From Rate Caps to Market Prices: The Path to Retail Competition

Presentation to the
Harvard Electricity Policy Group

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Differences in Retail Restructuring Between CA and MA

- **Utility Supply Procurements**
- **Retail Rate Structures**
- **Default Service**

Distribution Company Supply Procurements in CA and MA

California

- Long-term contracts not allowed or discouraged
- Spot market purchases required or encouraged
- Distribution companies may keep overcollections but may not collect excess costs

Massachusetts

- Long-term contracts allowed
- Spot market purchases allowed
- Distribution companies must refund overcollections but can recover excess costs

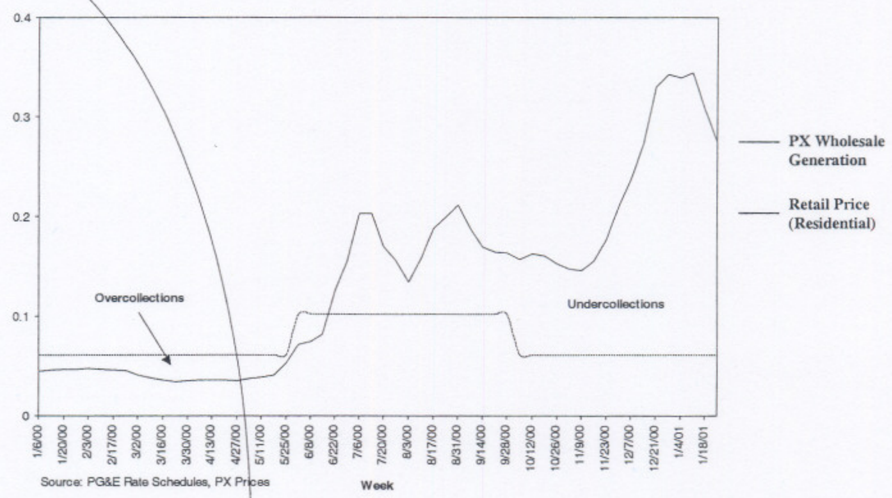
Hedging in Three Wholesale Electricity Markets

Summer 2000

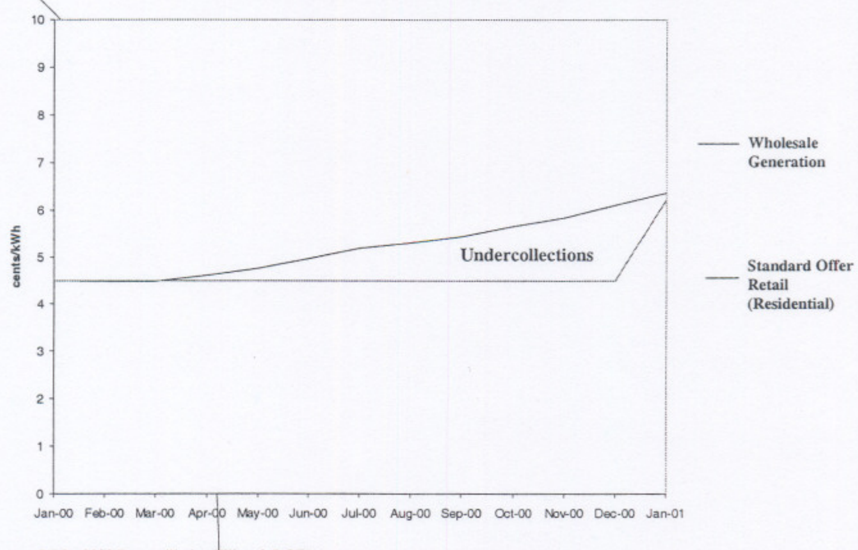
	Percentage of Contracts, Own Generation	Percentage of Spot Market
CAISO	40-50	50-60
New England	80	20
PJM	85-90	15-10

Source: Anjali Sheffrin, Presentation: CMR-Global Market Power Mitigation, October 4, 2000

