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Setting the Standard for POLR

Harvard Electricity Policy Group

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Structures

- ✓ No backstop
- ✓ Index/pass through
- ✓ Auction or bid
- ✓ Utility affiliate at a regulated rate
- ✓ Regulated utility provides

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Good Structures, Good Results for Competition in C&I

- ✓ Maine Competitive Bid
- ✓ Massachusetts Competitive Bid
- ✓ New Jersey Auction
- ✓ New York – Con Ed Pass Through
- ✓ Texas – Price to Beat

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Mass Migration

ALL COMPANIES - July 2003	Incumbent Generation				Competitive Generation	
	Number of Std. Offer Service Customers (a)	kWh Used by Std. Offer Customers for Month (b)	Number of Default Service Customers (c)	kWh Used by Default Service Customers for Month (d)	Number of Competitive Generation Customers (g)	kWh of Competitive Generation Used for Month (h)
Residential-- Non Low Income	1,326,226	988,249,497	659,027	360,649,616	58,355	36,641,269
Residential -- Low Income	104,902	62,138,414	57,890	29,228,089	1,372	821,678
Residential -- Time-of-Use	371	871,688	71	126,579	6	5,810
Small Commercial & Industrial	143,738	222,901,280	89,965	117,811,963	20,249	43,448,106
Medium Commercial & Industrial	29,374	374,233,362	15,521	171,254,054	4,442	93,562,280
Large Commercial & Industrial	3,219	639,333,948	1,831	394,317,884	1,562	547,469,056
Farms	550	1,316,328	63	137,910	1	10,138
Street Lights	11,837	14,539,544	2,355	2,690,067	1,113	5,833,740
Total Sales to Ultimate Consume	1,620,217	2,303,584,061	826,723	1,076,216,161	87,100	727,792,078

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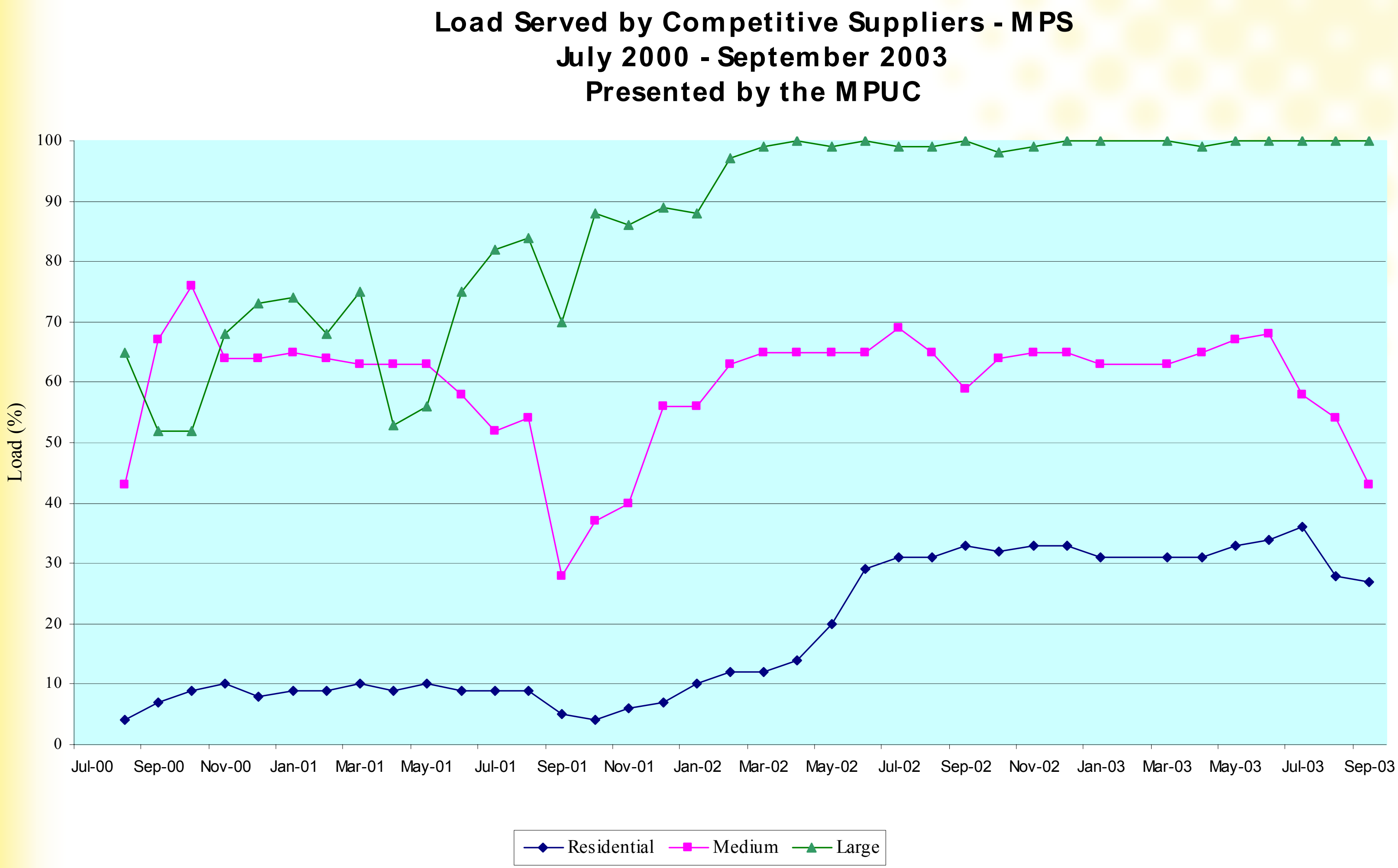
Maine Public Service



