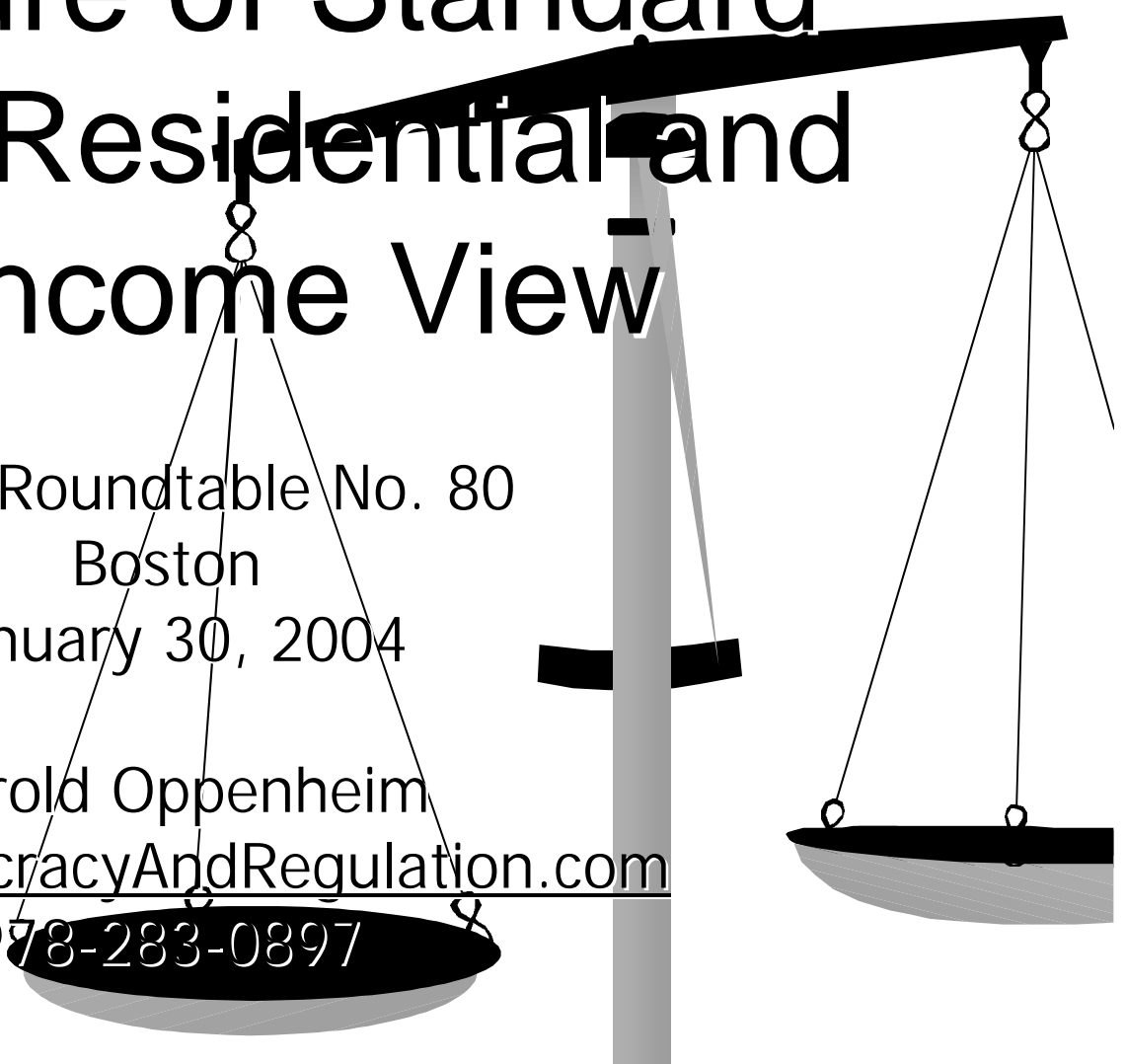


The Future of Standard Offer : A Residential and Low-income View



Mass. Roundtable No. 80
Boston

January 30, 2004

Jerrold Oppenheim

www.DemocracyAndRegulation.com

978-283-0897

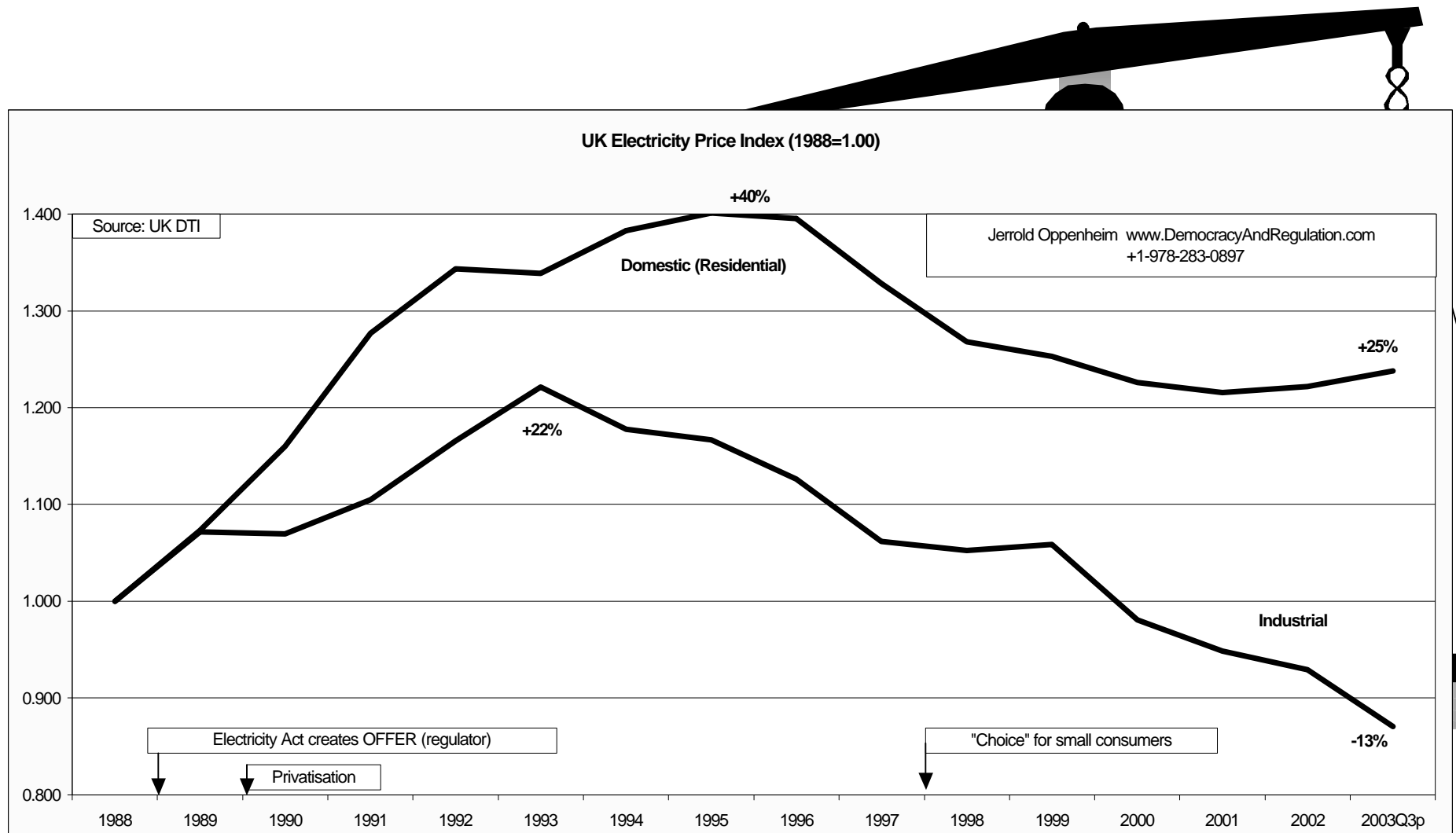
1997 Restructuring Act

