

WHOLESALE and RETAIL MARKET CHALLENGES

Presentation By:

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MA. DTE Commission

to the

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OVERVIEW

- Provide a snapshot of the current status of electric restructuring in Massachusetts
- Present some observations of the current status
- Provide some thoughts on the future of restructuring
- Briefly describe the NERTO proposal/
comments

THE ELECTRIC INDUSTRY RESTRUCTURING ACT

- An Act Relative to Restructuring the Electric Utility Industry in the Commonwealth Regulating the Provision of Electricity and Other Services, and Promoting Enhanced Consumer Benefits, the “Electric Restructuring Act”. Statutes of 1997, chapter 164. Enacted November 25, 1997
 - Established March 1, 1998 as retail access date for all electricity consumers (except those of municipal light plants)
 - Required Each Electric Company to File a Detailed Plan for Restructuring its Operations to Allow for Retail Competition in Generation Supply
 - The Department subsequently approved a plan for each distribution company

RESTRUCTURING ACT (cont.)

- Transition (Stranded) Costs - DistCos are allowed to recover the fixed and purchase power costs that became uneconomic as a result of the creation of a competitive generation market (provided they demonstrate sufficient attempt to mitigate)
- Energy Efficiency Charge – 2.5 mils/kwh through 2007 (\$130 million annually). Programs administered by DistCos.
- Renewable Energy Charge - .75 mils/kwh. Renewable Trust fund administered by MA. Technology Collaborative.
- Renewable Portfolio Standard - 1% percent of sales must be generated by new renewable resources during 2003, with annual increases of ½% for years 2004 through 2009. Overseen by the state’s Division of Energy Resources.
- Municipal Aggregation - municipalities can aggregate the load of their electricity consumers, pursuant to “opt-out” provision

RESTRUCTURING ACT (cont.)

Generation Service

- Establishes 3 generation service alternatives:
 - Competitive generation service provided by licensed suppliers at market-based rates

 - Standard offer service provided by distribution companies
 - price set so that customers receive 15% bill reduction, compared to 1997 bill
 - available to existing customers as of March 1998 who do not switch to a competitive supplier
 - transition service available through February 2005

 - Default service provided by distribution companies
 - market-based prices, established via competitive procurements
 - available to customers not eligible for standard offer

June 2002 Snapshot

Percent of Electricity Consumption Provided through Standard Offer, Default Service and Competitive Market

	Standard Offer	Default Service	Comp. Supply
Large C&I	45 %	11 %	44 %
Medium C&I	63 %	19 %	18 %
Small C&I	64 %	25 %	11 %
Residential	77 %	21 %	2 %

OBSERVATION #1

- The availability of a “rate-protected” Standard Offer is clearly an impediment to the development of a robust competitive market.

(baseline prices)

- | | | | |
|--------|-----------|------|-----|
| • 1998 | 2.8 cents | 2002 | 4.2 |
| • 1999 | 3.2 | 2003 | 4.7 |
| • 2000 | 3.8 | 2004 | 5.1 |
| • 2001 | 3.8 | | |

- The “stickiness” of Standard Offer is compounded by the rule that, if you leave Standard Offer to switch to a competitive supplier, you can’t return.
- Consumers are reluctant to leave a “rate-protected” service in the face of uncertain savings and potential increases in their electric bills

MIGRATION TRENDS

Percent of Electricity Consumption Provided through Competitive Market
Over Recent 9-Month Period

	Sept '01	Dec '01	Mar '02	June '02
Large C&I	23 %	30 %	38 %	44 %
Medium C&I	4 %	9 %	16 %	18 %
Small C&I	1 %	3 %	6 %	11 %
Residential	0 %	0 %	1 %	2 %

OBSERVATION #2

- A robust competitive market is developing nicely for large C&I consumers

	<u>Standard</u>	<u>Default</u>	<u>Competitive</u>
Dec '01	55 %	15 %	30%
June '02	45 %	11 %	44 %

- Seems also to be developing for medium-sized consumers

	<u>Standard</u>	<u>Default</u>	<u>Competitive</u>
Dec '01	74 %	17 %	9 %
June '02	63 %	19 %	18 %

