

Regulation of Traditional Electric Utilities vs. Retail Competition

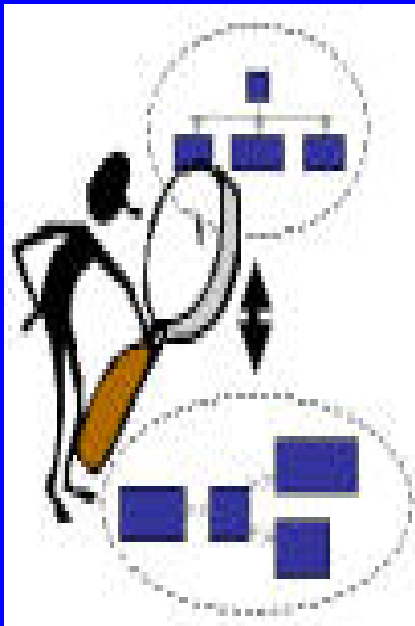


Larry Holloway
Chief of Energy Operations
Kansas Corporation Commission

11/8/2004

Regulation of Traditional Electric
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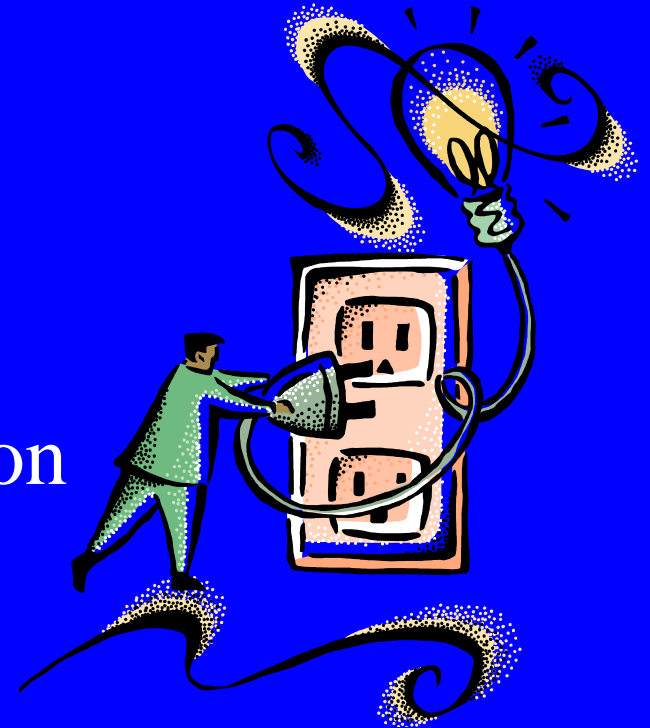
Main Topics

