The POLR
Procurement Puzzle

Post-2006 Symposium

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POLR Procurement Puzzle

- What Products?
- Role of Distribution Utility
- Market Structure
- Procurement Process
- Credit
- New Entry
- Supplier Concentration/Affiliates
Most retail access jurisdictions have chosen “fixed price” POLR service for “mass market” customers

- Connecticut
- Delaware
- Maine
- Maryland

- Massachusetts
- New Jersey
- Ohio
- Pennsylvania

Often different product for larger customers
Two possibilities

- **Resource procurement:** Distribution utility buys a supply portfolio (baseload, peaking, etc) from the wholesale market, with substantial regulatory involvement.

- **Full requirements procurement:** Distribution utility enters into a set of full requirements contracts, each covering a percentage of POLR load. FR suppliers then determine how to supply their obligations from the wholesale market.

Most retail access jurisdictions have chosen the full requirements model.
Two Approaches

- 100% OF POLR
- Intermediate, Peaking, Baseload

RESOURCE PROCUREMENT

FULL REQUIREMENTS CONTRACTS

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Why Is Full Requirements Preferred?

- **Full requirements:**
  - More market-driven – FR suppliers make their own decisions about supply portfolios
  - Puts market and volume risk on the FR suppliers, not the POLR customers
  - No stranded cost issues

- **Resource procurement:**
  - “Central planning” overlay can distort/undermine wholesale markets
  - Reintroduces potential for “stranded costs”
    - Results in other jurisdictions not encouraging on this point
  - Time consuming, resource intensive regulatory process.
Wholesale market structure affects the viability of POLR options

Post-06 PJM will provide several key elements
- Liquid spot market
- Traded forward products (based on spot markets)
- Market monitoring – no withholding
- Market based congestion management

PJM facilitates market-based POLR solutions
- Participation by financial players (non-generation owners)
- Participation by generators outside of ComEd area
Three broad options to implement Full Requirements approach

- RFP
- Auction
- Formula/negotiation

Each has been used in other jurisdictions.
Important to protect customers from supplier default

Upfront credit requirement is best approach
  - Under Full Requirements approach, credit requirement applies to FR suppliers

Credit requirement should be based on analysis of risks undertaken by suppliers
  - Volume of obligation
  - Term
  - Price volatility
Some argue that long term contracts (10 plus years) required to support new entry

Well structured wholesale markets should support new entry without long term contracts

- Energy markets where prices reflect supply/demand balance
- Resource adequacy requirement/capacity markets
- But new merchant entry will appropriately require more equity capital.
Concern about whether competitive procurement is feasible in northern Illinois – only two large owners of generators, and one is a ComEd affiliate.

Post-06 PJM market structure broadens universe of competitors:
- Financial players (non-asset owners) can compete effectively.
- Internal generation owners can’t withhold from spot market – PJM market monitoring.
- Other PJM generators do not need transmission rights to serve ComEd POLR load.
- So universe of “competitors” much broader than MWG and ExGen.

New Jersey FR auction results bear this out – substantial number of winning bidders are financial players.