Competition Can Work for All Customers

- The market should remain open to everyone.
- Otherwise captive residential customers will bear all the risks/costs of new power plant construction while commercial and industrial customers choose between market or utility rates.
Electric Rates Vary Greatly in Ohio

<table>
<thead>
<tr>
<th>Company</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ohio Edison</td>
<td>10.3 cents</td>
</tr>
<tr>
<td>Toledo Edison</td>
<td>10.6 cents</td>
</tr>
<tr>
<td>Cleveland Electric Illuminating</td>
<td>10.6 cents</td>
</tr>
<tr>
<td>Cincinnati Gas &amp; Electric</td>
<td>7.6 cents</td>
</tr>
<tr>
<td>Dayton Power &amp; Light</td>
<td>8.5 cents</td>
</tr>
<tr>
<td>Columbus Southern Power</td>
<td>7.7 cents</td>
</tr>
<tr>
<td>Ohio Power</td>
<td>6.7 cents</td>
</tr>
<tr>
<td>Monongahela Power</td>
<td>6.4 cents</td>
</tr>
</tbody>
</table>

Competition was designed to level out cost disparities.
Competition Can Work for All Customers

- Customers deserve choices and an opportunity for lower electric rates.
- Why did we deregulate?
  - Desire to avoid generation cost overruns of the past – markets are supposed to be efficient.
History Tells Us Regulation Is Not the Answer

Ohioans are paying a steep price for stranded generation costs.

• FirstEnergy – the costs amounted to $4.5 billion on a pre-tax basis.
• DP&L - requested $440 million in stranded generation costs.
• CG&E - requested $563 million for stranded generation costs.
• AEP - received no generation stranded cost recovery.
History Tells Us Regulation Is Not the Answer

★ Why would we want to return to this type of a regime?
  • Risk continued exposure to inefficient generation costs.
  • No cap on price tag for new power plants.
Examples of Generation Plant Cost Overruns

★ Perry Nuclear Plant – Originally estimated in the 1970s to cost $1 billion. It went in service in 1987 at a cost of $5 billion.

★ Zimmer Power Plant – Originally estimated in the 1970s to cost $235 million. It went in service in 1992 at a cost of $2.9 billion.
Cost overruns are not just a problem of the 1970s – Tampa Electric’s Coolwater IGCC plant, in service in 1996, cost $607 million, but had been originally estimated to cost $303 million.
FirstEnergy – Will spend $1.1 billion to cut pollution at its Sammis coal-fired plant.

Cinergy- Plans to spend more than $2 billion through 2008 to reduce pollution at its coal-fired plants.
Electric Supply
Future Environmental Costs

- AEP – Plans to spend $3.5 billion by 2010 to comply with pollution control laws.
- Reregulation will force these costs on captive customers.
Competition Can Work for All Customers

★ Northern Ohio is a success story

- High shopping rates in FirstEnergy service territory.
- 48.2% of FirstEnergy’s residential customers have switched to a supplier.
Competition Can Work for All Customers

★ Ohio’s aggregation programs are the most successful in the nation.

- More than 500,000 residential customers in northern Ohio are participating in aggregation.
- Northeast Ohio Public Energy Council – 112 communities, over 400,000 residents.
- Northwest Ohio Aggregation Coalition – 8 communities, 100,000 residents.
- Customers participating in aggregation saved over $15 million per year.
Competition Can Work for All Customers

* Southern Ohio competition has not worked as well.
  * No residential shopping in AEP (1.2 million residential customers) or DP&L (450,000 residential customers) service territory.
  * CG&E – only 4% of its 570,000 residential customers have switched.
  * Both CG&E and DP&L have discouraged aggregation programs, creating other barriers to market entry.
  * AEP (Ohio Power) has very low rates.
Competition Can Work for All Customers

★ Solutions
  • Develop new supply portfolios for the long-term.
  • Diversification.
    – Energy efficiency
    – Environmental concerns
    – Renewables
    – Clean coal technology
  • There is no need to revert to rate of return regulation for generation.
Electric Portfolio – the Options

★ Emphasize not only the supply side, but also a demand response.
  • Ex. Wholesale price of natural gas could drop nearly 20% with a 4% reduction in gas usage, according to the American Council for an Energy Efficient Economy.

★ Develop demand-side management programs.
★ Develop demand-response rates.
Electric Portfolio – the Options

★ It is necessary to become environmentally responsible.
  • Regrettably, Ohio is first in the nation in toxic air emissions from power plants.
  • Non-polluting renewables must be part of any long-term solution.
Electric Portfolio – the Options

- Continue to utilize fossil fuels – emphasize clean coal technology such as the Integrated Gasification Combined Cycle.
- Coal is a domestic fuel in plentiful supply and costs much less an MMBTU than natural gas.
SPREAD BETWEEN COAL AND GAS
Dramatically Increased in last 5 Years

Delivered Cost of Fuel for Generation

Delivered cost of fossil fuel at steam electric utility plants.
Provider of Last Resort

★ Wholesale competitive bid with a mix of short and long-term contracts.
★ Short-term contracts should be “laddered.”
  • A period of three years might consist of:
    – One-third, one year contract
    – One-third, two year contract
    – One-third, three year contract
Provider of Last Resort

- Short-term bids manage migration risk of suppliers; customers may default to another supplier or vary their consumption.
- Long-term contracts of 10 to 20 years to allow financing and construction of new technologies.
Technologies

★ Integrated Gasification Combined Cycle.
  • Burns coal cleanly.
  • Government-aided financing – most of the equity is supplied by federal government.
Technologies

★ Integrated Gasification Combined Cycle.
  • Provides a mechanism to guarantee recovery of reasonable capital and operating costs to avoid generating plant cost overruns.
  • Provides builders/operators an incentive to manage costs and operations efficiently.
Technologies

- Renewable energy.
- Energy efficiency.