Encouraging Green Market Development

Karen O’Neill

VP New Markets

karen.oneill@greenmountain.com

802.846.2560 x6177

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Green Mountain Energy[sm]

Introduction to Green Mountain

- Consumer marketing company
- Founded in August, 1997
- Nation’s leading residential provider of cleaner electricity
- 100+ employees headquartered in Austin, TX

Introduction to Green Mountain (Cont.)

- 500,000 customers in seven states
  - CA, PA, NJ, NY, OH, TX, OR
- Investors include BP, Nuon, and private investors
- Multi-faceted growth strategy
  - Direct Access
  - Aggregations
  - Utility Partnering

Green Markets and a RPS

- Green markets
  - Educate the public about electricity and its effects
  - Drive the development of new renewables
  - Place no upper limit on renewables
    - In TX, green market has led to the *additional* development of 150 MW of wind to date
  - Target market is substantial
    - 20% to 40% of consumers

The Key to Compatibility Between the Green Market and the RPS

- RPS establishes a foundation
  - Market builds upon that foundation
- Green electricity products offered should NOT be allowed to count toward RPS requirement

Experience with a Green Market and RPS

- Connecticut
  - Requirement placed only on competitive suppliers
  - Perverse consequences
    - Disadvantages competitive marketers
    - Works against renewables
- Texas
  - The good
    - Market-based
    - All suppliers must meet requirement
    - Based on energy, not capacity
    - Bankable renewable energy credits used for compliance
  - The not-so-good
    - Lack of synchronization between RPS and label compliance periods

How to Get Green Market

- IL is competitively challenged
- Focus on utilizing utility to partner with a green competitive supplier
- Two options (in both, utility provides electrons)
  - Exclusive partnership resulting from competitive bid
    - Example is Oregon
  - Non-exclusive partnership with multiple competitive green suppliers
    - Example is Niagara Mohawk in NY

Exclusive Partnership

- Results from a *competitive* bid
  - Ensures competitive price and quality services
  - Can include minimum marketing commitment to ensure success
- Products offered jointly by credible third party and trusted utility
  - Optimal from customer perspective since innovative but safe
- Chosen supplier incurs all costs and receives revenues from customers
- Easy for utility
  - Only needs to transact with one partner
- Cost-effective for supplier
  - Willingness to invest significant monies into the program
- Utility can fully support chosen competitive supplier
  - Customers more comfortable with offering resulting in greater participation
- Example is Oregon

Open Partnership

- Utility acts primarily as a distribution channel for competitive green suppliers
  - Does not endorse any of the suppliers; does endorse program
- Suppliers incur all costs and receive all revenues
- Utility must transact with multiple parties
- Does not ensure that marketing and education occurs in market
- Less cost-effective for supplier, but multiple suppliers have market opportunity
- Example is Niagara Mohawk in NY

Exclusive vs. Open

> If goal is building renewable demand and development, then the exclusive partnership *resulting from a competitive bid* has been more successful

	Oregon - Exclusive	NiMo - Open
Program Start	> March 2002	> September 2002
Market Size	> 1.2 Million	> 1.4 Million
Competitive Landscape	> 3 Products > 1 Supplier	> 7 Products > 3 Suppliers
Incremental Customers *(As of February 2003)*	> 30,664* > 3.1% Penetration	> 6,000 > 0.4% Penetration

*Note: Does not include the 6,000 customers that were part of the program before GMEC took over (Total customers as of February 2003 are 36,664)

Why Not Just a Green Tariff

- Partnership has many public benefits over utility providing the product
  - The supplier incurs all costs, reducing utility risks and ensuring that only those customers interested in green power pay for it
- Having the utility provide this competitive product further entrenches the utility in the merchant role
  - Undermines any opportunity for competition – in the short or long term
- It is unlikely that the program will be marketed with the same vigor, or be as successful, as if a competitive supplier were involved
  - It is not a core business for the utility while it is for the supplier

Clear Skies

- Amends Clean Air Act
- New cap and trade for Nox, SOx and mercury
  - Does not include CO2 regulation
- Problem is no allowances for renewable generation
  - With cap placed on fossil fuel generation, renewables do not effect air pollution (only effect greenhouse gases)
- Potential solution is giving proportional allowances to new renewables
  - Would mean that development of facilities would lead to improvement in air quality

Questions?

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