Retail Competition: To Be or Not To Be

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Overview

- Introduce CAEM
- Energy Restructuring 2001:
  - Should we continue to restructure?
  - Yes, But we have screwed it up royally
  - Where do we go from here?

Center for the Advancement of Energy Markets

Discovering consumer, business, and environmental advantage in energy markets transformed by technology and competition

Center for the Advancement of Energy Markets

CAEM

- Three Years Ago
- Retail was destined for failure
- Something Missing
- Think Tank on Energy Restructuring

Character

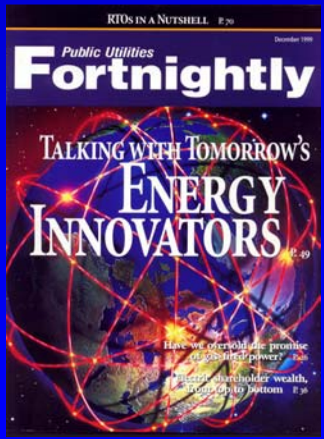
- Independent
- Market-Oriented
- Non-Profit-501(c)(3)
- Change Agency, Think Tank
- Not a lobbying group, trade association, or consulting firm

Mission

- Define
- Discuss
- Build Consensus
- Advance

Canadian Affiliate

- October 2001



Board of Directors

- AES
- Automated Energy
- Dynegy
- Deloitte & Touche
- Exelon
- Green Mountain
- Haddington Ventures
- KeySpan
- Madison Gas & Electric
- Navigant
- New Power
- Primen
- Williams

- Larry Bickle, CEO
- Cody Graves, CEO
- Dennis Kelly, CEO
- Gene Lockhart, CEO
- Ernie Moniz, MIT
- Bob Rowe, ex Pres. NARUC
- Joel Singer, CEO
- Branko Terzic

Contribution to Intellectual Capital

- Retail Energy Deregulation Index (RED Index)
- DISCO of the Future
- Lessons Learned from Natural Gas Restructuring
- Distributed Energy Task Force
- Grid Enhancement Project
- Canadian Energy Restructuring Forum
- Pricing and Cost Allocation Task Force

Restructure What: Competitive Network Policy

Traditional	*Emerging*
Command-and-Control	Market Based
Monopoly Utilities	Customer Choice
Bundled Services	Unbundling/Access
Cost-Plus Pricing	Performance Based
Silo-Based Products	Convergence
Fragmented	Consolidated
Parochial	Regional/Global
State Focused	Federal Focused

