



**Constellation
Energy Group**

Restructuring of the Midwest Wholesale Electricity Markets

Michael D. Smith

Constellation Power Source

December 10, 2003

Current Status

- Transmission service in most of MISO footprint is under MISO OATT
 - ComEd, AEP, DP&L and Ameren are still not part of an RTO
- MISO energy markets delayed until at least December 1, 2004
 - Stakeholder bickering over filed tariff
 - 8/14 reliability concerns
- Status of several key utilities in question
 - ComEd
 - IP
 - AEP and DP&L
 - Ameren
- Situation has been very fluid over past 6 months

Recent Key Events

- MISO energy market delay
- Blackout report
 - First Energy and MISO
- Energy Bill
 - Delayed, if not dead
- FERC RTOR order
- FERC order re AEP/PJM
- First Energy (OH) market development period filing
 - Retail issue with significant wholesale implications for region

Domino Effect

- Currently at a critical junction
 - Poised either to continue with wholesale energy market development in a constructive manner or retreat completely
- The standing dominos
 - AEP/ComEd RTO integration
 - MISO feasibility and sustainability
 - What form?
 - Joint operating agreement--MISO/PJM
 - Other “non-markets”
 - Ohio retail market
 - Illinois retail market
 - Federal legislation
 - FERC jurisdiction and authority
- Question now is, “Which way will the dominos fall?”

Best Case

- MISO sticks to current timetable
 - Energy market by 12/01/04
 - Potential for geographic phase-in
- FERC's authority to order AEP into PJM withstands challenge
 - AEP joins PJM 10/01/04
 - DP&L follows soon thereafter
- ComEd joins PJM
 - IP?

Best Case--continued

- FERC's RTOR orders withstand challenge
 - RTORs eliminated 4/01/04
- Ameren finalizes integration into MISO
 - Coming soon?
- Joint Operating agreement(s) finalized between MISO and PJM and any remaining “non-markets”
- Ohio and Illinois don't mess up their respective retail markets
- Federal energy legislation doesn't get in the way
 - Fails next year or
 - Passes in current form

The Other Side of the Coin

- MISO bogs down in further bickering and delay
- “Non-market” utilities’ integration into RTOs is further delayed
- FERC’s AEP and RTOR orders are overturned or mired in litigation
- JOAs not completed
- Ohio permits FE to extend market development period, hindering retail market development
- Illinois’ move to post-transition period market is delayed or derailed
- Unfriendly version of energy bill passes in ’04
- FERC is hamstrung or gets cold feet

Crystal Ball

- Chance of robust wholesale energy market for Midwest east of the Mississippi is as good now as it ever has been
 - Uncertainty of pending blackout report gone
 - Uncertainty of pending energy bill gone . . . for now
 - FERC appears to have renewed vigor
 - MISO stakeholders looking for creative solutions to maintain 12/1/04 launch
 - Real potential for Ohio retail market to take positive steps forward
 - Illinois post transition period specifics still to be addressed, but interested parties are starting to consider alternatives now
 - The pro-market movement appears to have gained some lost momentum
- Advocacy by interested parties needed at all levels