

# **Quadrennial Energy Review**

## **Business Models and Regulation of Regulated Utilities**

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### Kenergy Overview:

- *Distribution Electric Utility*
- *Serving 56,000 consumers*
- *Strong Industrial base*
- *2013 Sales: 9,760 M MWh*
- *7,000 miles of power lines*
- *Regulated by Kentucky PSC*
- *Member-Owner of Big Rivers Electric Corporation (BREC) for power supply services*
  - *Total Power Capacity – 1,820 MW*
  - *1,287 miles of Transmission*
  - *Member of MISO*
  - *Serve power supply needs of 3 member Distribution Electric Cooperatives*



### **Business Model:      *Electric Cooperatives***

- *840 Distribution coops, 65 “G&T” (Generation & Transmission) cooperatives across 47 states*
- *Predominantly serving most rural portions of Country*
  - *7.4 consumers/mile of distribution line (vs. 34 for IOUs, 48 for municipals)*
  - *Serve 93% of the most of the economically deprived counties in the nation*
- *Private, independent, non-profit Electric Utilities .... Incorporation under State statute*
- *Owned by Consumers (members)*
- *Electric Cooperative Statistics:*
  - *Serve 17% of U.S. population*
  - *Own/Maintain 42% (2.5M miles) of U.S. electric distribution lines*
  - *Service territory covering 65% of U.S. geography*
  - *Provides 11% of U.S. electric retail sales and 5% of total U.S. power generation*

### **Regulatory Model:      *Electric Cooperatives***

- *Most Electric Cooperatives are not regulated by State (or other) utility commission  
.... Vast majority remain autonomous in rate setting with oversight by elected Boards*

- *Basis:*

*Democratic control      Governance through Member (Consumer) elected Boards*

*Not-for-Profit      No motivation for rates to be any higher than required for cost recovery and meet debt obligations*

*Margins = Equity:      Positive year-end margins (i.e. “profit”) allocated to Member-(Consumers) as “patronage” .... eventually paid out*

*Decision-Making      Investment decisions are long-term in nature .... with consideration given to long-term benefit to Member*

*Corporate values anchored in Member Service*

### **Considerations:**

- *Utilities to provide “tools”, programs and information that empower consumers to manage energy use and make informed decisions ... opportunity to redefine customer service.*
- *Develop creative (least cost) solutions for achieving regulatory mandates - e.g. “Community” vs. distributed PV.*
- *Rate designs must provide for full cost recovery with regulatory changes - e.g. energy efficiency, carbon compliance.*
- *Consider how future regulations may create risk of “adverse behavior” – e.g. higher fixed service charges that discourages conservation.*
- *Consider the true cost of regulatory mandates to consumers and fairness of socializing costs of subsidies and incentives to all consumers .... especially those least able/likely to participate.*
- *Consider how regulatory uncertainty may discourage long-term investment decision-making at the detriment to the consumer.*

### **Perspectives:**

- *Electric Cooperatives have proven to be a successful and efficient business model in serving electrical consumer needs for decades .... adaptable and responsive to industry changes*
- *Electric Cooperatives have been early-adapters to technology trends and in offering programs that provide value to members (e.g. AML, pre-paid metering, etc.)*
- *Electric Cooperatives maintain exemplar Member Satisfaction rates (ref. American Customer Satisfaction Index) vis-à-vis other industries and business models*
- *Electric Cooperatives have no motivation to pursue rates any higher than required to recover expenses and meet debt obligations .... regardless of regulatory environment*
- *Credit rating agencies generally view autonomy of rate making by electric cooperatives favorably*
- *Maintain Electric Cooperatives to continue focus on fundamental business objective of protecting and serving the interests of its Consumer-Owners.*