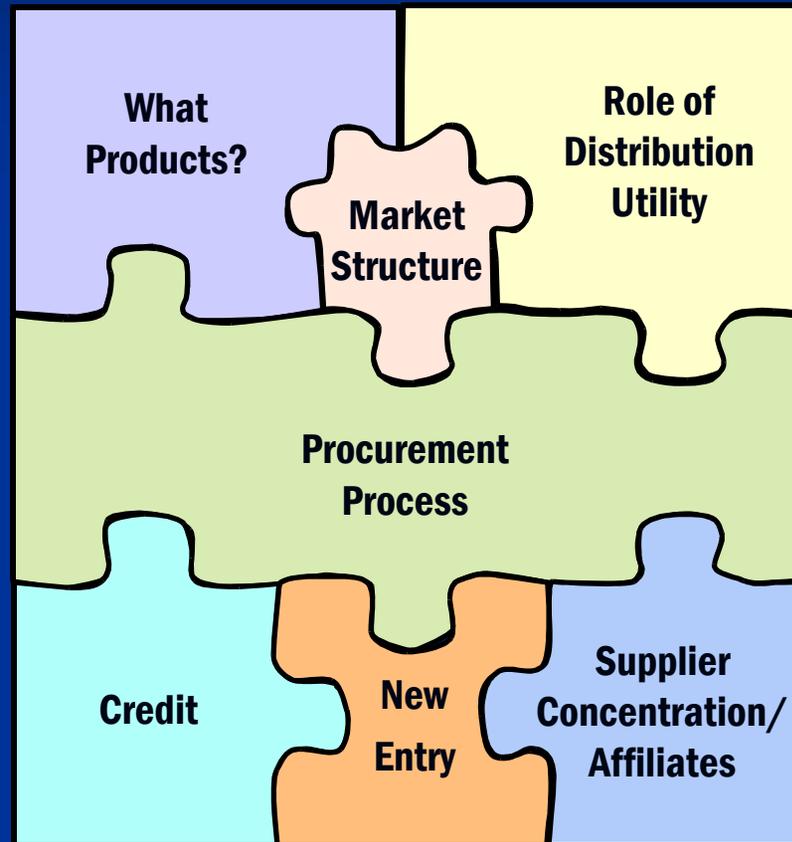


The POLR Procurement Puzzle

Post-2006 Symposium

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POLR Procurement Puzzle

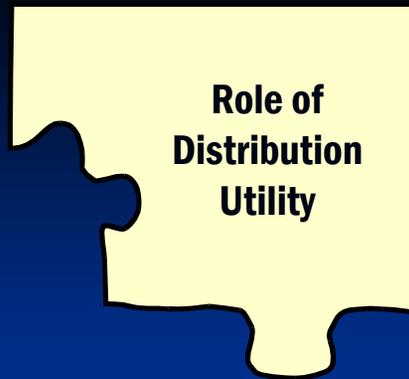




- Most retail access jurisdictions have chosen “fixed price” POLR service for “mass market” customers

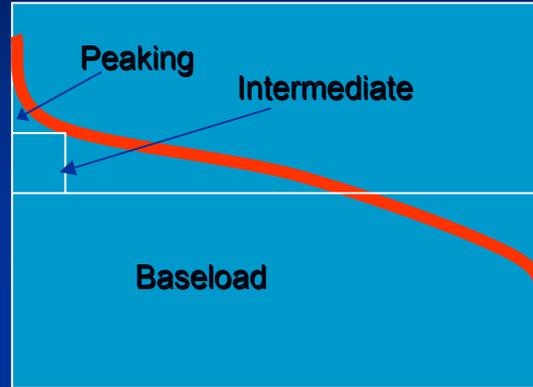
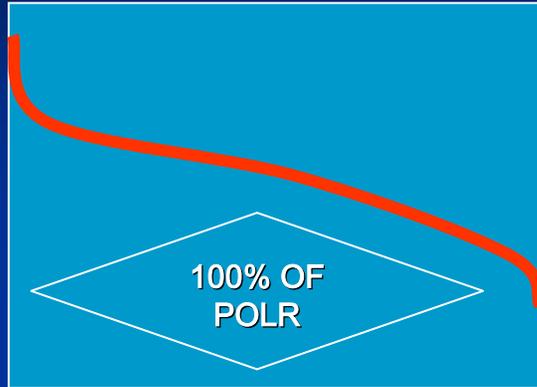
Connecticut	Massachusetts
Delaware	New Jersey
Maine	Ohio
Maryland	Pennsylvania

- Often different product for larger customers



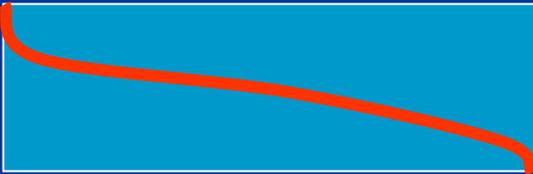
- Two possibilities
 - Resource procurement: Distribution utility buys a supply portfolio (baseload, peaking, etc) from the wholesale market, with substantial regulatory involvement.
 - Full requirements procurement: Distribution utility enters into a set of full requirements contracts, each covering 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

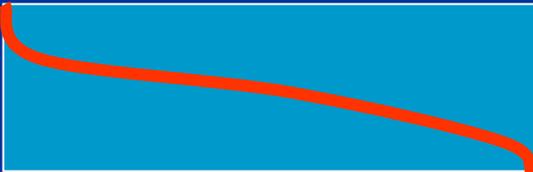


RESOURCE
PROCURE-
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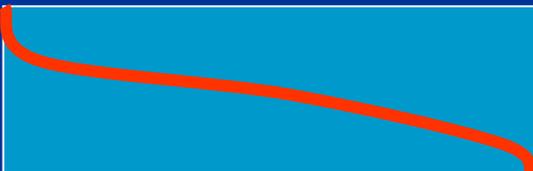
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FULL
REQUIREMENTS
CONTRACTS

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