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# WHY WE NEED A CONNECTICUT POWER AUTHORITY

# Why We Need A Connecticut Power Authority

- The History
- The Problem
- The Solution

# The History



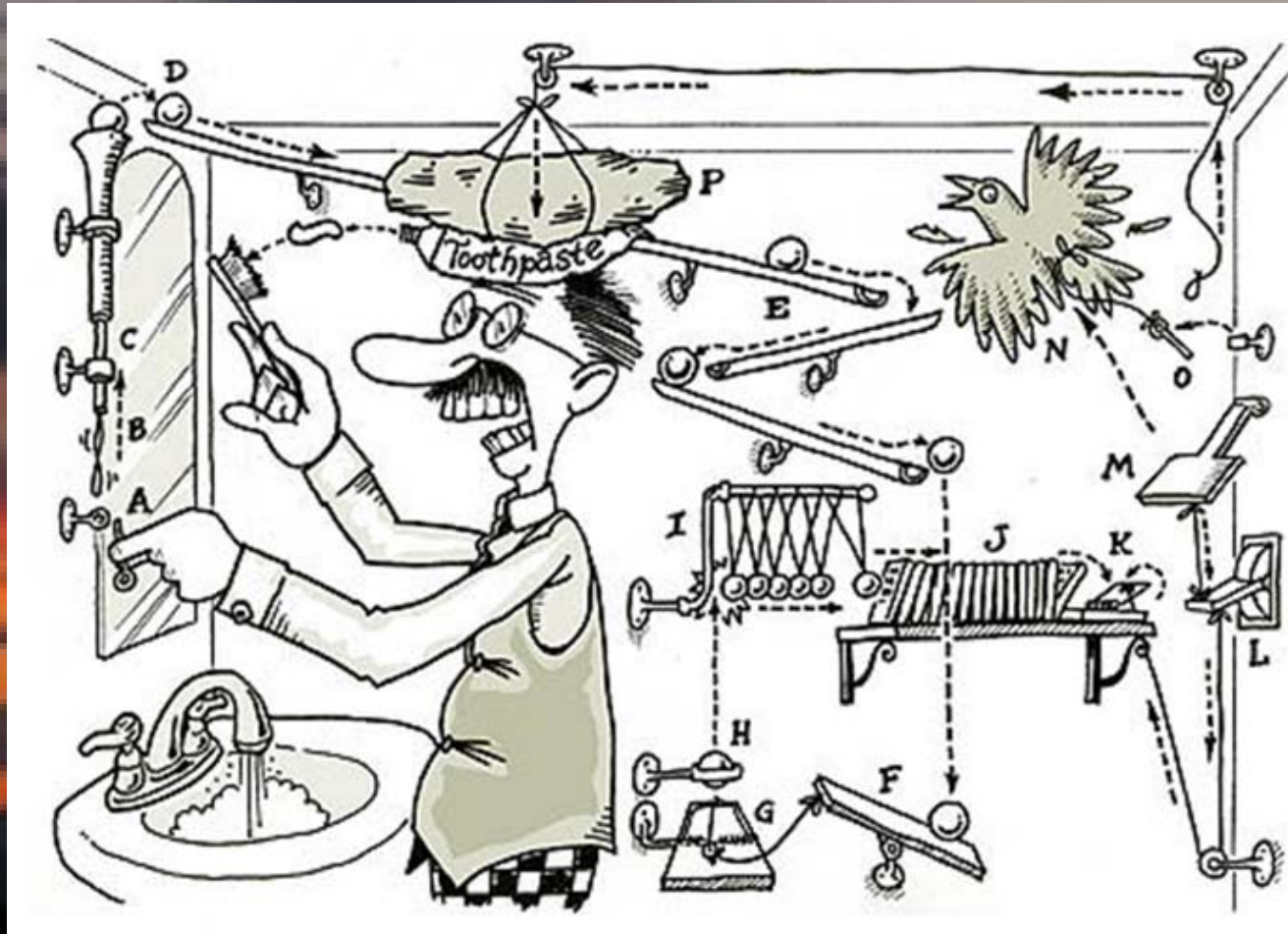
# The Electric Industry Has Had A Controversial History

- 1930s – Collapse and Rebirth
- 1970s – Massive Cost Overruns
- 1980 – BPA inaugurated bulk power markets
- 1987 – FERC approves the WSPP “experiment”
- 1991 – FERC makes the “experiment” permanent
- 1994 – FERC adopts wholesale competition in Order 888
- 1998 – California turns its back on open competition and adopts a highly centralized administered market

