

Retail Markets: A Failed Experiment or An Essential Reform Just Beginning?

Harvard Electricity Policy Group

By

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Crossroads or Impasse?

- | | |
|--|---|
| <ul style="list-style-type: none">✓ <i>Early mover states considering next steps</i>✓ <i>Growing commercial and industrial participation</i>✓ <i>Potential for wholesale market improvements</i> | <ul style="list-style-type: none">✓ <i>Many states remain uninterested</i>✓ <i>Limited residential markets</i>✓ <i>Uncertain business climate</i> |
|--|---|



How Do We Define Success?

- ✓ *Economic efficiencies*
- ✓ *Societal or individual “savings”*
- ✓ *Static prices*
- ✓ *New products*
- ✓ *Participation/switching*
- ✓ *Perfect markets*
- ✓ *Happy politicians*



Perfect Markets

- ✓ *A successful energy market structure isn't different from any other market. Basic principle is to avoid market power.*
 - *Many buyers and sellers*
 - *Liquidity*
 - *Different types of players: retailers, generators, financial institutions, customers*
- ✓ *Its become clear that the public won't tolerate market imperfections, some regulation is a reality*



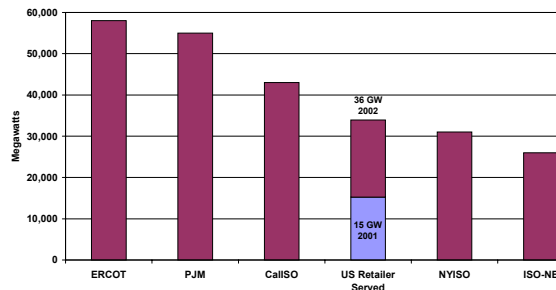
Progress

- ✓ *Competitive retail markets for commercial and industrial customers exist: TX, MA, MD, NY, ME*
- ✓ *Limited markets for residential customers in TX, NY, OH*
- ✓ *PA and CA*



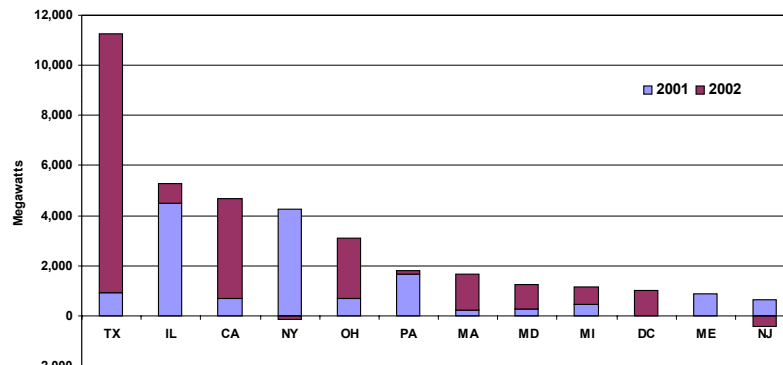
What Is the Impact

2002 Competitive Retail Load Tops 36,000 MW
Larger Than New England or New York Markets



What Is the Impact

Competitive Retail Load Tops 36,000 MW Mid 2002
Significant Growth in 9 of Top 12 States



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Common Characteristics

- ✓ Wholesale structures are better :
PJM, NEPOOL, ERCOT, NYISO
- ✓ Wholesale markets are more mature
- ✓ Customer classes/groups are addressed differently
- ✓ Customers are educated/comfortable
- ✓ Multiple sellers
- ✓ POLR rate is “market based” - auctions or market formula
- ✓ POLR rate has retail components

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Why Bother?

- ✓ *New products -create the demand for new products (call options/puts,etc.)*
- ✓ *Liquidity - customers demand always existed but now it is repackaged in a way that multiple buyers are in the market as opposed to one (I.e. utility)*
- ✓ *Efficiency- presence of multiple buyers avoids monopoly pricing*
- ✓ *Demand response - Physical characteristic can result in market shortages, which are not always reflected in end user prices. Working with multiple customers, Retailers can bring demand reduction/price responsiveness*



Moving Forward

- ✓ *Recognize that residential market needs to be treated differently*
- ✓ *Capitalize on developments in the commercial and industrial markets*
- ✓ *SMD implementation (or at least fixing market power)*
- ✓ *Improvements in the wholesale/retail dynamic*

