

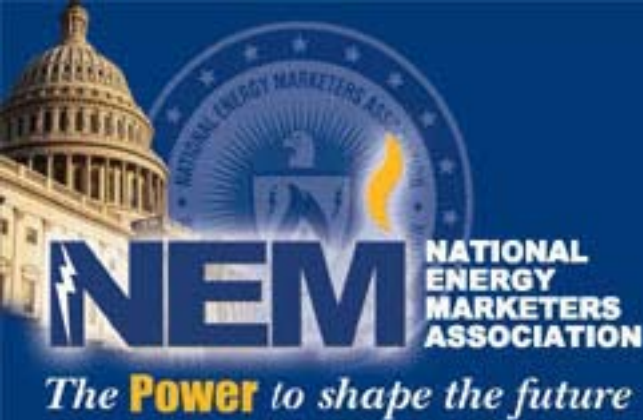
A National Perspective on Customer Choice Programs

Craig G. Goodman
President
National Energy Marketers Association
202-333-3288
cgoodman@energymarketers.com
www.energymarketers.com

**Pennsylvania POLR
Roundtable**

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National Energy Marketers Association

Overview

- ❖ Who is The **National Energy Marketers Association (NEM)**
- ❖ **Natural Gas and Electricity, Wholesale and Retail,**
- ❖ **Energy-Related Products, Services, Information, and**
- ❖ **Advanced Technologies** - risk management technologies, clearing solutions, sophisticated electronic trading platforms as well as predictive and real time electronic trade confirmations and settlement capabilities, customized software for the back, middle or front office and generator or wellhead to user metering, billing, and data exchange capabilities as well as advanced grid reliability, power line siting, information and transmission technologies.

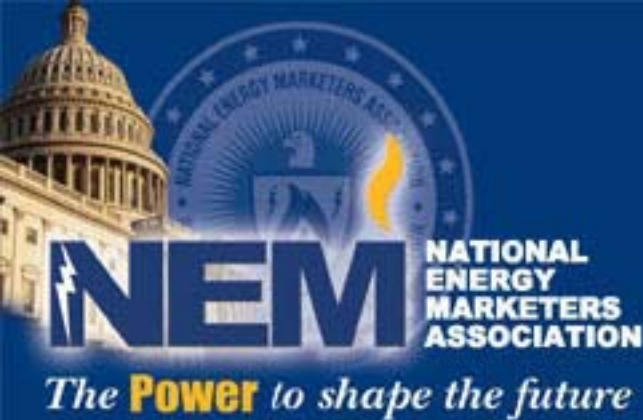


National Energy Marketers Association

Overview

❖ Who is NEM?

- ❖ Wholesale and Retail Suppliers of Electricity and Natural Gas
- ❖ Independent Power Producers (IPPs)
- ❖ Suppliers of Distributed Generation
- ❖ Energy Brokers, Power Traders and Electronic Trading Exchanges
- ❖ Advanced Metering and Load Management Firms
- ❖ Billing and Information Technology Providers
- ❖ Credit, Risk Management and Financial Services Firms
- ❖ Software Developers
- ❖ Broadband Over Power Lines, Power Line Communications (PLC) and Hybrid PLC Companies



National Energy Marketers Association

Overview

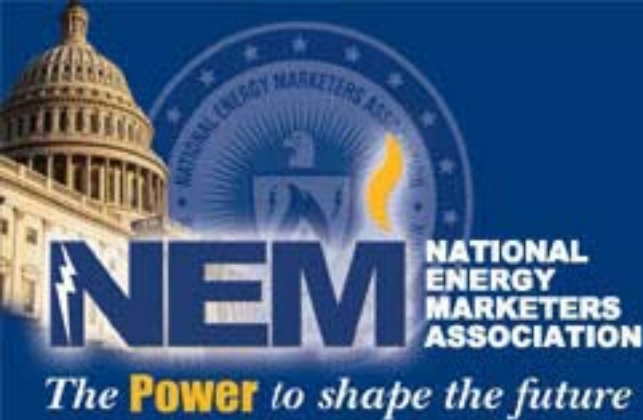
❖ What Does NEM Do?