- “framework under which competitive producers will supply electric power and customers will have the *right* to choose their electric power supplier” [sec. 1(c), emphasis supplied]

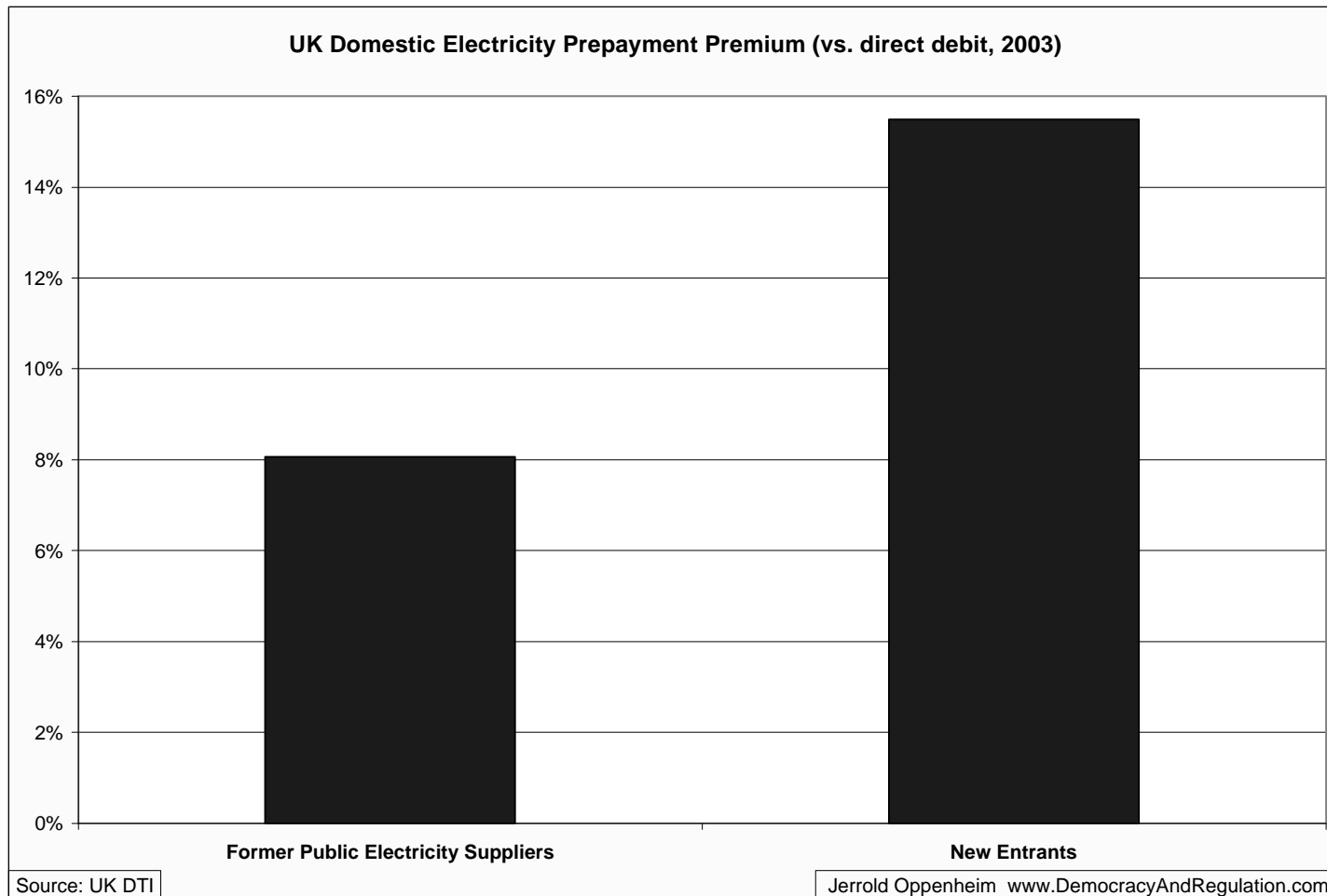
1997 Restructuring Act

- “affordable electric service should be available to all consumers on reasonable terms and conditions” [sec. 1(b)]

