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in America.*

NARUC Perspective on Markets

2007 CAMPUT Conference

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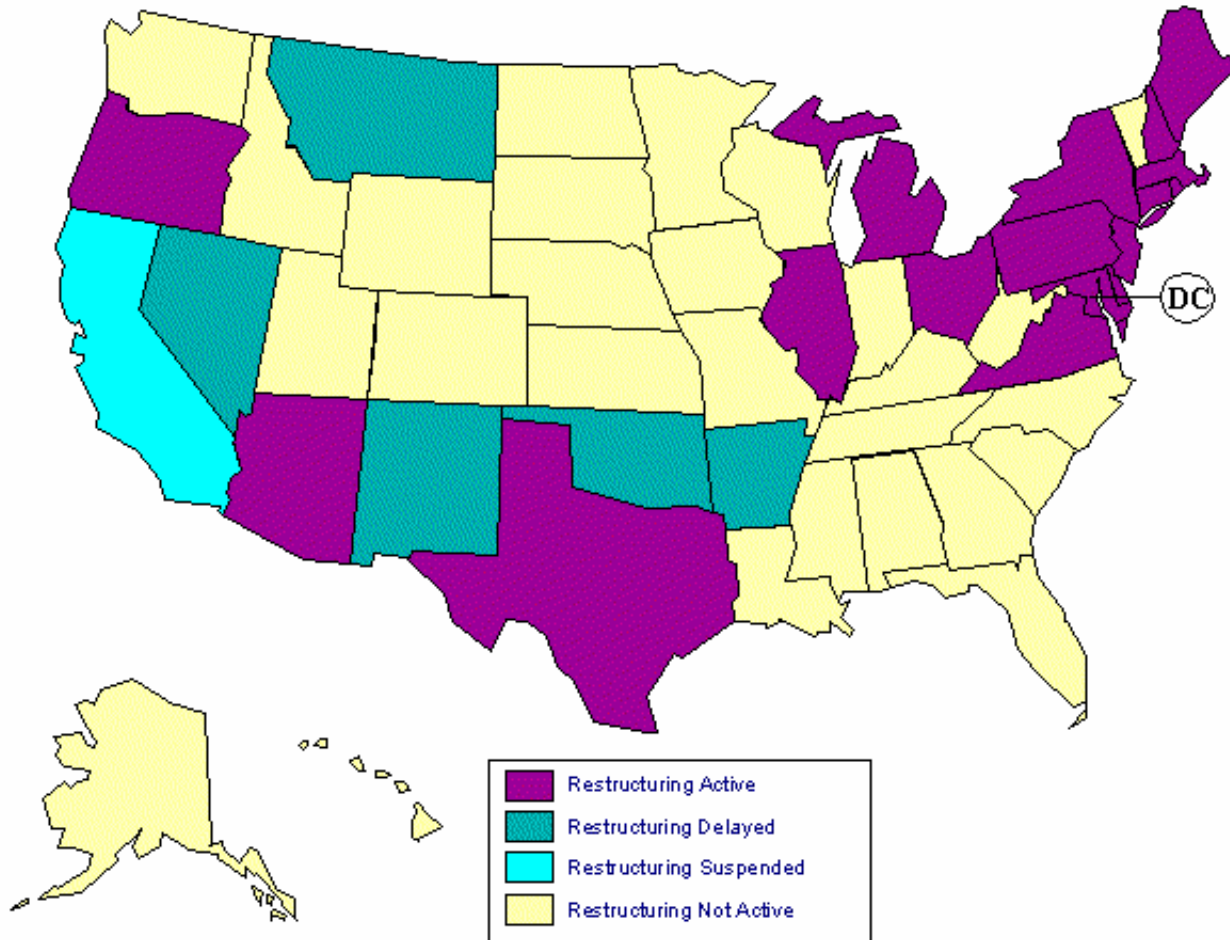
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- What is NARUC?
 - National representative of the State regulatory commissions responsible for economic regulation of utilities
- 220 State commissioners constitute principal membership
- Advocacy; Interstate coordination; Training and education



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Causes for Restructuring

- Three primary catalysts:
 - General reevaluation of regulated industries and a rethinking of how the introduction of competition might improve efficiencies.
 - Wide disparity of electricity rates across the United States at the time.
 - Technological improvements have altered the economics of power production.



