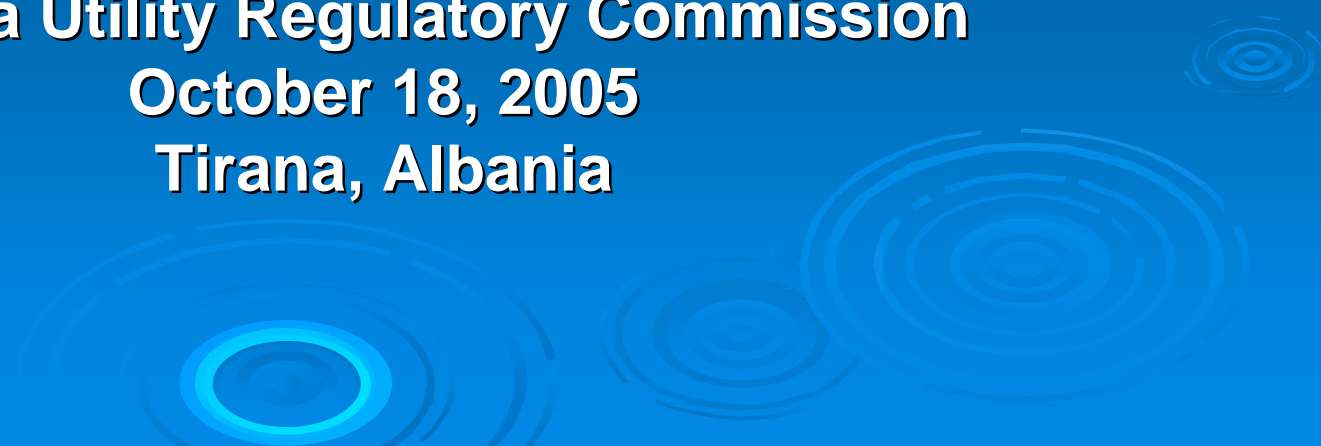


Competitive Electricity Market Concepts and the Role of Regulator

Scott R. Storms
Chief Administrative Law Judge
Indiana Utility Regulatory Commission
October 18, 2005
Tirana, Albania

The background of the slide features several sets of concentric circles in a lighter shade of blue, resembling ripples in water. These circles are positioned in the lower right and bottom center areas of the slide.

Oversight and Regulation of Utilities in Indiana

➤ Regulation by the State of Indiana

- A company operating an electric utility that provides retail service in the State of Indiana must be granted a Certificate of Public Convenience and Necessity by the Indiana Utility Regulatory Commission.
- A regulated utility that builds generating facilities with Commission approval, as being used and useful, has the opportunity to recover these costs through the regulated ratemaking process.

Oversight and Regulation of Utilities in Indiana

➤ Regulation by Indiana (continued)

- Must comply with service quality standards applicable in the State of Indiana;
- Must obtain approval for retail rates and file tariff(s) with the Commission;
- Must comply with environmental mandates when operating in the State
 - Must obtain applicable Environmental Permits
 - Subject to inspection and possible enforcement actions by State Environmental Protection Agency

Emergence of Competitive Wholesale Electric Providers (“Merchant Plants”) in Indiana

- Merchant plants are generating facilities that are constructed to sell electricity into the competitive wholesale generation market. Companies that construct merchant plants take the full risk of the cost of construction and operation of the facilities.



Why Merchant Plants?

- The Indiana Utility Regulatory Commission received its first Merchant Plant petition in November 1998, following an early summer price spike in the wholesale power market.
- Through March 2001, the Commission received a total of 26 Merchant Plant petitions.



Treatment and Oversight of Merchant Plants in Indiana

➤ **Petitions for Approval of Merchant Plants**

- Typically requested that the Commission do one of two things:
 - Find that the facilities are not public utilities under Ind. Code §8-1-2-1 or;
 - If the Commission determined that a Merchant Plant is a public utility, that it decline to exercise its jurisdiction over construction and operation of the facility.

Issues Considered with Respect to Merchant Plants

- Merchant plants are generally peaker units designed to provide power quickly on the open market during the hottest days when existing capacity may be strained. This would allow these plants to sell power at very high prices.
- Merchant Plants while introducing competition into the wholesale electricity market also create a diversified fuel source for generation of electricity in the states in which they operate.

Issues Considered with Respect to Merchant Plants

- Merchant plants provide additional energy resources in Indiana and Commission review of the Petitions filed included consideration of the following issues:
 - Industrial v. Greenfield Site
 - Examination of Water Usage
 - Examination of Noise Issue
 - Access to source of Natural Gas
 - Interconnection issues
 - Environmental Permitting Requirements

Issues Considered with Respect to Merchant Plants

➤ **Need for Merchant Plants in the State**

- Examination of resource planning on a state-wide and regional basis. A Market Study was generally presented as part of the proceeding.

