

An expanded distribution utility business model: Win-win, or win-maybe?

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Abstract for the Trans-Atlantic Infraday 2013 Conference
Nov. 7-8, 2013

Electric distribution utilities have traditionally been rate-regulated firms charged with delivering electricity to consumers, compensated largely on the basis of usage. Concerns that electricity use is excessive, based on carbon emissions and consumer failure to adopt cost-effective conservation, challenge this model. Many states decouple utility revenues from electricity use, and often hold utilities responsible for reducing electricity consumption. More broadly, utilities are encouraged to expand from electricity delivery to become leaders in demand response, energy efficiency and emissions reductions. The merit of these rationales risks neglecting long-standing rationales for keeping regulated monopolies out of competitive businesses (as well as introducing difficulties in assessing benefits of policies based on consumer error). These rationales are consistent with utility efforts to control markets for offerings that reduce demand for utility services. But whether such efforts are consistent with the efficient operation of the broader energy sector merits more reflection. Drivers on the road to Utility Version 2.0 might need to take a look in the rear-view mirror.