OBSERVATION #3

- It is unclear what the future holds for smaller consumers

	<u>Residential</u>			<u>Small C&I</u>		
	<u>S.O.</u>	<u>Def.</u>	<u>Comp.</u>	<u>S.O.</u>	<u>Def.</u>	<u>Comp.</u>
Dec '01	80 %	20 %	0 %	70 %	27 %	3 %
June '02	77 %	21 %	2 %	64 %	25 %	11 %

- Reasons for lack of switching
 - For suppliers, high customer acquisition and transaction costs
 - For consumers, energy costs represent small part of their overall budgets

RECENT DEPARTMENT INITIATIVES

Intended to remove barriers to competitive choice

- Customer Information Lists are now available to licensed suppliers
 - include customers' names, addresses and historic consumption
- Revised Rules for allocation of partial payments
 - pro rata allocation, replacing DistCo 1st, supplier 2nd
- Internet customer authorizations
 - in addition to written and via telephone
- Data exchange via Internet

DEFAULT SERVICE PROCEEDING

- Recently opened a proceeding to investigate the manner in which default service will be provided in the future
 - Price components (bad debt, administrative costs?)
 - Pricing options (6-month fixed, monthly?)
 - Procurement strategies
 - Roles of DistCos and competitive market in providing “last resort” service
- The Department recognizes the important role that default service, as “last resort” service, will play in the development of competitive markets
 - Its role will increase at the end of the Standard Offer transition period, March 2005

COMPETITIVE MARKET FOR SMALLER CONSUMERS

2 SCHOOLS of THOUGHT:

(1) Industry restructuring is not providing
benefits for smaller customers

- These customers must be provided better retail supply options than default service
- Department should actively promote the movement of these customers to competitive supply
 - Including customer assignment

COMPETITIVE MARKET FOR SMALLER CUSTOMERS(cont.)

- (2) Smaller customers have benefited from industry restructuring because of robust competitive wholesale market, even though retail market has not developed for these customers
- Allow customers to choose, don't force them
 - DistCos will continue to play key role as “natural” aggregators of their smaller customers, until mass market develops

NERTO PROPOSAL

- Proposal filed August 23,2002 with FERC
- New York/ New England-ISO, NECPUC Summer meeting
- Massachusetts Attorney General letter

NERTO (continued)

- Joint Proposal provides details on:
 - Market Design and Operations
 - Transmission Services
 - Rate Principles
 - Governance

NERTO PROPOSAL (continued)

- Standardize existing markets
- Eliminate inter-ISO seams and access charges
- Single market, including single dispatch
- Request immediate RTO status
- Participation of ITC's and TO's in the NERTO
- Time frame

NERTO-Mission, Structure, Implementation

- **MISSION**

- Responsible for the reliability of the Northeast bulk power system, the efficiency and competitiveness of the of the Region's wholesale electricity market, and the provision of nondiscriminatory open-access transmission throughout the NERTO region.

NERTO STRUCTURE

- Independent Board of Directors
- Stakeholder Process and Advisory Committee
- Transmission Operating Agreement
- Operate Transmission Facilities per TOA
- Single Regionwide Open Access Transmission Tariff (OATT)

NERTO MARKET

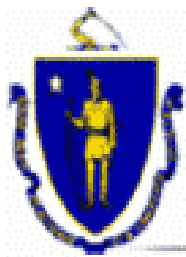
- Day-ahead and Real Time Energy market
- Location-al Marginal Pricing (LMP)
- Financial Transmission Rights (FTR's)
- Uniform Installed Capacity Market(ICAP)

NERTO BENEFITS

- Improved Regional Reliability
- Eliminate Pancake Rates
- Improve Ability to Expand Region's Transmission System
- New Efficient Organization to Administer to the Northeast Markets
- Regional Savings in Wholesale Power Cost

Comments

- ISSUES OF CONCERN
 - Cost Benefit Analysis
 - Governance



Commonwealth Of Massachusetts
Department of Telecommunications and Energy

DTE



WEBSITE FOR THE MASSACHUSETTS DTE:

WWW.STATE.MA.US/DPU

