Incentivizing Energy Infrastructure Resilience and Modernization Through State Policy and Regulation

David Malkin
Director, Government Affairs & Policy
GE Energy Management

2014 NASEO Energy Policy Outlook Conference
February 5, 2014

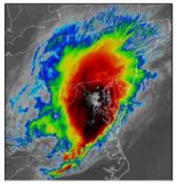
imagination at work

Electric utilities face new expectations

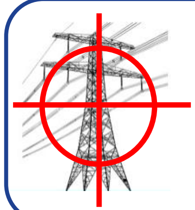
Accommodate higher levels of DG/DER.

Replace/maintain an aging stock of physical assets

Regulated Utility



Improve reliability and grid resilience



Secure the grid against emerging threats

...All at a time of flat/declining sales

imagination at work

Limits of cost-of-service regulation

- Regulatory lag has negative impact on cash flow, and can reduce utility's earnings
  - Deferred investments during periods of rising costs and flat sales
- Benefit-cost analysis is narrow, and often fails to consider hard-to-quantify benefits
  - Value of uninterrupted service to different customers
  - Optionality
  - Societal costs/benefits
- Lengthy approval cycles and threat of disallowance discourage innovation
- Asymmetric risk - little incentive to improve performance

Rethinking the goals of regulation

- Align utility investment strategies with state policy objectives
- Support investments that deliver long-term value to customers
- Encourage innovation and allow utilities to reap the benefits of superior performance
- Ensure affordability by incentivizing efficiency and sharing the savings
- Accommodate emerging public policies and changing utility business models

From "cost of service" to "value to customers"

A new model: results-based regulation

- Forward-looking, multi-year utility business plan used by regulators to set revenue requirements
- Multi-year revenue cap to encourages utilities to pursue efficiency
- Shared-savings mechanism that returns a portion of cost-savings to ratepayers
- Output-based, symmetric performance targets aligned to state policy objectives
  - Reliability
  - Efficiency
  - Consumer satisfaction
  - Interconnections
  - Cyber governance

imagination at work

Thank you