



November E-Newsletter

Release of New England Electricity Restructuring Report and Gubernatorial Candidate Survey

Alliance White Paper Looks at Restructuring in New England. A white paper issued by the Alliance finds that electricity industry restructuring has saved the region's consumers billions of dollars compared to pre-restructuring trends and is better protecting the environment.

The white paper presents what may well be the first integrated review of the progress of restructuring in New England from its inception in 1998 through 2005. It identifies and quantifies the performance of the regional wholesale market; reviews and qualitatively compares individual state retail markets; and assesses the impact of restructuring on electricity generation and fuel sources. The full report is available on the Alliance website (www.newenglandenergyalliance.org).

While the white paper does not project future trends or performance, it calls restructuring a "work in progress" noting that development of new infrastructure -- power plants, transmission lines, and natural gas supplies -- is not keeping pace with demand, which in turn affects market effectiveness. Recent changes to the wholesale market such as the newly approved "Forward Capacity Market" are designed to encourage new power plants, and early signs are positive. In the meantime, opposition to energy projects already proposed remains strong throughout the region.

Sponsored by several members of the Alliance and prepared by Polestar Communications & Strategic Analysis, the white paper finds that New England consumers have cumulatively saved between \$6.5 to \$7.6 billion under a combination of state restructuring efforts and the establishment of a regional competitive wholesale electricity market.

Adjusted for inflation, electricity prices were shown to be 7 to 18% lower when compared to those years just prior to restructuring. More recently, record-high natural gas prices, environmental compliance costs, and transmission congestion costs appear to reduce these economic benefits, but some, if not all, of these costs, would have been borne under the previous electricity industry structure.

The environment has also benefited despite a 25% increase in electricity production. The white paper documents that the construction of new generating capacity in the early years of restructuring, more efficient operation of existing power plants, and some of the most stringent environmental regulations in the country have cut emission rates from the production of electricity (through 2004) significantly -- sulfur dioxide by 56%, nitrogen oxide by 57% and carbon dioxide by 22%.

An often stated goal of restructuring at the state level was to provide all classes of consumers the opportunity to choose their electricity supplier. However, this goal was never quantified so its achievement is only qualitatively assessed in the white paper.

Consumer switching to competitive suppliers has progressed the furthest among medium and large commercial and industrial customers with buying power and market knowledge, especially in Massachusetts and Maine. Conversely, the white paper confirms that there has, to date, been little switching of electricity suppliers among residential and small commercial consumers.

The white paper supports the view that residential and small consumers had little incentive to switch as long as electricity prices were kept artificially low or at least stable under state restructuring legislation and rulings.

Finally, the white paper highlights that New England has also become heavily dependent on natural gas as a generating fuel, making the region susceptible to volatile electricity prices and vulnerable to supply disruption. In spite of this situation, infrastructure project proposals to increase natural gas supplies or diversify the fuels used to generate electricity have been increasingly met with political opposition.

The report calls for political leadership across the region to encourage investment and to make the hard decisions necessary for the permitting of facilities to be more predictable and timely.

The report was sponsored by the following members of the Alliance: Constellation NewEnergy, Dominion Resources, Duke Energy Gas Transmission, Edison Electric Institute, Entergy Corporation, KeySpan Energy, National Grid, Nuclear Energy Institute, SUEZ Energy North America, TransCanada Corporation.

Principles to Guide Future Energy Policy and Decision Making.

The Alliance's white paper on restructuring advocates the adoption of seven principles to guide energy policy development and decision making in the region and to ensure affordable and reliable energy supplies:

Proactive Policy and Decision Making. A reliable and affordable supply of natural gas and electricity is directly linked to the region's economic strength and quality of life. Necessary energy infrastructure, including electric transmission, electric generation, gas transmission, and LNG terminals, must be in place when needed. Long lead times for capital intensive projects mean that the region must be proactive: (1) to adhere to and improve siting processes and (2) to establish policies that encourage public support and timely private sector investment.

Policy Balancing and Coordination. Each state should strive to balance energy, environmental, and economic policies and ensure that long-term benefits exceed short-term costs. Better coordination and efficient execution of energy, economic, and environmental policy among the region's states would reduce consumer costs, increase energy supply reliability, and help assure a level playing field for new infrastructure investment.

Supply Resource Diversity. The most reliable and affordable supply of energy is one that is built on ample supplies, flexibility, and diversity. The exclusion of supply technologies through discriminatory policies and actions and failure to allow viable infrastructure projects to be vetted through established federal, state and local review processes makes the region vulnerable to price instability and delivery interruptions, and such exclusionary practices should be eliminated.

Recognition of Costs. The energy industry is among the nation's most capital-intensive. To sustain an affordable and reliable supply of energy to meet consumer needs will require significant investments in all segments of the industry. Regardless of market and regulatory structures, public policy and regulatory actions should ensure that those investments are encouraged and that capital, fuel and operating costs are properly allocated and recovered, as appropriate.

Market Improvement. Electric utility restructuring and development of competitive wholesale and retail markets in New England can increase efficiency through competition, provide consumers with choice and financial benefits, improve air quality and allocate risks of generation investments to developers. Imperfections in the restructured wholesale and retail markets as they mature are not unexpected and must be addressed by appropriate agencies and organizations.

Demand Side Management Expansion. Cost-effective energy efficiency and demand response programs are essential to the success of a comprehensive energy strategy. State policymakers and regulators must continue to support investment for development of economical energy resources including end-use efficiency and demand response mechanisms.

Inter-regional Electric and Gas Interconnection Enhancement. In addition to developing and maintaining vital energy infrastructure within New England,

the electricity and gas transmission infrastructure with neighboring regions and eastern Canada should be strengthened, adding diversity, flexibility and resiliency to natural or man-made supply disruptions.

Responses to Alliance Gubernatorial Candidate Surveys

Available. The Alliance retained Opinion Dynamics Corporation to design and administer a survey that was sent to each gubernatorial candidate in the region on a wide range of energy-related issues including infrastructure, fuel diversity, regional cooperation and decision making, conservation and economic growth, and electricity industry restructuring. Responses were received from at least one candidate in each state except Maine. Both the Democratic and Republican candidates in Connecticut responded. The complete responses are available on the Alliance website (www.newenglandenergyalliance.org).

The New England Energy Alliance is a coalition of energy providers, business and trade organizations and other concerned about future energy supplies. For more information visit our website www.newenglandenergyalliance.org.