

Electricity Competition: What Lies Ahead?

A Presentation to the Harvard Electricity Policy Group

by

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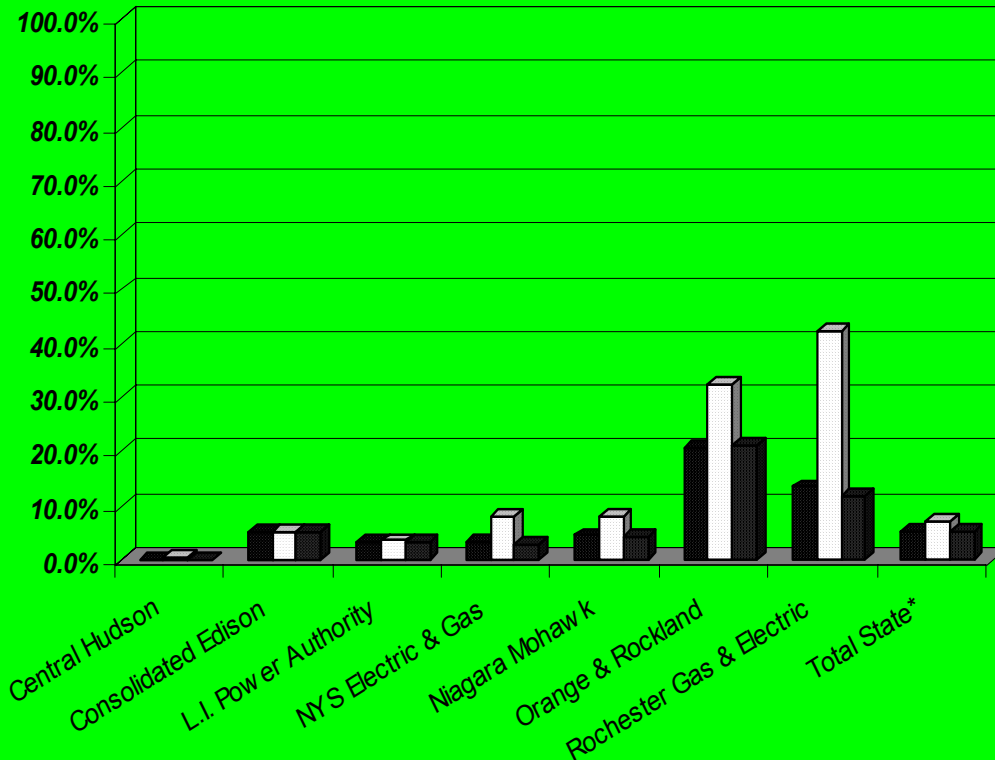
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It hasn't worked so far...

