



# *Retail: What's Wrong, How Do We Fix It, and Should We?*

Peter Esposito  
Dynergy Inc.



---

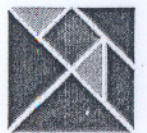
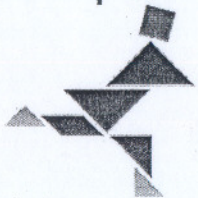
**DYNERGY**





# *What's Wrong?*

- ***No margins***
  - Legislated price
  - Startup/backroom costs
- ***Not enough forward contracting***
- ***Supply/demand imbalances***



---

**DYNEGY**





# News From the Front

# The Potent Combination of Politics, Shortages and Central Markets

- *Legislative Wheelin' & Dealing*
  - *California*
  - *Illinois*
  - *Maryland*
  - *New Jersey*
  - *Ohio*
  - *Texas*
- *Mandated Price Break*
  - *10 percent*
  - *5 to 20 percent*
  - *3 to 7.5 percent*
  - *5 to 10 percent*
  - *5 percent*
  - *6 percent*

**No collar on demand! No new competition!**

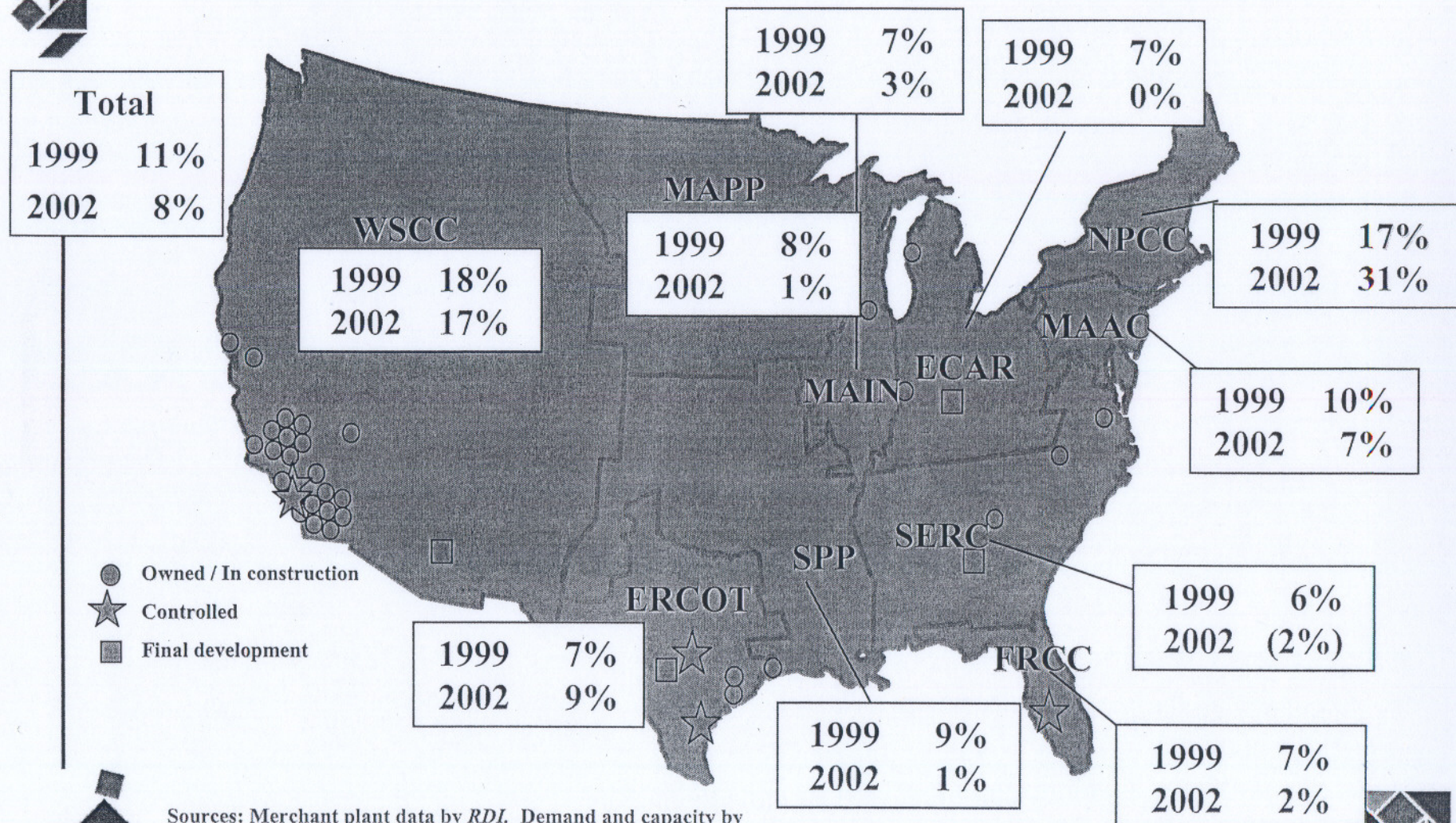


# DYNEGY





# RESERVE MARGIN BY REGION\*



Sources: Merchant plant data by *RDI*. Demand and capacity by *NERC Reliability Assessment 1998-2007*.

\* Reserve margin assumes 15%.

Forecasted demand assumes 3% annual growth.



## DYNEGY





# *News From the Front*

The Potent Combination of Politics,  
Shortages and Central Markets

- *Centralized  
Market Structures*

- CAISO
- PJM
- ISO NE
- NY ISO

***Everyone  
pays  
highest  
price!!\****



- *Success Rate*

- Price Cap
- Price Cap
- Price Cap
- Price Cap

***\* Unless there is sufficient forward contracting!!***



**DYNEGY**





# *How to Fix It!*

- ***Traditional Methods***

- Increase shopping credits
- Educate customers re volatility risk/hedging
- Standardize business practices
- Fix wholesale markets/transmission

- ***Likelihood of success? SLIM***



---

**DYNEGY**





# *How to Fix It!*

- **Triage!! Jump Start!!**

- Allocation of customers
- Selling the provider of last resort/default role
- Streaming



---

**DYNEGY**





# *Streaming*

- ***UDC Role***

- “Aggregates” customers
- Is “back room”
- Sells at spot
- Facilitates hedging by customers
- Takes on no second-guessing risk



---

**DYNEGY**

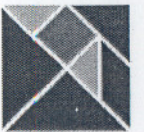




# Streaming

- **Issues/Challenges**

- Inertia
- Customer mobility
- Load profiles/usage
- Customer education
- Stranded consumer protectors
- Lingering transmission issues



---

**DYNEGY**





# *Why Do It?*

- ***No other choice***

- Regulators not likely to come up with solution that lets UDCs hedge without risk of second guessing
- Supply shortages
- Consumer revolt
- Lack of political leadership



---

**DYNEGY**