

COOPERATIVE PERSPECTIVE on CURRENT MARKETS and COMPETITION

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ELECTRIC COOPERATIVES ARE:

- Consumer-Owned
- Consumer-Controlled
- Not-For-Profit Operation
- Private Corporations
- Goal: meet members', local economy's need for long-term, reliable, stable, affordable electricity



ELECTRIC COOPERATIVES

- Provide retail electric service in all/parts of 84% of U.S. counties, 47 states
- Own 46% of distribution lines in U.S.
- Self generate 45,000 MWs
- Purchase 60,000 MWs
- Strongly supported wholesale competition based on open access transmission



OUR PERSPECTIVE IS DIFFERENT:

....its not based on theology or bottom line concerns, but on expected benefits to our consumer-owners, the local economy



TROUBLING CURRENT MARKET

- Summer 05 up 150-180%, winter 05 up 35% (per FERC)
- Congestion, RTO costs continue up
- Gas forwards hit \$15.67, strips @ \$11
- NE forwards hit \$203/MWHR, 11/05
- Dark spreads \$80-120/MWHR
- IPPs #s down, investment banks up
- Retail caps coming off, 20-40% incr.
- Gas generation not fully "on"



ALSO TROUBLING:

- Lack of planning and construction of transmission needed for competition
- No available long-term transmission service at predictable rates for new infrastructure, long-term contracts
- Post-PUHCA merger mania, consolidation
- Customer, utility complaints result in creative “studies” showing Sagan-like savings to consumers



WHY IS THIS HAPPENING:

- Structural problems in current wholesale market, including
- Lack of sufficient transmission for robust competition, market power mitigation
- Substantially increased natural gas prices, driven in part by deregulation



STRUCTURAL ISSUES

- RTO/FERC over-focus on S-T theoretical economic efficiencies to detriment of natural L-T industry
- Market clearing vs. as bid prices in too large balancing markets
- LMPs and S-T FTRs vs. long-term transmission service at stable rates for new investment, contracts
- Proposed costly patches (ICAP, etc)



Transmission Issues

- Insufficient regional efforts to plan, build transmission for long term reliability and economy for LSEs
- LMP has not, will not get transmission built, but has raised prices to consumers, stopped infrastructure
- Additional transmission incentives inappropriate, won't work, not required
- Default Participant Funding, LMP will re-Balkanize grid, but @ higher prices



Bottom Line

- Wholesale markets won't work w/o robust, equitable, independently operated regional transmission systems
- FERC's concept of theoretical S-T economic efficiency must not be placed above welfare of consumers, economy
- FERC's theoretical three-legged "stool" has a short leg, demand response
- FERC should narrow, refocus to create market foundation, protect consumers

The Cooperative Approach



- Plan regional transmission for long-term reliability and economy needs of LSEs
- Provide certainty for regionally-planned LSE transmission needs via “rolled-in” cost recovery; most outside region needs “Participant Funded”
- Hold RTO’s accountable for resolving long-term bottlenecks and providing long term transmission service needed for L-T contracts, infrastructure development
- Market Power mitigation



Congress Agrees

- ...exercise the authority of the Commission under this Act in a manner that facilitates the planning and expansion of transmission facilities to meet the reasonable needs of load serving entities, and enables load-serving entities to secure firm transmission rights (or equivalent tradable or financial rights) on a long-term basis for long-term power supply arrangements made, or planned, to meet such needs.

FPA 217 (b) (4)



THE "STUDIES"

- Claim savings from regulatory rate caps
- Extend "cap savings" into future despite caps ending and rates increasing
- Claim capital cost savings from building cheaper gas units, but end calculation before post-2003 gas run-up, hiding impact of Day 2 dark spreads, MCP

