

***RUS and
Electric Utility Industry Restructuring***

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Overview

- What is Restructuring?
- Where are we headed?
- What is RUS doing?
 - Inside RUS and USDA
 - Federal Legislation
 - FERC Initiatives
 - State Activities

What is Restructuring?

- **A.k.a. “Deregulation” or “Competition”**
- **Response to Changes in Industry**
 - **Composition and organization - ownership, participants**
 - **Regulatory environment - regulation, legislation**
 - **Operations and interrelationships**
 - **Economics and financial arrangements**
 - **Technology**

What’s driving restructuring?

- **Combination of influences**
 - Competition from new entrants
 - Broader economic influences
 - Changes in regulation
 - Technology
 - Politics and ideology

Where are we headed?

- **Unbundling (Disintegration?) of electric service**
- **More competitive generation sector**
- **Retail choice**
- **Creation of regional transmission bodies (RTOs)**
- **Competition for other services (metering, billing, etc)?**
- **Greater uncertainty over supplies and prices**
- **Increased risks to reliability**
- **Expansion into new business lines**
- **More pressure for regulation of coops and munis**

Why is RUS involved in Electric Restructuring?

- **Two primary goals guide RUS involvement in electric restructuring activities**
 - to ensure the continued availability of reliable, high quality electric service at a reasonable cost to rural consumers; and
 - to protect the integrity of the government's loan portfolio.

RUS Principles

- **The transition must promote:**
 - **RELIABILITY:** maintain reliability of the nation's electric systems. No harm to the existing electric infrastructure in rural America.
 - **FAIRNESS:**
 - to all consumers--including rural Americans,
 - to existing electric utilities,
 - and to Federal taxpayers who support the RUS program.
 - **FLEXIBILITY:**
 - a flexible, adaptable transition process that accommodates the diversity of :
 - electric utility industry participants
 - state regulatory structures and policies;
 - evolving industry conditions.
 - The process should allow for consumer education and experimentation and evaluation to learn from experience and to correct mistakes.

Inside RUS and USDA

- **Streamlining operations and regulations**
- **Adding flexibility for borrowers**
- **Enhanced industry and regulatory analysis capabilities**
- **Cooperation with other USDA and Federal agencies.**
- **Engagement in policy debates and rural advocacy**
- **Working with borrowers to help them meet new challenges**
- **Looking to the future - new services for a changing environment**

Federal Legislation

- Clinton Administration Bill
 - Comprehensive Electric Competition Act
 - **announced in 1998,**
 - **reintroduced in 1999 with added benefits for rural America**
 - **only legislation that addresses rural electric service issues**

Rural Benefits - CECA

- Flexible opt out
- Rural Safety Net
- Public Benefits Fund
- Rural and Remote Grants
- Renewable Portfolio Standard

Rural Benefits - CECA (more)

- Preserves right to TVA/PMA Power
- Stranded Cost Protection for RUS debt
- Recognition of RE Act policies
- Recognition of Coop structure
- Enhanced reliability
- Regional Transmission Systems and Planning

What's up in Congress?

- Hearings
 - House:
**Commerce, Judiciary, Resources,
Agriculture**
 - Senate:
**Energy and Natural Resources
Banking
Agriculture**

*Major Comprehensive Legislation
on Retail Choice*

- House Commerce Committee-
 - **Subcommittee Bill - H.R. 2944 (Barton)**
 - **Administration Bill (by request)**
- Senate Energy and Natural Resources Committee
 - **Murkowski (S. 2098)**
 - **Administration Bill (by request)**
 - **Thomas**
 - **Bingaman**

Other Bills

- Reliability -NERC-NAERO (S. 2071)
- PUHCA
- PURPA
- Renewable Energy
- Environmental Protection
- Consumer Protection

*Comparing Legislation
The Devil is in the Details*

- When?
- Federal v. State
- Reliability
- Market Power
- Level-Playing Field
- Stranded Costs
- Environmental Issues
- PMAs
- Customer Protection
- Universal Service
- Taxes
- Metering & Billing
- Data
- Codes of Conduct
- Aggregation
- Exclusive Service Territories

What's next in Congress?

- House
 - **Chairman Bliley's Amendments**
 - **Mark up in full Commerce Committee**
 - **Referral to other Committees and then the Floor?**
- Senate
 - **Hearings in April on pending bills**
 - **More hearings (?)**
 - **Mark up on consensus issues**
 - **Senator Lott says not this year**

FERC Initiatives

- RUS monitors FERC activities closely
- RUS is an active participant in FERC proceedings
 - filing comments on proposed rules
 - intervening in cases involving borrowers
- RUS and FERC are continuing informal dialogue on issues relating to RUS and our borrowers.

FERC Issues to follow

- **Order 888 open access system - “fine tuning”**
- **ISOs**
- **Order 2000 RTO Rule and Collaborative Efforts**
- **Merger Mania**
- **Rules of the Road for Generation Markets**
- **Federal State Relations**
- **Reliability**
- **Impacts on rural and residential customers**

What's next with FERC?

