

# Report from the Front: Operating in the Retail Market Place

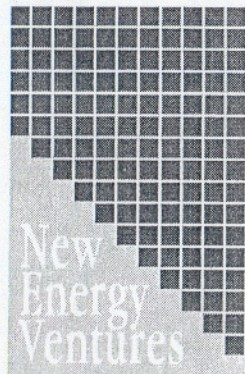
Barbara Kates-Garnick

New Energy Ventures

HEPG

Carmel, California-- January 25, 1999

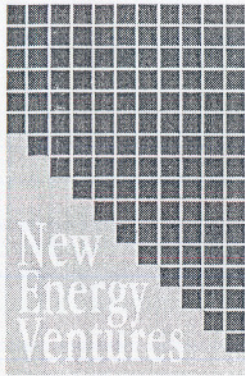




## Today's Presentation

- About NEV
- Conditions for a meaningful competitive market place
- Focus on Massachusetts
- View from the states
- Conclusion

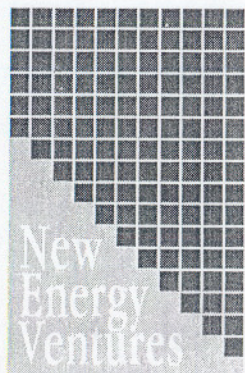




## About NEV

- Largest energy service provider
- Active Markets
  - California-- approx.1200 mw
  - New York-- approx..4500 customers in Con Ed/2500 upstate accounts in Dairylea pilot
  - PA--1000 customers (approx)
  - Illinois, Texas, Arizona offices now open
- Full service energy supplier--NEV Tech (Distributed Gen), Energy Efficiency Services, Energy -related Equipment

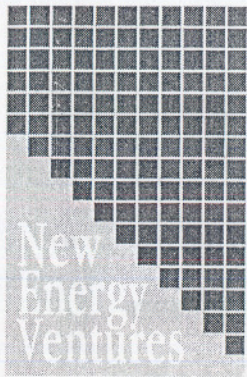




## Where We Are Today

- Backout rates/shopping credits
  - PA-- 5 cents kwh (PECO) average-
  - MA--from 2.8 (1998)-5.1 (2004)
  - NY--tax savings (Con Ed); vary by utility-below market
- Billing and metering
  - PA--customer choice; meter ownership varies by utility
  - MA--2 bills (constrained); utility ownership
  - NY-- 2 bills; meter ownership--varies by size, ruling expected
- Standards of Conduct
  - PA--weak; developed in settlement
  - MA--stronger due to divestiture
  - NY--none exist

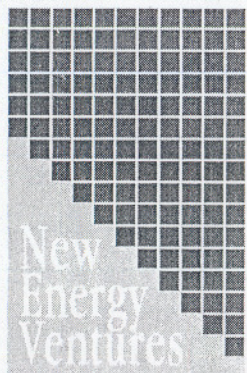




## Where We Are Today(cont.)

- Stranded Costs
  - PA-- varies by utility; utility gaming possible
  - MA-- 100 percent utility recovery
  - NY-- determined by settlement
- Divestiture
  - PA-- not required, only GPU
  - MA-- required: BECO to Sithe and Entergy (Pilgrim), Com Electric and EUA to Southern, NEES to US Generating Co.
  - NY-- in process
- Structure of Decision Making
  - PA-- Legislation then Settlements; utility by utility
  - MA-- Settlements then Legislation; statewide rules
  - NY-- Settlements; piecemeal rules

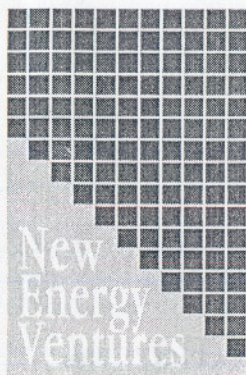




## Competitive Suppliers' Regulatory Mantra

- Savings from the market not rate cuts
- Shopping credits to recover market supply costs-- including cost of energy, capacity, ancill.services, trans., line losses
- Unbundle rates to show costs including revenue cycle services--meter,reading, billing, collections, etc
- Make utility controlled data available, accessible and fairly priced
- Minimize phase-ins
- Eliminate exit fees
- Prohibit institutional market barriers like excessive credit requirements or security deposits; transfer and switching fees
- Permit aggregation through multiple meters; end ratchets; enable cost savings from coincident demand

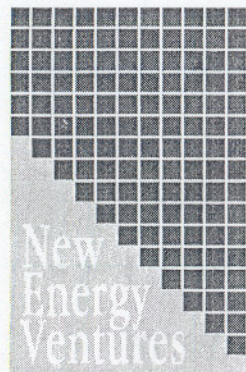




## Wholesale/Retail Interface

- Assure Meaningful non-discriminatory access to T&D from the start-- transmission congestion management must be equitable both in the long-term and in the transition
- Allocate transmission capacity fairly--bundled service customers should not receive preference
- Avoid the black hole between federal and state regulation--there is a relationship between a seamless transition to an efficient, equitable market place-- PUCs, FERC, ISOs, utilities, generators, and suppliers
- Competitively bid default and standard offer service in short term

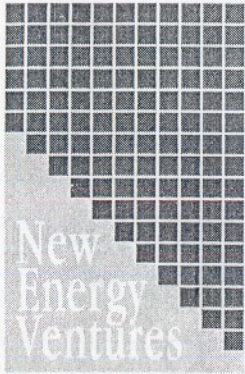




## Importance of Standards of Conduct: Now not Never

- Clear separation of regulated and unregulated utility business-- including non electricity business, whether cable or home security
- Meaningful Penalties for abuse of Utility and Affiliate transaction rules
- Disclaimers if affiliates utilize utility brand names
- Timely and fair practices for dispute resolution-- burden on incumbent not new player