# Eleventh Anniversary of the California Experiment

- Complexity Without Performance
- High Costs
- Low Transparency
- Enron and the California Crisis

# Rube Goldberg Technology

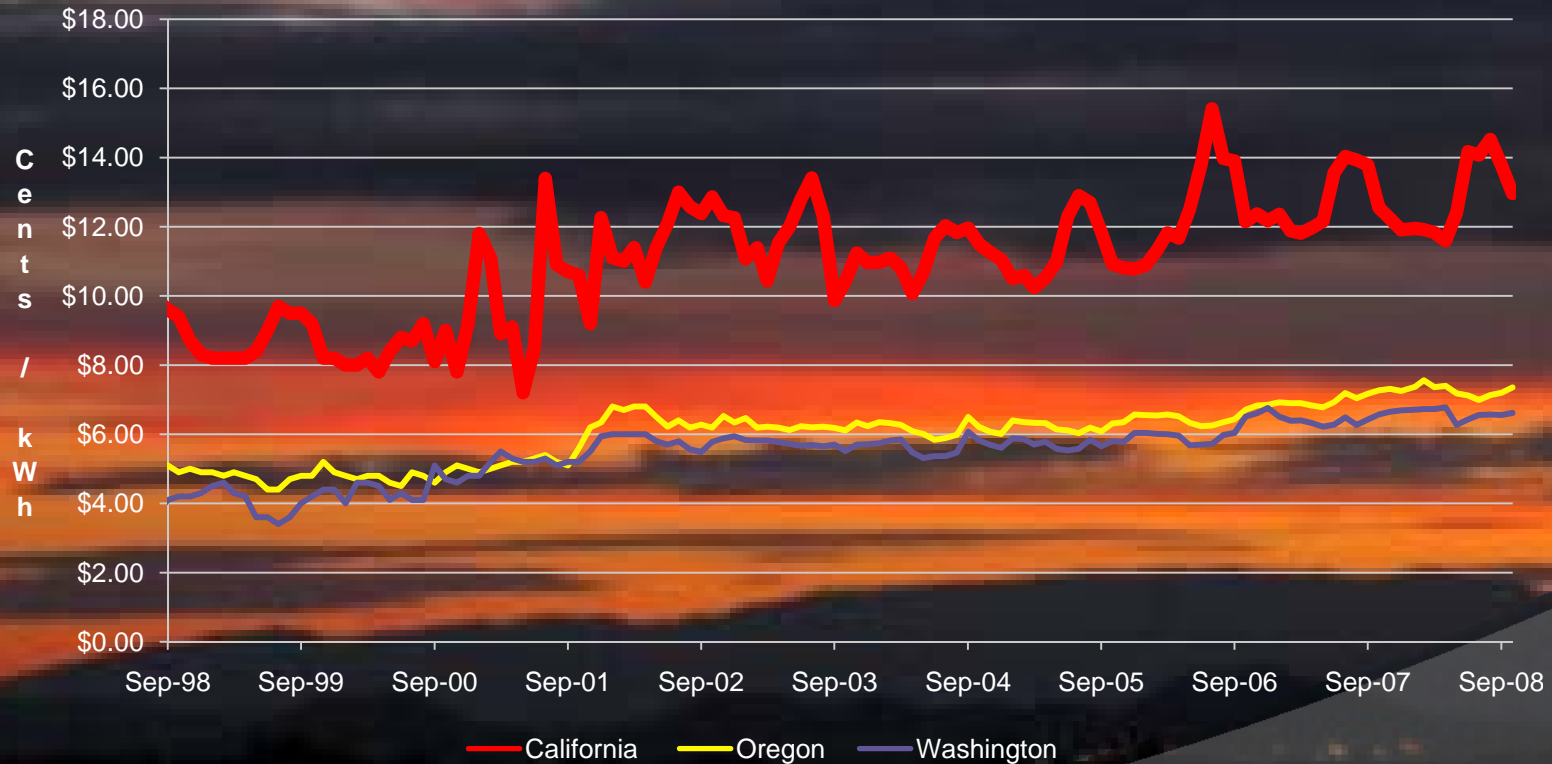




# California and the West

## California, Oregon, and Washington Electric Rates

Source: Table 5.6.A  
EIA Electric Power Monthly



# New England (and Connecticut) Adopt California's Model

- 1998 Connecticut restructures
- 1999 New England ISO expands its mandate from transmission to energy markets



