Large Scale Renewables• Microgrids	<ul style="list-style-type: none">• Technology Platform• Market Design• Tariffs• Contracts	<ul style="list-style-type: none">• Affiliate Codes of Conduct• Energy Efficiency• Benefit Cost Analysis• Consumer Protection• Dispute Resolution• Interconnection• DG Emissions Rules• Digital Marketplace• Energy Billing• Low & Moderate Income	<ul style="list-style-type: none">• Net Metering• Community Choice Aggregation• Clean Energy Fund• NY Sun• Energy Affordability



Dual-Track Regulatory Process (Track 1)



The two REV Tracks are taking shape in parallel, but with distinct objectives (one technical, one regulatory).

Track 1 is focused on development of the Distributed System Platform (“DSP”) model. The Order on Track 1 was issued on February 26th but most details are being worked out through stakeholder collaborative processes.

Track 1: Distributed System Platform

- The utility will be the DSP provider and serve three roles:
 1. Market operations
 2. Grid operations
 3. Integrated system planning
- Utility ownership of DG is restricted to markets unlikely to be served by competitive suppliers
- Utilities were required to propose “non-wires alternatives” by May 1
- Utilities must propose demonstration projects to test new business models by July 1
- Several working groups have been established to focus on technical details related to the development of a benefit-cost framework for REV, the integration of DERs in Grid planning and operating decisions, the establishment of markets for DER and the development of supporting information systems
- Utilities to file DSP implementation plans by January 15, 2016

Utilities will serve as the DSP providers, coordinating customer activities, and supporting competitive energy service providers that offer value-enhancing services.



Dual-Track Regulatory Process (Track 2)



The Commission's agenda is incredibly ambitious and has already experienced several delays.

Track 2 will evaluate regulatory changes and ratemaking issues that must be considered in order to establish a new cost recovery and revenue framework for the electric utilities. A Staff Straw Proposal this summer will invite comments with an order later this year.

Track 2: Regulatory Framework & Ratemaking Issues		
Outcomes-Based Ratemaking	Long-Term Rate Plans	Rate Design
<ul style="list-style-type: none">• Performance metrics• Targets• Incentive/penalty mechanisms	<ul style="list-style-type: none">• "Optimal" CapEx plans and cost recovery• Equity returns• May have RIIO attributes	<ul style="list-style-type: none">• Address net metering and fixed cost recovery issues• Reflecting externalities in rates• Pricing innovative services

The utilities (and Wall Street) are interested in how these three elements will work together to provide compensatory returns on equity



Stakeholder Perspectives

Solar Industry	<ul style="list-style-type: none">– It may not be necessary to invest a lot in the distribution network – greater clarity regarding locations where solar has the greatest value will help direct installations to where they are needed. Compensation should reflect this value and any other sources of value, including carbon
Third-Party P&S Providers	<ul style="list-style-type: none">– Protect new markets by keeping utilities out of any potentially profitable businesses– Utilities should be required to provide third-party providers with customer and system information at low (or no) cost
Environmental Advocates	<ul style="list-style-type: none">– Pay for carbon as a price signal that will help replace dirty gas peakers with energy efficiency and solar power
Energy Efficiency Providers	<ul style="list-style-type: none">– Concerned about the substitution of market solutions for utility-sponsored EE programs
Industrial Customers	<ul style="list-style-type: none">– Worried about rates
Low-Income Customers	<ul style="list-style-type: none">– Representatives of this customer group are concerned that they will not benefit from REV, and are more likely to be harmed by REV particularly if a greater proportion of fixed costs are recovered through customer charges
Technology Vendors	<ul style="list-style-type: none">– Interested in selling equipment and information services to utilities.



There are over 200 parties in the REV proceeding representing New York and national interests.



Impact on Electric Distribution Utilities



Without resolution of the regulatory and ratemaking frameworks, it is not yet possible to evaluate whether the “numbers add up” for utilities.

Responsibilities and Accountability

- Potential for separation of the DSP function or future transfer to a third party
- Confined to serving markets that are not attractive to competitive suppliers
- Potential erosion of the relationship with customers
- Accountable for outcomes not entirely within utility control
- Utilities may be on the hook if distribution system reliability suffers as a result of reliance on third-party solutions

Fixed Cost Recovery

- Increased attention to fixed cost recovery is likely to lead to improved rate designs featuring demand charges and/or higher customer charges
- Cost-shifting and subsidies will be exposed in the new framework