Been There, Done That
Case Study-Federal Gas Access

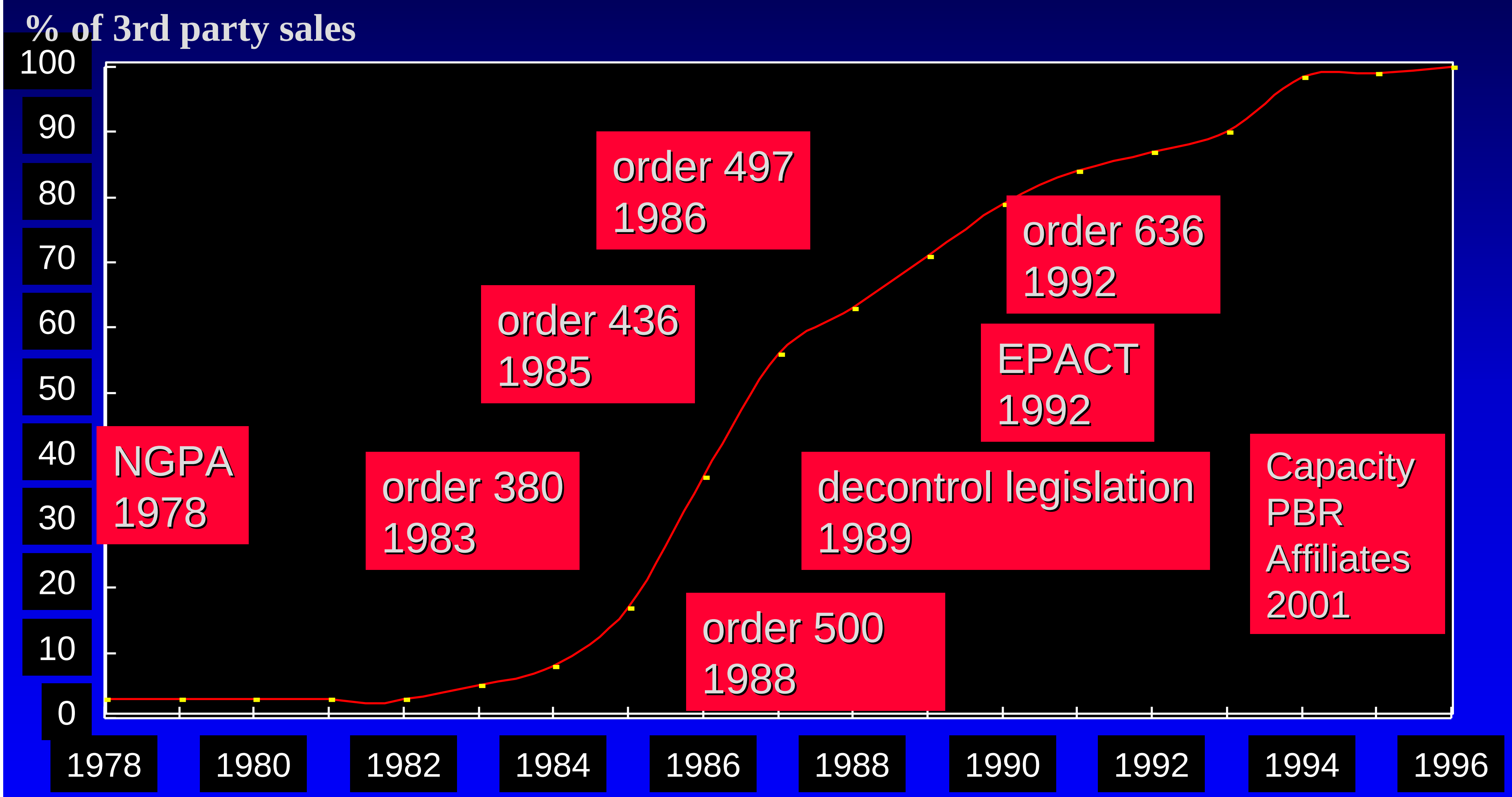
Phase I	Phase II	Phase III	Phase IV	Phase V

• Congressional Action (NGPA)	• Order 380
	• Open Access Blueprint (Order 436)
		• Implementation and Refinement of Open Access
		  • Order 451
		  • Order 497
		  • Order 500
			• Ancillary Issues
			  • Wellhead Decontrol
			  • Order 636
			    • Rate Design
			    • Merchant Deregulation
			    • Secondary Market
			    • Transition Costs
				INCOMPLETE 2001
				•Performance Based Regulation
				• Secondary Market for Capacity
				• Affiliate issues

