There’ll Be Some Changes Made: Power System Realignment or Death Spiral?

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Michael J. Gergen, Partner
Latham & Watkins LLP
The Regulatory Problem
Average Cost-Based Rates

\[ R = O + (V - D) \times r \]

- \( R \) is revenue requirement
- \( O \) is operating costs
- \( (V - D) \) is rate base
  - gross value of tangible and intangible property (\( V \)) less accumulated depreciation (\( D \))
- \( r \) is allowed rate of return
  - \( r \) is weighted average cost of equity and debt capital

Price = \( \frac{R}{Q} \)
- \( Q \) is quantity to be sold (or expected to be sold)
Secular Decline in Demand Growth

U.S. electricity demand growth, 1950-2040
(percent, 3-year moving average)

Source: EIA, Annual Energy Outlook 2014
Vicious Cycle of Volumetric Rates/Prices

Δ Revenue Requirement/Rate Base (e.g., Capex)

Δ Revenue Requirement > Δ Sales

Volumetric Rate/Price Increase Required

Customer Assessment

Self-Supply/DER

Energy Efficiency

Customer Substitutes Away

Customer Consumes Less
Fundamental REV-like Policy and Regulatory Issues in Play in Other States

  - Modernize generation sector
  - Transform T&D grids
  - Policy and regulatory reforms to move utilities into role of network systems integrator and operator
    - Reasonable and in the public interest to preclude the HECO Companies from ownership of new generation? Move to a “tolling model”?

- California – Order Instituting Rulemaking to incorporate DERs into grid planning process for IOUs, Rulemaking 14-08-013 (August 14, 2014)
  - Assembly Bill No. 327 (2013)
    - Consider locational benefits and costs of DERs
    - Move to “open, flexible, and node-friendly network system”
    - DSOs should act as technology-neutral network coordinator
    - Expedite DER participation in wholesale markets and resource adequacy, unbundle distribution system operations