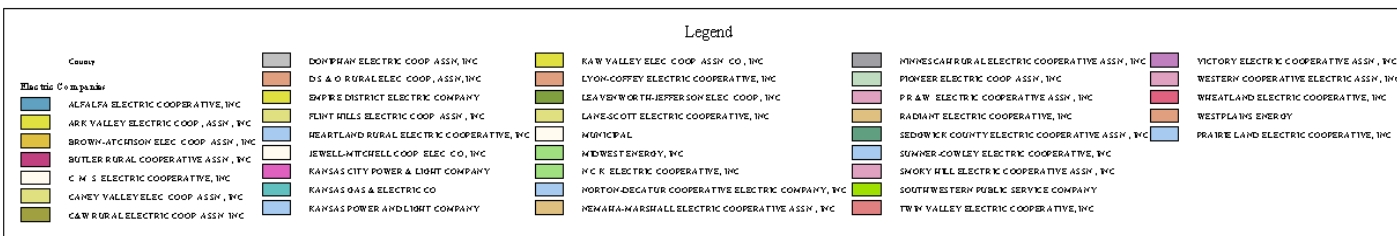
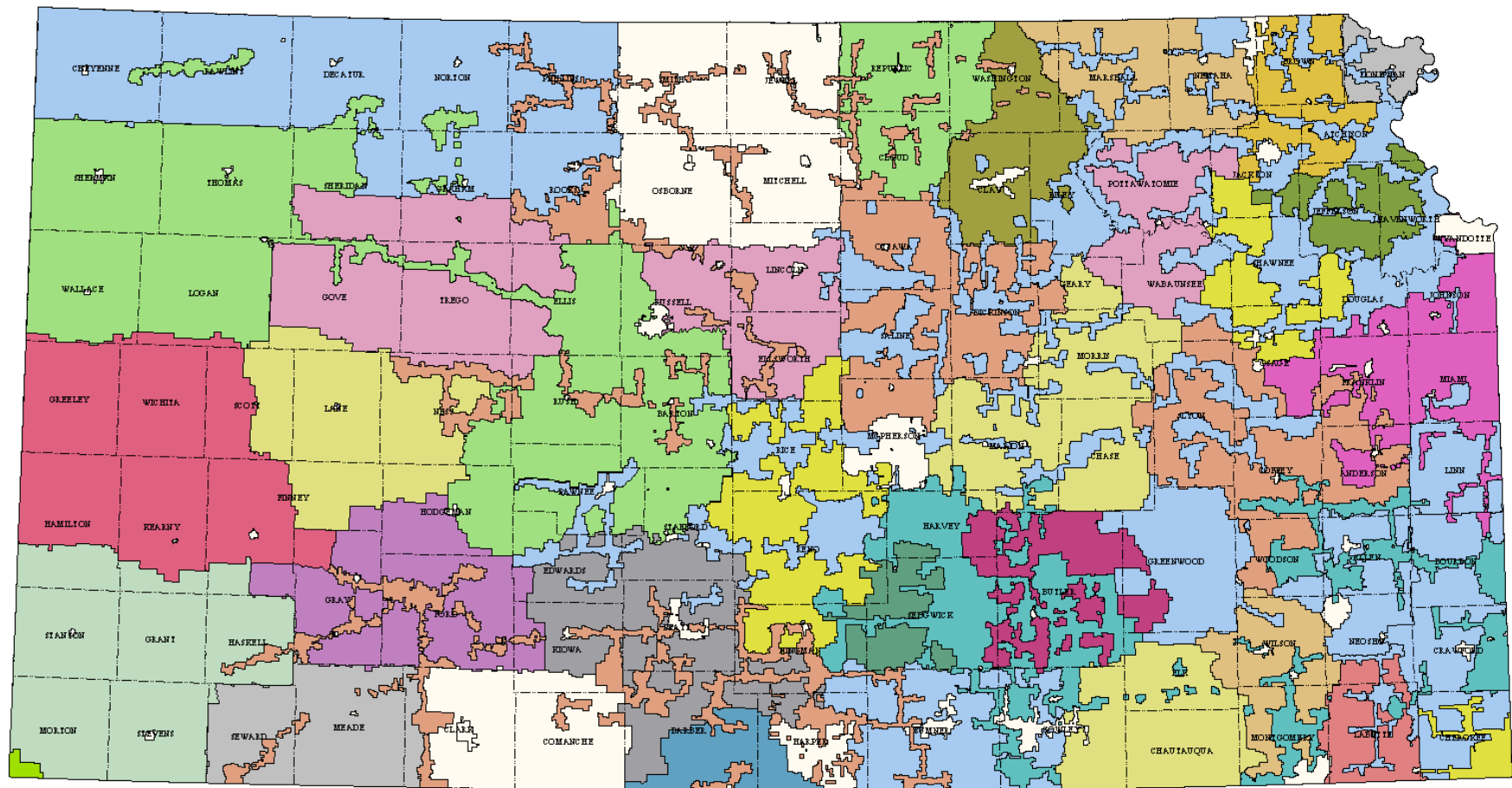


- Different Electric Utility Structures
- Regulation of Each Structure
- Common Concerns
- Regulatory Agency Needs for Different Structures

Different Electric Utility Structures

- Traditional Regulated Vertical Monopoly
- Competitive Wholesale Generation
- Retail Competition