1978	1985	Mid 1980s	1989/1992	1998

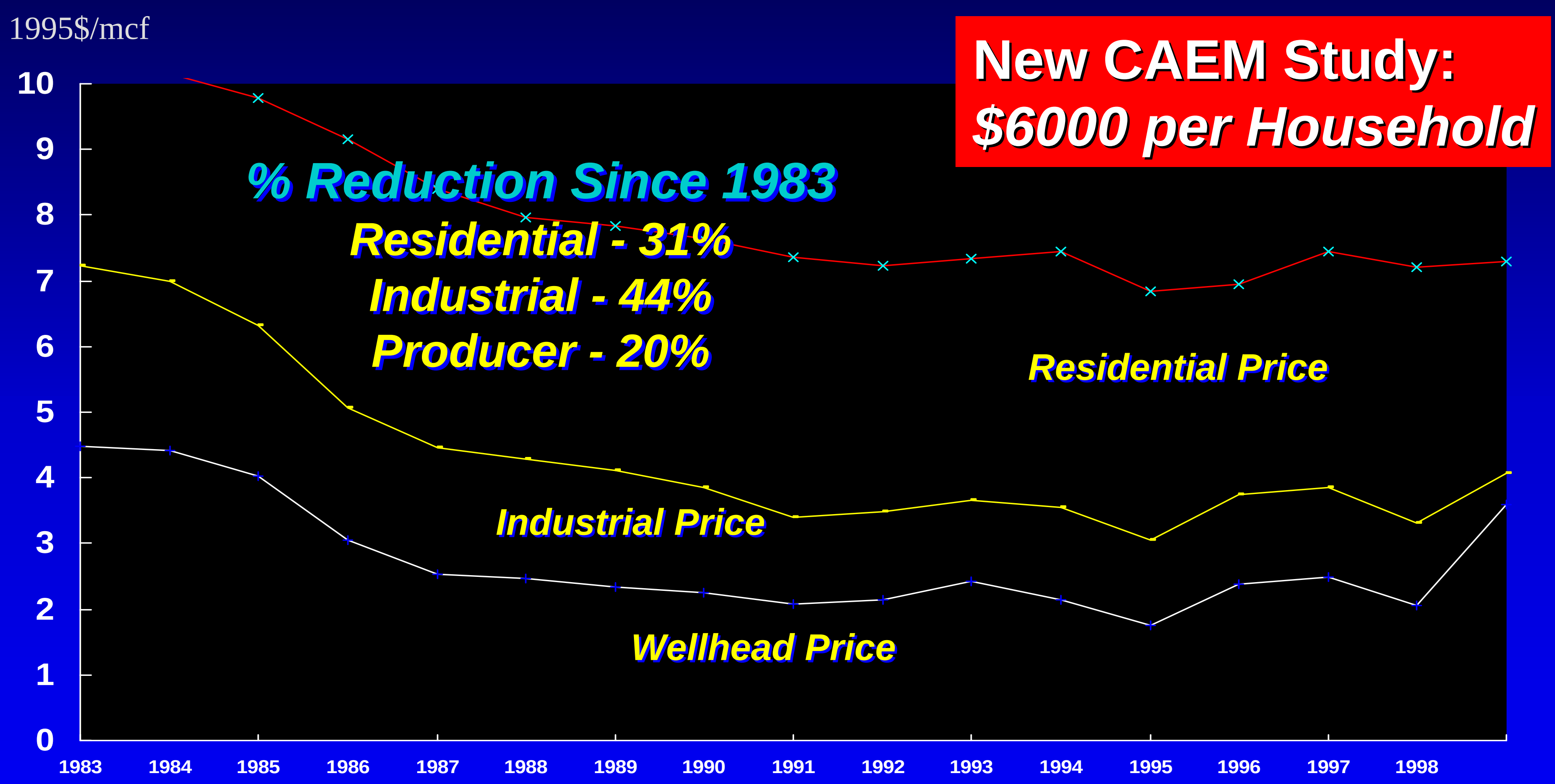
Illustration of Access Path:

Increase in 3rd Party Access on Natural Gas Pipelines



Natural Gas Prices

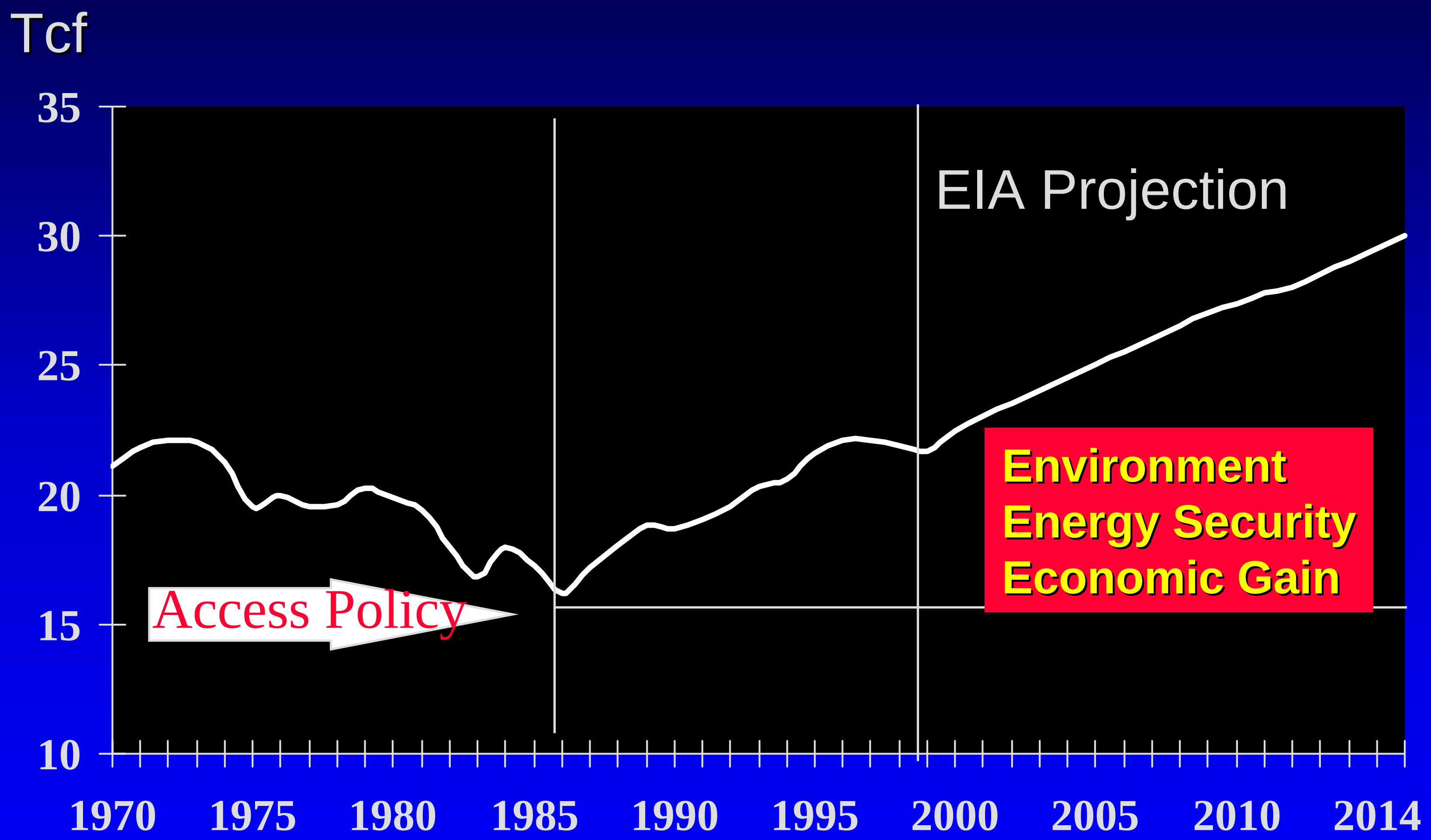
Gas Competition Benefited Residentials



Source: Energy Information Administration

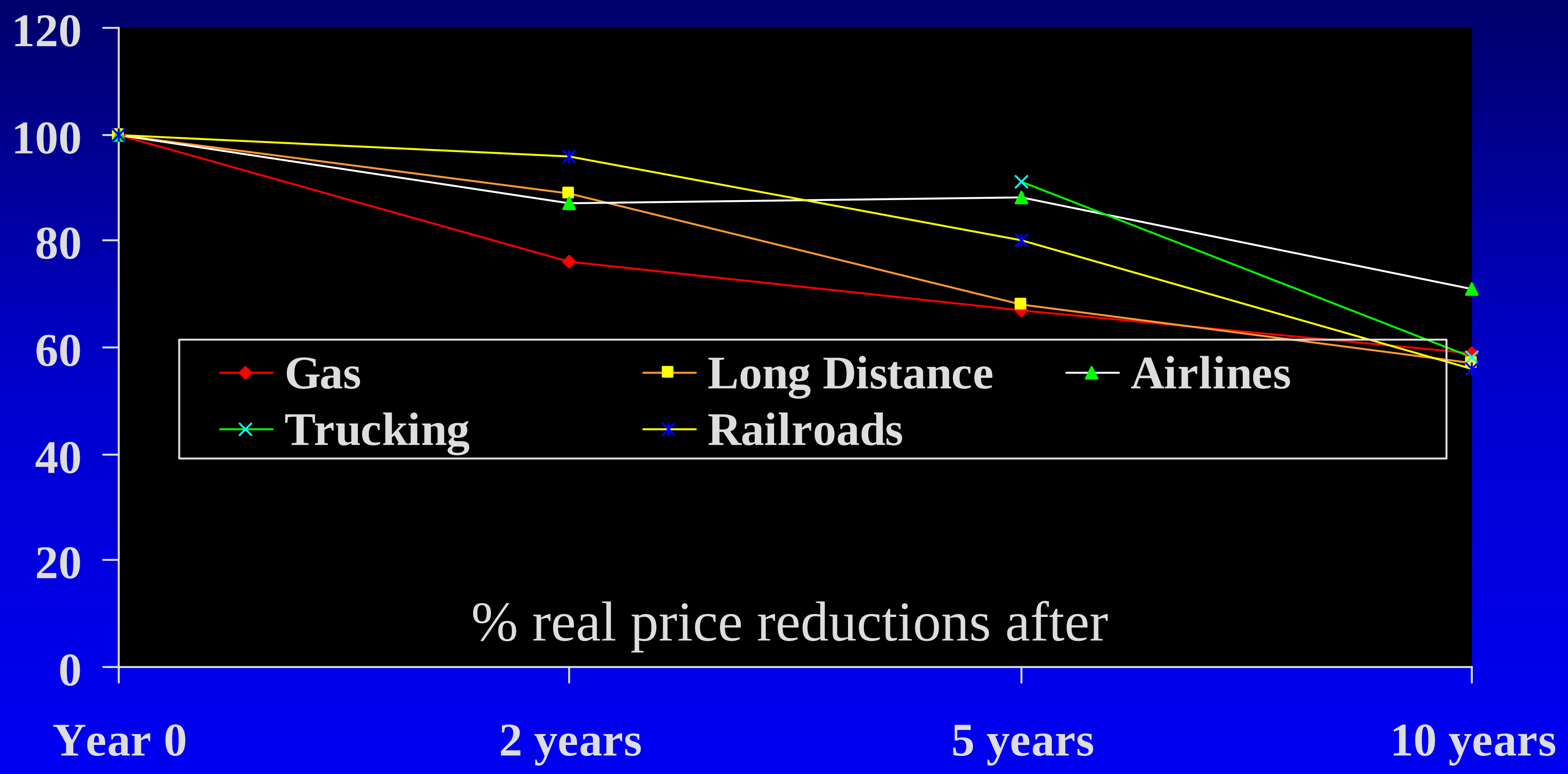
Natural Gas Consumption

Natural Gas was disfavored fuel in 1970s energy policy



Source: Energy Information Administration

Industry Deregulation and Price



Source: Crandall and Ellig (1997)

2001: Despair and Disarray
Energy Restructuring is a Disaster

- UFO Abductees better organized
- Congressman Joe Barton
  - California is the poster child for energy restructuring.
- California, Enron, and prices have made issue of competition in energy front page news
- No Coherent Model so a thousand flowers bloom
- Raises significant question of whether competitive model will work for mass customers and whether adequate supplies will be developed

Why are we having problems?

Retail Access will be more complex

FEDERAL	STATE
One Customer Class	Multiple Classes
Less Political	More Political
One Energy Form	Multitasking Reform
Limited Issues	Multidimensional
FERC	64 PST's
25ish Companies	250 to 4000 corps
FERC Funded	States Underfunded
Control	Coordination
15 year transition	Even longer transition

How do we measure progress?

- Indices—Simplify Complex Situations
  - Thermometer of 104
  - DOW over 11,000 or Price to Earnings Ration of 25
  - CPI at 3.5%
  - Federal Reserve Price Cuts of .5%
  - Hurricane Mitch was a Category 5 on Saffir-Simpson Hurricane Intensity Scale.
- RED=Retail Energy Deregulation
  - 22 Key Issues that Determine the Quality of Access
  - Scale from 0 to 100—Negative Numbers Possible
  - Survey of State Commissions
  - Updated 2x a year
- Comprehensive New Methodology
  - Coverage extended to Canada and Australia and to Gas this year
- Introduce Nat Treadway, Project Director of the RED Index

22 Key Attributes in 5 Clusters

A. Framework Cluster

- plan, eligible customers, switching customers, competitive safeguards, standardization, billing competition, metering competition

B. Generation Cluster

- market structure, wholesale market, stranded cost standard, stranded cost implementation

C. Consumer Cluster

- information, education, default provider

D. Distribution Cluster

- price risk, default rates, performance based regulation, network pricing, and distributed resources

