

# Status and Future of Electric Industry Restructuring

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# Introduction

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## Regulatory Assistance Project

RAP is a non-profit organization, formed in 1992, that provides workshops and education assistance to state government officials on electric utility regulation. RAP is funded by the Energy Foundation, US DOE, US EPA.

Richard Sedano was Commissioner of the Vermont Department of Public Service, 1991-2001, and presently serves on the Montpelier Planning Commission



# My Mission from Jenn

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- What is happening in electric restructuring today
  - ❖ Special attention to rate cap transition
  - ❖ What legislators should watch out for
  - ❖ What can legislators do?



## The “old way”

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- Larger utilities taking care of their own requirements (and the needs of smaller utilities in the area) – Paternalistic
- Average rates, changed by rate cases
- “Mistakes were made” and Consumers paid
  - ❖ Utility management often took customers for granted concerning big ticket investments
  - ❖ Regulators did not do a consistently good job holding utilities accountable



# Restructuring: The Vision

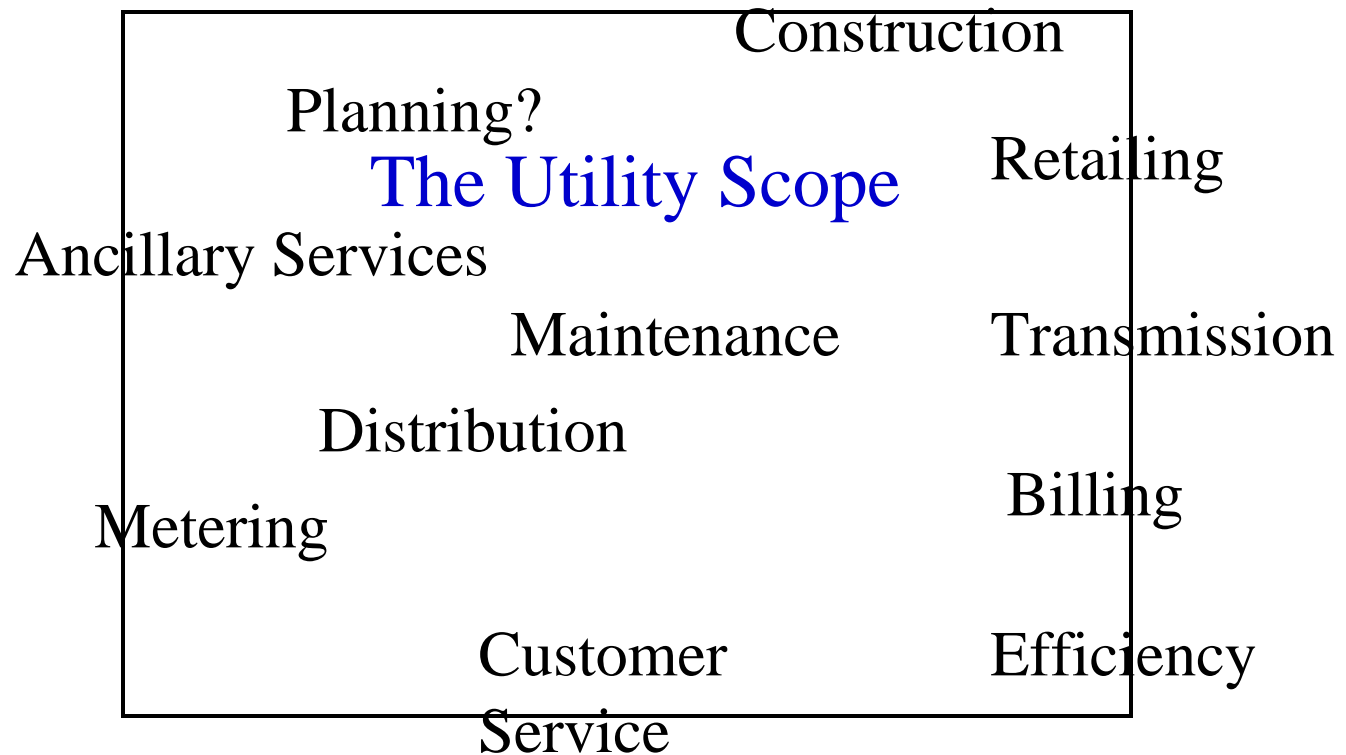
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- Squeeze inefficiency out of electric sector
  - ❖ Bring new ideas, business strategies, technical innovation
  - ❖ Improve deployment of capital assets (wider reaching electric wholesale markets)
- Enable larger customers to get access to reservoir of cheaper power (preferentially)
- Ultimately Rely on Markets



