You Say You Want a REVolution

It's difficult to assess the REV promise because it's difficult to figure out what REV is really about

By Steve Huntoon

Let's be honest. Does anyone know what New York's REV ("Reforming the Energy Vision") really is? Other than the most hyped regulatory initiative since California restructuring some 20 years ago?

Ken Munson of Sunverge Energy, writing in *Fortnightly's Spark*, says it will "… help meet threats posed by aging infrastructure, more frequent extreme weather events, greenhouse-gas-driven climate change, and growing dangers to our physical and digital security." What, not world peace?

And this: "NY REV promises to make energy a win-win -- for the first time in history." So fire, steam power, the internal combustion engine, electricity itself – were these mere single "wins" in energy? Whoa!

It's difficult to assess the REV promise because it's difficult to figure out what REV is really about. The goals are lofty – and commonly shared. The means are murky. Acronyms and visions abound, but there is no clear roadmap or even a clear destination. What is it that makes REV different from all other initiatives to "promote energy efficiency, grid security and resiliency, greater use of renewables (cleaner air), and wider deployment of distributed energy resources"?

We all understand that utilities make more money by selling more electricity and thus do not have incentive to sell less electricity. That's a given and is being given attention across the country under the term "decoupling."

But REV is promising so much more. Somehow the utility will be transformed into an entrepreneur with opportunities to make money in other ways to cover lost revenue in traditional service. Exactly how? And assuming it does so, where is the "extra" revenue going to come from that will compensate new entrants offering new, competitive services?

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At the end of the day "business as usual" utility revenues plus REV value added must exceed total customer payments under REV to utilities and new entrants. Otherwise the whole thing doesn't make sense. And this same prerequisite of incremental value exceeding incremental cost should apply to every REV element/program. But there is no recognition of this fundamental benefit > cost consideration in the REV construct.

REV's analogy to other networks is a stretch. The value proposition in networks is two-fold: (1) the diversity of choices; and (2) the increased value to network participants from more network participants. In the case of electricity, there is very little way to differentiate basic electric service: Electric wires can only deliver electric energy – not endless information (Google), endless goods (Amazon), endless travel (Travelocity), endless videos (YouTube), endless music (Spotify), and endless tweets (Twitter).

Retail electricity is incredibly and inherently homogenous. It only comes to your home through three wires delivered at 120/240 volts, 60 Hertz AC. Sure there are different ways to generate electricity but it's all the same stuff delivered to your home.

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Even if you generate some yourself, or store some yourself, it's still converted to 120/240 volts, 60 Hertz AC for delivery at your circuit breaker panel. And long before REV you had the options to generate and/or store electricity. It's rare to do so because -- absent subsidies like net metering -- the fundamental economics of distributed generation and of storage remain poor. REV can't change the fundamental economics.

When it comes to putting bells and whistles on this homogenous product, we saw that movie long ago. Remember Enron's New Power, PECO/UtiliCorp's EnergyOne, and Conectiv? These were aggressive attempts to sell packages of services around electricity, and they all failed. Causes of death varied, but one common element was the difficulty of adding value to a homogenous product.

So if the REV vision doesn't hang together, what can we expect? Despite the NY Public Service Commission (NY PSC) assurance that the utilities won't be owning/controlling potentially competitive distributed energy resources (DER), that's exactly what they propose to do. And despite the NY PSC's assurance that REV will result in fewer costs socialized among all customers, when proposed projects don't make economic sense, the necessary subsidies can only come from one place – all other customers.

The chosen REV demonstration projects are not promising. There will be utility-controlled customer education, website and aggregation programs. Potential DER providers won't get access to the customer data needed for any real progress towards an REV vision.

As for physical projects, ConEd will receive a $14.2 million subsidy to install 1,800 kw of uneconomic residential solar/storage units, which is $7,900/kw. Niagara Mohawk will receive a $3.8 million subsidy to install 500 kw of uneconomic residential solar units, which is $7,600/kw. Meanwhile the private sector installs residential solar units at an average cost of $3,500/kw (GTM Research), so the REV demonstration projects at least demonstrate one thing: Utilities shouldn't be running residential solar programs.

REVolution. You can count me out. PUF