E. Commission Cluster

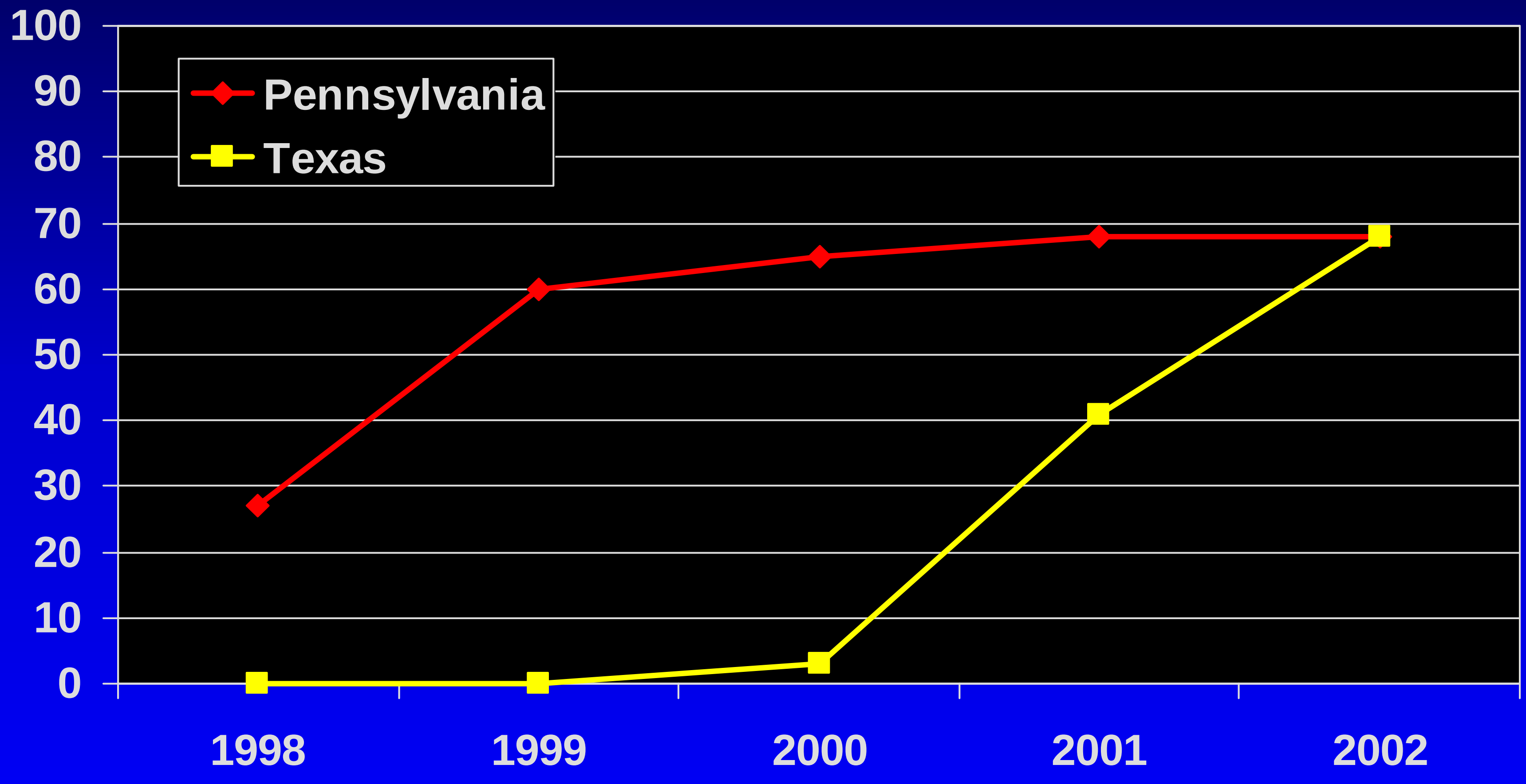
- regulatory convergence, reengineering, budget

Texas tied for first

Even before debacle, California barely in top 20

Province, State or Territory	*2002 Score*	*2002 Rank*
Texas	***68***	***1***
Pennsylvania	68	2
Maine	65	3
New York	56	4
Maryland	50	5
DC	49	6
New Jersey	49	7
Victoria, Australia	***45***	***8***
Alberta, Canada	***45***	***8***
Michigan	45	8
California	***5***	***28***