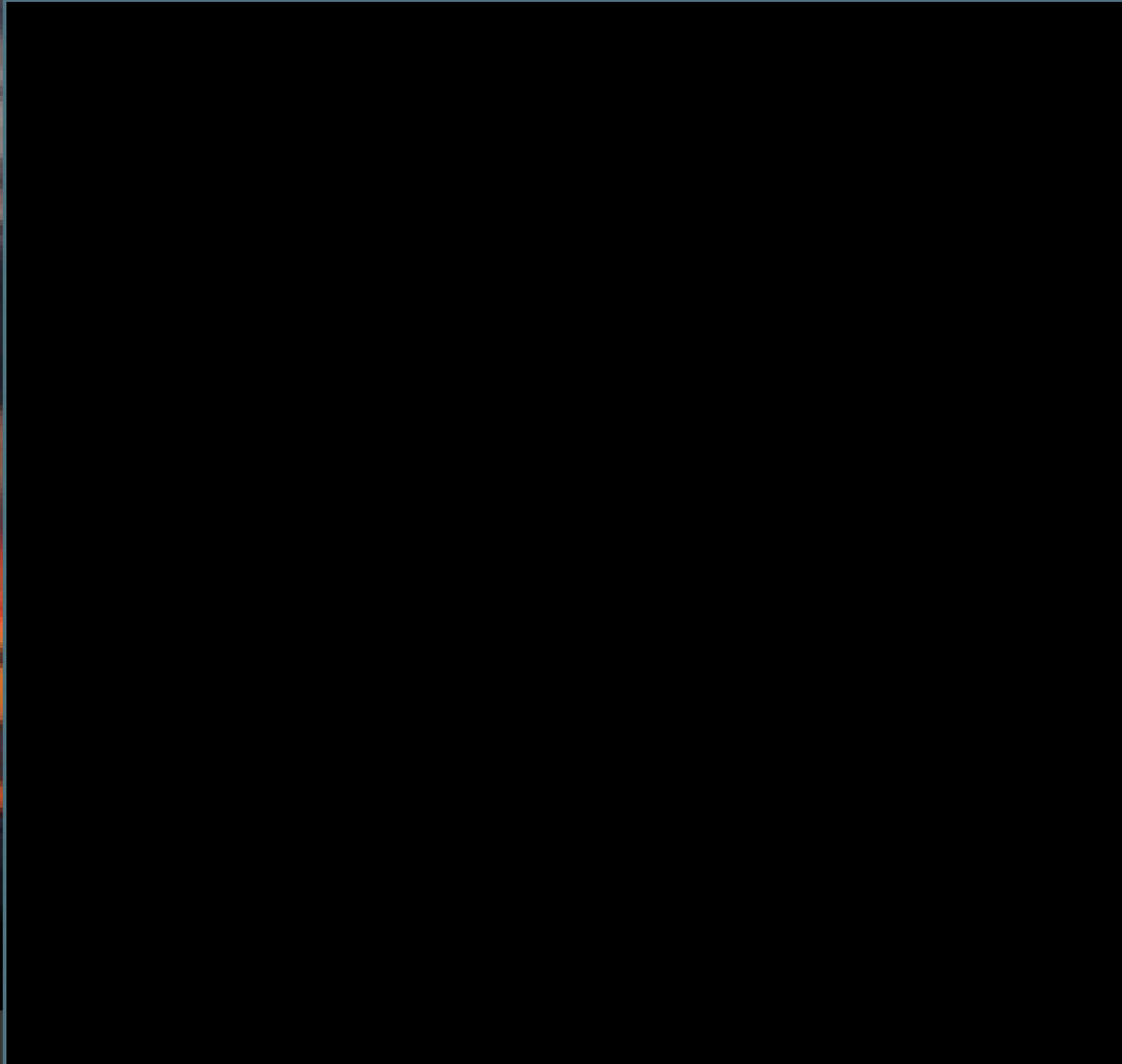
# The Problem

- The opposite of transparency
- Divestiture
- Inefficient markets
- Single price auctions
- FERC preemption

# Perfect Competition

- There are large numbers of buyers and sellers.
- The quantity of the market's products bought by any buyer or sold by any seller is so small relative to the total quantity traded that changes in these quantities leave market price unaffected.
- The product is homogeneous; there is no reason for any buyer to prefer a particular seller and vice versa.
- All buyers and sellers have perfect information about the prices in the market and the nature of the goods sold.
- There is complete freedom of entry into the market.