- ❖ State and Federal Regulatory Commissions, Legislators

- ❖ In 2003, NEM was active in **73 different proceedings in 15 states**, plus multiple proceedings at the FERC, CFTC, FCC and the FTC

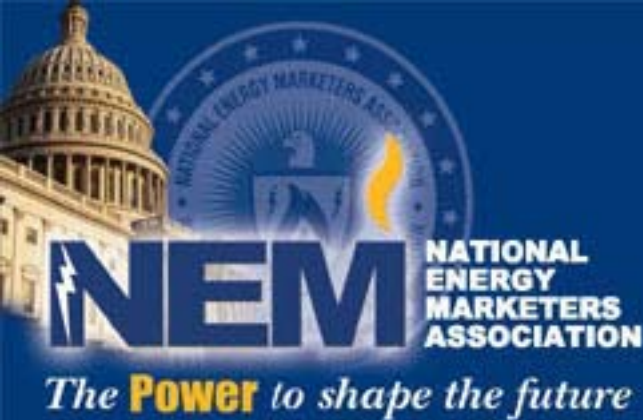
- ❖ Consumer Representatives and Utilities

- ❖ Develop and implement **Transitional Wholesale and Retail Market Designs** so that utility shareholders and marketers could become partners in a **consumer-focused, value-driven** transition to an orderly, reliable and competitive retail marketplace.



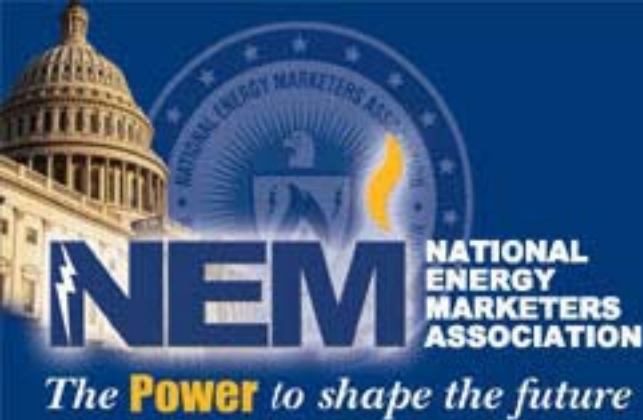
Public Interest in a 21st Century Global Economy

- ❖ **We are in a transition from an early 20th Century – integrated utility business model to a hi-tech, consumer focused, value-driven, price competitive model of the 21st Century**
- ❖ **Public interest of Pennsylvania consumers**
 - ❖ **Public interest is served when utilities ensure reliability and security of energy delivery network**
 - ❖ **No longer obligate utility to negotiate, buy, sell, trade, hedge, swap, finance or risk manage electricity as a commodity or any related competitive function**
 - ❖ **Price and technology competitive marketplace, not captive ratepayers, should be encouraged and permitted to underwrite the costs and risks of the energy supply/merchant function**



POLR is a Competitive Function

- ❖ **Statutory language (Sections 2807 (a), (c), (d) and (e) and Section 2806(a)) gives Commission authority to convert utility “full obligation to serve,” consistent with the public interest, into a utility obligation to connect, maintain and reliably deliver**
 - ❖ **“and acquire”-interpret synonymous with delivery function-schedule delivery/ensure interconnection/do not take title**
- ❖ **Establish date certain by which 100% of consumers have choice for utilities to exit merchant function**
- ❖ **POLR is a competitive function that should be provided by the competitive marketplace**
 - ❖ **Includes all competitive products, services, information and technologies including billing, metering and customer care**



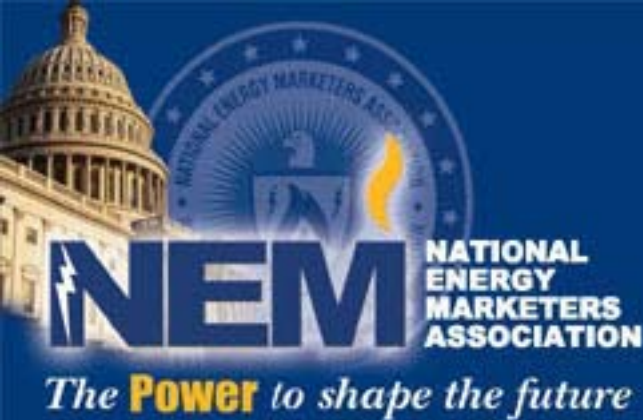
Competitive Transitional Market Designs-POLR Pricing

- ❖ **Consumers and Regulators Fear Price Volatility**
 - ❖ **As a result, utilities are forced to provide high-risk, low-return commodity services and to cross-subsidize certain classes of consumers. In turn, consumers never get the proper price signals to lower demand and make efficiency investments.**
- ❖ **To prevent the POLR rate from disrupting the competitive retail market**
 - ❖ **Encourage utilities to exit competitive energy supply and related functions by a date certain, invest in infrastructure and congestion relief and permit the market to manage price risks and implement creative low income products.**