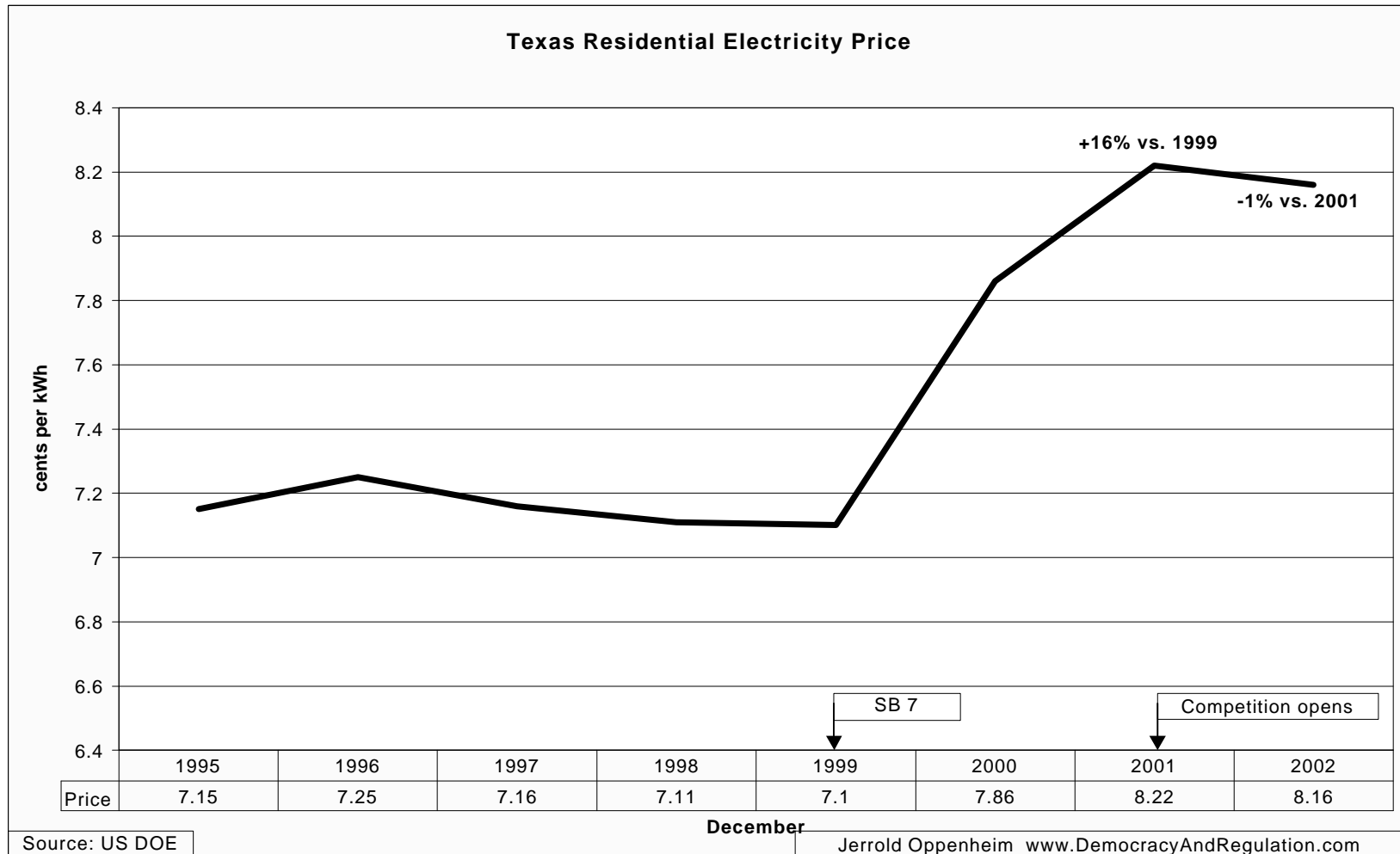
UK: Residential-Industrial Gap



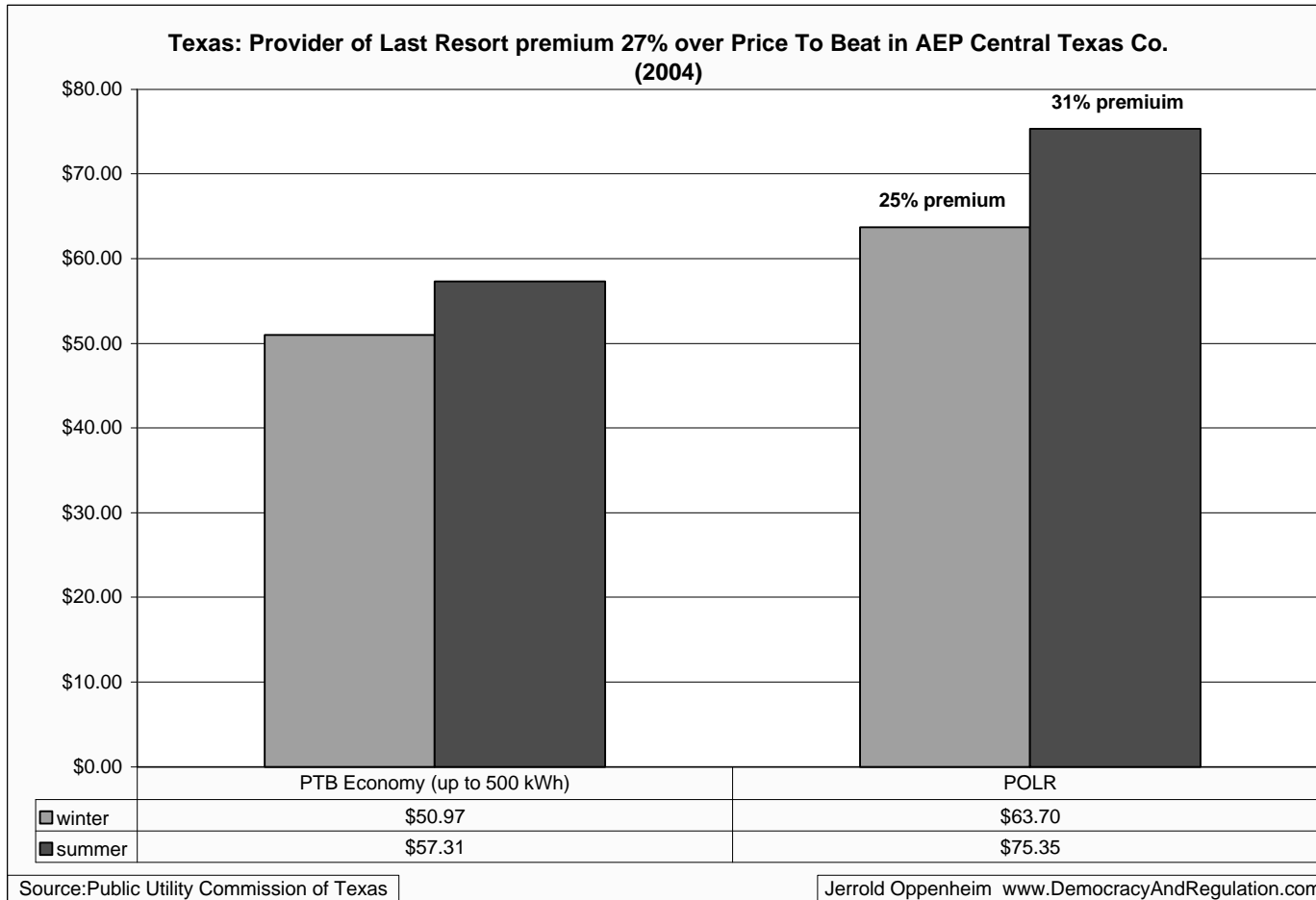
UK Redlining: Prepayment premium 15%



The Price of Texas Restructuring

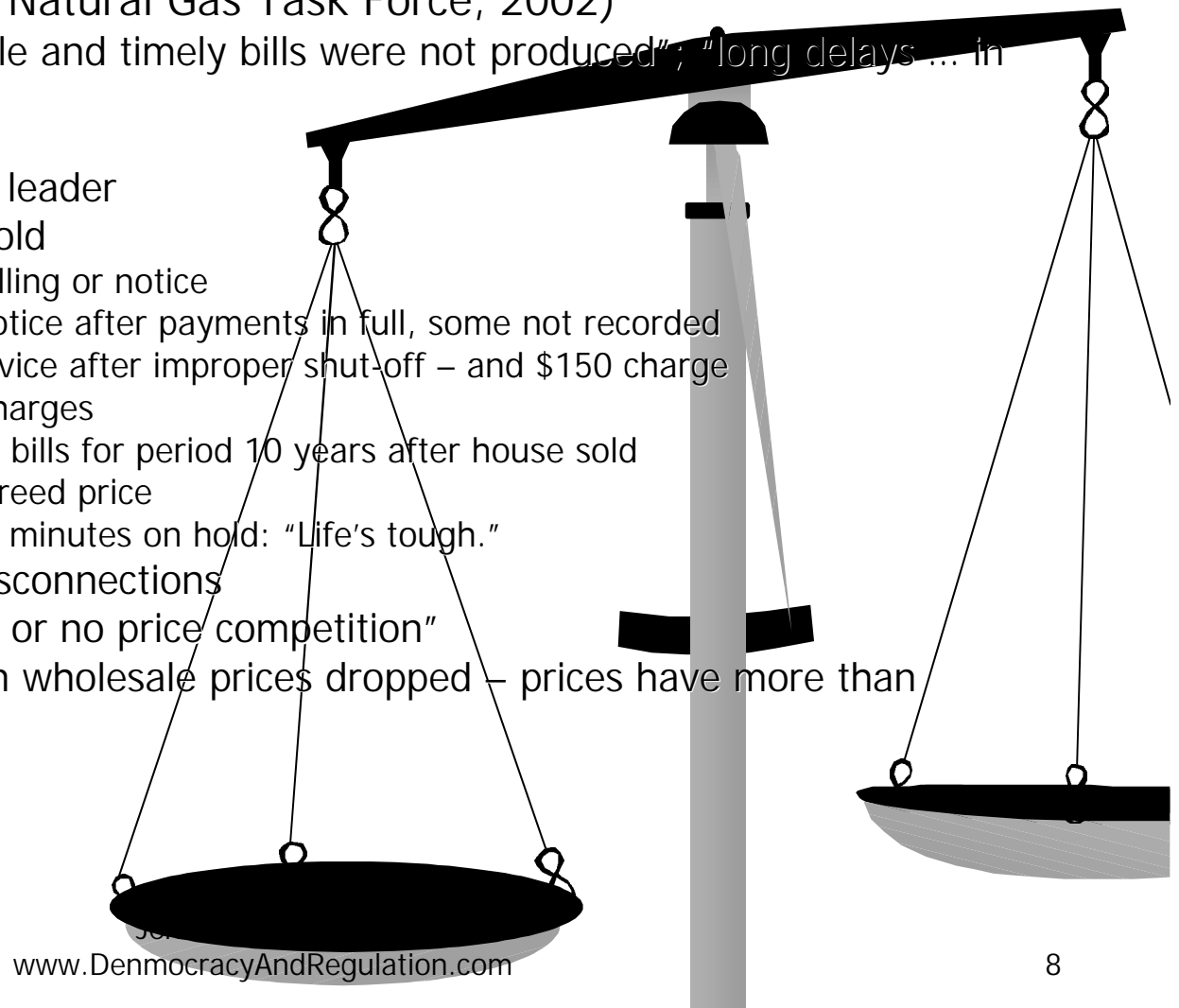


Texas Redlining: monthly POLR premium 27%



Chaos

- GEORGIA (Blue Ribbon Natural Gas Task Force, 2002)
 - “for some time, reliable and timely bills were not produced”; “long delays ... in billing customers”
 - Slamming
 - Bankruptcy of market leader
 - Complaints grew 40-fold
 - Shut-offs without billing or notice
 - Shut-offs without notice after payments in full, some not recorded
 - Week to restore service after improper shut-off – and \$150 charge
 - 25%-100%+ late charges
 - Collection action for bills for period 10 years after house sold
 - Refusal to honor agreed price
 - Supervisor, after 77 minutes on hold: “Life’s tough.”
 - More than 100,000 disconnections
 - Oligopoly of 4 – “little or no price competition”
 - Prices rose even when wholesale prices dropped – prices have more than doubled [DOE EIA]
- TEXAS - Similar