- Few shoppers

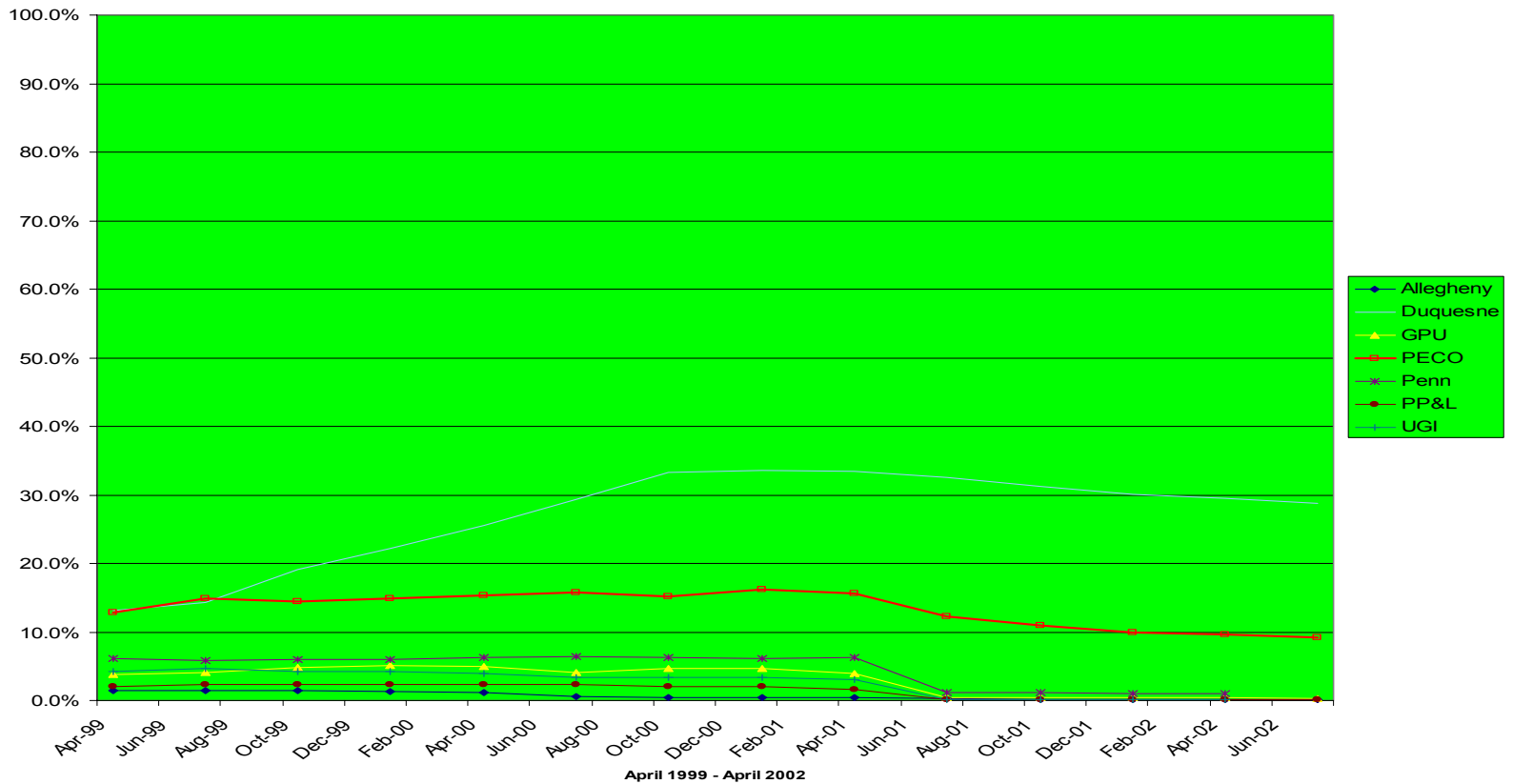
Few New York Shoppers

NY Electricity Shoppers May 2002



Shoppers by Utility/All State
Total/Business/Residential

Few Pennsylvania Shoppers



It hasn't worked so far...

- Few shoppers
- Bust of merchant generators
 - Capital has dried up
 - Capped wholesale rates don't support peakers
 - Promise of LMP not doing the trick
 - e.g. SWCT - uplift demanded
 - 43% of generators say outlook worse
 - Only 23% say outlook is now positive
 - Down from 2/3 a year ago
 - Generators cite regulator/gov't intervention
 - Per CapGemini Ernst/Young survey of 130 worldwide

It hasn't worked so far...

- Few shoppers
- Bust of merchant generators
- Few competitive suppliers
 - **Consolidation**
 - Constellation/NewEnergy, e.g.
 - **Withdrawal**
 - Green Mountain Power last to leave Connecticut
 - **Complaints about lack of headroom**
 - You can't make it up on volume!

It hasn't worked so far...

- Few shoppers
- Bust of merchant generators
- Few competitive suppliers
- “Churn” has been discredited
- “Savings” = transfers, deferrals
 - Except in New Hampshire -> write-offs!
- Price shock in California and West
- Outages in California
- Anomalous price spikes in other areas
- Consumer backlash against LMP
- Major market design issues unresolved

Can it be made to work?

- **Some problems are temporary**
 - Price spikes/troughs won't persist indefinitely
 - Capacity will eventually be built
 - Merchant generators/traders will eventually recover
 - Metering prices will come down, increasing demand responsiveness
 - Market rules will continue to improve
- **Some could be resolved with political will**
 - A deal between federal and state governments - or -
 - The federal government winning outright
 - (state win = no more competition than today)

BUT IS THAT ENOUGH?

- **T (monopoly) vs. G (merchant?) vs. DR (mix?)**
 - Complementary resources but contradictory approaches
- **Market signals vs. public interests**
- **Booms and busts vs. stable prices**
 - High capital/low running cost industries will boom and bust
 - But who will manage my portfolio???
- **Tolerably stable prices vs. demand response**
 - Public won't stand for boom/bust or mandatory TOU prices
- **Reliability vs. ebb & flow of demand/supply**
 - Reliability requires interference with market?
 - Again, who will manage my portfolio???
- **Reasonable fall-back service vs. headroom**
 - 1 ¢ to 1.5 ¢ per kWh needed

Timing is all...

- Merchants/Traders got greedy in California
 - Went too far, too fast in extreme situation
 - Killed the impetus to deregulate
- “Competition” has lost its monopoly on ideas
 - “The era of Margaret Thatcher is dead.”
- But if no crisis, choice states will stay course
 - Too much invested
 - Memories of stranded costs still fresh
 - Public still suspicious of itself
 - FERC still pushing hard

PREDICTIONS

■ Further deregulation is dead

- Congress will not act on FERC powers.
- Northeast, Mid-Atlantic, Midwest will continue to SMDish mkts
- South and West will not.
- PUHCA will hang on, but not be enforced.
- Vertical integration will stop eroding.
- Debate will turn slowly to POLR issues

■ Uneasy stasis will persist for up to 5 years

- FERC will keep trying/South and West will keep fighting them off.
- Alternatives won't grow (e.g. public power)
- Skirmishes will break out in dereg states over Standard Offer/POLR.
- One Transco will get off the ground (will it be Grid or AmerTransCo?).
- Vertical integration will start creeping back in.
- But little new construction.

■ Then, crisis of capacity/prices will spur new battles