Certified Electric Areas In Kansas

10 0 10 20 30 40 50 Miles

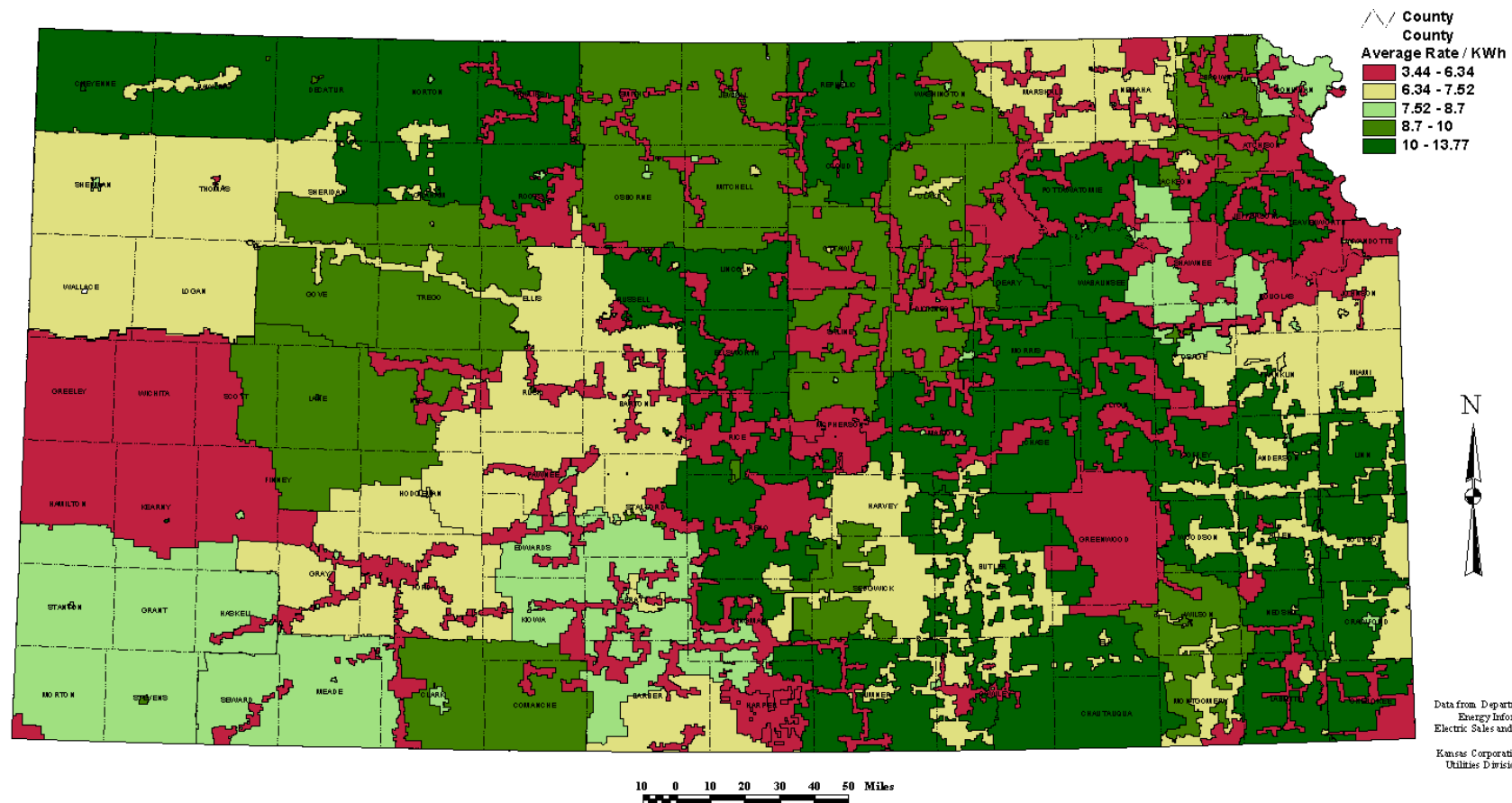


Kansas Corporation Commission
Utilities Division, GIS Support
23 June 1999

11/8/2004

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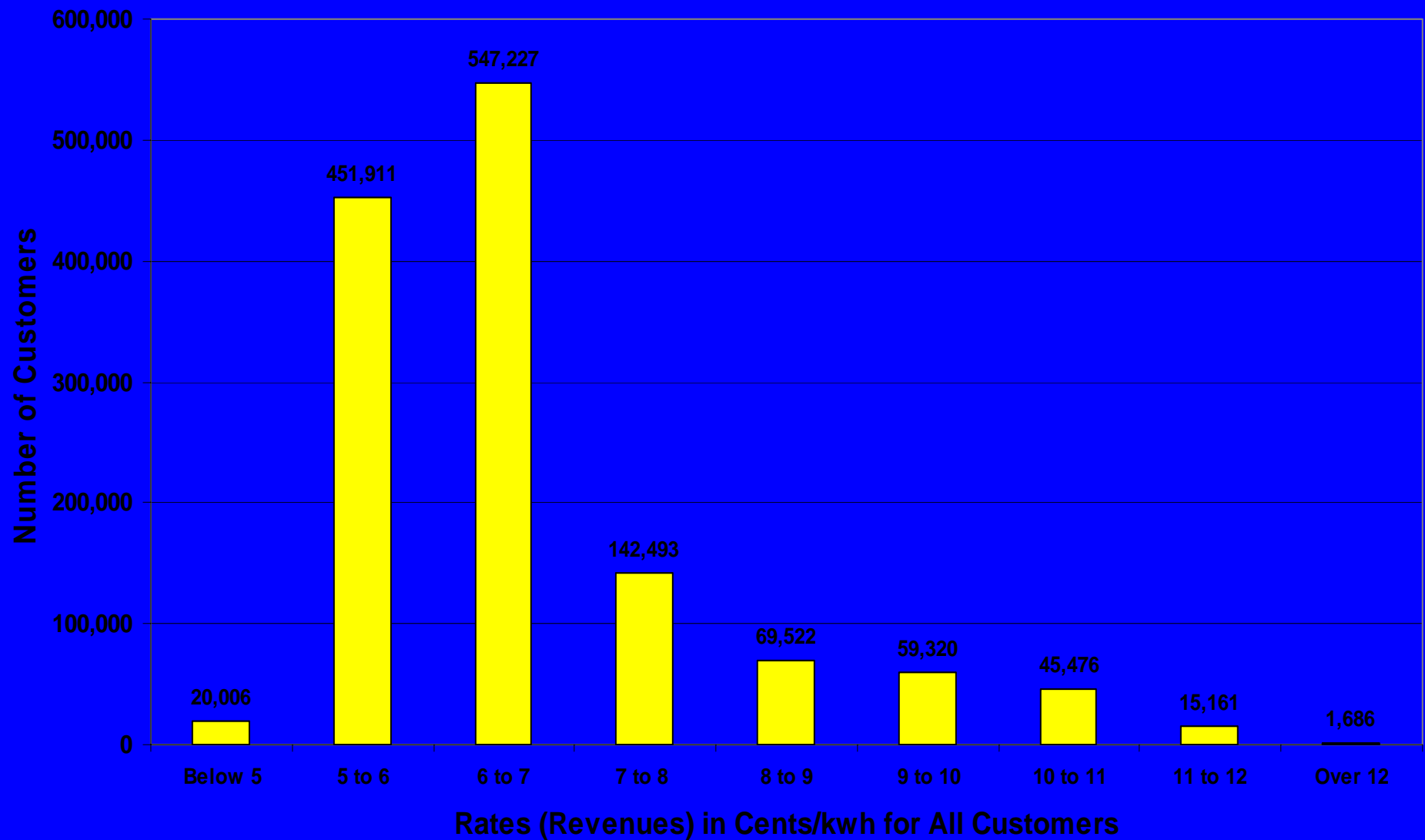
Kansas Average Electric Rates Cost per KWh