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Shifts at the Federal Level

- Effects of the Public Utility Regulatory Policies Act of 1978 (PURPA)
 - encouraged the development of non-utility power producers
 - demonstrated that traditionally vertically integrated electric utilities were not the only source of reliable power
- Competition in wholesale power sales received a boost from the Energy Policy Act of 1992 (EPAct 1992)
 - expanded FERC's authority to order vertically integrated IOUs to allow non-utility power producers access to the transmission grid to sell power in an open market



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Shifts at the Federal Level

- FERC issued Order No. 888 (1996)
 - required all vertically integrated IOUs to file OATTs (open access transmission tariffs) that would provide universal service to the transmission grid
- FERC issued Order No. 2000 (1999)
 - called for the creation of Regional Transmission Organizations (RTOs)
 - independent entities that control and operate the transmission grid free of any discriminatory practices



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Shifts in the States

- Between 1975-1985, residential electricity prices rose 13% and industrial electricity prices rose 28% in real terms.
- Relatively high-cost States were in the forefront of enacting legislation or making rules to allow retail competition.
- California and the northeastern States were the first to allow retail competition and to encourage consumers to shop for their power suppliers.
- Retail competition – first time in the history of the industry.



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State Restructuring Efforts

- Other States have not moved with such enthusiasm.
- December 1998 – 23 State public utility commissions sent Congress a letter expressing concerns that issues affecting them may not have been given adequate consideration in the debate about restructuring.
- Note that not all State commissions may be endowed with the necessary legal authority to manage an evolving competitive market structure.



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State Restructuring Efforts

- Retail access allows customers to choose their own supplier of generation energy services, but each State's retail access schedule varies according to the legislative mandates or regulatory orders.
- For more details on all the States, please see EIA's *Status of State Electric Industry Restructuring Activity*. (Last update was February 2003).
- For examination of case studies, please see EIA's *The Changing Structure of the Electric Power Industry 2000: An Update* (October 2000).



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California/Enron Collapse

- Drive to retail markets began stalling after California energy crisis and Enron bankruptcy
- FERC responded with standard market design proposal in 2002
 - States, Congress rejected, FERC pulled the plug
 - RTO formation did not spread across the country



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Energy Policy Act of 2005

- Congress codified existing US market structure
 - No mandate for retail competition
 - Flexible wholesale market structure
 - Bilateral Markets
 - Wholesale power sales negotiated directly between suppliers and scheduled through individual transmission owners
 - Predominate in Northwest, Southeast
 - Organized Markets
 - Power traded through organized exchanges, or RTOs
 - Predominate in Northeast, Mid-Atlantic, Midwest, Texas, California



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Where are we today?

- Key Themes of EPAct 2005
 - Increased investment
 - Reliability
 - FERC March 15 rulemaking finalized NERC reliability standards
 - Regionalism
- Repeal of the Public Utility Holding Company Act of 1935 (PUHCA 1935)
- Merger Review Reform under Federal Power Act 203(a)
- Order No. 890 Reform by FERC
 - Feb. 15 rule follows landmark open-access Orders No. 888, 889
 - Contains provisions for joint, open, coordinated regional planning
 - Enhances grid access for intermittent renewable resources



