# All The King's Horses And All The King's Men:

# Can Humpty Dumpty Be Put Together Again?

Harvard Electricity Policy Group

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# Overview



- What is driving the push for reintegration?
- What is reintegration?
- Electricity in Illinois, May 2007

# What Is Driving Reintegration Efforts?



- Retail price increases, especially as multi-year rate freezes are ending, have prompted these efforts.
  - Dissatisfaction with competition
- Key issues which should inform the debate:
  - Has “deregulation” caused price increases?
  - Have consumers in regulated jurisdictions fared better?
  - Will reintegration cause price increases to stop?
  - To what extent are the price increases in deregulated jurisdictions transitional?
  - What are the “non-price” implications of reintegration?

# Prices



Myth:  Prices have increased more in competitive markets than they have in regulated markets

Reality:

- ⇨ Since 1999 prices have increased roughly the same percentage in states both with and without organized, competitive markets
- ⇨ Electricity  prices are largely determined by the cost of fuel
- ⇨ Neither the competitive model nor the cost-of-service model can shield customers from fuel price increases

***Competition has not caused electricity price increases;***
***the real culprit is the cost of fuel.***

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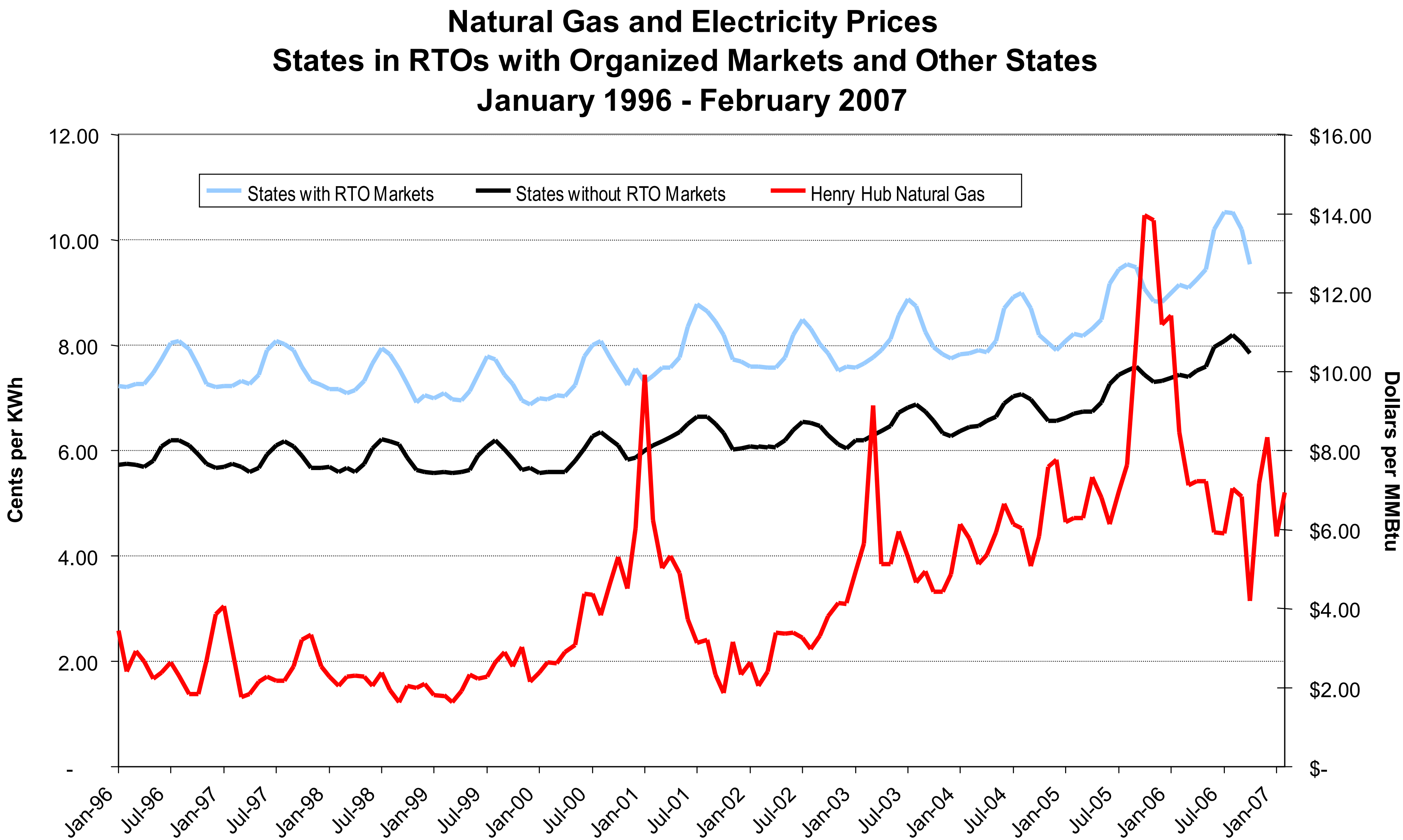
Note: This slide was inadvertently omitted from the slide deck that was submitted to the FTC on April 10, 2007.

