



# MARKET DESIGN AND PERFORMANCE

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Energy Markets At The Crossroads

# Market Design And Performance:

## A Bigger Issue Is Looming!

And That Is...

**WHO IS GOING TO INVEST IN THE SECTOR?**

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## Embellishment On Experience

- Utility experience
- Independent Research experience
- Credit Rating experience
- Investment experience

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How Did We Get To The Current State Of The Industry

- PURPA/Energy Policy Act
- Major Construction Cycle Ended
- High Tech/Internet/Telecom “Bubble”
- “Transition To Competition” Plans
- AES & CPN & ENE
- Another Construction Cycle Begins
- Economy tanks!
- ENE

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2001 And Beyond: An Investor's Odyssey

“Some mornings, its just not worth

chewing through the leather straps.”

Emo Phillips

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## Post-Enron Investment Considerations

- Corporate Management
- “Street” Analysts
- Investment Bankers
- New Entrants
- Politicians/Regulators (Federal & State)
- Rating Agencies
- “Traditional” Investors

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Its Not That I Don't Care, But...

- Fallout Continues
- Pressing Issues
- State(s) Vs Fed
- Who's Left
- Timing

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Food For Thought For Street/Corporations/Regulators/Politicians

“In modern business, it is not the crook who is to be feared the most,  
It is the honest man who doesn't know what he is doing.”

William Wordsworth



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What Regulatory Bodies Need To Recognize About...

- About regulated returns
- About investors
- About volatility
- About consumers

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## A Few Questions To Ponder

- On a real and/or nominal basis, what have electric and natural gas rates done since the late 1980's?
- What has happened to disposable incomes since the early 1990's?
- How much have other costs paid out of disposable income gone up in since the early 1990's?
- Etc.

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## A Final Thought From An Investor

Low electricity and natural gas prices are like licenses (drive a car, hunt, practice medicine, etc.)! They are a privilege in our society, but not a birthright, nor should they be guaranteed. In other words, under competition prices for consumers can go up, as well as down. Electric and natural gas rates have been a relative bargain for quite a few years. As a result, both consumers and the economy reaped the benefits over the last decade or so. But I dare say investors have not! The focus on continuing to drive prices down is troubling, when all indicators are costs are going up. Also, the ever-present potential for “retro-active ratemaking” to clawback profits if prices do go up, is not going to attract capital to the sector. The biggest challenge regulator face over the next several years in my opinion, is the attraction of capital.

# ON-THE-RUN 12 MTH IMPLIED RETURN

3/92 - Present

■ CONVERGENCE    ◇ S&P500

