

Disruptive Challenges

8/18/2013

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“Disruptive Challenges” is the title of a recent study commissioned by the Edison Electric Institute, a trade association that represents all U.S. investor-owned electric companies. PNM Resources is a member. The report is available at : <http://www.eei.org/ourissues/finance/Documents/disruptivechallenges.pdf>

Written by an industry insider and aimed at electric utility executives, the report raises the alarm about the future of the traditional regulated electric utility business model (keep doing what you’ve always done exactly the same way that you’ve always done it, and earn a 10% profit guaranteed).

In the “executive summary” you learn that “challenges” really means “threats”, and that those threats have the potential to change everything for the worse for regulated electric utilities and their investors. The language used is loaded with foreboding: “disruptive forces”, “game changers”, “adverse impacts”, “increased risks”, “paradigm shifts”, “declining revenue”, “increasing costs”, “lower long term profitability”, “stranded costs”. Any one of those “challenges” is enough to make a utility VP wake up in a cold sweat. All of them together create a nightmare of apocalypse-like proportions.

As if the “executive summary” wasn’t sobering enough, the report goes on to identify several ghoulish scenarios: “the potential - - for PV solar - - to become economically viable”; the fact that “PV solar is already ‘in the market’ for retail electric markets where rates are at or above 15 cents per kWh”; a future where wind & “PV system costs decline even further causing the market opportunity (for those sources) to grow exponentially”; and the possibility that “efficient energy storage combined with distributed generation could create the ultimate risk to grid viability”. OMG!

In case electric utility executives are unsure about the specific threats, the report identifies the culprits: **Disruptive competition** from PV solar, battery storage, fuel cells, geothermal energy, wind, micro-turbines, and electric vehicle enhanced storage.

Reduced utility revenues due to the growth of energy efficiency programs and energy saving demand-side management initiatives.

Public policy such as tax incentives for alternative sources, renewable portfolio standards, net metering, time-of-use electricity rates, and the tendency of utility customers to complain about cascading electricity rate increases.

And perhaps most galling of all, the report points out that there are now financial & business institutions that are actually making money “financing, leasing, and investing in a growing industry”. The nerve of those business people!

In other words, these monopolies feel threatened by the very things that will most benefit their customers and assure a steady supply of clean renewable energy into the future. But most of all, they feel the threat of competition.

The report recommends that steps be taken immediately to reverse these alarming trends, lest utility investors, not to mention utility executives, suffer the heartbreak of not being fully compensated. Aside from vigorous lobbying to re-write the federal & state rules & regulations regarding all of the above, the report proposes 3 additional solutions:

1) **Impose tariffs** to reflect the “value” (as determined by utility management) to PV customers of utility services such as providing off-peak electricity & backup service, and (read this carefully) providing “the pathway to sell (distributed energy resources) to the utility”. In other words, utility executives are encouraged to charge PV customers for the privilege of having the opportunity to do business with the utility.

2) **Impose a “stranded cost charge”** for PV & any departing customers”. As the song goes: “at the Hotel California you can check out anytime you like, but you can never leave”.

3) **“Identify new business models and services”**. This is a truly radical concept to regulated electric utility executives. The author of the Disruptive Challenges report acknowledges that fact by adding “the history of the electric utility industry in achieving non-regulated profit & value creation has not been a pleasant experience”.

What the report leaves unsaid may be even more revealing. There are major “disruptive challenges” that aren’t ever mentioned. Water use & water conservation in the drought-stricken SW; solid waste, air & water pollution; public health impacts; huge pending future costs for replacing the utilities’ antiquated grid infrastructure and generating capacity; and, oh yes, electric utilities’ enormous impact on climate change. AWKWARD. Let’s not go there, shall we?

And, oh by the way, you can scour this report from beginning to end without coming across any mention of a single possible benefit from clean affordable renewable energy. Zip. Nada. No way. As PNM stated in its 2011 Integrated Resources Plan, renewable resources “increase (electricity) costs and degrade system operation”. Ditto for pollution controls.

Every time I re-read this report I’m even more amazed by the mind-set it reflects. As one of the last bastions of government sanctioned non-competitive corporate entitlement, regulated electric utilities have consistently resisted change and placed their own profits and executive bonuses ahead of community public health and well-being, environmental health and well-being, sustainability, energy efficiency, and clean affordable renewable energy - while simultaneously pouring \$ millions from their rate-payers into major PR campaigns that proclaim just the opposite, and into lobbying & lawsuits that seek to roll back renewable mandates and environmental regulations. And they continue to refuse to take any responsibility at all for their role in climate change. Not only have they actively stonewalled progress, they continue to actively work to defeat collaborative efforts to deal with those collective perils. On any fair & balanced list of “disruptive challenges”, electric utilities themselves have certainly earned a spot near the top.

For those reasons as well as for the reasons clearly described in the Disruptive Challenges report, you might seriously consider selling your regulated electric utility stock and signing up to join the growing “solar revolution”.