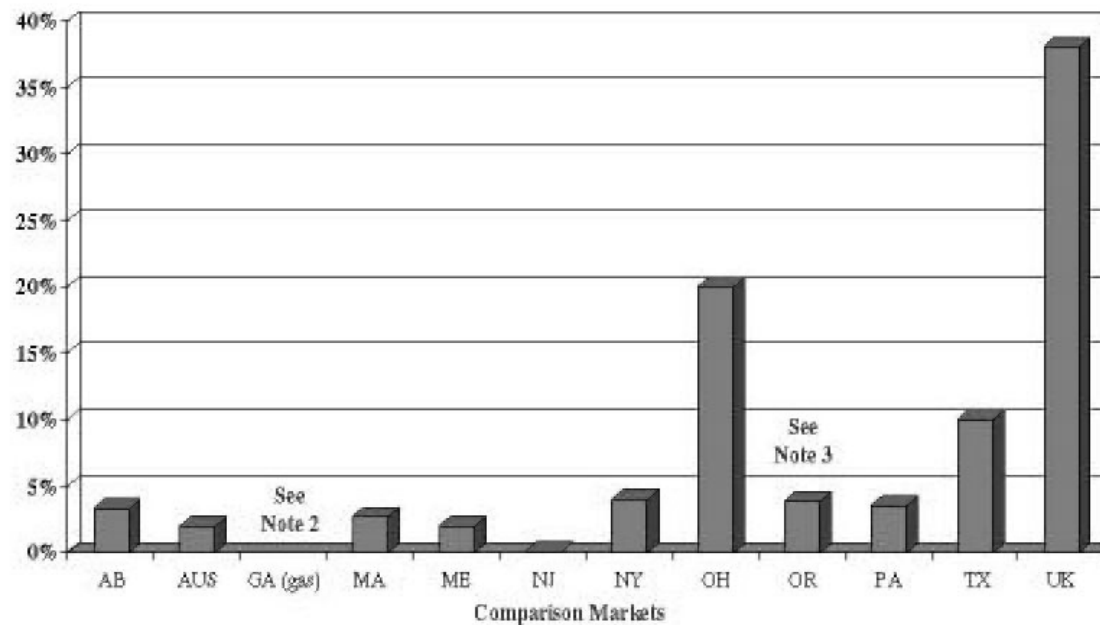
“Virtual” service territories?

- Cheaper to serve new blocks of 250,000 with inexperienced organization and labor?
- Consolidation to 750,000 creates unregulated oligopoly of 3. (Georgia's oligopoly of 4 do not compete on price.)

60%-99%

Choose Not to Choose

[Chart: Eric Cody, "Massachusetts Electric Restructuring: Beyond the Standard Offer" (DOER, 2003)]