- Order 2000 RTO Collaboratives
- Fine tuning ISO rules
- Problems in Competitive Generation Markets -
 - **Market monitoring**
 - **Gaming of bidding systems**
 - **More price spikes**
- Growing concentration in generation

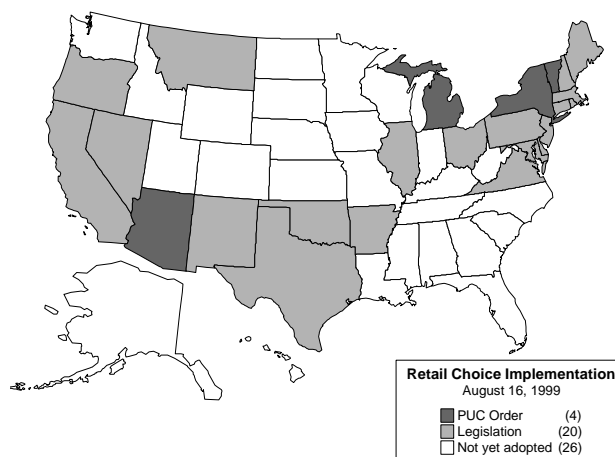
State Activities

- **Activities by state legislatures and regulatory agencies.**
- **Formal comments in Arizona , Florida, and Michigan**
- **Informal discussions with state regulators in other states**
- **Working with borrowers to help them adapt to changes in state law and regulation**
- **Participation in NARUC and is involved in issues that potentially affect cooperative borrowers**
- **RUS is ready to work with and on behalf of borrowers in state proceedings.**

What's happening in the States ?

- Retail Choice Plans
 - Legislation**
 - Public Utility Commission Orders**
- Ongoing studies of retail choice
- Reliability Concerns
 - Adequacy of generation and transmission**
 - Distribution system maintenance and operations**
- Codes of conduct and Business Practices

Retail Choice Implementation



State Retail Choice Plans

- Legislation
- **21 States legislatures have required or endorsed retail choice**

Regulatory Action

- **4 State regulatory commissions have issued orders requiring or endorsing retail choice (including Arizona which also has legislation)**
- **District of Columbia has recently approved retail choice transition**

Features of Retail Choice Plans

- Coop Opt In/Out
- Stranded Cost Recovery
- Generation Divestiture
- Standard Offer/Default Service
- Regional Transmission Organizations
- Public Benefits Fund
- Renewable Energy Portfolios
- Other Consumer Protections

Coop Opt In/Out

No opt out in 12 states:

AZ, AR, DE, ME, MD, MI, NH, NM, PA, VT, VA

Opt in in 6 states:

IL, MT, NV, NJ, OH, TX

**Oklahoma appears to require retail choice for coops,
but has not yet set any ground rules .**

3 state plans do not apply to coops -- CA, NY, OR

3 states have no cooperatives -- MA, CT, RI

Meanwhile:

- 26 states did not adopt retail competition in 1998-1999
- Why not?

Who's next?

- West Virginia?
- Michigan? (Legislation)
- Indiana?
- Minnesota?
- North Carolina?
- South Carolina ?
- Oklahoma (again?)

Electric Restructuring --Where do we go from here?

- Restructuring will continue with or without Federal Legislation
- Our job will be even more complex
 - State retail choice implementation
 - FERC Initiatives
 - Industry Change
 - Uncertain supply and demand situation
 - Immature markets
 - Surprises

Stay tuned

- Industry-Government Initiatives that will affect coops
 - NERC-NAERO
 - RTOs, ISOs, Transcos
 - Codes of Conduct
 - Uniform Business Practices
 - New Reliability Measures

Key Legislative Issues - Federal

- FERC Jurisdiction over RUS borrowers
- Federal - State Cooperation
- Stranded Cost Protection
- Rural Safety Net
- Market Power
- Reliability
- Taxes
- Transmission Siting

Key State Legislative and Regulatory Issues

- Coop opt out/in
- Stranded cost recovery
- Universal Service
- Consumer Protection
- Competitive Services
- Codes of Conduct
- Protecting Reliability

Key Issues for Rural America

- **Does electric competition deliver big savings for rural America?**
- **If we build it will they come? - Will competitive interest match growing demand in rural areas ?**
- **Will there be new and innovative services for rural customers? - What will they be?**
- **What happens to Universal Service / Obligation to Serve?**
- **Who will provide service to the most rural and remote areas?**

Next Steps for RUS

- **Work with Administration, Congress, Borrowers, and States to make sure that Rural America shares equitably in the benefits of restructuring and continues to enjoy reliable affordable electric service.**
- **Enhance opportunities for rural communities**
- **Assist borrowers in adapting to change**
- **Protect rural consumers**
- **Identify/develop workable solutions for rural America**

Advice to Borrowers

- **Be Informed**
- **Get Involved**
- **Make the Rules**
- **Play the Game.**
- **Work with RUS**