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Regulation of Traditional Electric
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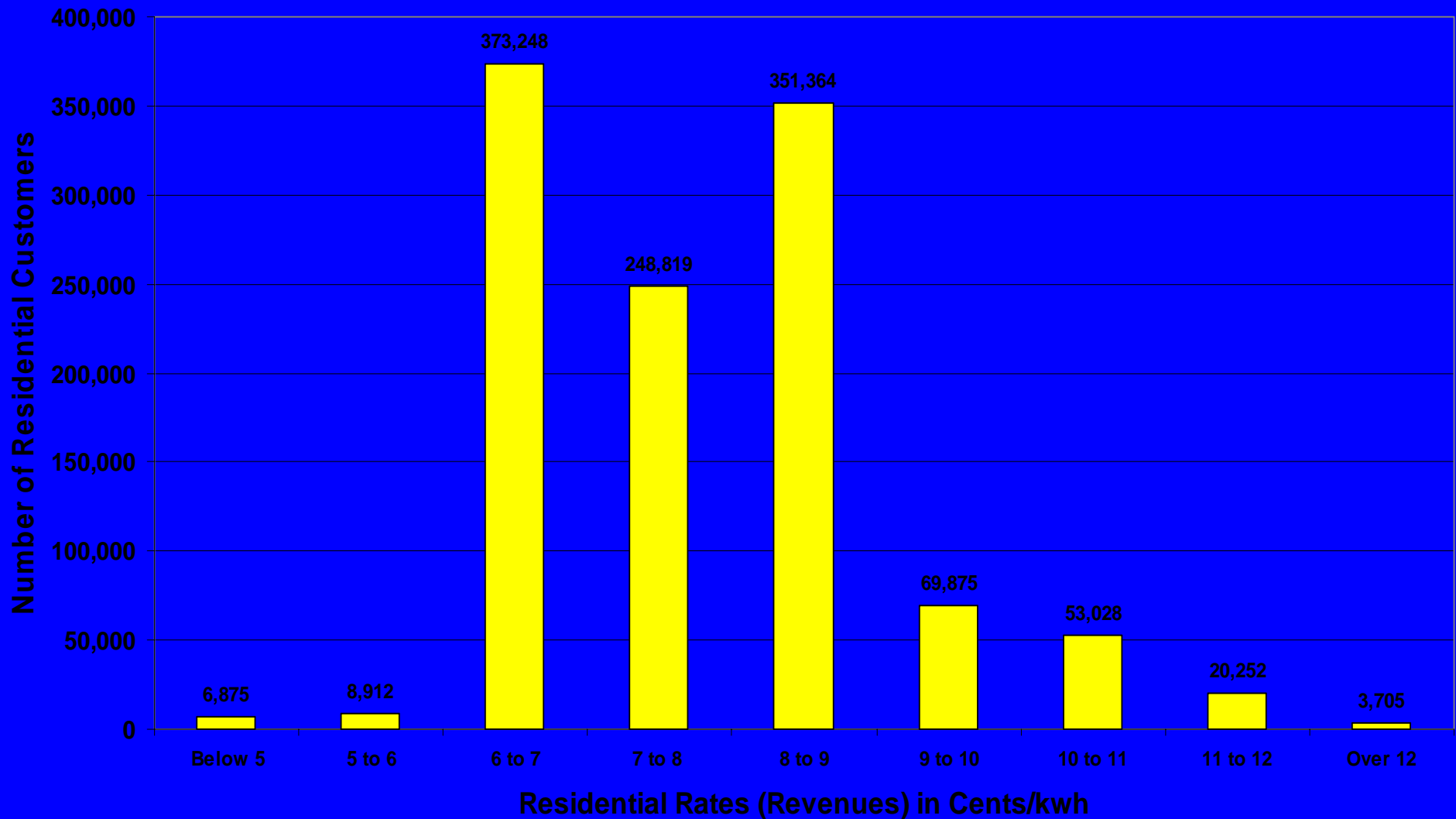
Number of Kansas Electric Customers at Differing Rates



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Regulation of Traditional Electric
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Number of Kansas Electric Utility Residential Customers at Differing Rates



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Regulation of Traditional Electric
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Traditional Regulated Vertical Monopoly