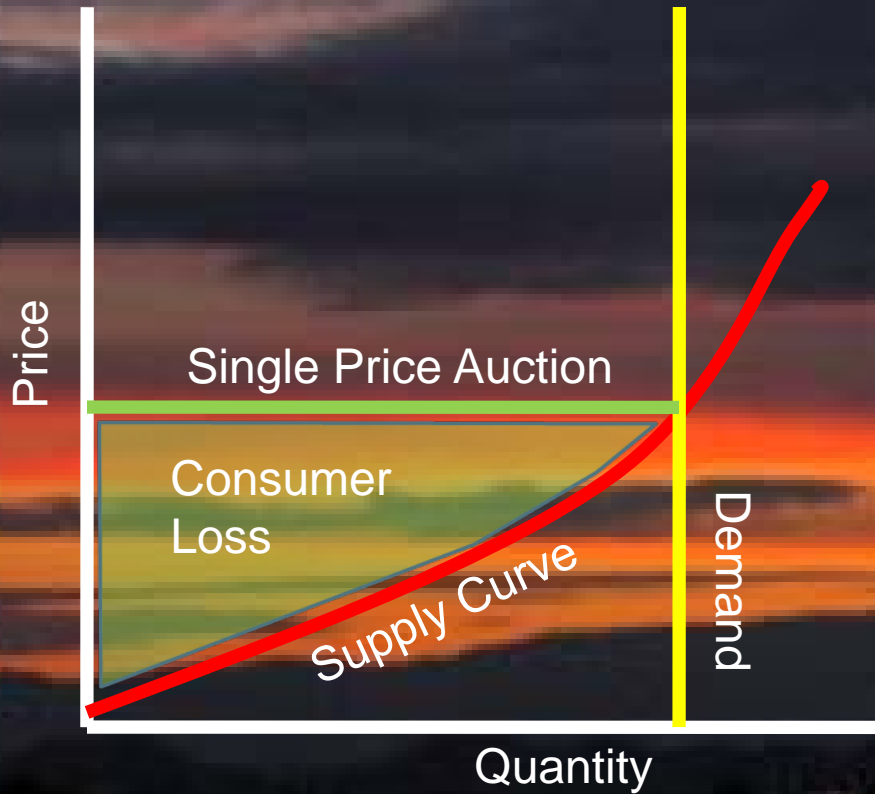
The opposite of transparency



# Divestiture

- Curiously, divestiture is not required for wholesale or retail competition
- Various states have taken different paths to restructuring
- California has an ISO, with divestiture, but no retail choice
- Oregon does not have an ISO, did not divest, and does have retail choice

# Consumer Loss



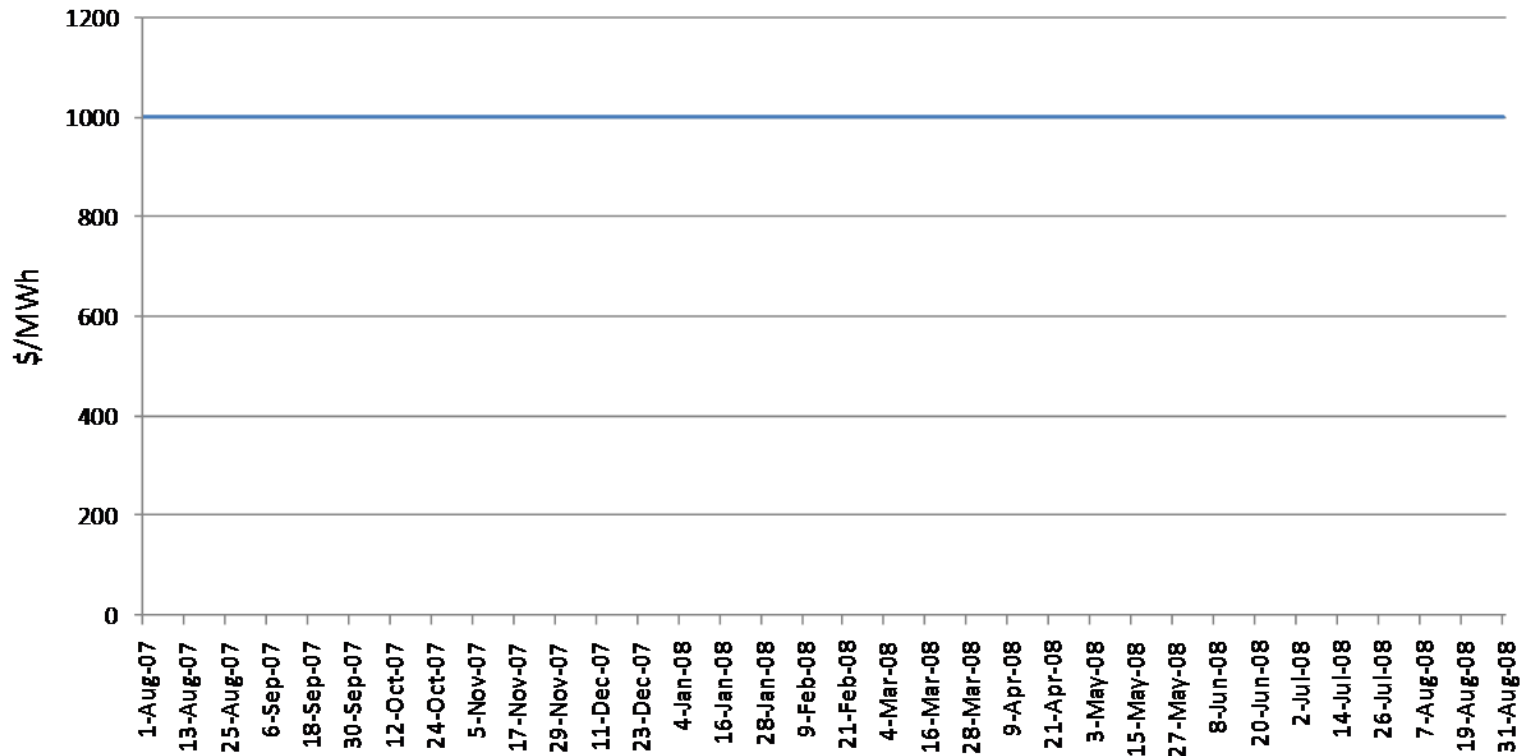
# Market Inefficiency (Gaming)