CA Retail Prices vs. Wholesale Generation Costs

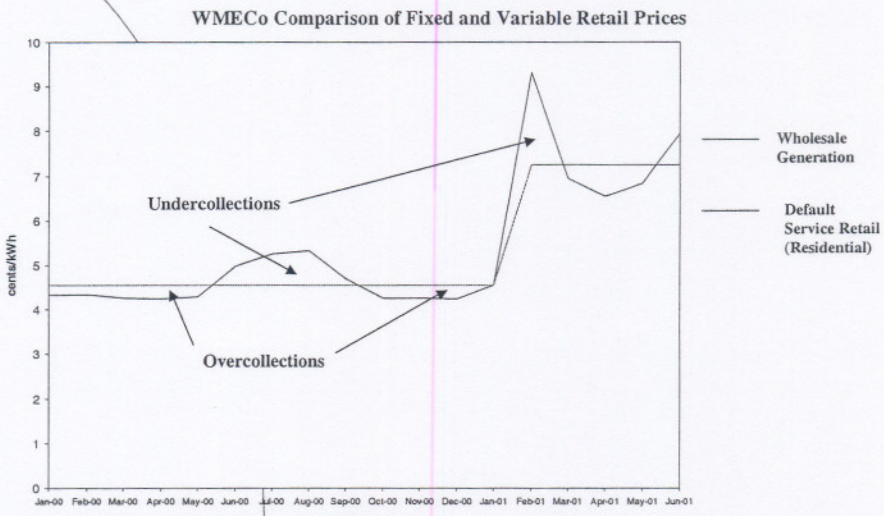


MA Retail Standard Offer Prices vs. Wholesale Generation Costs



Source: BECo 2000 Reconciliation Filing & DOER

MA Retail Default Service Prices vs. Wholesale Generation



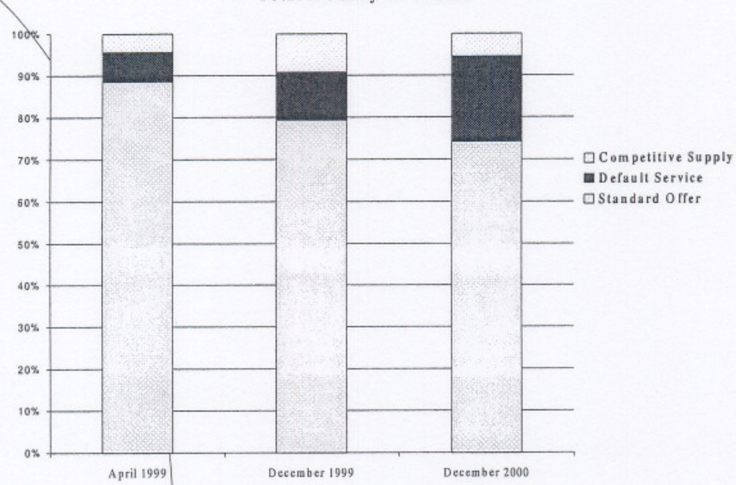
Source: WMECo 2000 Reconciliation Filing & DOER

Problems Remain for Retail Restructuring in MA

- Retail competition is shrinking
- Use of spot market may be increasing
- Retail demand response is almost non-existent

Massachusetts Customers by Type of Generation Service

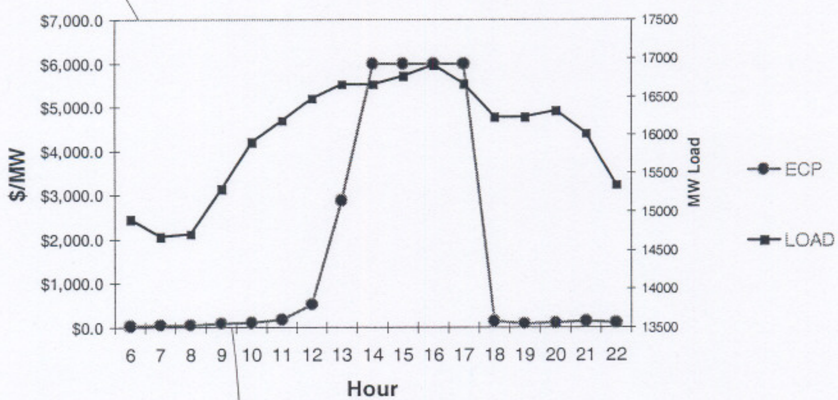
Total Monthly kWh Sales



Source: DOER Customer Migration Numbers

Wholesale Prices Do Not Effect Retail Demand

Wholesale Prices Climbed to $6000/MWh on May 8, 2000 but Demand Did Not Respond to the Price Signal

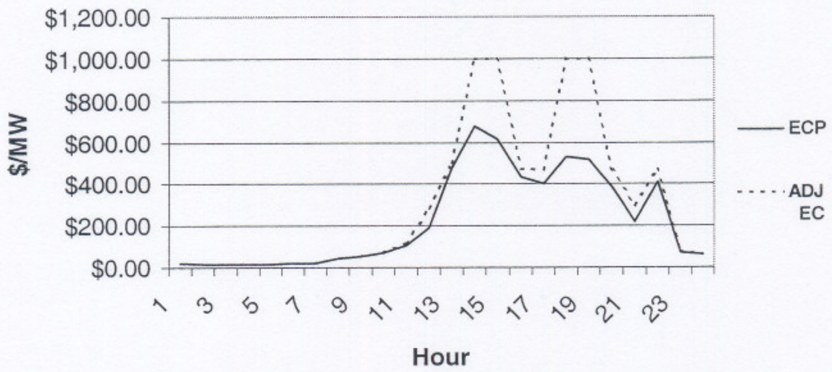


(Hour Normalized Demand and Energy Clearing Price)

Source: ISO-NE

Energy Efficiency and Load Management Reduce Clearing Prices

Wholesale Prices would have been considerably higher on June 7, 1999 without the benefits of Load Management and Energy Efficiency



Source: ISO-NE

The Path to Retail Competition

- Build a competitive wholesale market as soon as possible
- Encourage utility supply procurements that stabilize wholesale prices
- Shift regulated retail rates to market pricing, slowly but surely
- Provide new incentives for load management and energy efficiency