➤ **Review of Proposed Financing**

- Evaluation of the financial plan to ensure that adequate financing is in place to undertake and complete the project.

Conditions Included in Approval of Merchant Plants

- Reporting Requirements
- Affiliate Transactions
- Ownership Transfers
- Financial Assurance



Treatment and Oversight of Merchant Plants

➤ Commission Decisions Regarding Merchant Plants

- In each of the cases presented, the Commission determined that Merchant Plants were public utilities under Ind. Code §8-1-2-1.
- However, as the Petitioners were not exercising any rights, powers or privileges of public utilities, and would not be selling electricity to retail customers or recovering any costs through rates, the Commission, subject to certain conditions, declined jurisdiction over the construction and operation of Merchant Plants.

Construction of Merchant Plants

➤ Construction of Merchant Plants

- Ultimately 10 Merchant Plant projects were constructed and became operational. However, over the past few years, several of these completed projects have been purchased (in full or in part) by Indiana load serving utilities.
- Three Merchant Plants that were approved have not been completed.
- Other approved Merchant Plants never began construction.

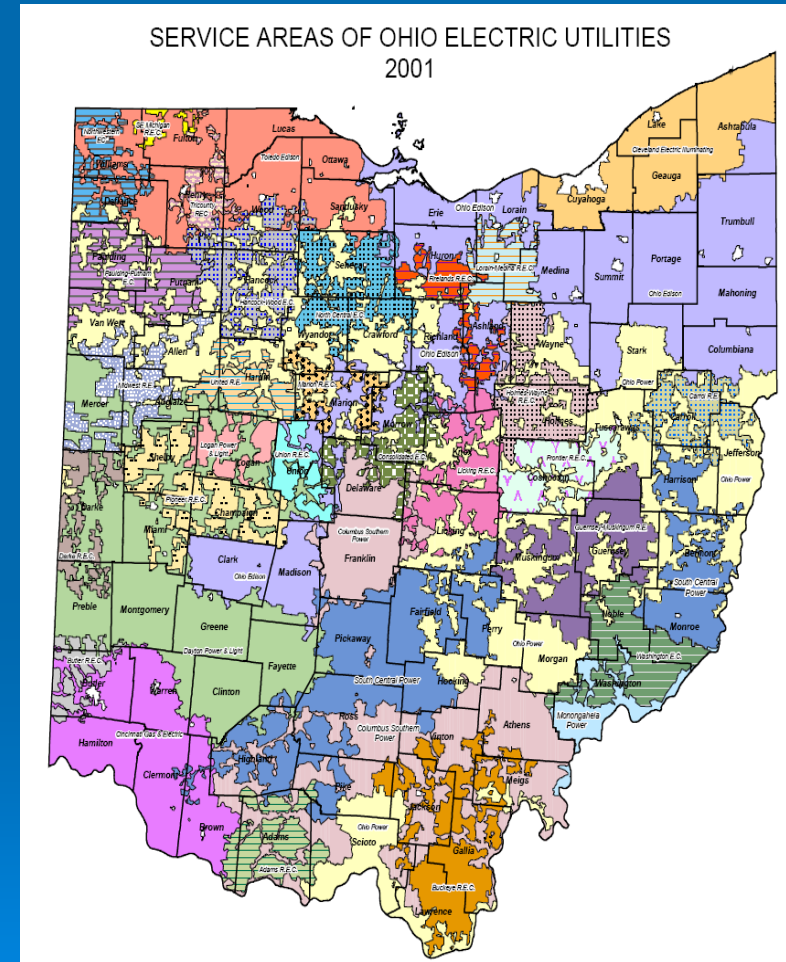
Indiana Merchant Plants

1. IPL Georgetown Station (80 MW)
2. Duke Vermillion (640 MW)
3. Wheatland Facility (500 MW)
4. DTE Georgetown Station (240 MW)
5. DPL Generating Station (200 MW)
6. Whiting Clean Energy (525 MW)
7. IPL Harding Street Station (151 MW)
8. Sugar Creek (300 MW)
9. PSEG Lawrenceburg (1150 MW)



Ohio's Efforts to Establish a Competitive Electricity Market

- Senate Bill 3- Electric Choice
 - Law was designed to allow access by Industrial Customers to growing wholesale electricity market while protecting and allowing choice to residential consumers.
 - Mandated retail choice for consumers by January 2001. It also froze electric rates for five years and cut residential customers generation rates by 5%. Also established a "market development period" through 2005 during which rates would remain frozen in order to allow a competitive wholesale market to take shape.
 - Established a 20% residential switching goal for each operating company of the state's electric utilities.