Texas vs. Pennsylvania Path

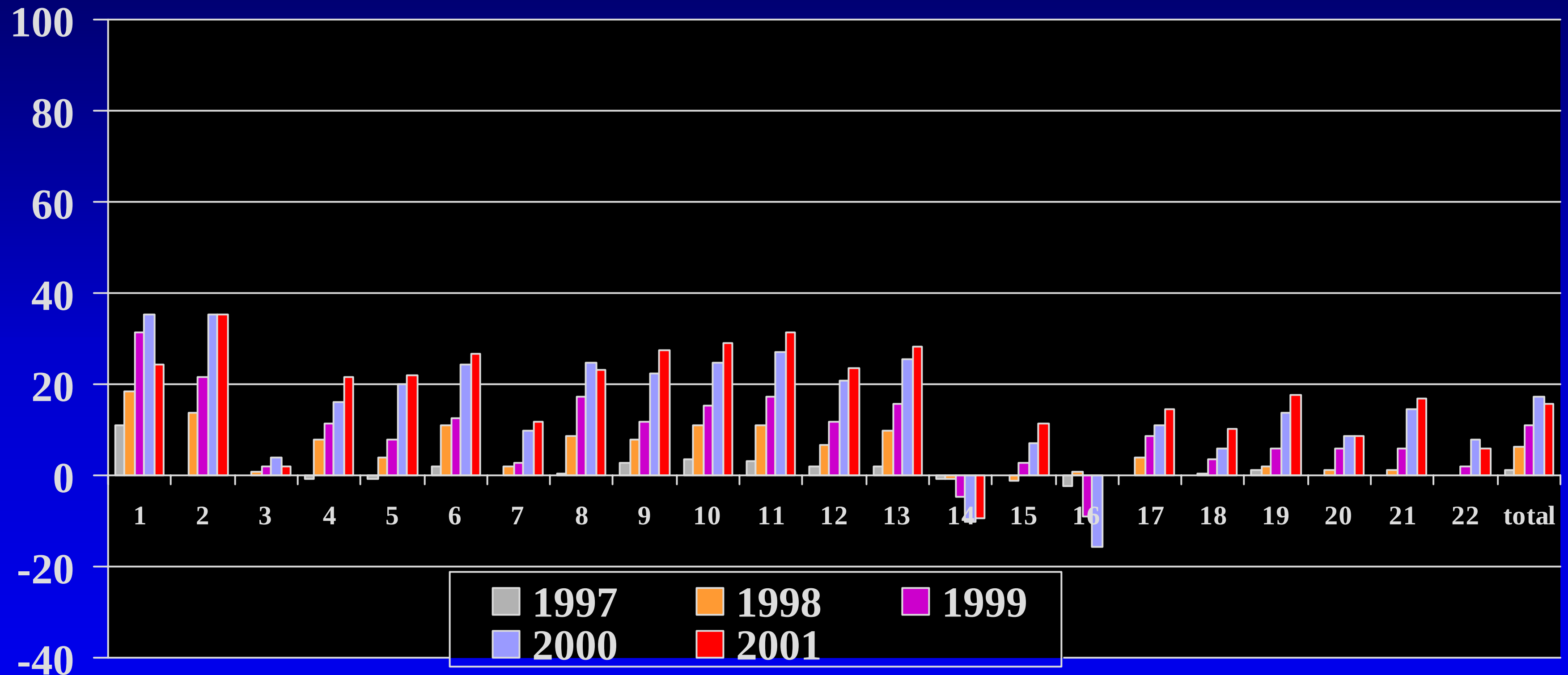


Texas: We’re Number 1!

