



Utilities 2020

*Exploring Utility Business Models
and the Regulatory Changes Needed to Transform Them*

An Uncertain Future for the Nation's Utilities

The U.S. utility industry is being remade by powerful forces. Stricter air quality requirements, huge new capital outlays, aging generation fleets, climate change strategies, flat to declining load growth, smarter grids, a renewed focus on energy efficiency, and the growth of distributed generation are placing tremendous pressures on utilities. In **Smart Power**, Peter Fox-Penner argues that these collective forces are triggering a "second revolution" in the electric utility industry.

In the midst of this revolution, utility regulation often appears ill-equipped to accommodate, much less support, the changes happening in the industry. As practiced today, regulation provides limited motivation for utilities to innovate, diversify to manage risks, or to undertake new efficiencies. Meaningful dialogue among utilities, regulators and other stakeholders is often difficult. And frustrated utility executives and customers often take their cases to state legislatures, with predictably imperfect results.

***The time is ripe
to explore a
revised
regulatory
compact***

The time is ripe to explore a revised compact among utilities, regulators and the consumers they serve. Through a series of in-depth discussions with executives, regulators, and consumer and industry thought leaders, we will explore evolving utility business models and the regulatory designs needed to transform them. The goal of this project is nothing less than changing the way utilities and their regulators think and behave.

Re-Thinking the Incentives Provided by Regulation

Economist Alfred Kahn famously observed that, "All regulation is incentive regulation." By this he meant that any version of economic regulation provides firms with incentives to make choices. With cost of service regulation, utilities understandably have a near single-minded focus on returns on equity. As the debate about decoupling shows, asking utilities to take actions that are in conflict with this profit incentive – such as sell less electricity – is difficult to square with the basic incentives of cost-of-service regulation. And while progress has been made on the demand-side, less attention has been paid to the supply-side.

***We need to
realign
regulatory
incentives***

Society needs to find ways to compensate utilities so that they can maintain or grow their profitability while pursuing society's broader policy goals. Utilities must be encouraged to decarbonize their fleets, improve their firms' efficiency, and serve customers in new ways. In short, we need to align regulatory incentives so that healthy utilities can pursue society's broader policy goals in ways that also benefit customers and shareholders.

For more information, contact project principals: rbinz@rbinz.com and rlehr@msn.com

The Utilities 2020 Project

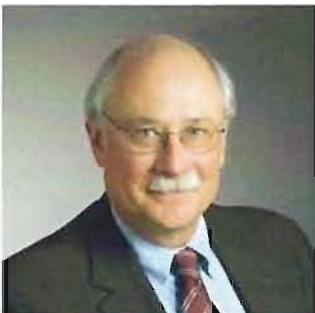
To move discussions forward about new business models and new regulation, the **Utilities 2020** project will:

- research and examine evolving utility business models and current regulatory practices;
- engage utility executives, regulators, consumers and industry thought leaders in a dialogue about current practices and future models;
- develop updated models for utility business practices and utility regulation;
- encourage adoption of new regulatory designs developed in this project.

Project research and resulting proposals will be informed by in-depth interviews with utility executives, regulators and other stakeholders. We will engage in open and frank discussions that are typically missing in the regulatory arena. We hope that concepts pioneered in this project gain the attention of utilities and their regulators and become the new "business as usual". While these changes are urgent, we understand that broad adoption of these ideas will take years.

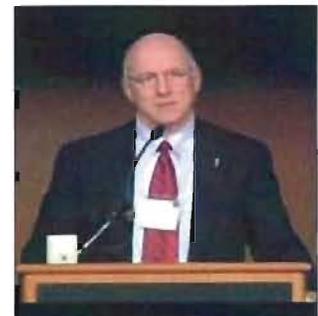
Utilities 2020 will be guided by an advisory council of representatives from utilities, state regulators, consumer leaders, energy advocates and other key stakeholders. The council will be a resource for ideas, an entrée to other thought leaders, and a sounding board for emerging concepts. Members will be from a cross-section of the industry, with a wide diversity of views.

Utilities 2020 Project Principals



Ron Binz served as Chairman of the Colorado Public Utilities Commission from 2007 to 2011 and as Colorado's utility consumer advocate from 1984 to 1995. As PUC Chairman, Ron helped design and enact the many policy changes that enabled Colorado's "New Energy Economy." He also helped implement Colorado's far-reaching Clean Air Clean Jobs Act. In his consulting practice, Ron works with a variety of clean tech firms and interests. He is a Senior Policy Advisor at the Center for the New Energy Economy at Colorado State University and a frequent speaker and author on issues in national energy policy.

Ron Lehr practices law and consults with clients about renewable energy regulation and business matters. His clients include the American Wind Energy Association on policy and transmission issues for wind energy, and the Western Grid Group on regional clean energy and transmission planning. Ron served for seven years from 1984 to 1991 as Chairman and Commissioner of the Colorado Public Utilities Commission and as President and Commissioner of the Denver Board of Water Commissioners, the water utility for Denver and surrounding suburban areas.



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