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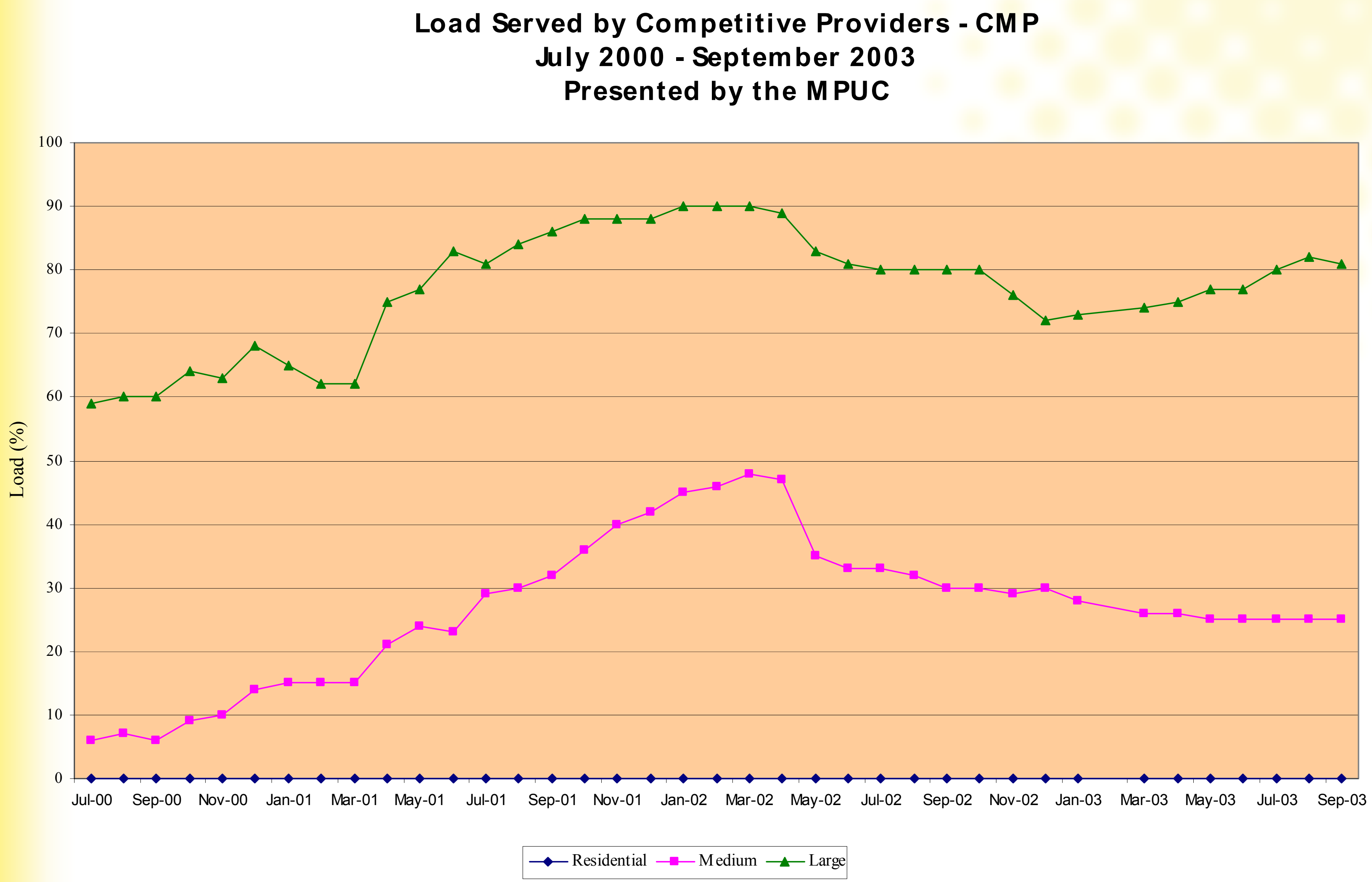
Central Maine Power



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Smaller Customers Are Benefiting

- ✓ Competitively procured generation leads to more efficient pricing, less stranded costs
- ✓ Ratepayers don't experience investment risk, shareholders do
- ✓ C&I customer savings benefit the economy

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Competitive Bid Generation

- ✓ Divide load by customer groups
- ✓ Bid load at different times
- ✓ Full requirements
- ✓ Reasonable security
- ✓ Confidentiality
- ✓ Wholesale or retail?

