Diversifying Utility and Industry Revenue Models

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Range of Approaches

In an environment of increasing DER penetration and flat to declining load growth, utilities and their regulators are responding with various means of alternative revenue generation options.

- **Least Change**
  - **Capital Cost Recovery**
  - **Business as Usual**
    - Utilities earn a return on infrastructure buildout or capital programs

- **Performance Based Ratemaking**
  - **Align the Incentives**
    - Rate of return modifiers for performance against metrics
    - Facilitates formulaic rate determination, which lowers transaction costs of rate cases

- **Rate Base DER Assets**
  - **A New Twist on a Classic**
    - Rate-basing DSM portfolios
    - Rate-basing rebates offered to DG/Smart inverters

- **Platform Services/ Business Model Redesign**
  - **Change the Game**
    - Plan using DERs and share avoided costs
    - Enable “transactive” marketplace
    - Earn revenue on a high volume of energy transactions
    - Partner with third parties to reduce transaction friction
States are testing different approaches, often driven by legislative or regulatory policy decisions or a need to react to high DER penetration.

**Illinois**
- Legislature-driven Energy Infrastructure Modernization Act led to $3.3B authorized for grid investments
- EE and DG w/ smart inverter for utility control treated as rate-base asset
- Formulaic ratemaking with performance incentives for EE investments

**New York**
- Track 2 of REV – PSRs and EAMs
- Non Wires Alternatives to offset traditional infrastructure
- Pilots to demo platform services with 3rd party partners

**Massachusetts**
- Grid modernization plans call for over $1.4B of capital investment
- Proposed formulaic ratemaking including an allowance for grid modernization packages
- Performance incentives for EE and RPS

**California**
- IDER Proceeding to determine the cost effectiveness of using DER to supplant traditional assets
- Energy storage mandate
- Significant vehicle electrification
- Residential rate reform to flatten pricing differences between usage tiers
It’s too early to tell what approach fits best, and there’s likely not a one-size fits all solution. As states explore these options, they should consider:

**Risk and Reward**
- Who bears the financial risk as utilities expand beyond infrastructure into offering platform services?
- How does the utility price services in a more competitive environment? What if ratepayers are footing the bill for the systems required to compete in these markets?

**Scale and Scope**
- How fast can these changes realistically be implemented?
- What percent of the utilities revenue base continues to be made up of rate of return on the infrastructure of the grid?

**Blocking and Tackling**
- As utilities rely on 3rd party resources to meet grid needs, rather than assets and processes previously wholly addressed within the utility, how do governance models need to adapt?
- Does formulaic ratemaking offer enough flexibility to adapt to more rapidly changing needs?