- ISO markets are notoriously easy to game
- Enron's records provide a blueprint of schemes implemented across the U.S.
- Market surveillance is very ineffective
- FERC has tended to only react after victims have pressed their claims forcefully

# Mysterious Bidders

## ISO-NE Highest Bids/Day

(Source: [http://iso-ne.com/markets/hstdata/mkt\\_offer\\_bid/rt\\_energy/index.html](http://iso-ne.com/markets/hstdata/mkt_offer_bid/rt_energy/index.html))

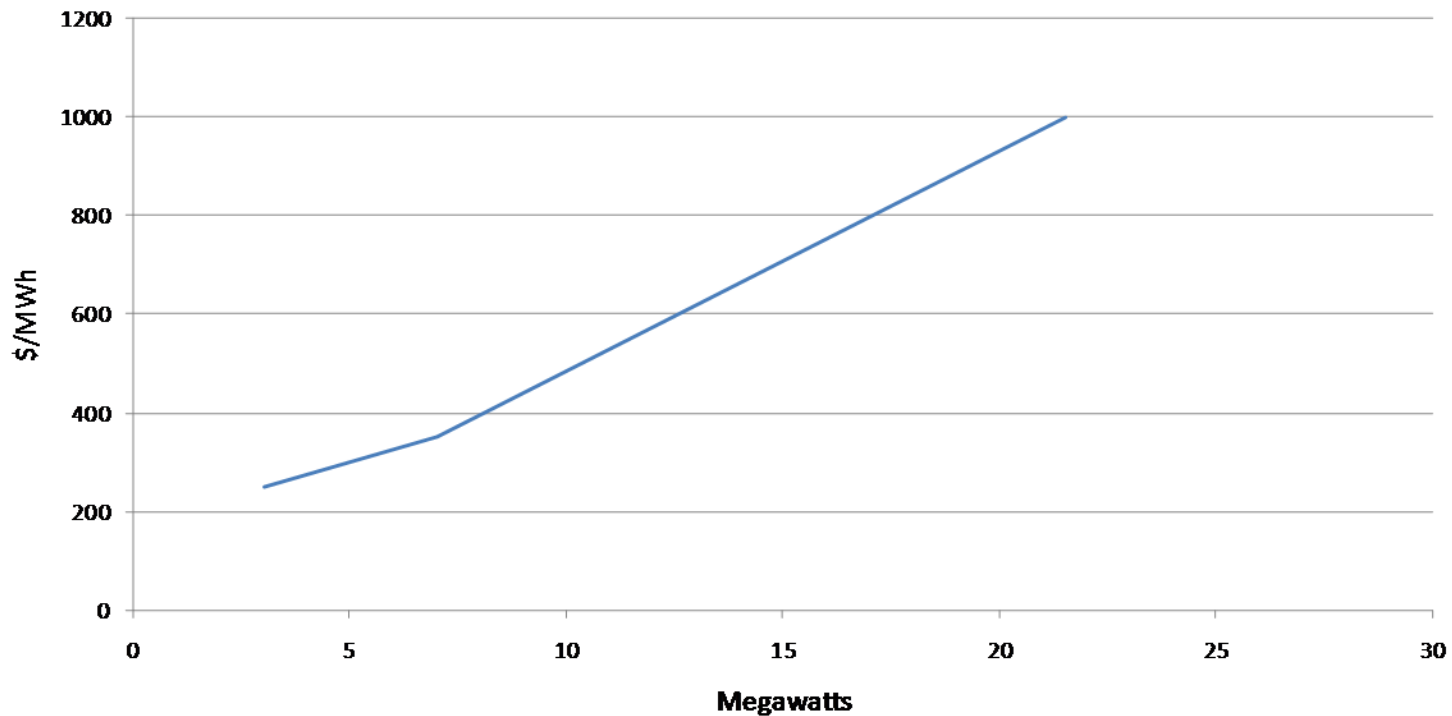




# Mysterious Bids

## Bidder "985313"'s Bid Curve for Generator "90307" on February 19, 2008 at 18:00 in ISO-NE

(Source: [http://iso-ne.com/markets/hstdata/mkt\\_offer\\_bid/rt\\_energy/index.html](http://iso-ne.com/markets/hstdata/mkt_offer_bid/rt_energy/index.html))



# What is this bidder up to?

- Project Stanley: Enron's criminal activities to share markets
- Path 15: Manipulations designed to take advantage of the California ISO's computer programs