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Price Variability

- ✓ Price caps don’t work.
- ✓ Some level of variability is necessary.
- ✓ Monthly or seasonal differentiation is ideal.
  - *Minimizes migration risks associated costs*
  - *Minimizes potential for under-recovery/cost deferrals*
  - *Minimizes need for regulatory intervention*

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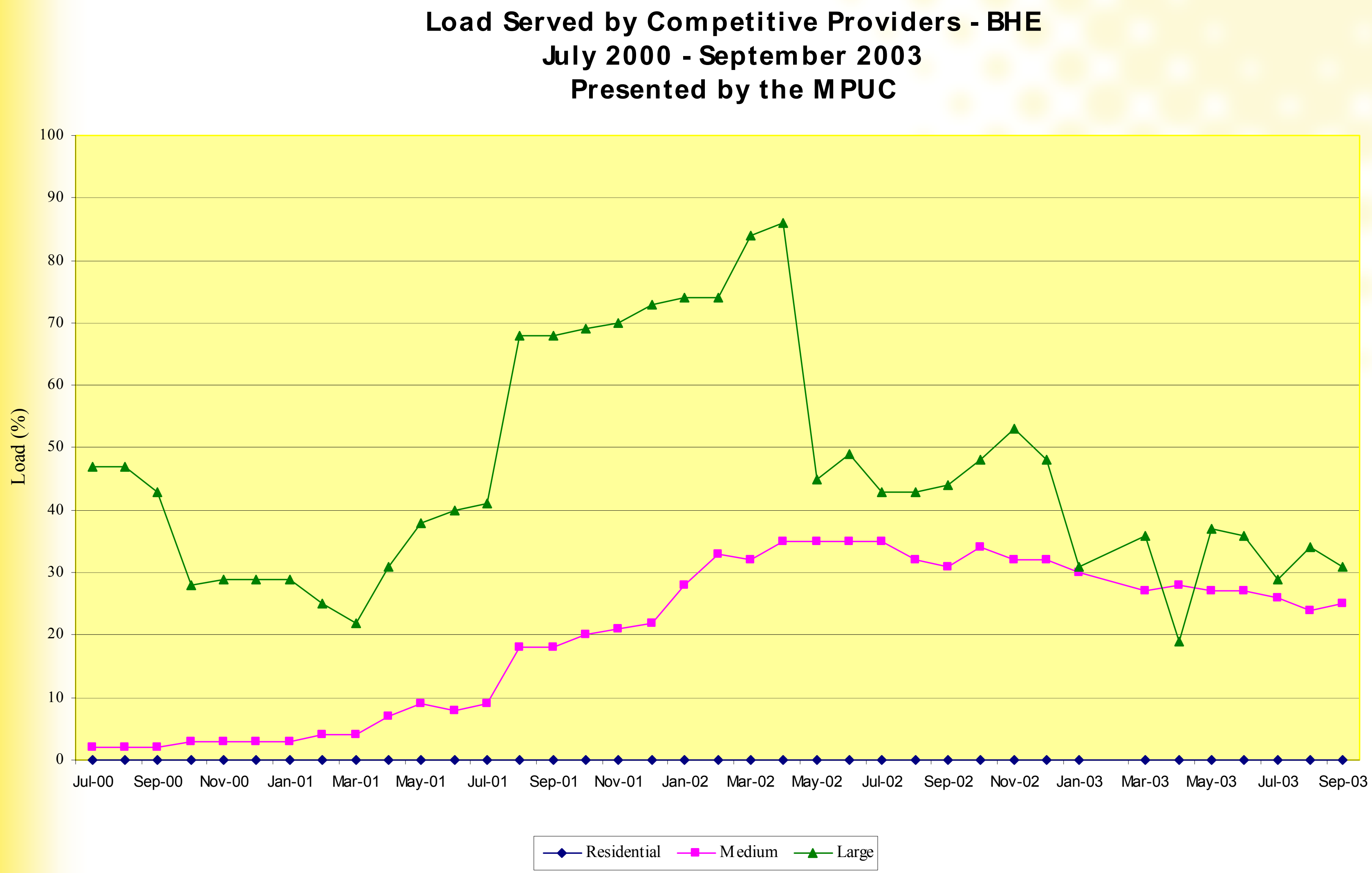
Maine Bangor Hydro Electric



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Challenges

- ✓ Address small customers differently than large
  - *Don't remove option to choose*
  - *Provide a service with less variability*
  - *Choose a cutoff that reflects market environment and that can be changed should conditions warrant*
    - Massachusetts vs. Connecticut
- ✓ Generators' demands for long term contracts and policymakers' desire for capacity
  - *Rule certainty,regularly scheduled auctions where appropriate*
  - *2-5 years should be long term*
  - *LSEs will not buy fully hedged product*
  - *Remove price caps*