

The New Realities in an Evolving Energy Landscape

Perspectives From a Former Regulator




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With the energy industry in the midst of an evolution, utilities are more clearly understanding the need for transformation from a role of commodity supplier to “ratepayers” to a trusted advisor on a range of energy issues to an increasingly sophisticated and demanding population of energy consumers.

So what needs to change on the side of the utility regulators? Public utility commissions are now contending with a range of new realities and challenges from renewables becoming more affordable to a growing need for electric vehicle charging infrastructure and utility business model reforms. We sat down with Glen Thomas, President of GT Power Group and former Chairman of the Pennsylvania Public Utility Commission, to discuss his perspective as a regulator on the changes throughout the industry.

1 How has the retail energy landscape changed over the past 10 years?

Utilities are slowly waking up to the fact that consumers have options and those options increasingly include not getting their service from their utilities. Phone utilities learned this lesson the hard way and energy utilities are increasingly trying to avoid similar mistakes. Technology does not stop advancing and consumers are always in the driver’s seat. For example, as Millennials are making up a greater percentage of the utility customer base each year, utilities are increasingly looking to enhance features that are of importance to this group such as digital experiences and environment-friendly products and services. Utilities have to recognize these realities and adapt. Fortunately, many utilities are – albeit at their own pace.



“Technology does not stop advancing and consumers are always in the driver’s seat.”

– **Glen Thomas**
President, GT Power Group

2 How can utilities solidify their customer relationships in the face of changes such as deregulation and competition from a number of non-traditional players?

The utility brand needs to be a trusted brand. That starts with strong customer relations. Having customers associate the utility name with good things such as reliability, friendly employees, a community presence, easy-to-understand bills, value-added services and helpful communications to assist consumers in their daily lives. Utilities are taking more customer-centric approaches that create value for the consumer and make the experience more personalized. Customers should not be taken for granted, but rather cherished and treated with respect. Customers who feel like their utility cares for them will be unlikely to seek other options. It really is fairly straight forward in concept, but challenging in execution – especially for utilities that are not used to thinking that way.

3 Do regulators recognize that the utilities they regulate need to change in the face of changing consumer expectations?

Fortunately, yes. There are many examples that come to mind such as Ohio's PowerForward initiative or New York's Reforming the Energy Vision in which regulators are taking a couple of steps back from the day-to-day decisions that they make to ask the broad questions about where things are going and how best to get there.

The traditional utility model was a fairly linear one – convince regulators that expenditures are prudent and acquire a rate of return on rate base. Now, regulators need to be convinced that this utility reinvention movement is real and necessary and may require non-traditional thinking and approvals from regulators. Regulators may need to go beyond their traditional comfort zones in order to find the best solutions for their regulated utilities and the customers they serve. The National Association of Regulatory Utility Commissioners (NARUC) summer meeting explores many of these issues, showing that regulators are open to the conversation even if they may find challenges in the implementation.

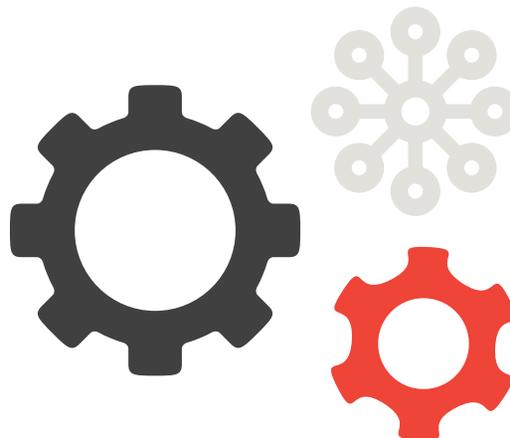




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Can regulators and utilities be effective partners in this quest to redefine the role of the utility?

I do not think either regulators or utilities have much of a choice. In my mind, they have to be partners. Regulators are rightly concerned about the financial viability of the utilities they regulate and inherently understand that if the utility loses its customers to other options, the pool of resources available to pay for the utility's infrastructure shrinks. The shrinking customer base puts greater burdens on those who remain on the system and, more likely than not, will increase the proportionate share of those with the least ability to pay. Regulators want to avoid this utility "death spiral" just as much as the utilities do. So regulators have every incentive to be that willing partner to help the utility meet the needs of its modern consumer.



Key components of a customer engagement strategy

A consumer survey by the Smart Energy Consumer Collaborative (SECC) demonstrates that 40% of U.S. residential energy customers are “selectively engaged” with their electricity providers. To help boost engagement, utilities can employ four customer engagement pillars.

Technology: Millennials are making up a greater percentage of the utility customer base each year and they value an active relationship with their energy providers via intuitive digital experiences.

Big Data: Utilities have access to a significant body of customer data that should be used for more granular customer segmentation and modeling potential product adoption.

Communications: Utility customer satisfaction is highly correlated with effective communication strategies, increasingly delivered through digital channels, such as email, text message or social media.

Partnership: Studies indicate that energy customers feel empowered when offered information and choice – and when a utility partners with providers to offer customers programs or services in which they can choose to participate, their engagement and satisfaction increases.

5 So what does that mean for regulators?

It means stepping outside of your comfort zone and being open to new ideas. It means looking at non-traditional approaches to improving the relationship between the customer and the utility not with an auditor’s skepticism but with a visionary’s creativity. The advance of technology and the evolving nature of consumer expectations should be viewed as an opportunity, not an obstacle. Generations of ratepayers have invested in utility infrastructure that can be embraced as the foundation for further improvements. It’s incumbent upon both the regulator and the regulated to guide that investment to a place where it can continue to provide value for consumers.

Glen Thomas is president of GT Power Group. He is the former chairman of the Pennsylvania Utility Commission (PUC), where he oversaw the restructuring of Pennsylvania’s electricity, natural gas, and local telephone markets. Before his appointment to the PUC, Mr. Thomas served as deputy director of Governor Ridge’s Policy Office, where he advised the governor on energy and environmental issues. In addition, Mr. Thomas was appointed by California Gov. Arnold Schwarzenegger to serve on the governor’s transition team for energy related issues in 2003.