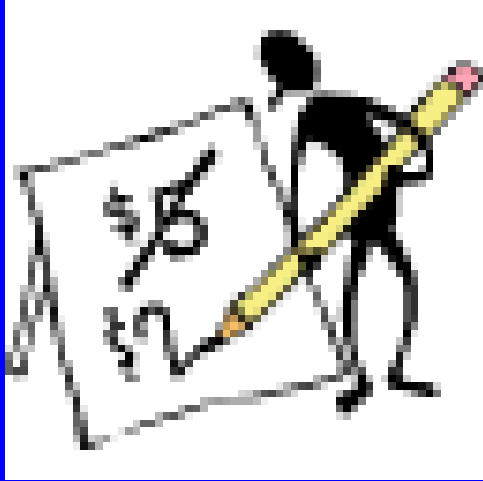


- Regulation of Generation, Transmission and Distribution
- Regulatory oversight of generation, transmission and distribution
- Limited choice and maximum protection
- Limited utility discretion

Competitive Wholesale Generation



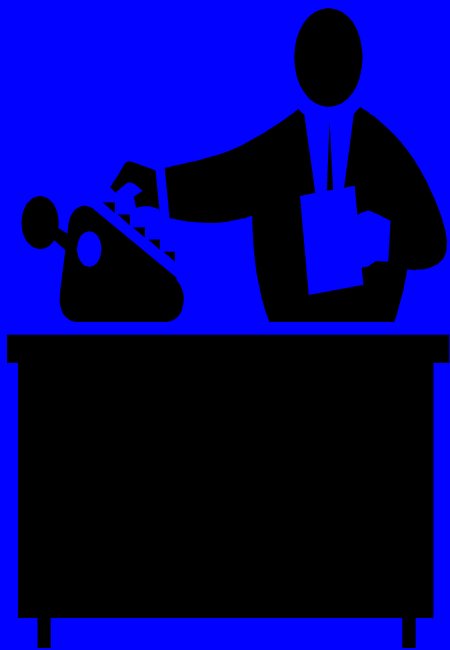
- Utility purchases generation
- Limited customer choice but no protection from market
- Utility purchase decisions subject to review and oversight
- Regulatory oversight of transmission and distribution and power purchases



Retail Competition

- Competitive generation markets available to customer
- Limited oversight of generation marketing
- Regulatory assurance of access to marketplace
- Regulatory oversight of transmission and distribution – but not power purchasing

Regulating Vertically Integrated Electric Utilities



- Cost of service review and audit of all costs
- Comprehensive rates, tariffs, and service regulations
- Customer service and safety requirements
- Customer concerns, complaints and information

Regulating Vertically Integrated Electric Utilities (cont)



- Cost of service review and audit of all costs
 - Generation, transmission and distribution investment
 - Generation, transmission and distribution expenses
 - Fuel expenses – pass through or fixed?
 - Corporate allocations

Regulating Vertically Integrated Electric Utilities (cont)

- Generation, transmission and distribution investment
 - Regulator must review generation investment decisions
 - Supply plans
 - Conservation plans
 - Regulator must weigh decisions between delivery and production



Regulating Vertically Integrated Electric Utilities (cont)

- Corporate allocations
 - Increasingly important with consolidation of electric utility ownership
 - Corporate Allocation Manuals (CAMs)
 - Requirement of many regulatory agencies
 - Access to Corporate accounts and information
 - Access to key corporate personnel



Regulating Vertically Integrated Electric Utilities (cont)

- Fuel expenses – pass through or fixed?
 - Pass through – efficiency risk
 - Review of utility dispatch decisions
 - Review of fuel choice
 - Review of heat rate
 - Fixed – volatility risk
 - Utility at risk for generation efficiency
 - Fuel price volatility presents challenges



Regulating Vertically Integrated Electric Utilities (cont)

- Comprehensive rates, tariffs, and service regulations
 - Integrated rate design for each class of customer
 - Obligations of utility and customer must be carefully spelled out
 - Comprehensive billing standards
 - Rate design may incorporate conservation



Regulating Vertically Integrated Electric Utilities (cont)

- Customer service and safety requirements

- Customer expectations

- Payments
- Deposits
- Access

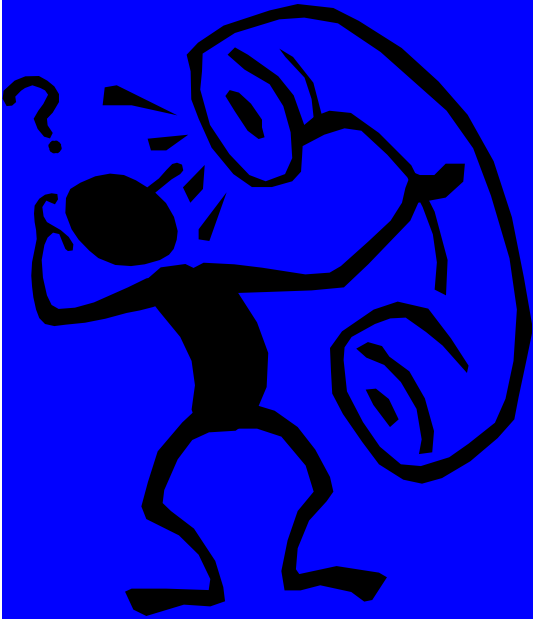
- Utility expectations

- Quality of service
- Safety
- Access



Regulating Vertically Integrated Electric Utilities (cont)