# Utility Tasks Disaggregated

Generation





# Retail Restructuring Distinct from Wholesale

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- Retail competition
- Rate Caps
- Price to Beat
- Insufficient Margins
- Inattention to default service supply
- Average Rates don't help
- Generators no longer public interest corps.
- Adequacy controlled by banks
- Onerous collateral requirements squeeze load servers
- Gen and Trans planning disconnected



# Restructuring Results So Far: Serious Problems

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## ➤ Symptomatic

- ❖ Choice in just a few states
- ❖ Savings mostly to larger customers
- ❖ Little change in customer behavior

## ➤ Structural

- ❖ Investment in new generation uncertain, resource adequacy?
- ❖ Default service unsettled
- ❖ Planning fractured

With rate caps and regulated “price to beat” in place, hard to tell if “competition” or regulation is producing “savings.” And transition to market, if allowed, can be painful if market timing is unlucky (MD, DE, IL).





# Restructuring Successes

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- No more generation construction adventures
  - ❖ Remember Seabrook
- Some retail innovation
  - ❖ Choices (clean energy)
  - ❖ Retail price structures
  - ❖ Demand response – some links to markets
- Jury out on wholesale improvements
- Renewable energy opening



# Price Caps on Default Service

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- A **transitional** device to provide a safe haven to consumers while retail markets develop
- Energy markets dramatically shifted
  - ❖ 2003: Henry Hub gas: \$5.44/MMBTU, Oil WTI: \$31.06/bbl, Cent App coal: \$32.19/ton
- Timing of rate cap expiry
- Risk management (portfolio approach)