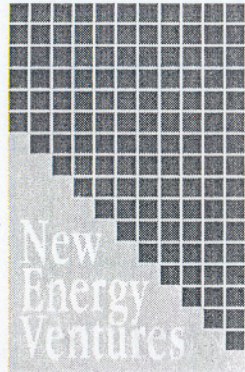




## Perspective on the States: One Supplier's Perspective on the Northeast

- PA-- meaningful back out rates, issues related to transmission; potential problems with standards of conduct; billing and metering facilitate competition
- MA-- the "slow road to competition"; standard offer too slow to escalate; HEFA; customers slowly being picked off; exit fees inhibit new technology; standards of conduct need to be tested; consistency in rulemaking; problems with billing and metering
- NY-- regulatory uncertainty (tax ruling), pseudo competition; patchwork rules; settlements left out rate classes

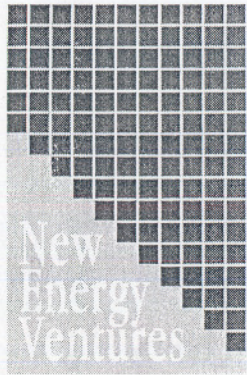




## Focus Upon the Massachusetts Market

- Uncertainty about how many customers are poised to leave utilities-- HEFA, High Tech Council, Raytheon, supermarkets; munis
  - length of contract term
  - once off standard offer can not return
- 1999 Standard offer (all- in price; cents/kWh)-- MECo--3.7 BECo--3.6; ComElec and WMECo--3.1
- Mergers-- NEES; BECo/ComElec
- Impact of energy labeling--disclosure of average price, fuel emissions (CO<sub>2</sub>, NO<sub>x</sub>, SO<sub>x</sub>), labor characteristics, company resource portfolio
- Role of non-utility provided energy efficiency
- Effect of exit regulations on Distributed Gen-- MECo case

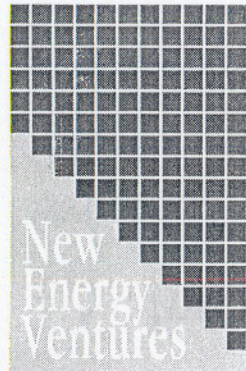




## Issues to Be Determined

- Attractiveness of the Residential and Small Commercial Market
  - PA Experience-- 12% shift in PECO (180,000 customers)
  - NY Con Ed Incentives
- Commitment of Public Policy Makers
  - Utilities v. Escos-- a multi-faceted problem
  - Deep pockets for reg.procedures and legis.lobbying
  - Burden of proof
- Interface between wholesale and retail competition

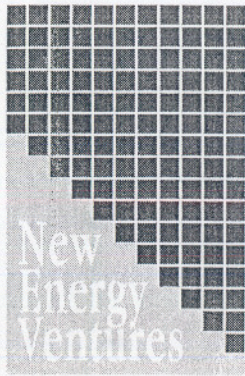




## Decision to Move into New Markets

- Opportunity for Profitability
- Positive and stable regulatory environment
- Meaningful standards of conduct--utility subsidiaries/ retail v. wholesale
- Ability to introduce new technologies and information systems
- Capacity to communicate directly with customers

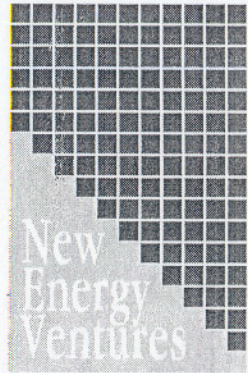




## Suppliers Must Make Business Decisions

- Type of Contract-- share of savings, fixed discount, fixed percentage, variations
- What investments to make in-house/ what to contract out-- trading floor, sales, billing infrastructure, customer service
- What type of offices to have in various states--e.g. sales and regulatory, customer service, other
- What type of customers to acquire-- Fortune 500, commercial and industrial, residential

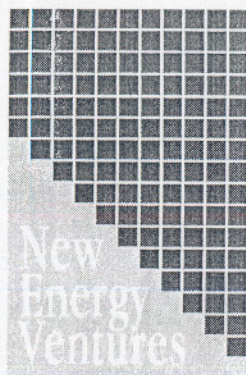




## Market Place Experience to Date: Customer Perspective

- Customer Acquisition an educational process
- Customers Need Savings
- Developing contractual relationships
- Non-residential Customers Scrutinize Bills
- All Customers Prefer Simplicity -- hassle factor an impediment
- Degree of customer loyalty up for grabs



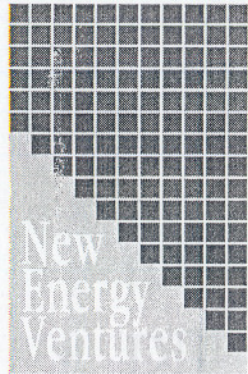


## Market Place to Date: Current ESCO Mindset

- Heavy burden upon new market entrant not upon incumbent-- adds to costs of market entry; pervasive market barriers
- Requires large capital investments-- billing systems, trading floor and data which is in utility hands
- Uncertain and difficult regulatory environments; not all regulators committed or true believers
- Difficult to become national player in local environment-- the utility and its subsidiary

In Conclusion:





## In Conclusion: Ultimate Focus on the Customer

- Analysis of Customer Acquisition will become an issue-- glass half empty or full
- Customer needs will drive the process-- speed and depth of changes
- New Products, services and innovation is the name of the game and will determine winners and losers in the market