- Customer concerns, complaints and information
 - Investigation must focus on established standards and commission approved rules and tariffs
 - Approved rules and tariffs must be available and explained to customers
 - Customers must have ability to initiate Commission review of utility compliance



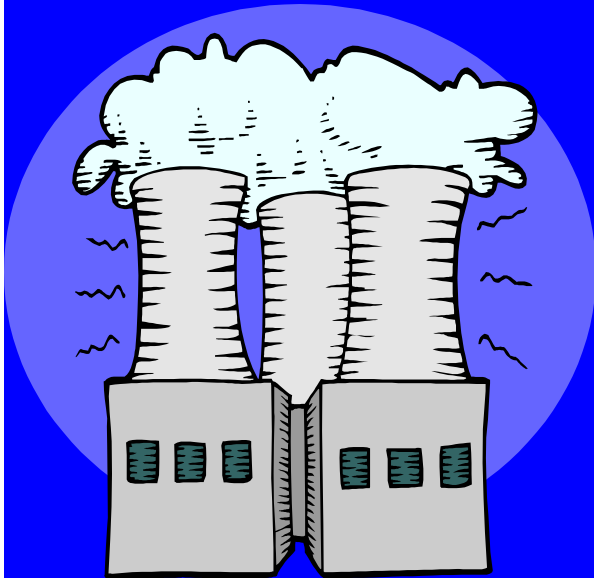
Regulation in a Competitive Wholesale Electric Market

- Similar to vertically integrated utility
 - Transmission and distribution still regulated
 - Rates, tariffs and service regulations
 - Customer service and safety requirements
 - Customer concerns, complaints and information
- Primary difference
 - Customer and utility must share generation market risk



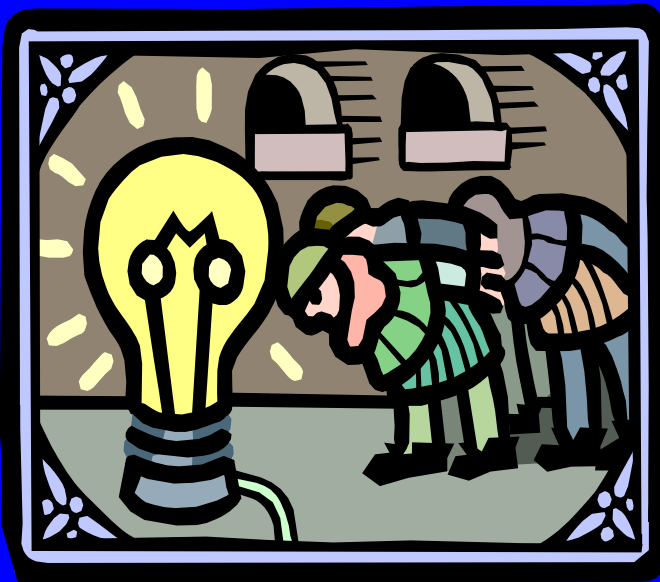
Regulation in a Competitive Wholesale Electric Market (cont)

- Generation market risk
 - Regulatory review of purchase decisions
 - Planning review
 - Prudence review
 - Regulatory oversight of market
 - Independence of capacity market
 - Affiliate ownership
 - Competitiveness of Energy market
 - Dispatch order



Regulation in a Competitive Wholesale Electric Market (cont)

- Generation Market Risk
 - Immediate pass through
 - Customer bears all risk – and receives all the benefits
 - Utility must plan generation needs
 - Regulatory review of planning process
 - Regulatory review of selection



Regulation in a Competitive Wholesale Electric Market (cont)

- Oversight of market
 - Capacity market
 - Ownership of generation capacity
 - Utility long term purchase obligations
 - Similar to review of generation investment
 - Energy market
 - Transparent spot market
 - Efficient dispatch



Regulation of Retail Competition

- Similarities

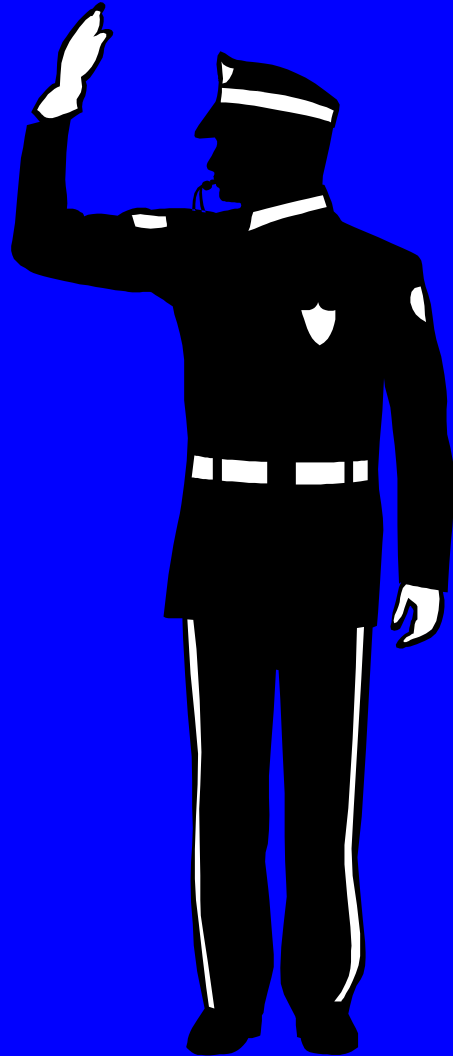
- Transmission and distribution still regulated
- Rates, tariffs and regulations for T&D
- Service, safety and complaints