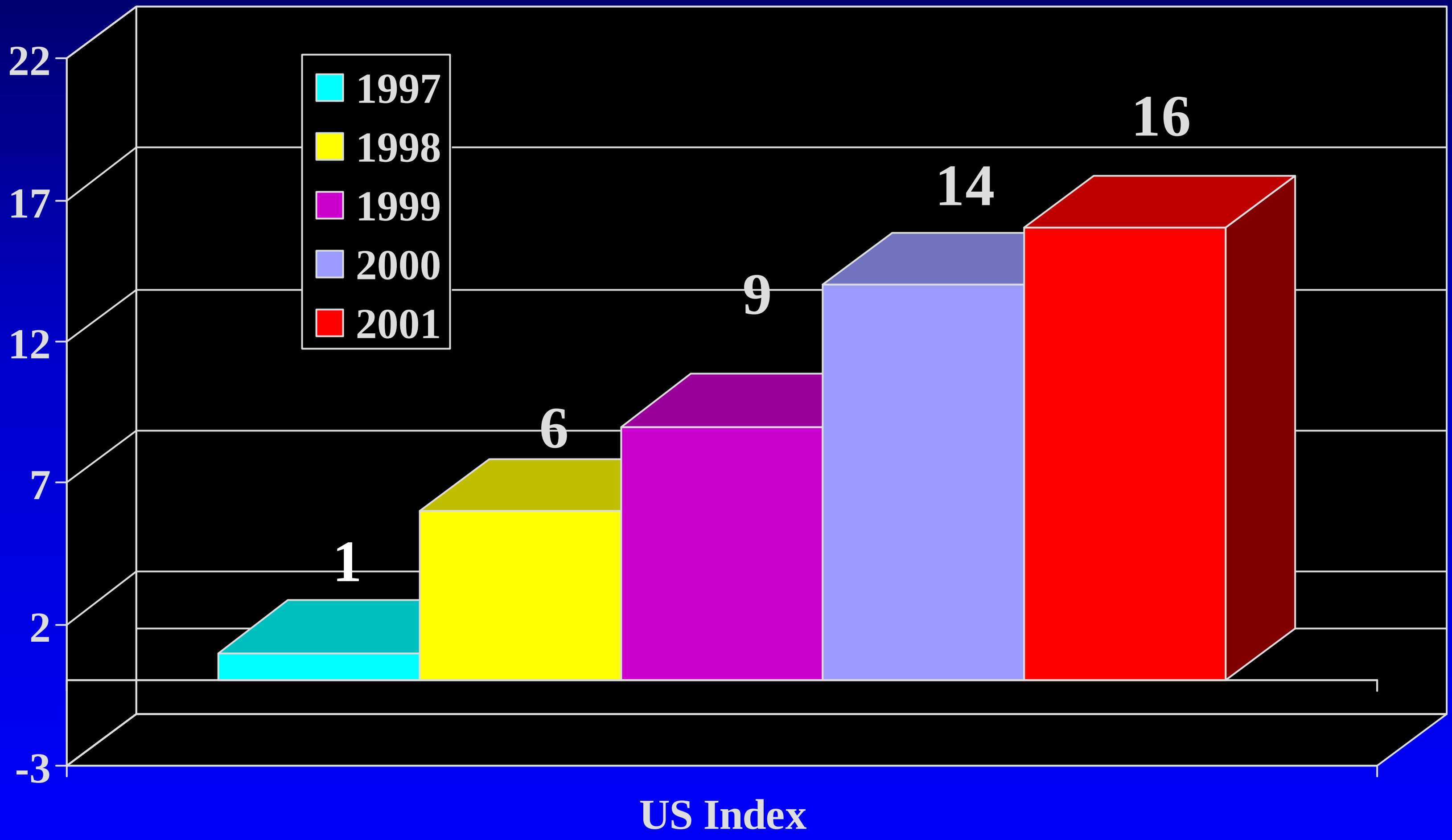
Attribute	***2002 Characterization***	***Highest Possible Score***	***2002 Score***
1. Plan	Detail	***5***	5
2. % Eligible	70%	***5***	5
3. % Load Switched	2%	5	.5
4. Safeguards	Corporate	***10***	7
5. UBP	Consensus	***10***	10
6. Billing	Consolidated	***3***	3
7. Metering	Delayed	2	1
8. Generation	Incentives	***10***	7
9. Wholesale	Bilateral	***5***	5
10. SC Calculation	Not an Issue	***3***	3
11. SC Implemer[illegible]	[illegible]	[illegible]	[illegible]
12. Customer Inf[illegible]	[illegible]	[illegible]	[illegible]
13. Consumer Ed[illegible]	[illegible]	[illegible]	[illegible]
14. Default Service	Experiment	15	4.5
15. Price Risk	Fixed	4	2
16. Rates	Rationalization	4	2
17. PBR	No Action	2	0
18. Network Pricing	Cost of Service	***2***	0
19. DG Interconnection	Aggressive	5	5
20. Convergence	No Action	1	0
21. Reengineering	Some	1	.5
22. Budget	Level	1	0
RED Index Score			68
US Rank			1
North American Rank			1

But it is a pretty stupid class.

Progress on Accomplishing Attributes



US National Red Index Score



Success of RED Index

- PA Governor used it in State of State Address
- NY PSC and Texas issued Press Releases
- Vermont DPS uses it as strawman
- Alabama Attorney General
- World Bank: "most sophisticated scorecard for measuring power sector reform."
- Full Page in USA Today
- Provided free to 1600 public sector organizations

Homework Assignment

- Xenergy's Retail Energy Markets Report and Retail Energy Foresight won the RED Letters Award Last Year
- FTC Report for Congressman Tauzin on Retail Competition will win this year's RED Letter Award
- Skipping Stone's Report on the Texas Market

Action: Process

- ***Movement is in disarray***
  - Who is the acknowledged leader who inspires and challenges?
  - Where is the battle plan for winning this war?
  - Where can we go to meet fellow travelers to gain comfort from the wearying battle?
  - Where do I go for training in the new paradigm?
  - Where is an organization of the broad and diverse elements of the movement ?
- ***Einstein's Definition of Insanity***
  - Doing the same thing over and over expecting a different result.

Action: Strategy

- Einstein writes to Roosevelt in 1939: Germans building an atomic bomb
- Six years later US ends World War II by dropping Little Boy and Fat Man on Japan.
- Manhattan Project represented "the greatest single achievement of organized human effort in history."
- Vision, courage, leadership, and commitment in the face of gargantuan obstacles.
- Where is anything approaching that in the energy restructuring movement.
- We need a Manhattan Project for energy restructuring!

Action: *Organization and Intellectual Capital*

- Organization and leadership is not evident in the industry today
  - We recently established the *Friends of Restructuring and the Leadership Council on Energy Competition* to begin to meet this challenge
- Intellectual Capital—unbiased understanding of problems and solutions—is in short supply
  - We recently established the *IDEAS Foundation* to begin to meet this need
  - Integrated Development of Essential Assets and Services