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The Future for LDCs: Are New Business and Regulatory Models Required for LDCs to Survive?

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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.**
- **Work with government in transparent manner to inform energy policy.**
- **Sort out intended consequences from those that are unintended.**
- **Get out of the way.**

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 customer classes and between new and old.
- Align cost recovery with cost causation or benefit.
- Reduce social policy loading on the electricity system.
- Insist on effective utility asset management and regional planning.
- Reduce free riders – impose exit fees and standby fees.
- Avoid transferring costs to remaining customers.
- Avoid net metering.
- Decouple distribution rates if used in conjunction with other approaches.
- Align benefits and costs arising from deployment of new technologies.

Regulatory tools are largely focused on mitigating stranded costs arising from bypass.

Concluding Thoughts

We’re really talking about effective change management. Good corporate governance practices are essential.

Thank you

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