Compensation and Market Mechanisms: The Future of the Utility & Regulatory Model

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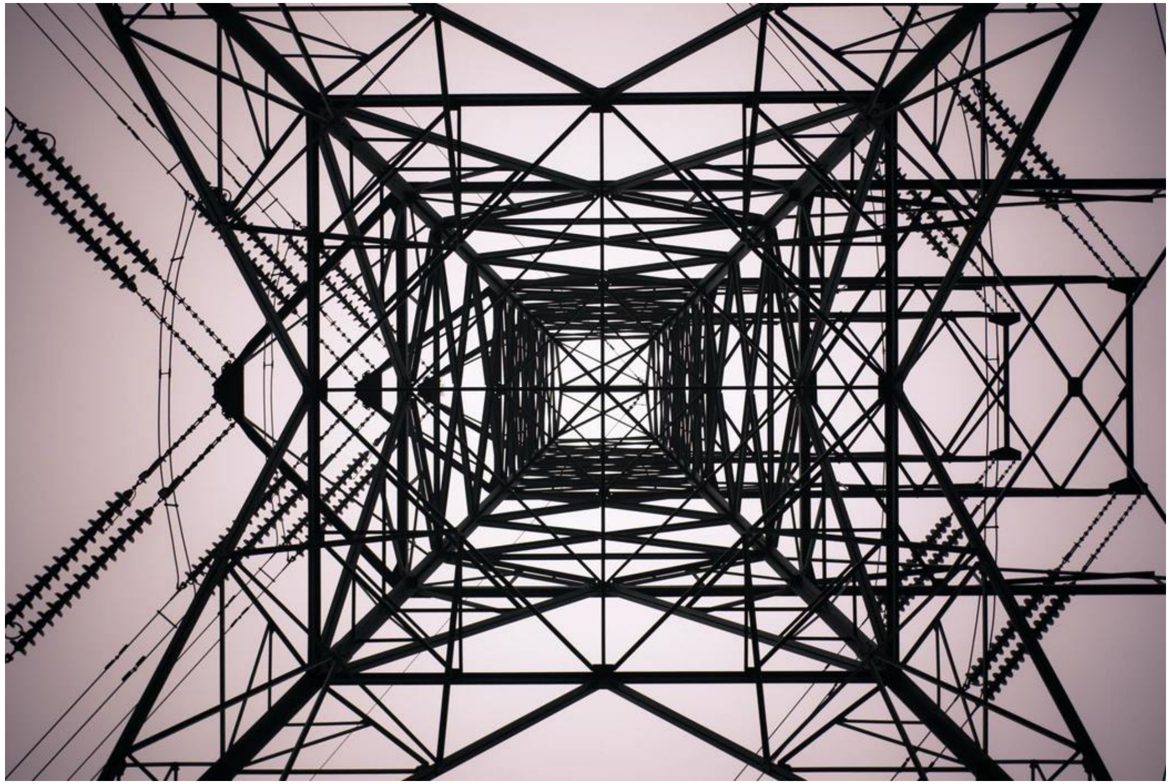
Traditional regulatory objectives

