New England Electric
Restructuring Roundtable

The Future of Residential Retail Choice

October 12, 2018
How do you measure the success of restructuring?

AG – “Savings versus default service”

No! Default service didn’t even exist in 1997

Goal of the Act: Savings versus continuation of the status quo!

Electricity prices would have been HIGHER had Massachusetts continued under a vertically integrated monopoly structure… And there’s proof!
Massachusetts has done better than non-restructured states

A 2017 study by Dr. Philip O’Connor demonstrated that between 2008 and 2016, real residential retail prices in states with competitive electricity markets increased 1% while real prices increased by 18% in states with only regulated monopolies. Other studies have shown similar results. ¹, ², ³

- **Massachusetts was a relative high performer in his analysis, with residential prices increasing only 9%.**

³ Peter Hartley, Kenneth Medlock, and Olivera Jankovska, Electricity Reform and Retail Pricing in Texas, June 2017.
Default Service is the wrong yardstick

If the market has been a success why do so many think it’s a failure? **Default service is an improper comparison.**

**Default service was never meant to serve a majority of residential customers**

- Legislature and Department expected transition to competitive suppliers during seven-year standard offer term

**Market rules continually replenish Default Service**

- New and moving customers go to default
- Not required by statute; included in restructuring plans

**Default rate excludes costs needed to support the service**

- No “indirect retail costs” – DTE -2-40-B
- Wholesale costs and “direct retail costs” only – DTE 03-88

- **Retail components of default service shielded from competition**
Where to now?

We must choose between monopoly and real competition

- If residential electricity market is a natural monopoly, then send it all back to the utilities, no exceptions.
- If it’s not, only choice is to fix the flaws in the market that keep it from working as well for residential customers as it does for C&I customers.
  - Draw a roadmap with clear landmarks and ways of measuring success before moving on to the next destination.

What not to do

- Destroy the market while pretending you’re not (e.g., with price caps)
- Just make it more unpleasant to buy and harder to sell
- DON’T STAY STUCK IN THE MIDDLE!
The Monopoly Option

• Is residential electricity a natural monopoly?
  – The wholesale market works
  – The C&I market works
  – The municipal aggregation market works

• How can something be a natural monopoly only when sold to certain customers through certain channels?

• Treating it like a natural monopoly when it’s not is risky
  – Eliminates critical participants from emerging markets for:
    • Behind the meter renewables and other DG
    • Storage resources
    • Electric vehicles
    • Behavioral demand response
  – Protects parts of utility that should be subject to competition
  – Short-run versus long-run cost error
## A Trip to Uncharted Territory

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<thead>
<tr>
<th>2/3&lt;sup&gt;rd&lt;/sup&gt; Non-Utility Generation</th>
<th>1/3&lt;sup&gt;rd&lt;/sup&gt; - 2/3&lt;sup&gt;rd&lt;/sup&gt; Non-Utility Generation</th>
<th>Less than 1/3&lt;sup&gt;rd&lt;/sup&gt; Non-Utility Generation</th>
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<tbody>
<tr>
<td><strong>No Residential Retail Competition</strong></td>
<td><strong>Competition and Utility Service</strong></td>
<td><strong>Pure Residential Retail Competition</strong></td>
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<td><strong>Uncharted Territory</strong></td>
<td><strong>Hybrid Markets</strong></td>
<td><strong>The Texas Model</strong></td>
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<tr>
<td>• Price Change: ?</td>
<td>• Price Change: +7%</td>
<td>• Price Change: -15%</td>
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<tr>
<td>• MA Without Residential Competition</td>
<td>• CT, DC, DE, IL, MD, ME, NH, NJ, NY, OH, PA, RI</td>
<td>• TX</td>
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<td><strong>Some Wholesale Restructuring</strong></td>
<td><strong>The California Way</strong></td>
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<td>• Price Change: +17%</td>
<td>• Price Change: +26%</td>
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<tr>
<td>• ID, LA, MT, OK, VT</td>
<td>• CA (Municipal Aggregation)</td>
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<td><strong>Vertical Integration</strong></td>
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<td>• Price Change: +26%</td>
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<td>• AL, AR, AZ, CO, FL, GA, IA, IN, KS, KY, MI, MN, MO, MS, NC, ND, NE, NM, NV, OR, SC, SD, TN, VA, WA, WI, WV, WY</td>
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Based on 2017 O’Connor study for 2008-2016 period
Roadmap to robust competition

1. Diagnose problems, respond with enhanced protections
2. Stop putting new and moving customers on default
3. Remove barriers to switching
4. Enable supplier consolidated billing
5. Default service reform
6. Create path to utility exit from commodity sales
7. Evolve municipal aggregation
8. 3rd party default service
9. Assess demerger options
North America’s largest competitive retail energy supplier of electricity, natural gas, and home and business energy-related services

- More than 4,000 employees
- Over 4 million home and business customers
- Over 1,100 professional technicians serving millions of homes every year
- In 50 U.S. states, plus D.C. and 8 provinces in Canada