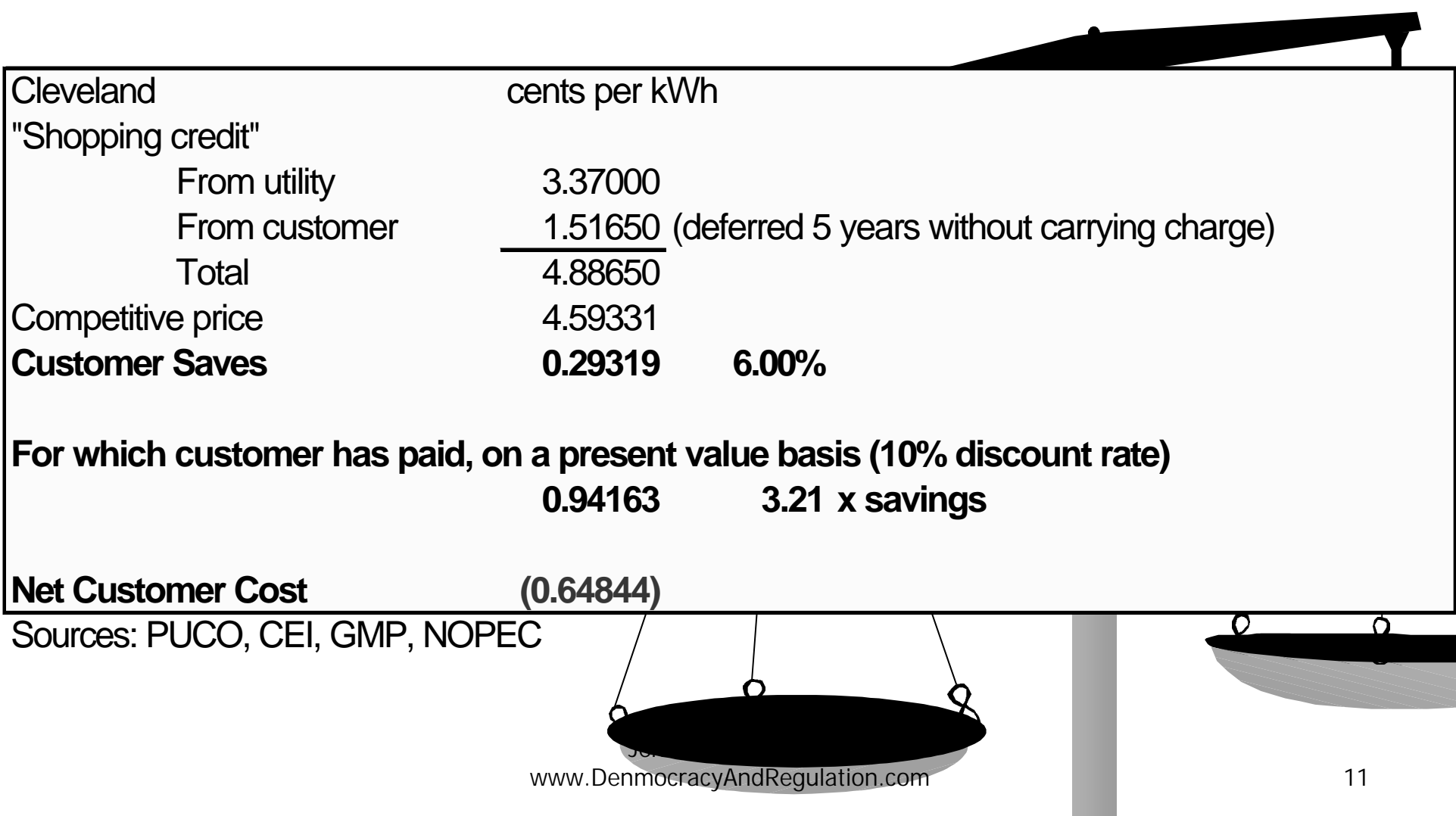


Notes:

1. Data shown are for varying reporting periods between 6/03 and 10/03; data are for residential or small customers, depending upon market area.
2. GA gas market was forced to 100% level in 1989 via direct assignment of customers who had not made a choice.
3. Residential switching not permitted in OR – data represent % of customers selecting regulated portfolio options

Figure 2. Residential Customer Switching Rates (%) in 2003

Ohio customers pay \$3.21 for every dollar they save



Cleveland	cents per kWh	
"Shopping credit"		
From utility	3.37000	
From customer	<u>1.51650</u>	(deferred 5 years without carrying charge)
Total	4.88650	
Competitive price	4.59331	
Customer Saves	0.29319	6.00%

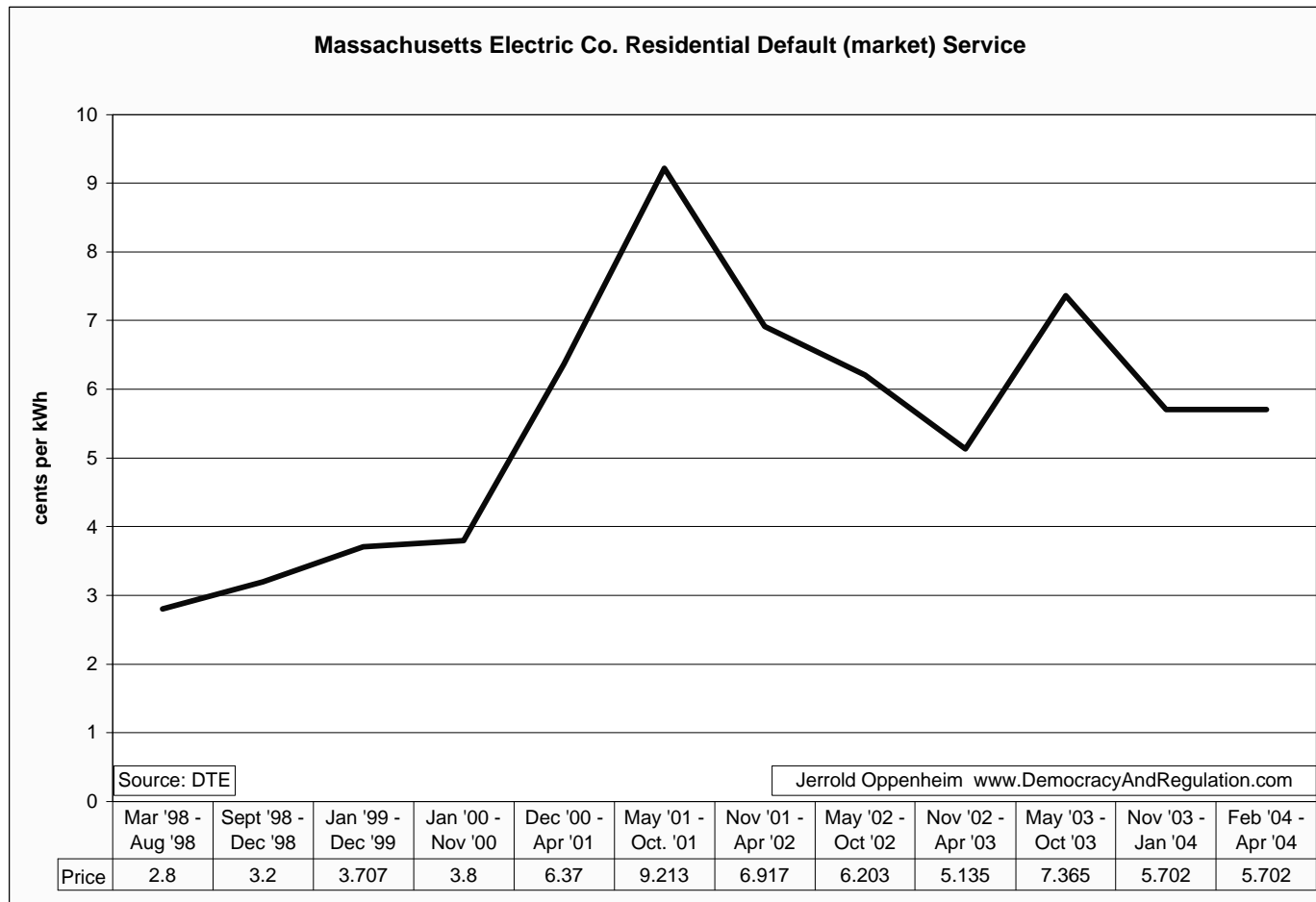
For which customer has paid, on a present value basis (10% discount rate)