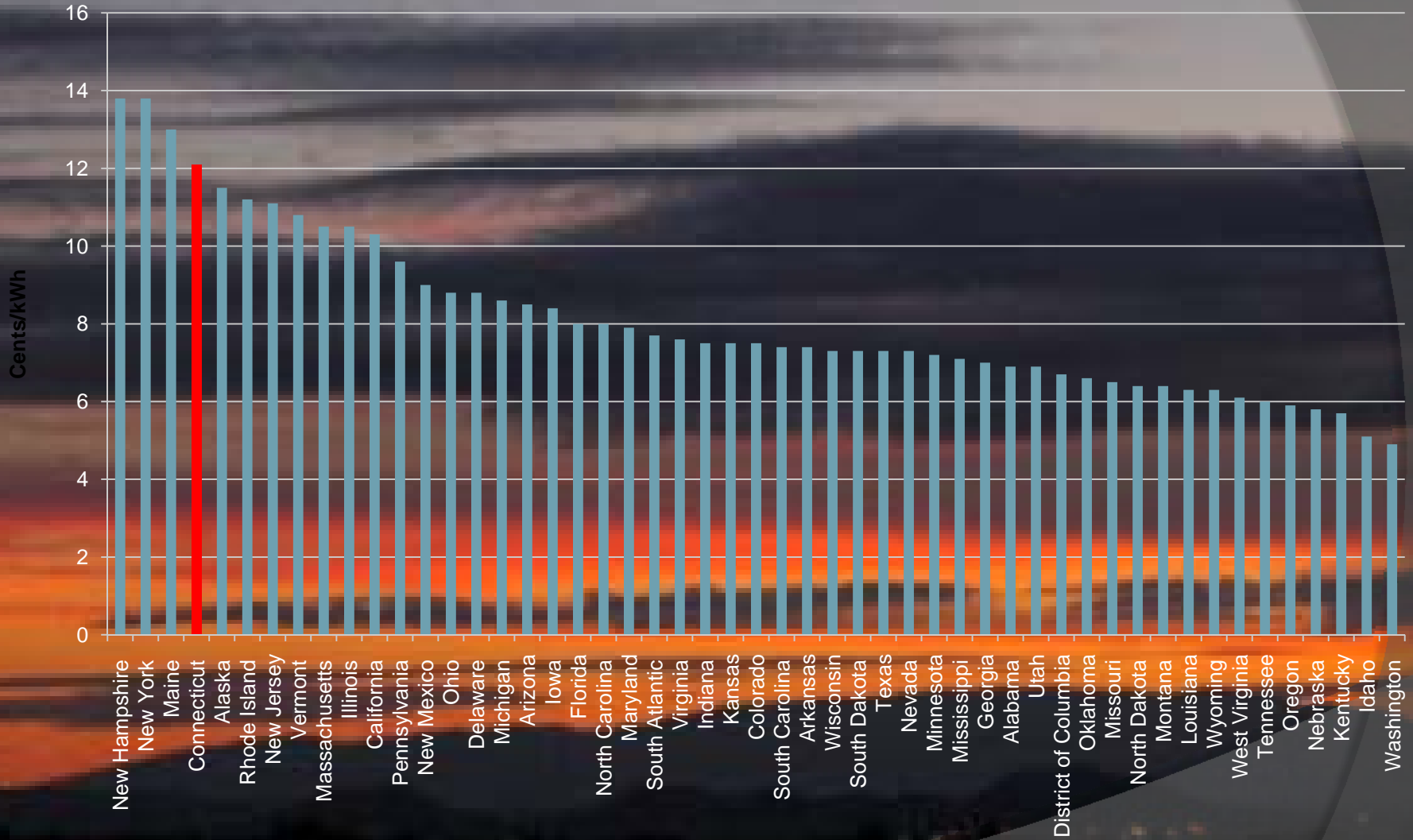
# Consumer Loss