# Natural Gas & Electricity Prices






Source: Natural Gas Intelligence, *Bidweek* Survey (Feb. 2007),*available at* http://intelligencepress.com.; Energy Information Administration, *EIA-826 Sales and Revenue Spreadsheet* (Feb. 2007), *available at* http://www.eia.doe.gov/cneaf/electricity/page/eia826.html.

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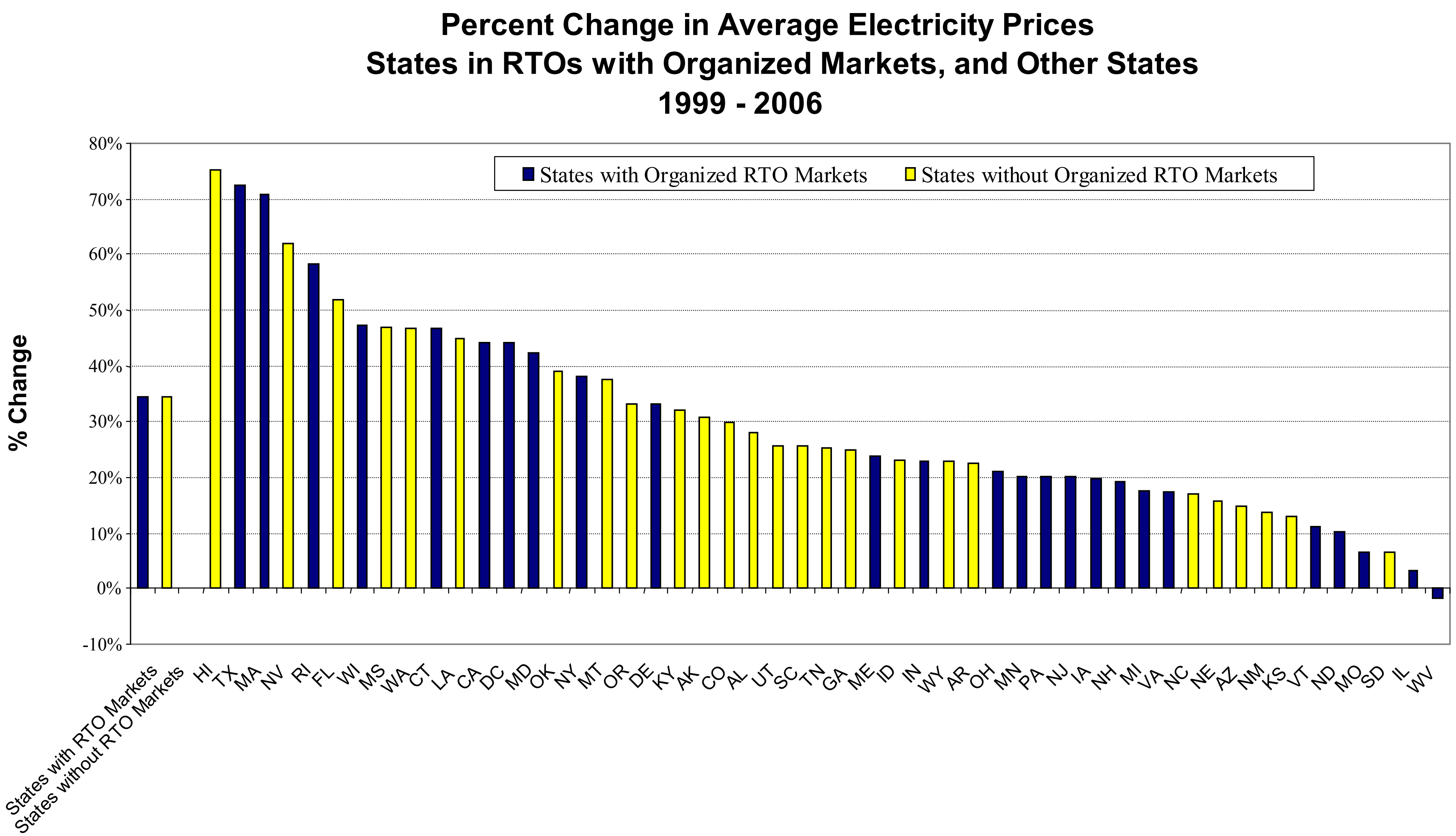
# Price Increases by State