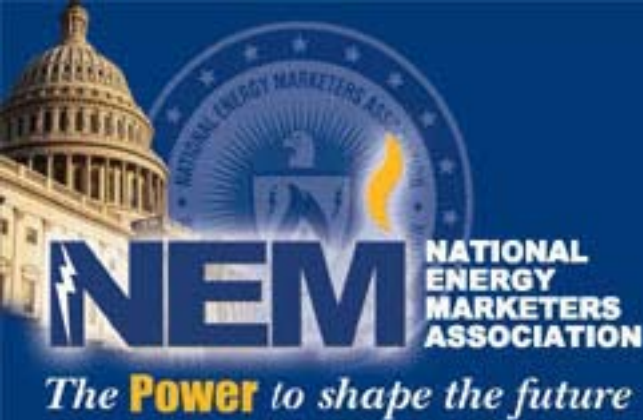
Competitive Transitional Market Designs-POLR Pricing

- ❖ **Risk Free Fixed Commodity Price to Beat Is Misleading**
 - ❖ **Floating Interest Rates and Fixed Rates are Different - calling a risk free fixed commodity price offered by a utility a “price to beat” is misleading**
 - ❖ **Regulated Prices and Market Prices are different.** However, the difference is often hidden from the consumer.
 - ❖ **Example:** New Jersey-Wholesale Basic Generation Service (BGS)
 - ❖ **Insulates Fixed Price Contracts** from volatility and price risks because 2/3 of supply will always be locked in
 - ❖ **Creates retail boom** when forward price is below BGS rate
 - ❖ **Creates retail bust** when forward price is above BGS rate
- ❖ **POLR Prices Should Reflect Current Market Conditions and the embedded costs of serving no-notice retail load**



Competitive Transitional Market Designs-POLR Pricing

- ❖ **The Embedded Cost of Serving No-Notice Retail Load.** In addition to the wholesale cost of commodity, electric POLR rates must include:
 - **transmission charges,**
 - **scheduling and control area services, and distribution line losses,**
 - **a share of pool operating expenses,**
 - **risk management premiums,**
 - **load shape costs,**
 - **regulatory compliance, and customer care**
 - ❖ **commodity acquisition and portfolio management,**
 - ❖ **working capital,**
 - ❖ **taxes,**
 - ❖ **administrative and general expenses,**
 - ❖ **metering, billing, collections,**
 - ❖ **bad debt, information exchange,**



Competitive Transitional Market Design Recommendations

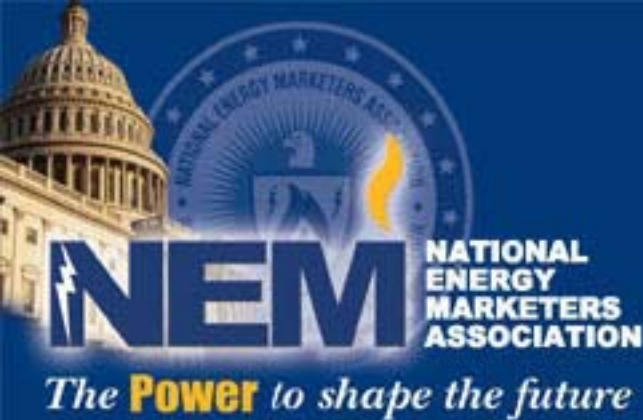
- ❖ **Transitional measures before utilities exit the merchant function**
 - ❖ **the “energy component” of the price to beat - include market-based price adjusted by current and future costs incurred or stranded when utility provides the competitive products, services, information and technologies associated with serving retail load**
 - ❖ **C&I customers - hourly time of day rate**
 - ❖ **Small commercial and residential customers - monthly adjusted, market-based rate**
 - ❖ **utility single bill option, purchase receivables without recourse**
 - ❖ **tax or regulatory incentives tied to timing and degree of customer participation**
 - ❖ **utilities actively support and cooperate to ensure success of the transition**



Conclusion

The near simultaneous natural gas price spike and the cascading Midwest blackout has more sharply defined the essential nature of the “Social Compact” that underlies the grant of a franchise monopoly in a subtle but important way.

A properly designed competitive market should both **permit and encourage utilities to shed high-cost, high risk, no or low return use of its capital and credit**, and instead, encourage redeployment of financial resources to upgrade infrastructure and grid reliability.



Conclusion

The early 20th Century utility business model **obfuscates the true costs of energy, undermines the ability of ratepayers to become informed consumers and promotes high risk, sub-optimal returns on utility resources.** On the contrary, it is clearly in the public interest for competitively generated capital to incur, mitigate, and manage market risks as well as design and implement new value-added technologies.

Additionally, it appears that the true nature of Society's expectation of a **utility's obligation to the Public Interest is in the reliability of its transportation and delivery of energy** rather than the efficiency with which it purchases, meters, bills and collects charges for the sale of energy.