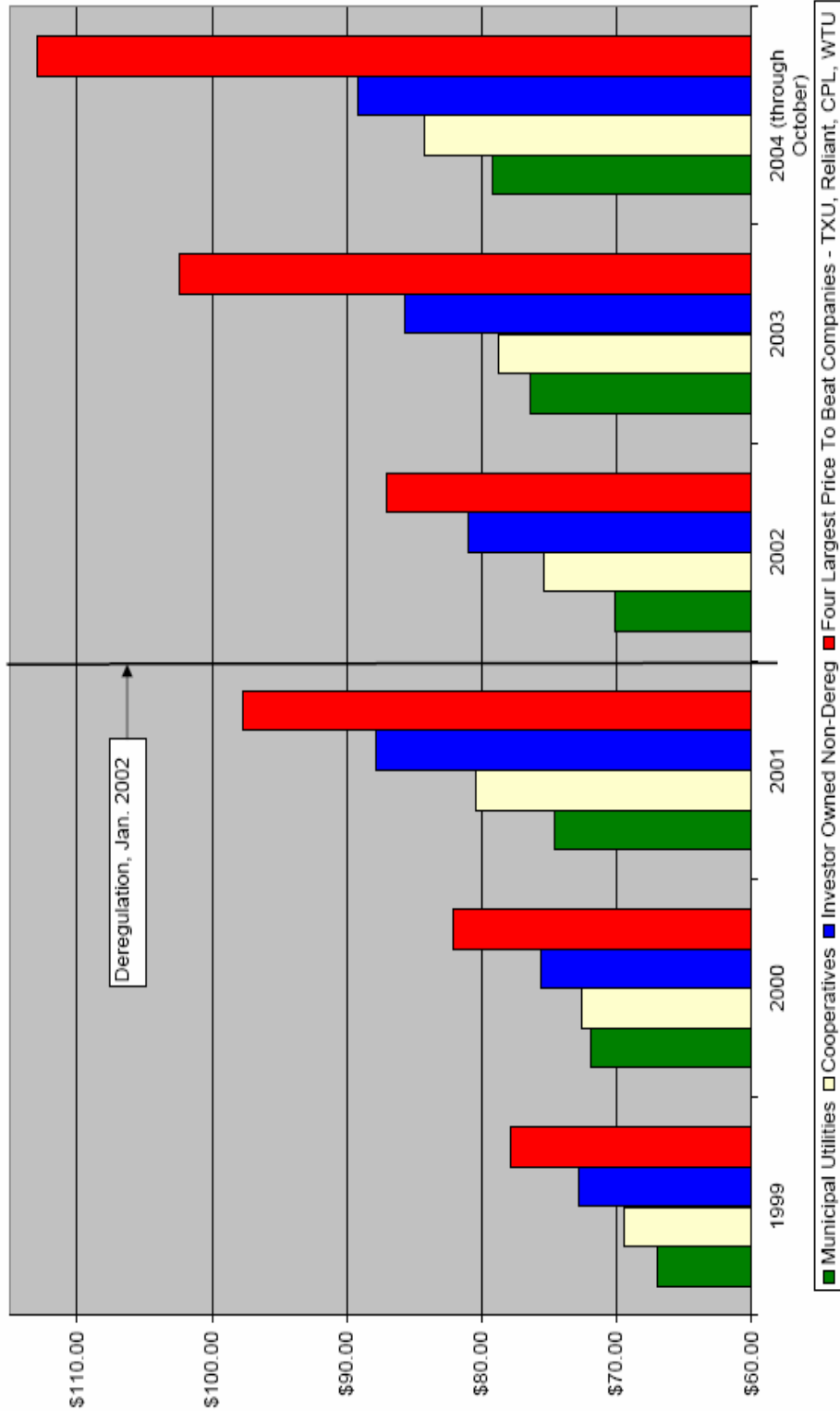


THE "STUDIES"

- Claim savings from financial losses, bankruptcies of IPPs, ignoring sector can't "keep losing" to provide benefits
- Ignore potential consumer impact of costs of new patches such as ICAP, LICAP
- Claim savings measured from administratively set price to beat

The Price To Beat Is Broken

Average Monthly Residential Electric Bill (Annualized) 1999-2004



Consumers Union (11/16/2004) Source: PUC Monthly Retail Electric Service Bill Comparison, PUC Monthly Residential and Commercial Electric Bill Information for Areas Not Open to Competition for Residential Electric Service. Both available at <http://www.puc.state.tx.us/electric/rates/index.cfm>. Over 4 million residential and small business electric customers pay the price to beat rate.

SOME FINAL THOUGHTS

- Listen to consumers, industrials.....
- Listen to Wall Street talking.....
- Listen to the investment advisors.....
- Listen closely to Skilling's words.....
- Fool me once.....
- Electricity is our economic lifeblood.....
- Not a “Grand Experiment” in economics.....
- Better to be approximately right than absolutely wrong