- Safe
- Reliable
- Universal
- Affordable



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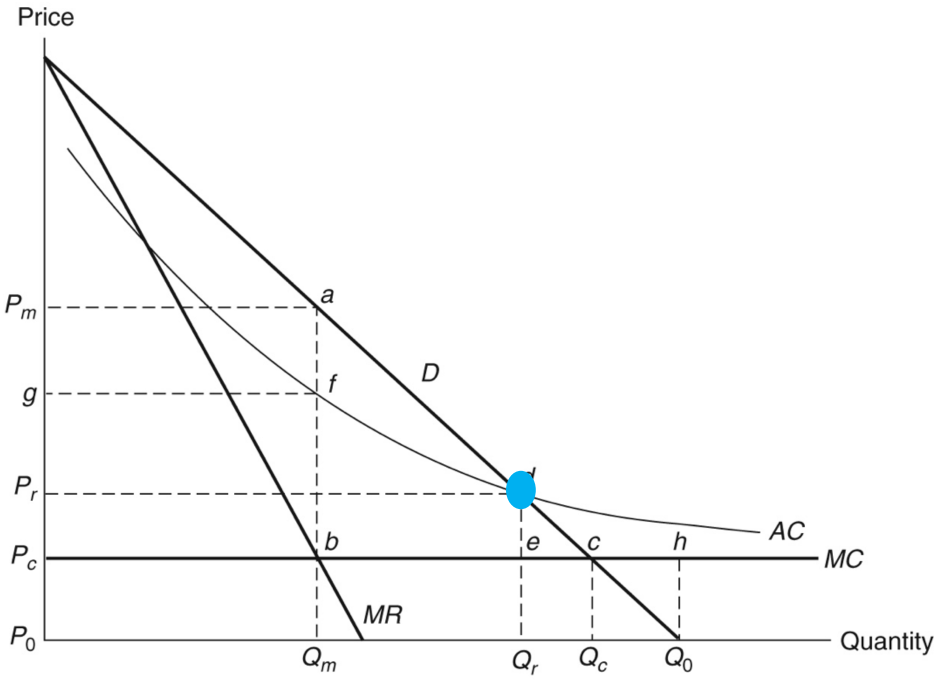
Traditional regulatory model makes utilities risk averse



- Cost-based ROR regulation
- Utilities face little revenue or cost risk; cost recovery through rates, subject to regulatory approval
- "Iron in the ground" investments
- Steadily increasing demand & stable costs limit uncertainty

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Changing economic & technological landscape

- New resources, new business entities, new policy objectives
- Shift in emphasis to low-carbon and flexible
- Utilities and the changing landscape
  - Not as nimble as other entities
  - Highly motivated to maintain status quo
- As technologies & their economics change,
  - Other entities will be able to provide *energy & grid services* with desired features at lower cost
  - Consumers will be better off if that occurs, but risk aversion & status quo bias may slow or prevent it

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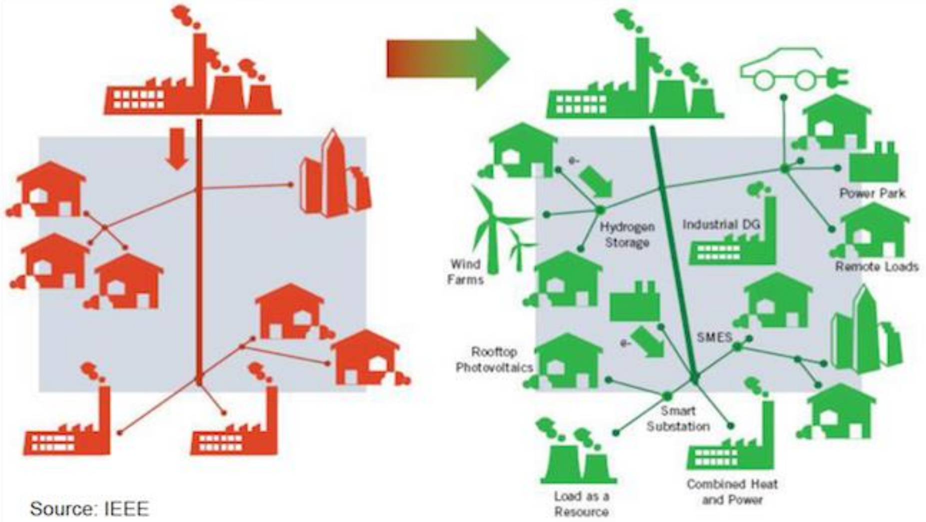
Pay attention to the risk of inaction



Source: IEEE

- Digitization over two decades has reduced transaction costs (Kiesling (2016))
  - Innovation changes the organizational structure and business model that are most beneficial
- If regulators do not examine the scope of utility monopoly, consumers may be worse off due to
  - Loss of innovation and access to new products and services around the distribution edge
  - Higher costs, or not lower costs, of utility service

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Thank you for your time and attention!

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