

**Wholesale and Retail Electricity Market Models: Will
They Mesh Well or Cancel Each Other Out?**

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Question for the Panel

To what extent will:

- The lack of evolution of competitive retail markets, and
- The response of the states to that circumstance
- Spill over into wholesale markets, rendering them less efficient?

The answers are:

- Lack of retail evolution is not a significant issue
- State responses may impact wholesale competition

Review/Reminder

What are the benefits of wholesale competition, and what does it take to realize them?

Static Efficiencies



Dynamic Efficiencies

Economic dispatch

Improved heat rate

Economic new entry

Improved availability

Economic retirement/uprate

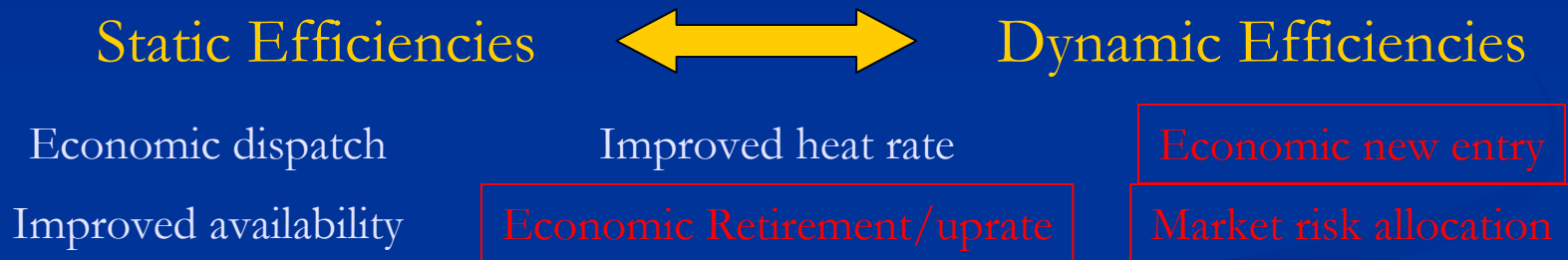
Market risk allocation

- Bid-based security-constrained commitment and dispatch with integrated economic curtailment
- Market incentives for generators
- Competitive new entry

Robust retail competition is not a pre-requisite to realize these benefits

Response of the States

The response of the states, however, can undermine some of these key benefits, particularly the dynamic efficiencies:



Examples of policies which can undermine wholesale competition in retail choice jurisdictions:

- A return to central planning to pick the “right” technologies
- Mix of cost of service and market based new builds
- Vintage pricing – special pricing for new entrants
- Reliance on rate-funded long term contracts to attract new entry

The Wholesale/Retail Interaction

Well structured retail competition can reinforce competitive wholesale markets:

- Price-responsive load or economic curtailment – principally large customers; can be accomplished in a number of ways
- Market demand for forward commitments – allocation of risk between customers and suppliers
 - For large customers, retail competition currently working reasonably well in this regard
 - For smaller customers, retail competition currently not sufficiently robust in most jurisdictions – and unlikely to be any time soon
- For smaller customers, the POLR offering determines the demand for forward commitments:
 - Most jurisdictions have opted for fixed price offerings of medium (2 to 3 years) duration
 - Generally the right approach -- the product that customers seem to want
 - Question of whether the duration can/should be extended somewhat?