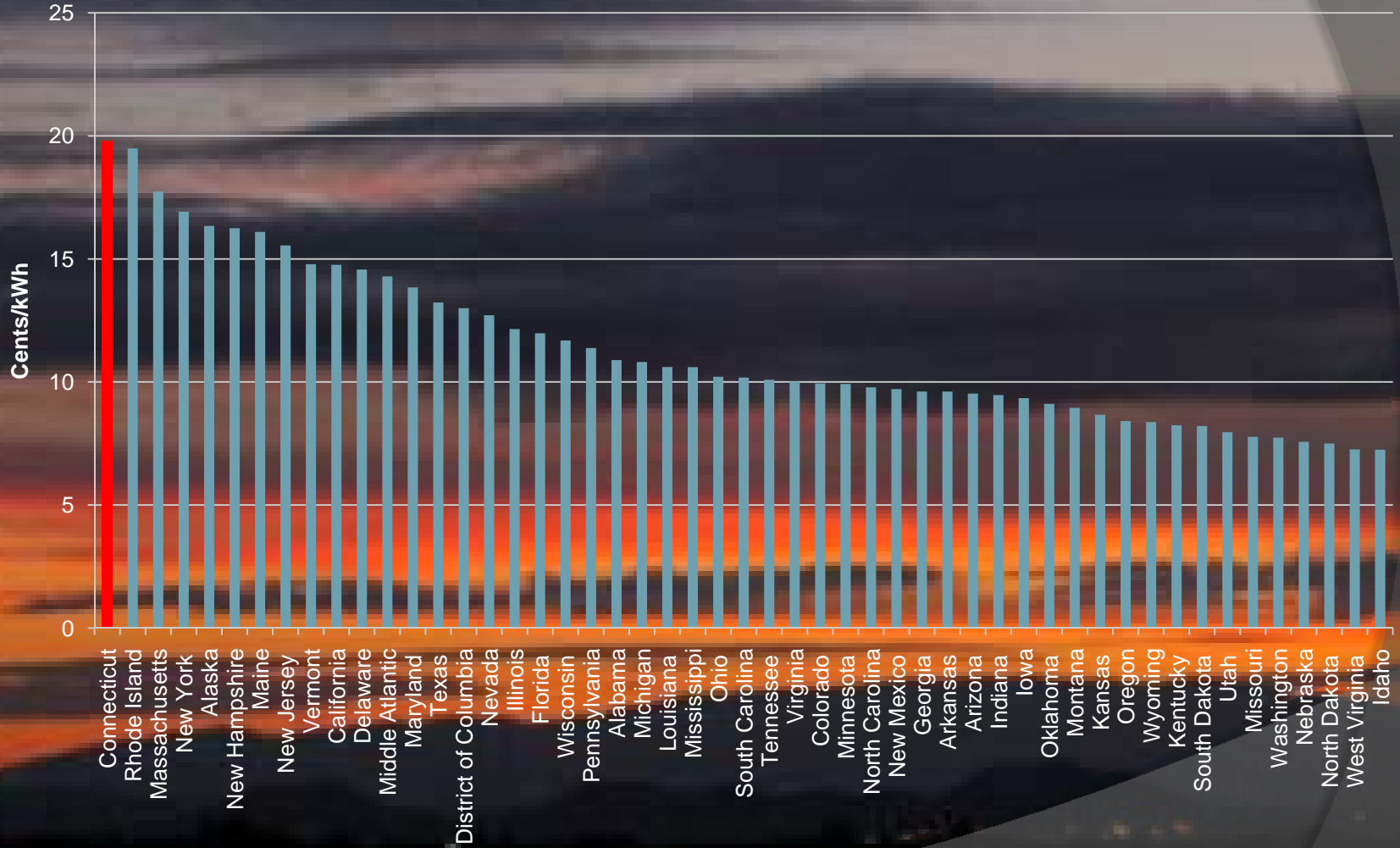
# Connecticut's Experiences:

