The LDC of the Future

Remarks by Karen Taylor, for Centre for Urban Energy

Session Three: Financial and Regulatory Implications

Should Disruptive Technologies be included in Rate Base?

- Five Key Questions:
  1. Do new natural monopolies result?
  2. Are costs the same for similar customers?
  3. Are there market failures?
  4. Are there principal-agent problems?
  5. Is there a lack of incentive to be operationally efficient?

If the answer to these questions is "No" – rate regulation probably not optimal business model.

What is the Role of the Regulator?

- Regulator should facilitate a smooth transition to a "new world".
    - Proactive rather than reactive.
    - Articulate how energy policy creates risks and devise appropriate regulatory policies.
    - Explain regulatory policy trade-offs, including who bears what risk.
    - Interact with government in transparent manner to inform energy policy.
    - Sort out intended consequences from those that are unintended.

Regulation cannot stop change. It may be able to ensure that the transition to a new paradigm is an orderly one.

What Tools Can a Regulator Use?

- Reduce cross subsidization between customers.
- Align cost recovery with cost causation or benefit.
- Reduce social policy loading.
- Insist on effective utility asset management and regional planning.
- Reduce free riders – impose exit fees and standby fees.
- Avoid transferring costs to remaining customers.
- Thoughtful use of net metering.
- Decouple distribution rates if used with other approaches.

Regulatory tools are focused on mitigating stranded costs arising from uneconomic by-pass or free-riding.

Regulatory Compact is Evolving

- Equity investor should assume that it is at risk for the undepreciated cost of assets that are no longer used and useful.
- New technologies empower customer choice – inherently at odds with centrally planned and procured electricity resources.
- Grid-parity may be an illusion.
- Greater clarity with respect to the allocation of risk.

We're really taking about effective change management. Good corporate governance practices are essential.

Thank you!