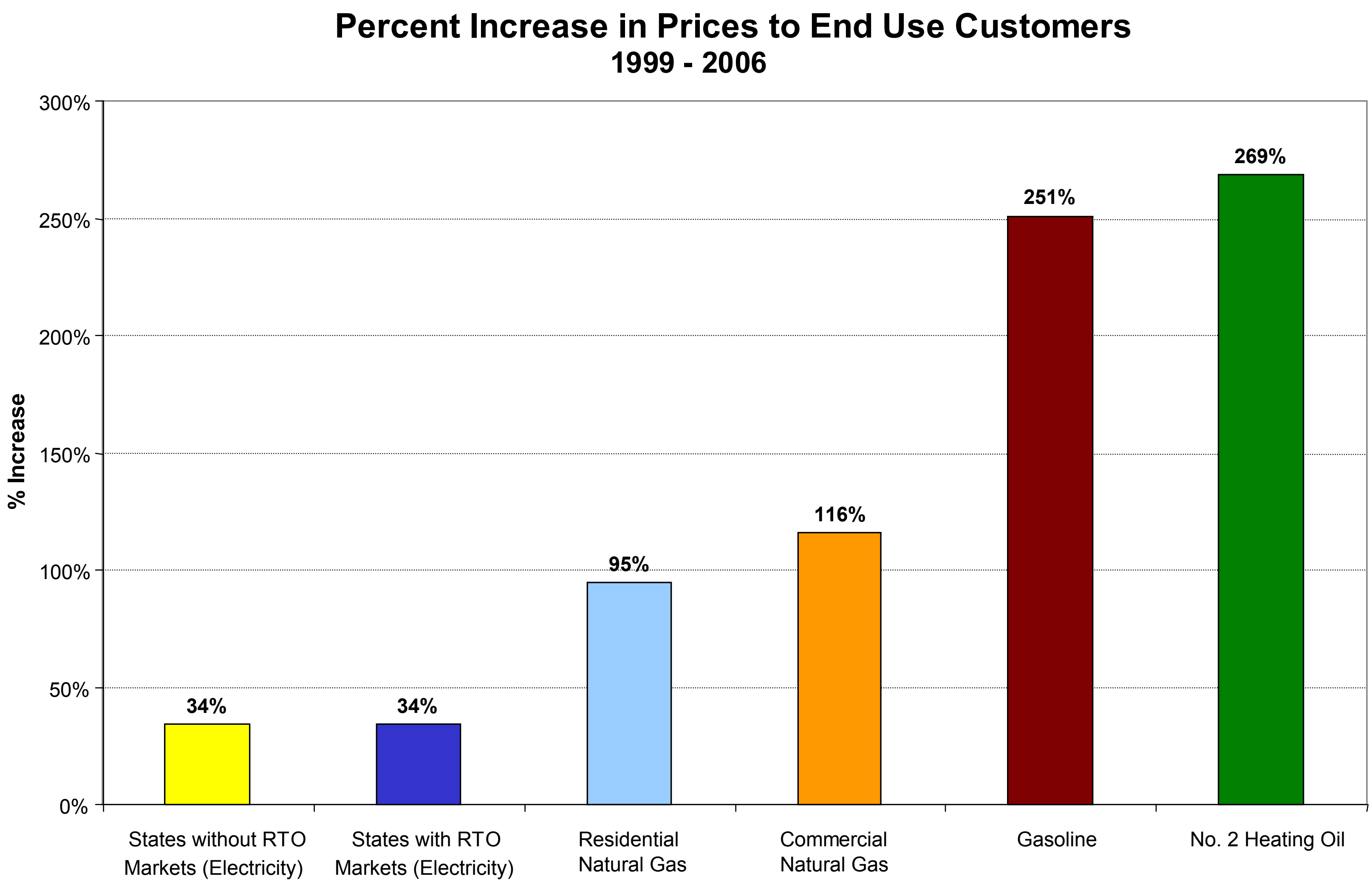





Source: Energy Information Administration, EIA-826 Sales and Revenue Spreadsheet (Feb. 2007), available at: http://www.eia.doe.gov/cneaf/electricity/page/eia826.html.
Note: 2006 average prices reflect data through October.

# Electricity vs. Other Energy Products






Source: Energy Information Administration, Petroleum Navigator (Feb. 2007), available at http://tonto.eia.doe.gov/dnav/pet/pet_pri_spt_s1_m.htm; and Energy Information Administration, Natural Gas Navigator (Feb. 2007), available at http://tonto.eia.gov/dnav/ng/ng_pri_sum_dcu_nus_m.htm.

Note: Natural Gas prices in 2006 are through November, electric prices are through October. All prices are annual averages of monthly data. No. 2 Heating Oil represents the New York Harbor price, Gasoline represents the Gulf Coast price.

# What does history teach us?



- "Good old days" of rate base regulation, integrated resource planning and long-term contracts were not so good.
- Central planning - done by utilities, regulators or legislators - has not produced and will not produce economic results.
    - ➢ Predicting future load levels, fuel prices, changes in technology and environmental regulation is perilous. Who bears the risk?
    - ➢ Generally, deregulation has prompted efficiency in generation.
    - ➢ "New build" often was haphazard in the old regime.

# What is Reintegration?



- States cannot take back power plants which utilities have sold or divested.  They will have to buy them at fair market value.
- Construction costs of new plants are enormous. Are states ready to assume them?
  - New and untested technologies.
  - Latest coal plant estimates:  $2500 to $2800/kW
  - Nuclear plant estimates as high as $5000/kW
- "Reregulation" through other avenues, such as generation taxation, is replete with legal and economic problems.

# Electricity In Illinois, May 2007



- Transition period ended December 31, 2006. Power procurement method – a reverse auction – enjoyed broad bi-partisan and regulatory support after lengthy evaluation process.
- Fourteen successful bidders in initial auction in ComEd territory.
- Average price increase of 23 percent under the auction still leaves prices slightly below 1997 levels.
- Ameren territory experienced significantly higher percentage increases.

# Illinois Legislative Proposals "On The Table"



- Rate rollback to 2006 levels, with full rebates of charges to date above 2006 rates, plus interest.
- Generation tax of $70,000 per megawatt of nameplate capacity. Approximately $2 billion annually.
- Creation of Illinois Power Authority with condemnation power, and authority to procure electricity and construct generation.

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