

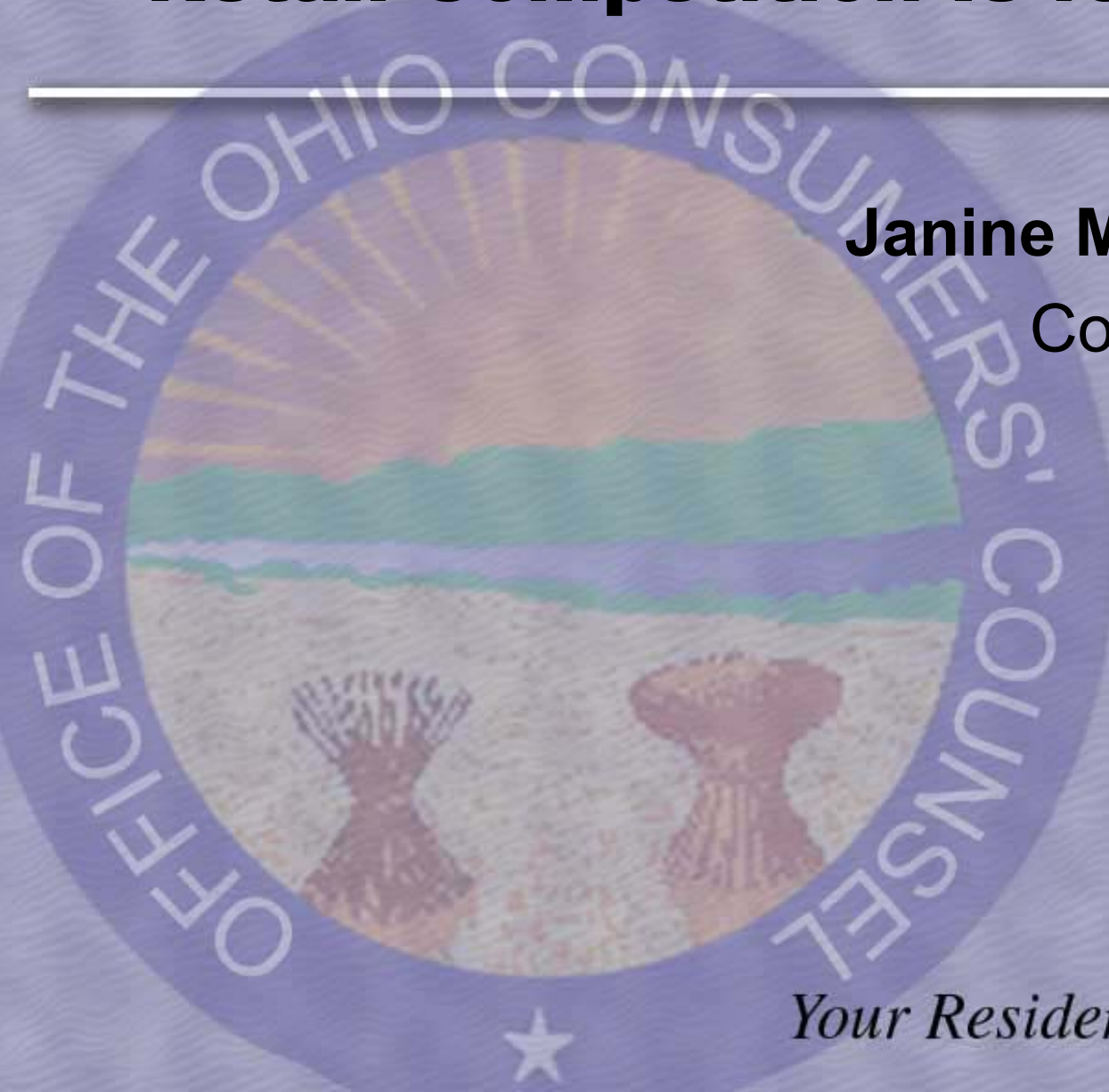
Retail Competition Is for Everyone

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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.



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Electric Rates Vary Greatly in Ohio

| | |
|-----------------------------------|------------|
| ★ Ohio Edison | 10.3 cents |
| ★ Toledo Edison | 10.6 cents |
| ★ Cleveland Electric Illuminating | 10.6 cents |
| ★ Cincinnati Gas & Electric | 7.6 cents |
| ★ Dayton Power & Light | 8.5 cents |
| ★ Columbus Southern Power | 7.7 cents |
| ★ Ohio Power | 6.7 cents |
| ★ Monongahela Power | 6.4 cents |

Competition was designed to
level out cost disparities.



