

The Dysfunctional Wholesale Electric Market

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Role of the Attorney General

- The Attorney General represents the interests of Massachusetts' retail public utility consumers
- The Attorney General has statutory authorization to intervene in proceedings on behalf of Massachusetts consumers in connection with any matter involving the rates, charges, prices or tariffs of an electric, gas, telephone or telegraph company doing business in the Commonwealth.



There Is No True Competition In Electricity Markets

- Wholesale Market Is Worse Than Traditional Regulation
 - Generators Receive the Higher of Cost of Service or Market Prices
- Current Retail Basic Service Procurement Punishes Residential and Small Commercial Customers
 - Driven By Natural Gas Prices, Basic Service Is Extremely Volatile



Market Problems

- Lack of Liquidity In Forward Markets
 - Nearly All Transactions Are in the Spot Markets
- Units On The Margin Set The Prices
 - The marginal cost of electricity is being set by gas in over 85% all hours in New England despite lower coal and nuclear costs.



Market Problems, cont.

- Inadequate Transmission
 - Transmission System Was Not Designed To Operate With Today's Dispatch, Causing Increasing Congestion Costs
- FERC Keeps Giving New Revenue Streams to Generators
 - Locational Installed Capacity (LICAP)/Forward Capacity Market (FCM) and Reliability Must Run Contracts (RMR)



Diverse Coalition Opposed To FCM Settlement

- Massachusetts and Maine Oppose The Settlement
 - Attorney General of Massachusetts
 - Attorney General of Connecticut
 - NSTAR Electric & Gas Corporation
 - NEPOOL Industrial Coalition
 - The Energy Consortium
 - Massachusetts Department of Telecommunications and Energy



Diverse Coalition Opposed To Settlement, cont.

- Maine Public Utilities Commission
- Maine Public Advocate
- Industrial Energy Consumer Group of Maine
- Massachusetts and Maine Represent 53.4% of NEPOOL Peak Demand



Devon Power, LLC

- Devon Power LLC, 103 FERC ¶ 61,082 (April 25, 2003)
 - The FERC Directed ISO-NE to File a Mechanism That Provides Appropriate Compensation for Seldom-Run Units Needed For Locational Reliability
- ISO-NE Proposed LICAP Instead
 - \$13.6 Billion Over Five Years For All Generators



Unbalanced Process From the Start

- ISO-NE Filing Was A Moving Target
 - First Filing April 25, 2003
 - Second Filing August 31, 2004
 - Third Filing November 4, 2004
- Load Serving Entities Offered Targeted and Less Costly Alternatives That Were Stricken
 - Mass AG, et al Protest – March 22, 2004
 - Daly Testimony – November 4, 2004
 - Congress Ordered FERC To Consider Alternatives



Settlement Fails To Address Issues of The Case

- FERC's Goals
 - Elimination of Reliability Must Run (RMR) Agreements Through Compensation For Seldom-Run Units Needed For Locational Reliability
- Settlement
 - RMR Contracts Continue
 - Throws Money At All Resources Regardless Of Need



Forward Capacity Market

- FERC Claims It's Better Than LICAP
 - The Choice Between The Noose and the Firing Squad Is No Choice At All
- Scheme To Determine How Much Capacity Is Needed and How That Capacity Will Be Compensated
 - Not A Market But A Complex System of Price Supports With Price Floors and Caps



Transition Payments Are Unreasonable

- \$5 Billion For Absolutely Nothing
 - Wealth Transfer From Consumers To Coal And Nuclear Plant Plants of \$240 million in 2007 Alone
- Payments Cannot Be Justified Based On Either Market Conditions or On Cost-of-Service Grounds
 - Some Resources Are Paid **Higher** Than Either Market or Cost



The New York Experience

- No New Capacity Is Being Built
- Only New Capacity Is The Result of Utility Contracting and Self-Build Initiatives Undertaken By Con Edison, LIPA and NYPA

Massachusetts Retail Bill Impacts



- January 2006, Massachusetts Had the Second Highest Residential and Small Commercial Rates In Country
- FCM Settlement
 - An increase of approximately \$0.08/kWh December 2006, which will increase to over \$0.01/kWh by 2009
 - A 4.1% to 5.2% increase in bills.



Solutions

- Longer Term Procurement of Residential and Small Commercial Basic Service
- Targeted Incentives to Reduce Wholesale Costs
- Transmission Upgrades Aimed At Reducing RMR and CMR Costs
- Utility Construction of Peaking Units?



Questions