0.94163 3.21 x savings

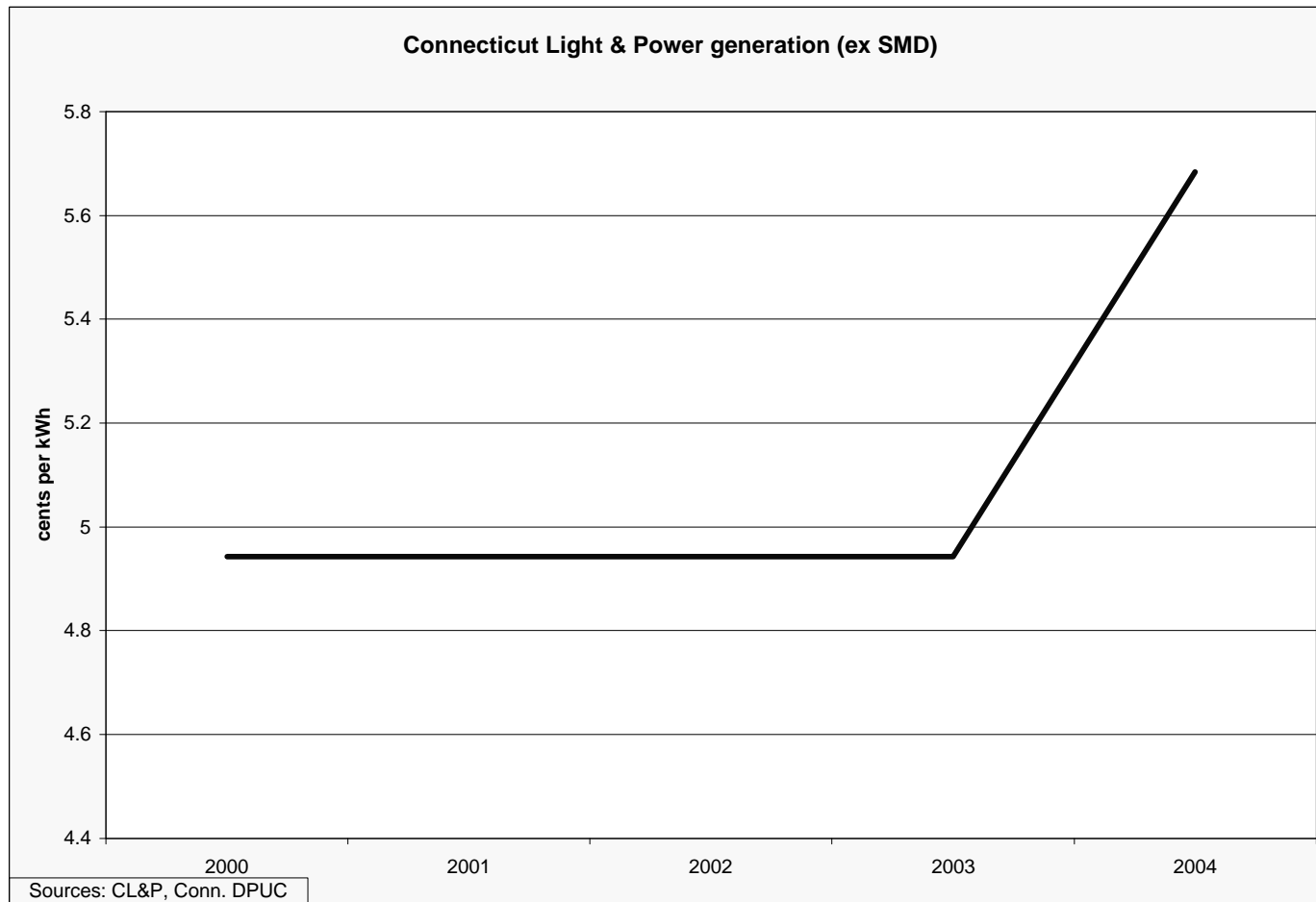
Net Customer Cost (0.64844)

Sources: PUCO, CEI, GMP, NOPEC

MECo: 79% price variation in 4 years under Mass. rules



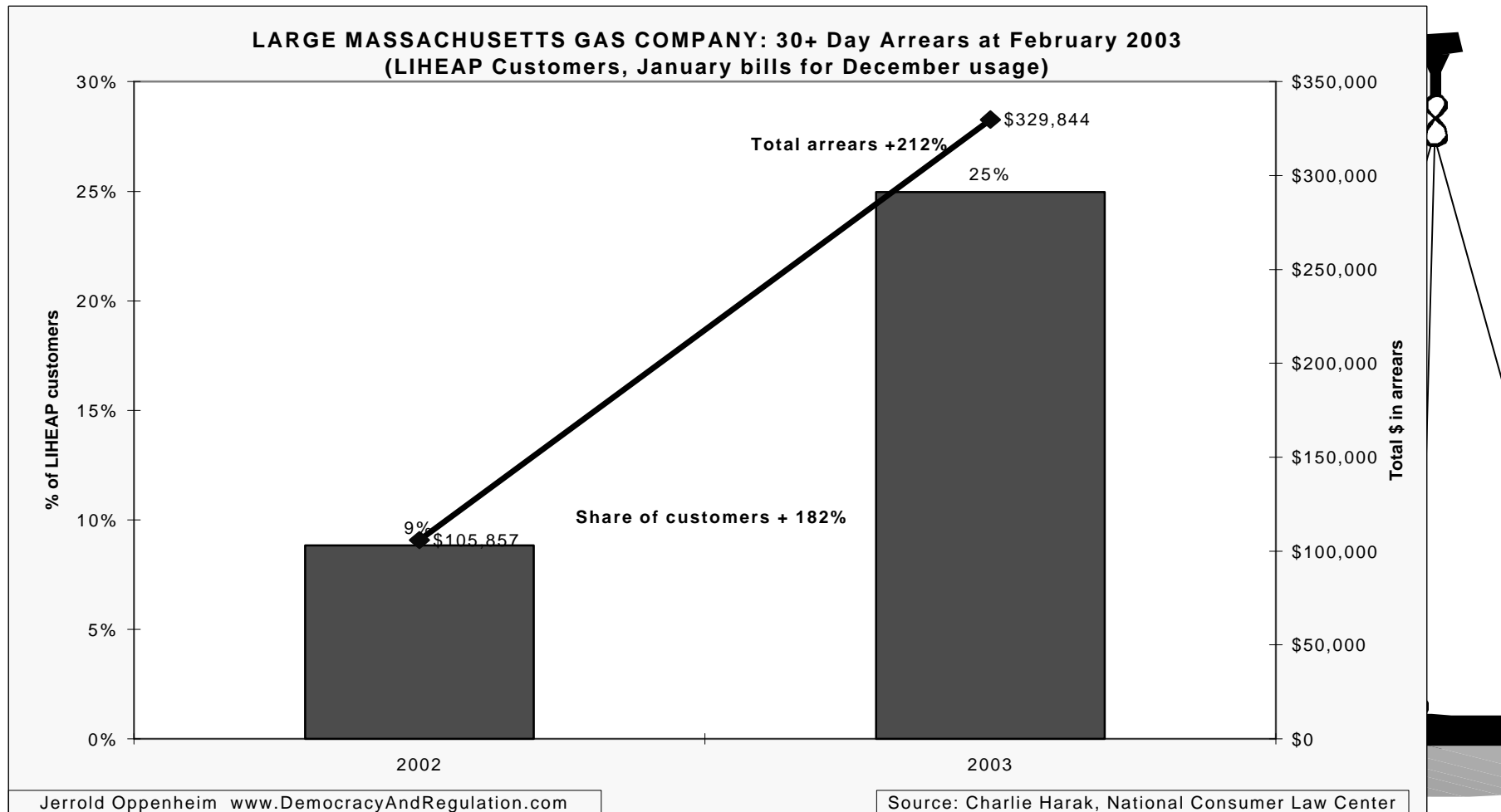
Connecticut: 4 stable years, then Mt. Everest