Earnings and Growth

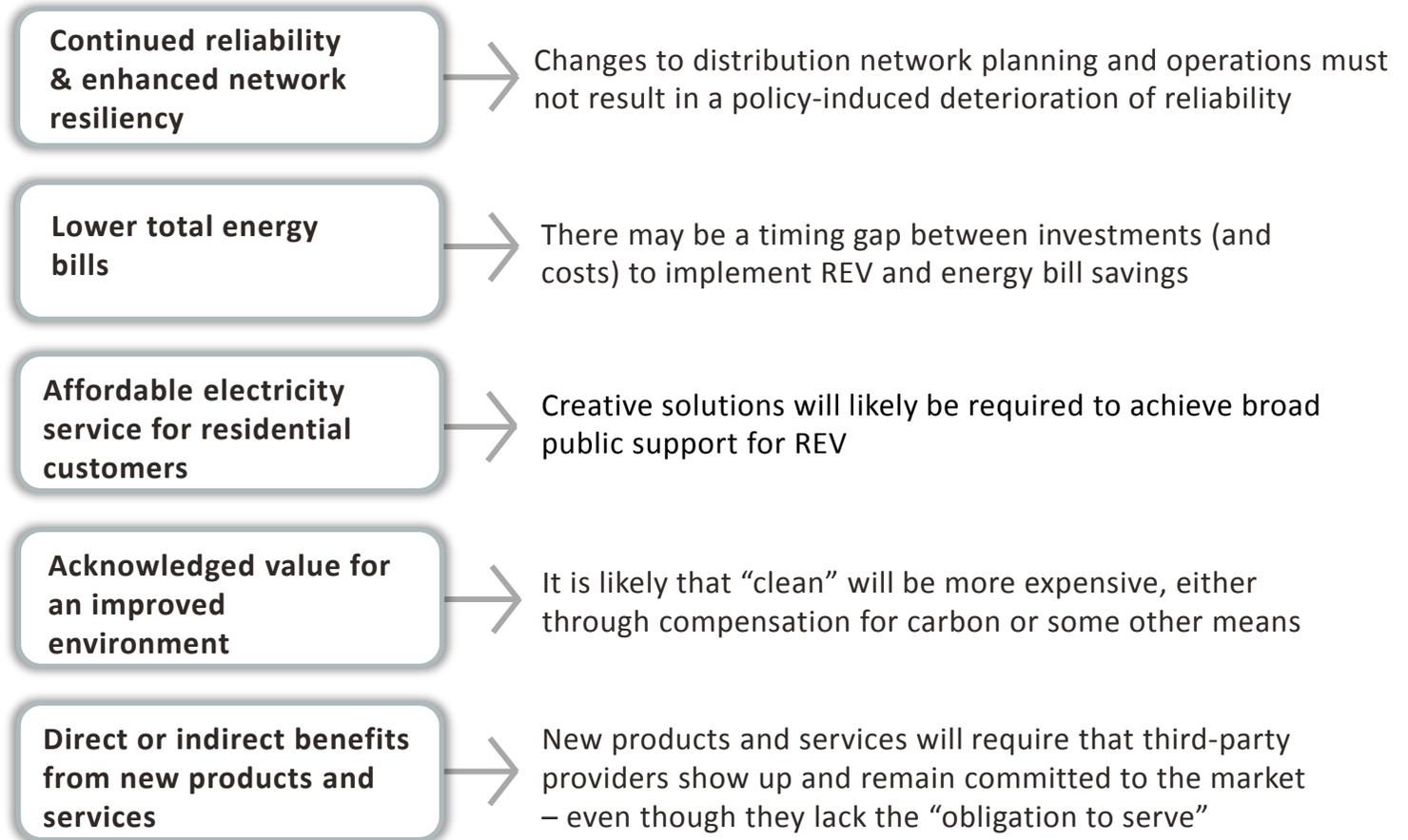
- There is no clear path to earnings growth, particularly if political pressures result in a desire to limit distribution rates (and rate base investments) rather than focusing more holistically on total energy bills
- Potential for earnings if focus shifts from cost recovery to value of services provided by the utility
- Limited opportunity to own DERs



The Ultimate Question: Will Customers Benefit?



While many parties assert that customers must and will benefit, it is not clear whether the benefits will be spread broadly among them.



Alternative Regulatory Strategy – Potential Elements of a “Phase I”



There may be alternative approaches that should be considered by Pennsylvania

1. **NY, CA, MA:** follow and learn from the efforts in leading states
2. **Rate Design:** evaluate the existing rate design and tariff mechanisms (e.g., recovery of fixed costs, net metering, subsidies) for consistency with a future environment that promotes DERs
3. **Foundational Investments:** consideration of distribution network investments that will be necessary to monitor and control a grid that connects to greater numbers of DERs as well as investments in advanced metering functionality
4. **Interconnection Process:** changes to the interconnection process that will be necessary to accommodate greater numbers of distributed generation resources
5. **Public Consultations:** to gauge customer interest in time-varying rate options and new products and services as well as their willingness to pay for a cleaner environment
6. **Energy Affordability:** proactive evaluation of the potential impacts of changing technology, rate design, and products and services on limited-income customers
7. **Technology Feasibility:** strategic use of limited demonstration projects to test new and emerging technologies
8. **Organizational Response:** implications of new business and regulatory models on the organization and business processes of utilities – and the regulatory agency.



Utility & Regulatory Evolution: Concentric's Advisory Leadership



Concentric is advising an array of utilities around the US on modernization challenges.

Concentric's Utility of the Future practice is providing advisory support to the leading utilities in states that are considering major shifts in regulation and traditional utility business practices:

- We are currently advising New York's Joint Utilities both as part of the REV proceeding and for other related proceedings underway in the State. Our support for the Joint Utilities includes:
 - Planning and facilitating meetings of the Joint Utilities' REV Leadership Team
 - Preparation of Joint Utilities REV filings and other Leadership Team documentation
 - Communicating New York regulatory and stakeholder insights
 - Supporting subject-area working groups to manage the development of unified perspectives and communications
- Concentric has been separately retained by one of the Joint Utilities to address REV related matters and demonstration projects as part of a future rate case filing
- We are helping a Massachusetts utility prepare a Grid Modernization Plan for consideration by regulators in the State's high-profile Grid Modernization proceeding
- For a major a Midwestern utility we recently delivered a long-term rate design strategy that responds to many of the drivers that led New York and Massachusetts to take a more aggressive regulatory path



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