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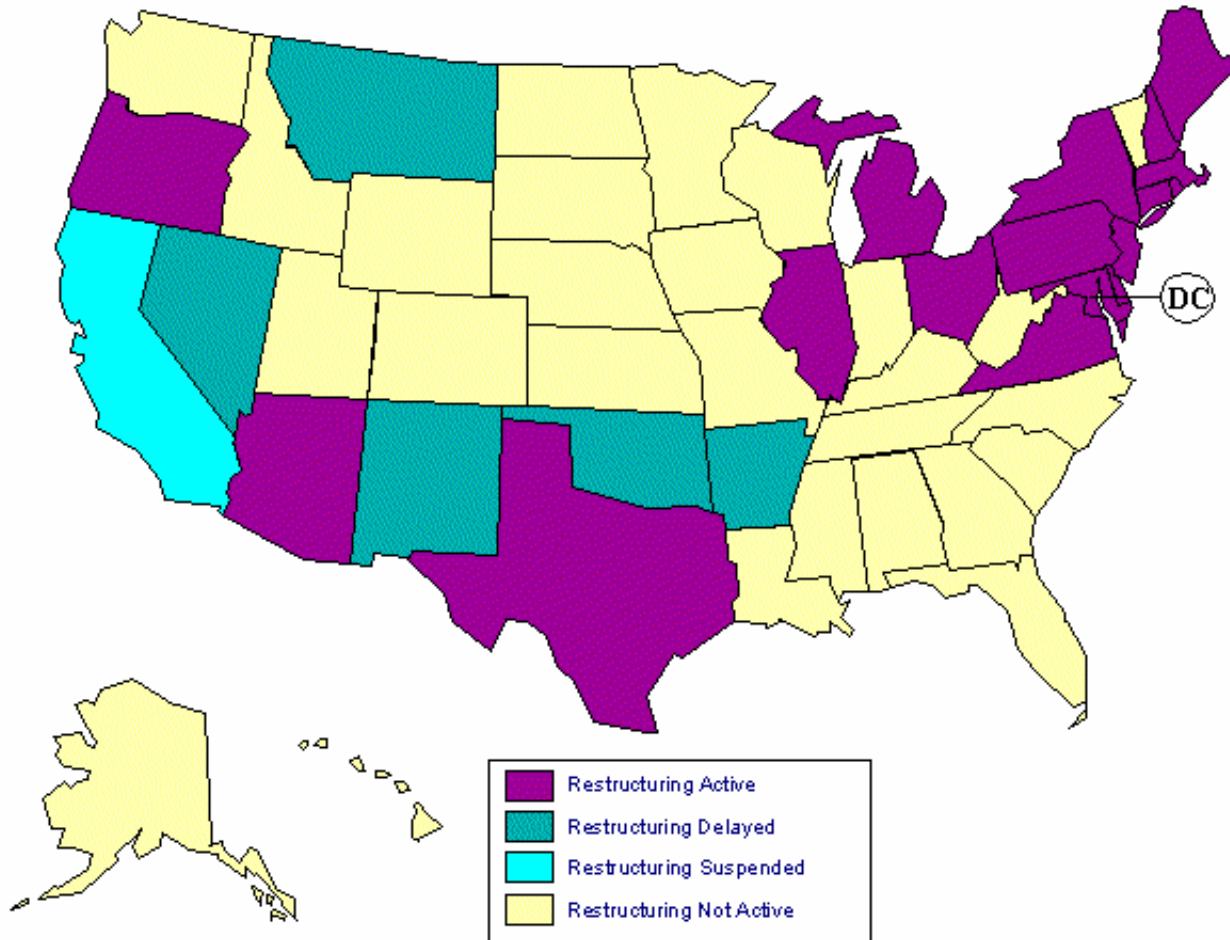
Where Are We Today?

- Retail Competition
 - Maryland, 2006
 - Rate freeze comes off, retail prices seen increasing as high as 48%
 - Virginia, 2007
 - Legislature rolls back retail competition for residential customers, passes law returning utilities to more traditional regulation
 - Michigan, 2007
 - State lawmakers holding hearings on revising MI's retail choice laws



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Thank you for the opportunity to speak to you today.

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