- Differences

- Market oversight
- All generation risk by customer
- Information and disclosure
- Business practices
- Default providers



Regulation of Retail Competition (cont)



- Regulators must oversee market
 - Monitor market power
 - Prevent abuse by unregulated affiliates
 - Remove barriers to entry
 - Encourage development of financial hedge market

Regulation of Retail Competition (cont)

- Generation risk assigned to customer
 - Generation costs are competitive not regulated
 - Customer's given responsibility for accepting generation offers
 - Transmission and distribution utilities isolated from generation market
 - There still needs to be a reliability backstop to assure long term capacity



Regulation of Retail Competition (cont)



- Information and disclosure
 - Fraud investigation
 - Standardization of offers for comparison
 - Regulatory agency must provide information and education to customers
 - Regulator must decide if information is confidential

Regulation of Retail Competition (cont)



Business practices

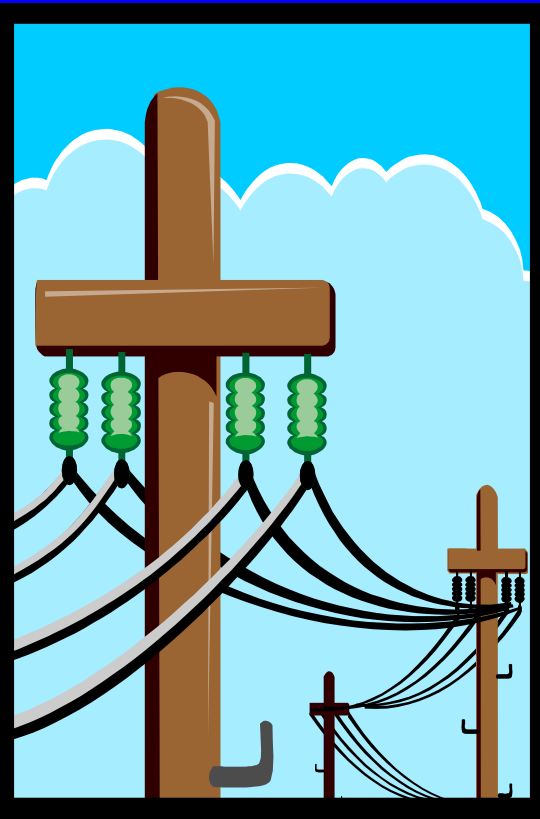
- Unregulated Affiliates
 - Separation from regulated utilities
 - Competitors must have equal access and information
- Interface between generation suppliers, utilities and customers
 - Billing and payments
 - Switching and termination

Regulation of Retail Competition (cont)



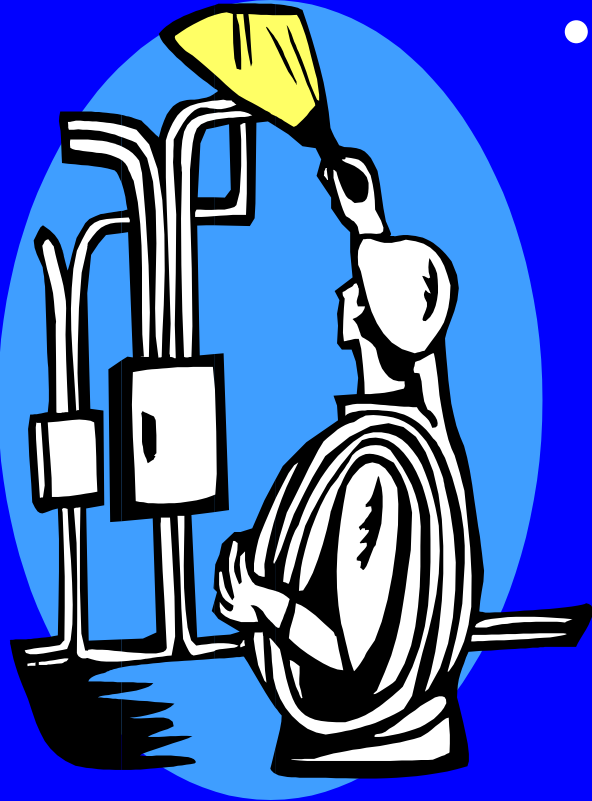
- Determining default providers
 - Pool requirements
 - Utility responsibility
 - Bidding
 - Assignment
- Regulatory oversight of any selection process

Common Regulatory Concerns



- Utility customer service, quality of service and safety
- Investigation of complaints and concerns
- Cost and rules of service of transmission and distribution services

Common Regulatory Concerns (cont)



- Utility customer service, quality of service and safety
 - Obligations of transmission and distribution providers unchanged
 - Reliability still remains with regulated entity
 - Safety is primarily a “wires” concern
 - Customer interface usually remains with utility