Ohio Electric Choice

- Through Ohio Electric Choice, customers in some areas have the opportunity to choose the company that supplies their electricity, while the distribution of electricity is still maintained by the local electric company.
- Under Ohio Electric Choice, If a customer chooses a new electric supplier, the local electric utility continues to deliver the electricity to the customer's home or business and continues to maintain and repair the poles and wires. Customers continue to call their local electric utility if their power goes out. The PUCO will still oversee the safety and reliability of service provided.

Ohio Electric Choice

- If a customer does not choose a new supplier the customers current electric utility will continue to provide electricity.
- Electric suppliers must be certified by the PUCO before they can sell electricity to residential customers.
- Electric service should not be switched without a customer's permission. This is called "slamming," and is illegal.
- Once a customer signs up with an electric supplier the customer has seven days from confirmation to cancel the contract.
- If a new electric supplier stops supplying a customer with electricity for any reason, the customer will be returned to the local electric utility and will not lose power.

Ohio Electric Choice

Overview of Changes

- Electric Bill includes a *Price to Compare* that can be used when shopping to purchase the *generation* of electricity from different suppliers. This is the price to beat for a new supplier.
- Under Electric Choice, electric bills are broken down (“unbundled”) to show all the parts that make up electric service.



Ohio Electric Choice

Specific Information on Electric Bill

Price to Compare

In order for you to save money, a new electric supplier must offer you a price lower than x.xx cents per kWh.



Distribution Customer Charge

The fixed monthly charge to partially cover costs for services such as meter reading, billing, service line maintenance and equipment

Distribution Energy Charge

The charge for moving high-voltage electricity from a generation facility to the distribution lines of the local utility and for the use of local wire, transformers, substation, and other equipment used to deliver electricity to a customer's home or business.

Transmission Energy Charge

The charge for the operation and maintenance of the local providers transmission system

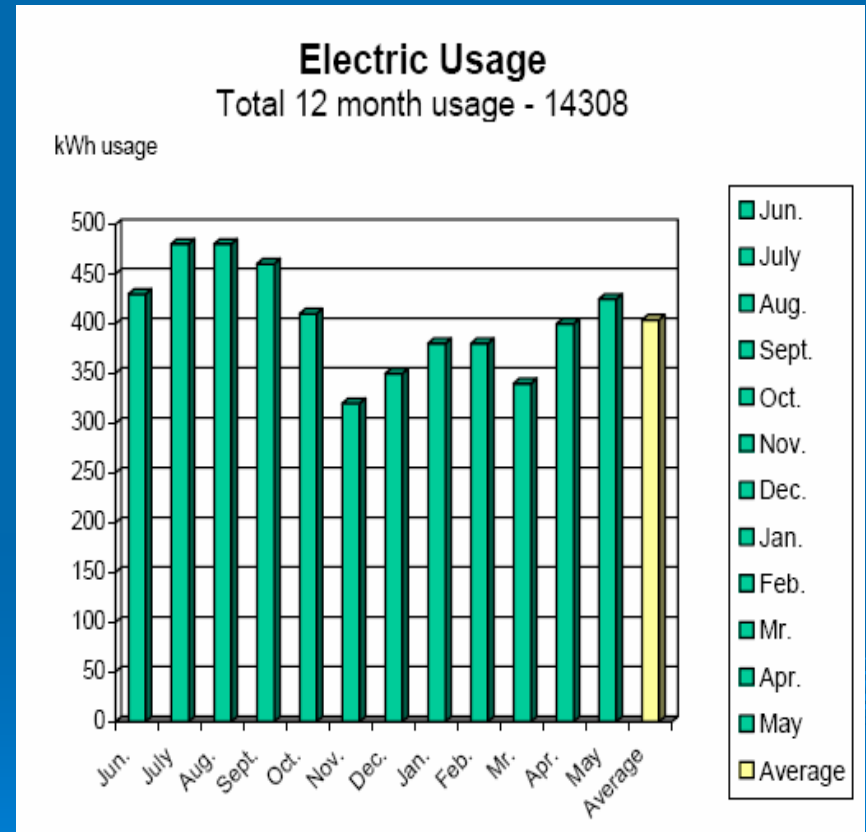
Generation Energy Charge

The charge for the production of electricity.

Ohio Electric Choice

Average Electric Usage over 12 months

- Under Electric Choice, electric bills also provide customers with a graph that shows each customer's total and average usage for the past 12 months.
- Intended to assist in the calculation of potential savings that may occur based on a comparison of price and actual usage by the customer over a 12 month period.



Ohio Electric Choice

Issues to Consider when Shopping

➤ Types of Issues that Customers May Consider When Choosing a New Electric Provider

- Lowest price;
- Value or special add-on offers;
- Environmental Issues regarding fuel source used to generate electricity;
- Specific contract terms;
- Reputation of the supplier.



