

ELECTRICITY MARKET RESTRUCTURING IN ILLINOIS: WHAT NEXT?

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CUSTOMERS & CUSTOMER CHOICE

- IL business customers have demonstrated substantial appetite for choice & ability to accommodate change.
- Primary focus has been on cost savings.
- Transaction costs, legacy subsidies, and other issues inhibit small customer market.
- Business customer needs increasingly elicit new product ideas from providers.
- Quasi-national markets are developing.



ALTERNATIVE SUPPLIERS & CUSTOMER CHOICE

- Incumbent RESs & ARESs are vigorously competing on price and products.
- Reciprocity uncertainties inhibit new entry to some extent.
- Appears to be little appetite at this time for residential offerings.
- Generation & trader implosion credit issues inhibit supply acquisition.
- Long-term RES commitment evident.



UTILITIES & CUSTOMER CHOICE

- After 5 years of debate and struggle, basic open access rules have emerged and are working reasonably well yet unevenly.
- Commitment of utilities to open access will remain complicated by reality of affiliate generation companies.
- RTO impact on access problematic.
- Post-transition now on the front burner.



REGULATORS & CUSTOMER CHOICE

- ICC & FERC have generally acted as positive forces in achieving customer access.
- Slow legacy procedural approaches are unsuited to the pace of customer choice.
- Recent legislative session places job of designing post-transition in hands of ICC.
- ICC will be called upon to provide philosophical leadership for post-transition design.
- FERC is forging ahead on access during hiatus on Federal Energy Bill.



DEFAULT SERVICE: WHICH CUSTOMERS, WHAT SERVICES?

- We can expect that by the end of 2006 customers over 400 kW will be competitive.
- Likely that 400 kW+ service will be based on current hourly/monthly default plan.
- Residential & small business default service likely to be based on 1-year (plus) contracts.
- Key issue will be balancing utility risk and desire of customers for hedged prices.



MANAGING RISK IN A RISKY WORLD

- Current limited liquidity in wholesale markets partly due to credit issues.
- Most retail load now and in the future will be served under hedged contracts.
- However, larger customers and their providers are learning more about time-based products and value of load control.
- We have very little time to figure how to provide for utility supply risk management.



WHAT NEEDS TO BE DONE:

- Need to tell customers, utilities, and RESs what the post-transition rules will be well before the end of 2006.
- Either set the ratemaking methodology or the rates for bundled service for 2007 no later than mid-2006, but preferably by the end of 2005.
- Carefully consider the question of whether and how to set residential/small business bundled rates for multi-year periods 2007+.
- Consider the issues of affiliate wholesale supplies, auction/bidding and outsourcing default service.



HOW TO DO WHAT NEEDS TO BE DONE:

- ICC can promptly reconvene seminars and conferences.
- ICC should invite key legislators to participate in these seminars.
- Learn how other states have approached these issues and resolve that IL will become a leader.
- Work to commence any necessary ICC and legislative proceedings sooner rather than later.
- Recognize that contested proceedings are not good ways to figure out tough policy issues.