# Key Issue in

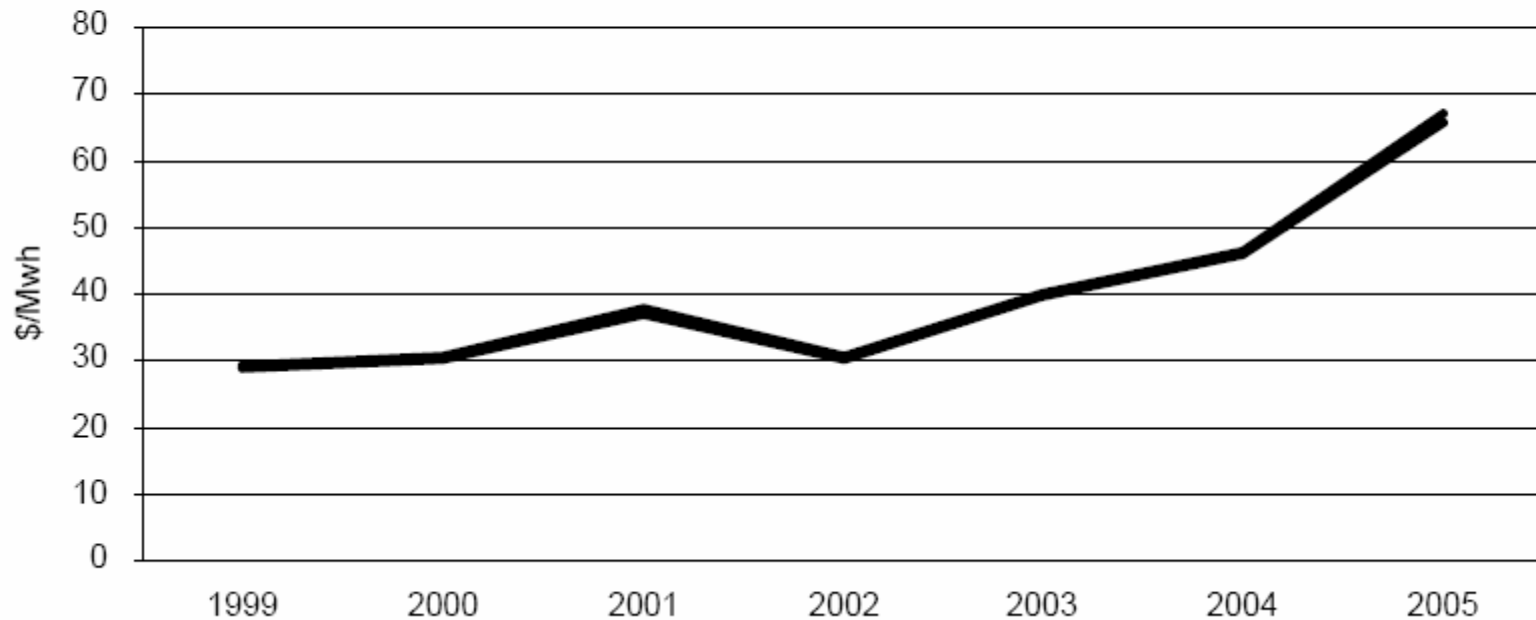
## Competition States: Price Caps

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- Price caps ending, post-transition periods beginning 2005-2007: DC, DE, IL, MA, MD, NY (ConEd), Ohio (CG&E), PA (Duquesne), TX, and VA.
  - ❖ New Jersey, 2003: consumers experienced a 19 percent rate increase when the price cap in that state expired.
  - ❖ San Diego, 2000: rate freeze expired at same time wholesale prices spiked.
  - ❖ Ontario, 2002: price cap reinstated after 25% rise in prices.

# Electric Price increases would have occurred anyway

PJM - Delmarva Zone  
(Real Time Around-the-Clock Prices (\$/MWh))





# Responses to Price Cap Expiration Problems

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- Auction of default service (NJ), tranches
- Incumbent retains default service and passes through increased fuel costs
- Incumbent retains default service and defers increased fuel costs, incurring interest costs
- Reform default service with risk factors
  - ❖ Reduce amount expiring at any time
  - ❖ Vary sources, terms, any correlated risk
- Return to all requirements responsibility for utility



# Policy, Technology, Market Contingencies

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- Climate Change-driven Carbon Caps
- Further environmental regulation
- Supply disruptions (capacity, commodity)
- Reliability Standard changes reflecting high gas use
- Acceleration in Distributed Resource deployment



# Defense Against Market Volatility

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- Leadership: clear policy in statute resolves a great deal
- Risk Awareness: where are your exposures?
  - ❖ Don't think you can predict the future
  - ❖ Commodity Price and Supply, Technology
  - ❖ Regional Market Performance
  - ❖ Diversify time, and source a likely winner
  - ❖ Control growth through demand resources



# Energy Efficiency Investment as Risk Management

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- Electric Demand Growth Brings Chaos
  - ❖ Supply issues
  - ❖ Environmental issues
- Energy Efficiency available at a lower total cost than supply





# Thanks for your attention

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- ❖ [rapsedano@aol.com](mailto:rapsedano@aol.com)
- ❖ <http://www.raponline.org>
- ❖ RAP Mission: *RAP is committed to fostering regulatory policies for the electric industry that encourage economic efficiency, protect environmental quality, assure system reliability, and allocate system benefits fairly to all customers.*