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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.



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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.



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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.



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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.



Examples of Generation Plant Cost Overruns

- ★ 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.

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Electric Supply Future Environmental Costs

- ★ 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.



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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.



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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.



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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.



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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.



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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.



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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.



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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.



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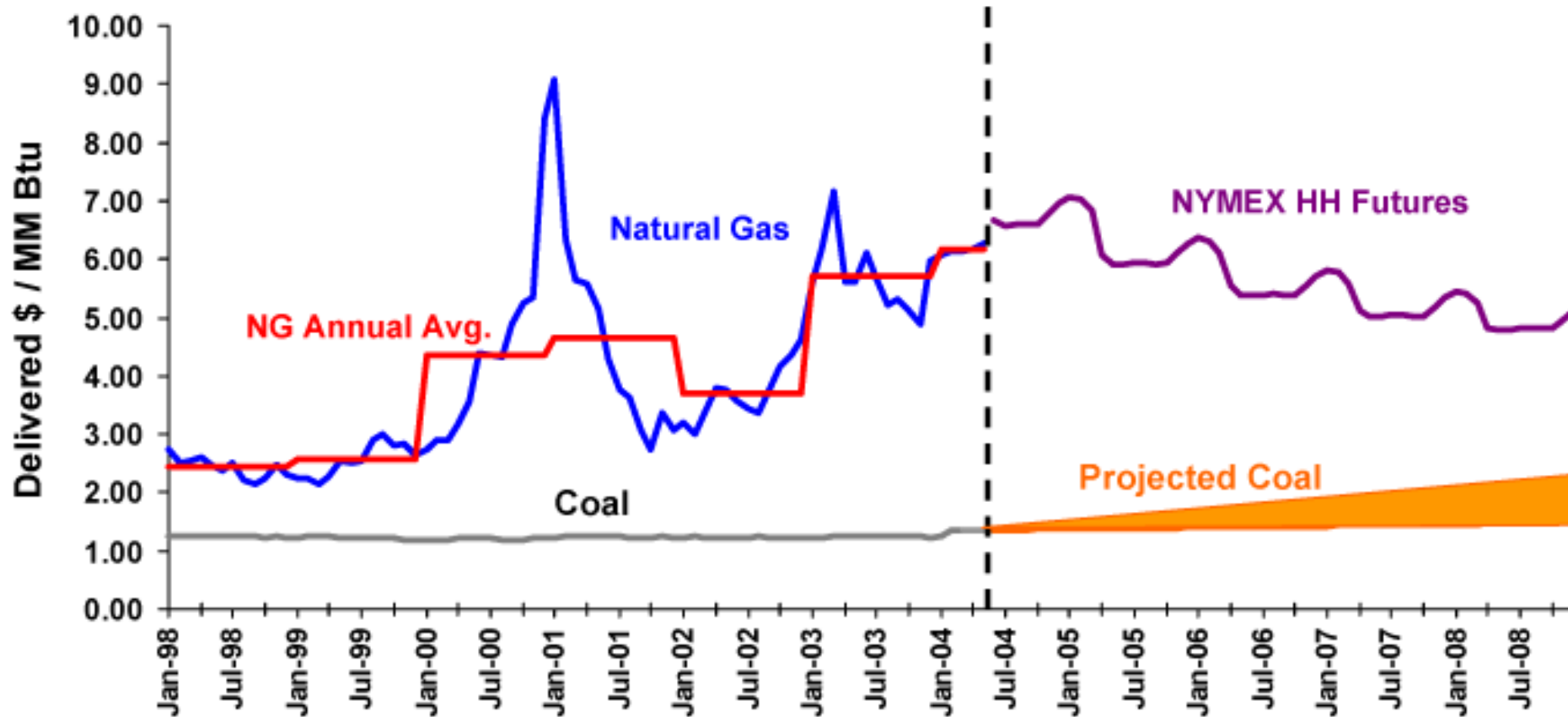
Electric Portfolio – the Options

- ★ 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





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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



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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.



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Technologies

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



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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.



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Technologies

- ★ Renewable energy.
- ★ Energy efficiency.