Ohio Electric Choice

Shopping for a new provider

➤ Price Comparison

- Price for comparison shopping is listed on customer's bill.

➤ Environmental Disclosure

- Information is provided quarterly through a bill insert that shows the fuel sources used to make electricity and what kinds of by-products are produced.

➤ Contracts

- Most new electric suppliers will have customers enter into a contract that indicates how long the customer must buy electricity from the supplier; outlines the types of fees; and indicates how the customer will be billed.

➤ Aggregation

- Aggregators create large groups of customers, called buying groups that can create "buying power" that results in lower rates for group members. Examples of Aggregators include cities, townships or counties, non-profit organizations, and business associations.

Ohio Electric Choice

Billing and Charges

➤ Billing

- In most cases customers should be able to receive a single monthly bill from their local electric utility or the new supplier.

➤ Charges

- The electric supplier will charge the customer for actual electricity used. The local electric utility will charge for the delivery (transmission and distribution) of the electricity.

Ohio Electric Choice

Results and Next Steps

➤ Promises of Restructuring Yet to Fully Develop

- As of the end of 2004, approximately 905,000 residential customers statewide – or about 22% of those who are eligible to participate in electric choice – have switched electric suppliers. The vast majority of those who have switched suppliers participated in one of the more than 190 community aggregation groups.
- The competitive market has been most successful in the three FirstEnergy service territories in northern Ohio, where electric rates are the highest in the state.

Electric Choice

Results and Next Steps (Cont'd)

- However, competition has not developed throughout Ohio as residential customers in central and southern Ohio have had virtually no choice for alternative suppliers and few suppliers are making direct offers to consumers anywhere in the state.
- Ohio determined that the limited number of competitive electric suppliers and low degree of market activity are indications that going to strictly market-based rates in 2006 is not in the best interest of customers.

Electric Choice

Results and Next Steps (Cont'd)

➤ **Development of Rate Stabilization Plans**

- To help prevent customers from facing “sticker shock” from electric rates when the market development period ends, the PUCO and Ohio’s electric utilities developed rate stabilization plans (“RSPs”) to ensure the continuation of stable, competitive rates and reliable service while promoting further development of competitive markets.

Electric Choice

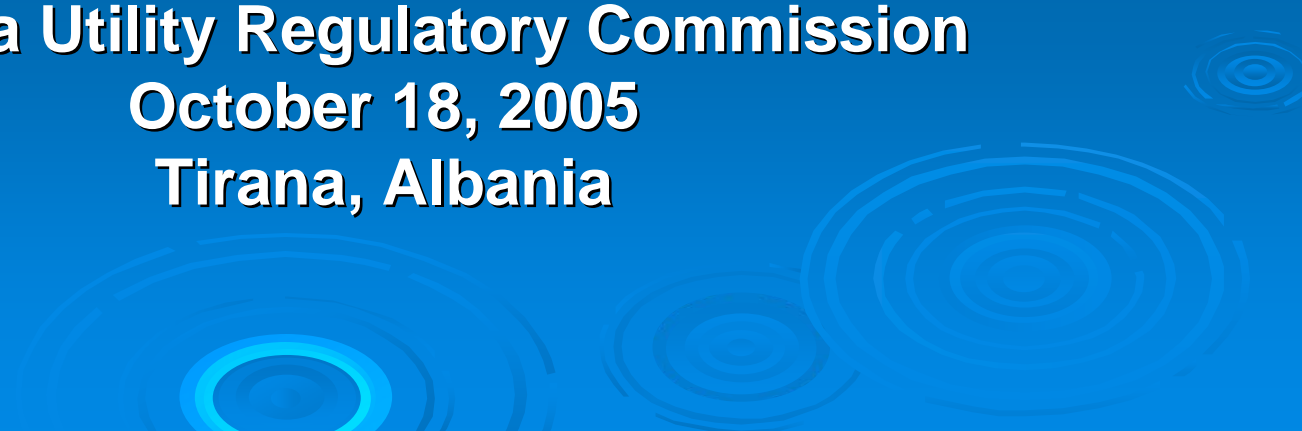
What's Next?

- Rate Stabilization Plans Run Through 2008 and seemingly keep further efforts to develop a competitive market on hold.
- Ohio's experience is similar to that of other states that have attempted to introduce competition.



Competitive Electricity Market Concepts and the Role of Regulator

Scott R. Storms
Chief Administrative Law Judge
Indiana Utility Regulatory Commission
October 18, 2005
Tirana, Albania

The background of the slide features several sets of concentric circles in a lighter shade of blue, resembling ripples in water. These circles are positioned in the lower right and bottom center areas of the slide.