



Regulatory Update

March 8, 1999

Announcements

- 1. This week, NEMA filed interventions in the NYISO proceeding before the FERC and intervened in the Affiliate Standards rulemaking before the North Carolina Utilities Commission. Representatives of NEMA were active in the settlement negotiations in the NJ Electric cases and appeared before the NYPSC in Albany. NEMA is considering active participation in the Mass. natural gas settlements and received invitations to meet with Commissioners in several other states and to appear at several national and regional restructuring panels.**
- 2. Reservations for NEMA's April 22, Annual Membership Meeting and April 23, 1999 Conference and Cruise down the Potomac River should be phoned in to Jon Gipson as soon as possible. Jon can be reached at (318) 424-3800. The hotel has very limited space available and NAYTO will be having a conference in Washington, DC on the same dates.**

FERC

- **Development Hearings on Regional Transmission Organizations (RTOs) – February 24, 1999.** Following 3 hearings in February, state commissions can be placed into 3 categories: 1) those who advocate quick and decisive actions; 2) those who advocate a slower approach and; 3) those who advocate no movement at all. FERC was admonished not to pursue a “one size fits all solution” with RTO’s as a device to open retail markets. Midwestern states appear to be in favor of an RTO rulemaking, while the PJM states indicated that FERC should not interfere with the market that the ISO has established. Chairman Hoecker hopes to issue a notice of proposed rulemaking by the end of the year.

New Jersey

- **Regulators Extend for 2 Days the First Round of Restructuring Settlement talks with PSE&G until Friday March 5, 1999.** The PSE&G settlement is expected to have an impact on the other two cases – GPU and Conectiv. Retail choice is expected to begin August 1, 1999. NEMA is actively engaged in these settlement negotiations.

Illinois

- **The Commission rejects proposal from electric utilities – March 3, 1999.** Individual consumers will be allowed to register through a lottery to be held if the program's first phase is oversubscribed. The lottery will be held in July, so that customers have time to consider their options. One-third of each utilities' eligible load will be able to choose an alternative provider beginning October 1, 1999. Additional administrative issues still need to be resolved. The ICC will consider either a separate market structure for each of the nine utilities or one set of rules for a uniform structure across Illinois.
- **Docket No. 98-0769 - ORDER Neutral Fact Finder – February 26, 1999–** Requirements governing the form and content of contract summaries for the 1999 neutral fact-finder process. *ORDER and the Appendix A & B are available on the NEMA site.*

Virginia

- **House passes deregulation bill - February 24, 1999.** House voted to cap rates through 2007. There is no assurance the Commission will be allowed to reduce rates if utilities over-collect on stranded costs through a "wires charge". Several critics have said this provision will prevent marketers from trying to compete. The current bill allows customers to start shopping according to a phase-in schedule, established by the Commission, beginning January 1, 2002. All customers will be allowed to shop for electricity on January 1, 2004.

Delaware

- **State Senate Considers Electric Restructuring – March 3, 1999.** House Bill 10 was passed earlier in the year, if this bill passes the senate, large industrial users would be able to shop beginning October 1, 1999. Residential users served by Conectiv would be able to choose their provider 6 months after the bill is passed. Delaware Electric Coop residential customers would be brought into the program in 18 months. The goal is to send the bill to the Governor in March. The PSC and the Office of Public Advocate support the bill.

Ohio

- **Legislature hopes to create a compromise electric deregulation bill by the beginning of March and to be approved by June. March 2, 1999.** Third straight session that an effort has been made on electric deregulation. Three main issues are: 1) Stranded Costs; 2) Market Power and; 3) Taxes. The PUC and the Ohio Department of Taxation have been enlisted to help.

California

- **California ISO Board approves comprehensive redesign of the California Ancillary Services Markets – February 25, 1999.** Several structural deficiencies in the markets have contributed to inefficient operation. Included in the market redesign package:
 - Ancillary Service auction design changes that allow the ISO to lower costs by substituting higher-quality services for lower-quality services.
 - Removal of economic incentives for Scheduling Coordinators and generators to ignore ISO dispatch instructions for capacity bid into the market and accepted by the ISO.
 - Purchase of additional replacement reserves to reduce the need for high-cost emergency deals with other control areas.
 - Automation of dispatch instructions to generating units to improve generator response times.
 - Pricing of “regulation upward” service separately from “regulation downward” service.
 - Eliminate gaming opportunities between the two services that inflate prices.
 - Implementation of software to allow ancillary services trades between Scheduling coordinators so they can protect themselves from price fluctuations.

- **Docket No. R.98-01-011 Gas Rulemaking– Opening Briefs in the natural Gas Rulemaking docket have been filed.** Copies of Southwest Gas Corporation brief *is available on the NEMA site.*

New York

- **NY PSC issued an Order effective March 2, 1999, denying Petitions for Clarification and Rehearing on the Order which terminated incentive sharing of capacity release revenues associated with capacity previously designated for customers who migrate to transportation service. – This is an important Order** reaffirming the Commission’s position on capacity release and voluntary assignments. The Commission denied a recovery of both stranded costs and revenue sharing. Con-Ed’s concerns about reliability in the capacity release process were deemed valid and staff ordered to coordinate within the collaborative process. **The next collaborative meeting is March 22, 1999 in NYC.** *The order is available on the NEMA site.*

Oklahoma

- **Oklahoma Natural Gas files response in unbundling setback – February 26, 1999.** Combining a deregulation strategy with an ongoing rate review at the OCC was considered “not in the best interest of ratepayers.” ONG said that the latest delay in reaching an agreement could impact its 785,000 customers. ONG’s disagreements with regulators dates back to June 1996, when they unveiled its “Pure Choice” program. ONG wants to know how it will be allowed to deregulate its upstream operations before offering an opinion on how much rates could be reduced.

Massachusetts

- **Competitive Residential Electric Market slow to develop – March 3, 1999.** Most residential customers won’t see any significant price breaks for another 2 years. The “standard offer” is still considered too low – below the cost of producing power - for marketers to consider selling services to residential customers. The standard offer is currently set at 3.5 cents kwh and set to go to 3.8 cents in 2000.

MISC

- **The Supreme Court of Indiana** Issued an Order setting the US Gypsum vs. Indiana Gas Case for Oral Argument on April 21, 1999.
- **The Maryland PSC delegated to the Hearing Examiner Division the BGE complaints** about using the history of the LDC in advertising to bolster the credibility of the newly formed unregulated subsidiary.
- **Enron has applied to sell electricity in Arizona** – The company plans to focus on commercial and industrial users, but may eventually enter the residential market, although the state is still months away from officially deregulating the industry. The Salt River Project has opened 20 percent of its business to competition on January 1, 1999 since they are not regulated by the Commission. Currently, only 2 marketers have received certificates: PG&E Energy Services and Eastern Competitive Solutions