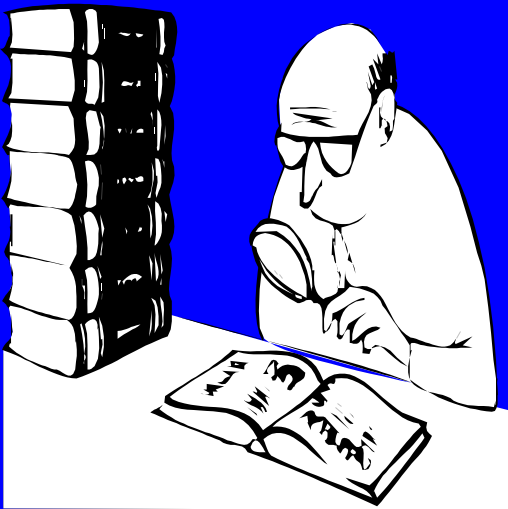
Common Regulatory Concerns (cont)

- Investigation of complaints and concerns
 - Regulatory agency must still investigate problems identified by customers
 - The only change with deregulation is there are more entities to share the blame
 - Regulatory agency must still provide customer information and education on utility rules of service

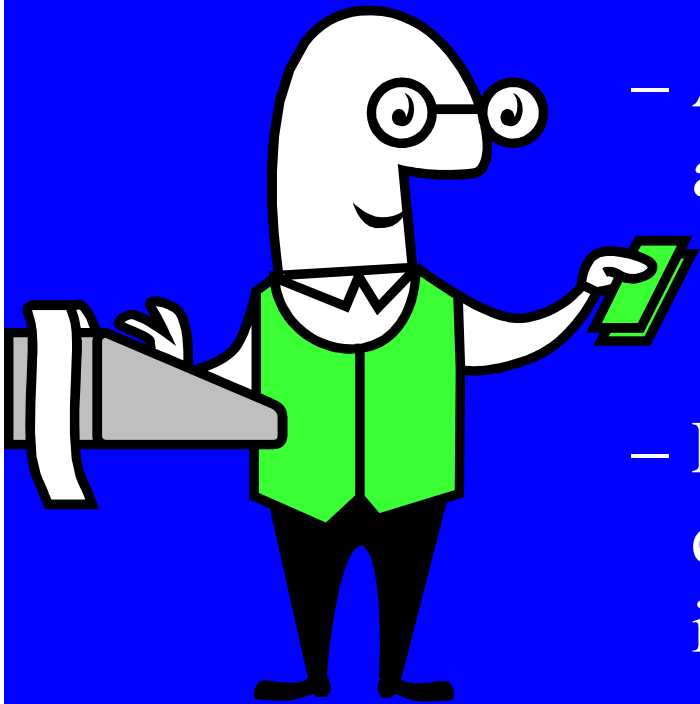


Common Regulatory Concerns (cont)

- Cost and rules of service of transmission and distribution services
 - Regulated services must still be defined
 - Costs of regulated services must still be reviewed



Regulatory Agency Needs for Different Structures



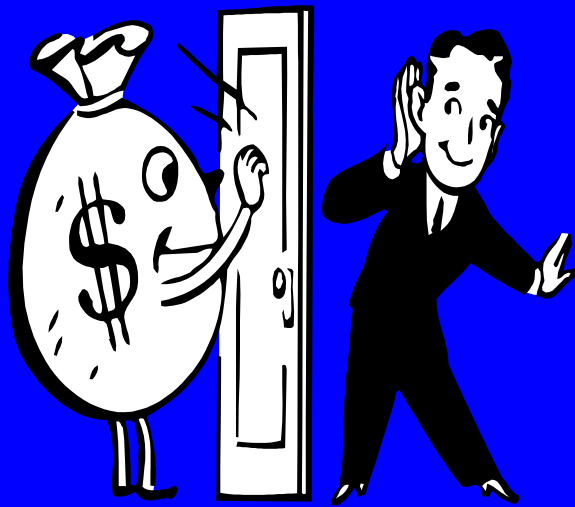
- Common needs for regulated services
 - Audit and rate design may take the same amount of effort
 - T&D rate review is not much different than integrated effort
 - Little decrease in efforts for safety, quality of service, complaints and investigations

Regulatory Agency Needs for Different Structures (cont)



- Needs for vertically integrated and competitive wholesale models
 - Review of supply planning
 - Review of generation fuel costs
 - Review of dispatch efficiency

Regulatory Agency Needs for Different Structures (cont)



- Needs for retail and wholesale competitive models
 - Monitor wholesale market
 - Review of affiliate transactions
 - Review of transmission operation, practices, planning and costs

Regulatory Agency Needs for Different Structures (cont)

- Additional needs for retail competition
 - Customer information and education
 - Business practice review
 - Selection of default provider
 - Fraud investigation



Regulatory Agency Needs for Different Structures (cont)

- Conclusions

- Electric Competition has many benefits – decreasing regulatory effort or staff is NOT one of them!!

- Our telecommunications staff has doubled over the last 7 years.
 - Our efforts on natural gas rate reviews has not decreased because of wholesale unbundling.
 - In fact distribution companies file more often