Connecticut legislative solution: “Laddering” vs. price volatility

- The department shall mitigate the variation of the price of the default service by requiring each distribution company to procure electric generation contracts in the manner prescribed in a plan approved by the department. Such plan shall require the procurement of a portfolio of contracts sufficient to meet the projected load of the default service. Such plan shall require that a portfolio of multiple contracts be procured in an overlapping pattern of fixed periods at such times and in such manner and duration as the department determines to be most likely to produce just, reasonable and reasonably stable retail rates. The portfolio of contracts shall be assembled in such manner as to invite wholesale competition; guard against favoritism, improvidence, extravagance, fraud and corruption; and secure a reliable electricity supply while avoiding unusual, anomalous or excessive pricing. The portfolio of contracts procured under such plan shall be for terms that vary between six months and the maximum number of years reasonably procurable. (Proposed in Mass.)
- Section 16-244c of the Connecticut General Statutes, Public Act No. 03-13 (2003)

Crisis: Low-income arrears triple



Low-income protections effectively administered by public utilities

- Low-income discount rate
- Low-income energy efficiency
- Low-income bill guarantee (anti-redlining)

Three options?

- Current law – all customers to costly, volatile Default
- Spin off utilities' retail to "compete"
- Assign (slam) customers to retailers

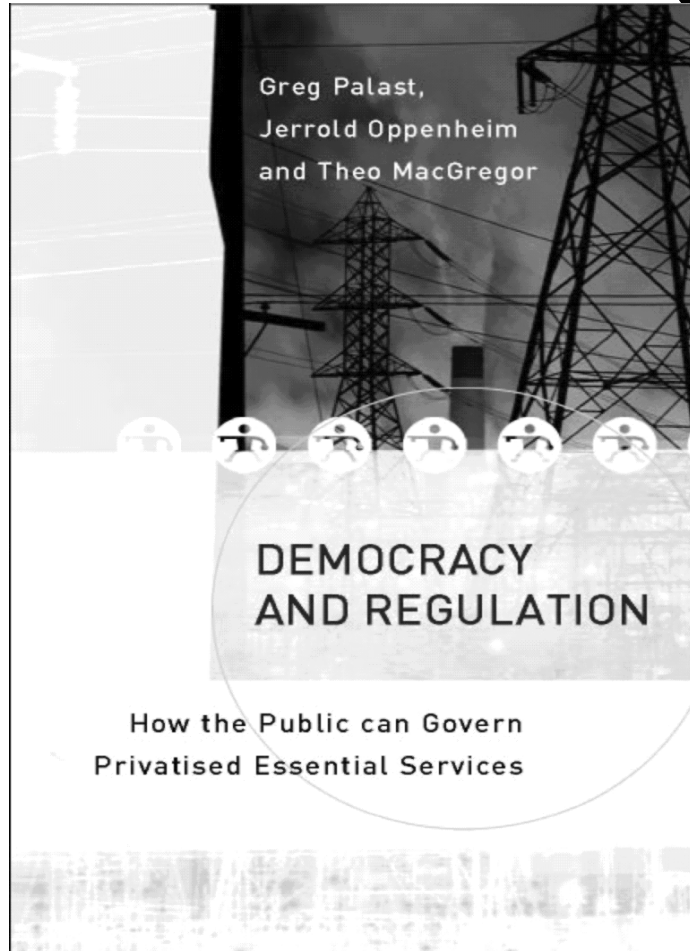
What should we do?

- Extend utility resource acquisition terms to smooth price volatility — as long as 3 years
- Builder of Last Resort to prevent shortages and shortage-induced price spikes
- Expand low-income assistance during price crisis

About the Speaker

Jerrold Oppenheim is an independent consultant and attorney who has advised and represented low-income and other utility consumer advocates, labor unions, and utilities across the country for more than 30 years. A graduate of Harvard College and Boston College Law School, he led utility litigation for four Attorneys General in New York State and Massachusetts and for Legal Services in Chicago and New York City. He has spoken and published internationally, including Democracy And Regulation with Theo MacGregor and Greg Palast, published by Pluto Press (London).

W W W. DEMOCRACYANDREGULATION. COM



■ 1-978-283-0897

■ JerroldOpp@
DemocracyAndRegulation
.com