

# **Retail Electricity Regulation and Wholesale Markets**

Pamela G. Lesh

VP – Regulatory Affairs  
and Strategic Planning



# On the Agenda

- A snapshot of the retail regulatory environment
- Old generation, new issues
- Utilities and the short-term market
- New generation – what kind?
- New generation – by who?
- 2025 questions, 2025 pictures

# NOT On the Agenda

- Retail regulation in states with restructured utilities/markets
  - The roll-off of price caps
  - Capacity markets
  - Etc.
- The effect of FERC wholesale regulation on retail utilities
  - Standards of Conduct
  - Transmission rates



The Alka Seltzer Era

# The Retail Regulatory Environment

- Old issues
  - Potential forecasting errors – overbuilding?
  - The rate effects of front-end loading
  - Prudence
  - Build versus buy
- New people
  - Untested regulators
  - Rusty utility regulatory personnel
  - Inexperienced (with regulation) utility executives and Boards
- New issues
  - Aging infrastructure plus growth needs
  - Environmental costs

# The Retail Regulatory Environment

- Anxious consumers: many worries, few comforts
  - Where are energy prices going?
  - What about the environment?
  - Will there be jobs?
- Nervous businesses: high uncertainty, little control
  - Rising costs (energy, health care, raw materials)
  - Falling prices, particularly for commodities

# Old Generation, New Issues

- Declining rate base; declining earnings potential
- Environmental regulation
  - Capital investment
  - Higher O&M
  - Lowered output
- Availability: high cost/market value of missing/extra kWhs

# Utilities and the Short-Term Market

- It's a PCA world
  - Shrinking (if any) excess capacity
    - Increasing “sales” expectations
  - Increasingly hard to forecast fuel and power purchases/sales
  - Increasing risk of plant outages
- It's a rate base world
  - If most capacity in a market is rate base, what does that do to short-term market prices?

# New Generation – What Kind?

## IRP Rises Again

- Oregon’s 20-year “refresher”
  - 14 “minimum” requirements, including
    - “all supply-side and demand side resource options”
    - “key assumptions about the future – for example, fuel prices and environmental compliance costs – and alternative scenarios considered”
    - “construction of a representative set of resource portfolios”
    - “selection of a portfolio that represents the best combination of cost and risk for the utility and ratepayers”
  - Numerous other requirements around transmission, externalities, and acquisition strategies
- Renewed interest in the NARUC Energy Resources and Environment Committee

# New Generation – What Kind? Demand-Side Resources

Back in fashion: the National Action Plan for Energy Efficiency

- What:
  - Recognize energy efficiency as a high-priority resource
  - Make a strong, long-term commitment to implement cost-effective energy efficiency as a resource
  - Broadly communicate the benefits of and opportunities for energy efficiency
  - Promote sufficient, timely, and stable program funding to deliver energy efficiency where cost-effective
  - Modify policies to align utility incentives with the delivery of cost-effective energy efficiency and modify ratemaking practices to promote energy efficiency investments
- Who: DOE, EPA, NARUC, EEI, and many others . . .

# New Generation – What Kind? Demand-Side Resources

- Renewed regulatory interest in
  - Decoupling (particularly for natural gas utilities!)
  - Incentives for energy efficiency
  - Demand response programs
- Many unknowns
  - What IS the potential?
  - Will we use the same old approaches or ?

# New Generation – What Kind?

## The RPS Effect

- 22 states presently have a “renewable portfolio standard” of some sort
- At least 5 states are actively considering one (ballot measures, pending legislation)
- Targets vary greatly; e.g. 20% by 2010 (Cal), 30% (Maine – met immediately because includes existing hydro), 20% by 2020 (Hawaii)
- Much complexity/diversity
  - Eligible resources, including type, existing or not
  - Cost caps
  - Location restrictions
  - Acceptance of green tags
  - Transmission and integration

# New Generation –What Kind? Technology Wild Cards

- IGCC
  - How soon a “fiscally safe” choice?
  - Carbon sequestration?
- Nuclear
  - Where?
- Wave
  - When?
- Distributed generation
  - A million solar roofs?
  - Break-through fuel cells?
  - Home generation hybrid?

# New Generation – By Who? Utilities

- Signs for/pluses
  - Pre-approval gaining traction; some revival of CWIP
  - Perception of control
    - Coping with unexpected only involves utility and regulator
    - No rigid “end of contract” issues
- Signs against/minuses
  - Rate “shock” wild card
    - Some revival of the “prudence disallowance”?
  - Perception of risk
    - Shift some of this to IPP/market

# New Generation – By Who? IPPs

- Signs for/pluses
  - Competitive bidding requirements
  - Performance-based ratemaking to:
    - Make utilities “neutral”
    - Provide incentives to purchase rather than build
- Signs against/minuses
  - Debt imputation issues
  - Wall Street rewarding pure-play utilities with rate base growth potential
  - Exacerbates issues with old generation

## New Generation – By Who? Oregon's Competitive Bidding Rules

- RFP required for all major resources: greater than 5 years and more than 100 MW
- Waiver process for
  - Limited time opportunities
  - IRP-specified acquisition procedures
- Independent evaluator required
- Affiliate bids okay
- Utility self-build “benchmark” resource okay
- RFP approval process before issuance
- RFP outcome acknowledgement process after conclusion



When the Alka Seltzer Stops  
Fizzing,  
What Will We Have?

# 2025 Questions

- What will happen in the restructured markets?
  - Solve their capacity issues? Develop strategies to mitigate market-driven price volatility? Or
  - A retreat to regulated “generation”?
- Will any retail utility shift to the old Edison vision of heat, light and power services – find the business model to make this work?
- What will be the percentage ownership of generation between IPPs and utilities across the US? In the major regions?
- What functions will retail utilities outsource?
- Globalization? Global Warming controls and reaction?

# 2025 Pictures

## A “Heat, Light and Power Utility”

- Owns no generation
- Assembles and manages several resource portfolios to meet broadly defined customer needs
- Leads, connects, integrates, and finances a new era of customer energy efficiency and onsite resource development
- Develops the local network to get full value of local generation/load variations

## A “Traditional Utility”

- Owns virtually all of its generation
- Seeks economy of scale through massive, diverse retail service territory
- One size fits all, “comfortable” electric product
- Energy efficiency only as necessary to maintain acceptable customer satisfaction