- *Connecticut has gone from the fourth most expensive state in the continental U.S. to the most expensive state*
- *Overall, Connecticut has outpaced both national averages and its neighbors*

# Connecticut's Position in April 2008

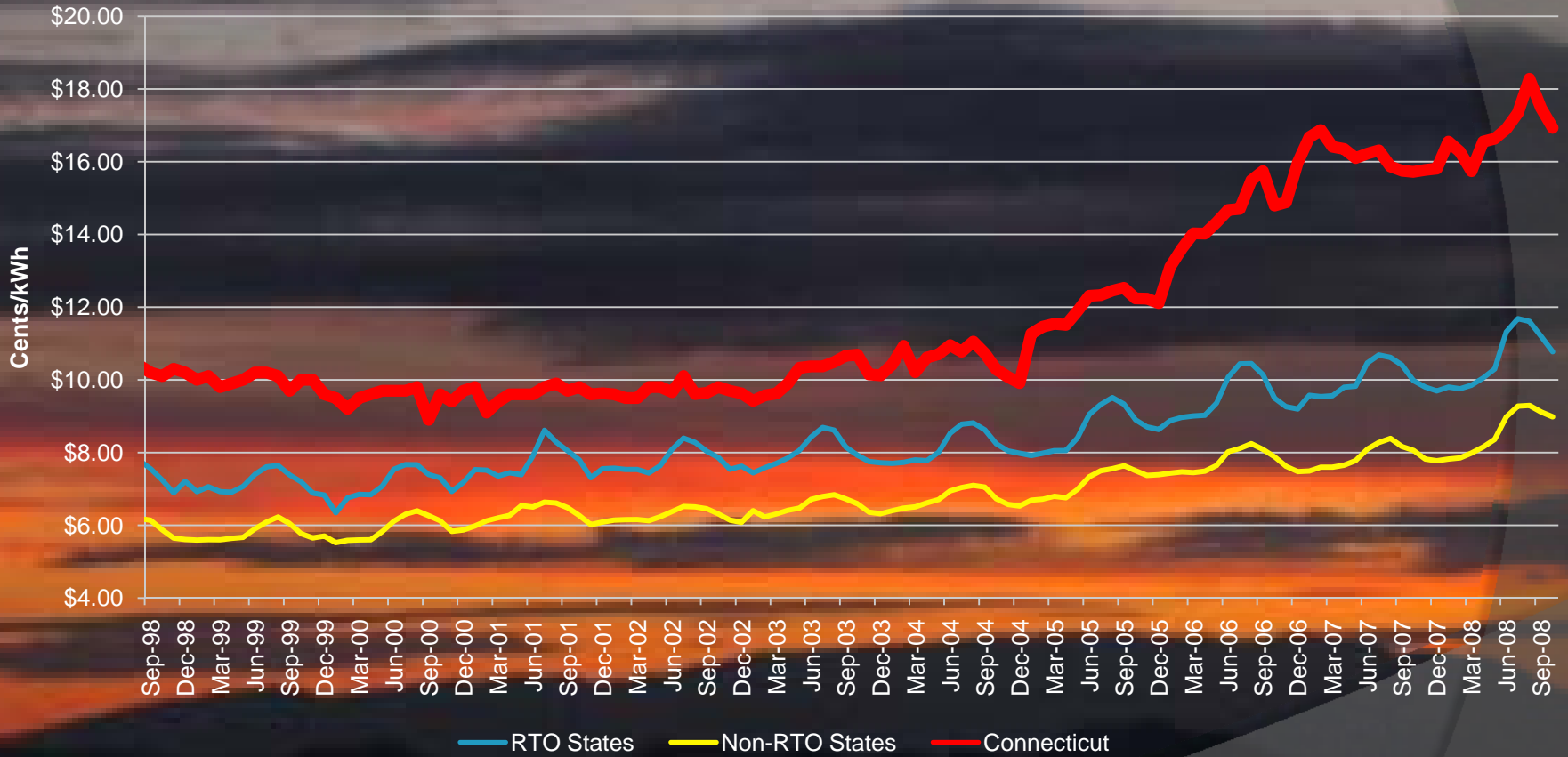


# Connecticut's Relative Position Today



# Connecticut Versus RTO and Non-RTO Electric Rates

Source: Table 5.6.A  
EIA Electric Power Monthly

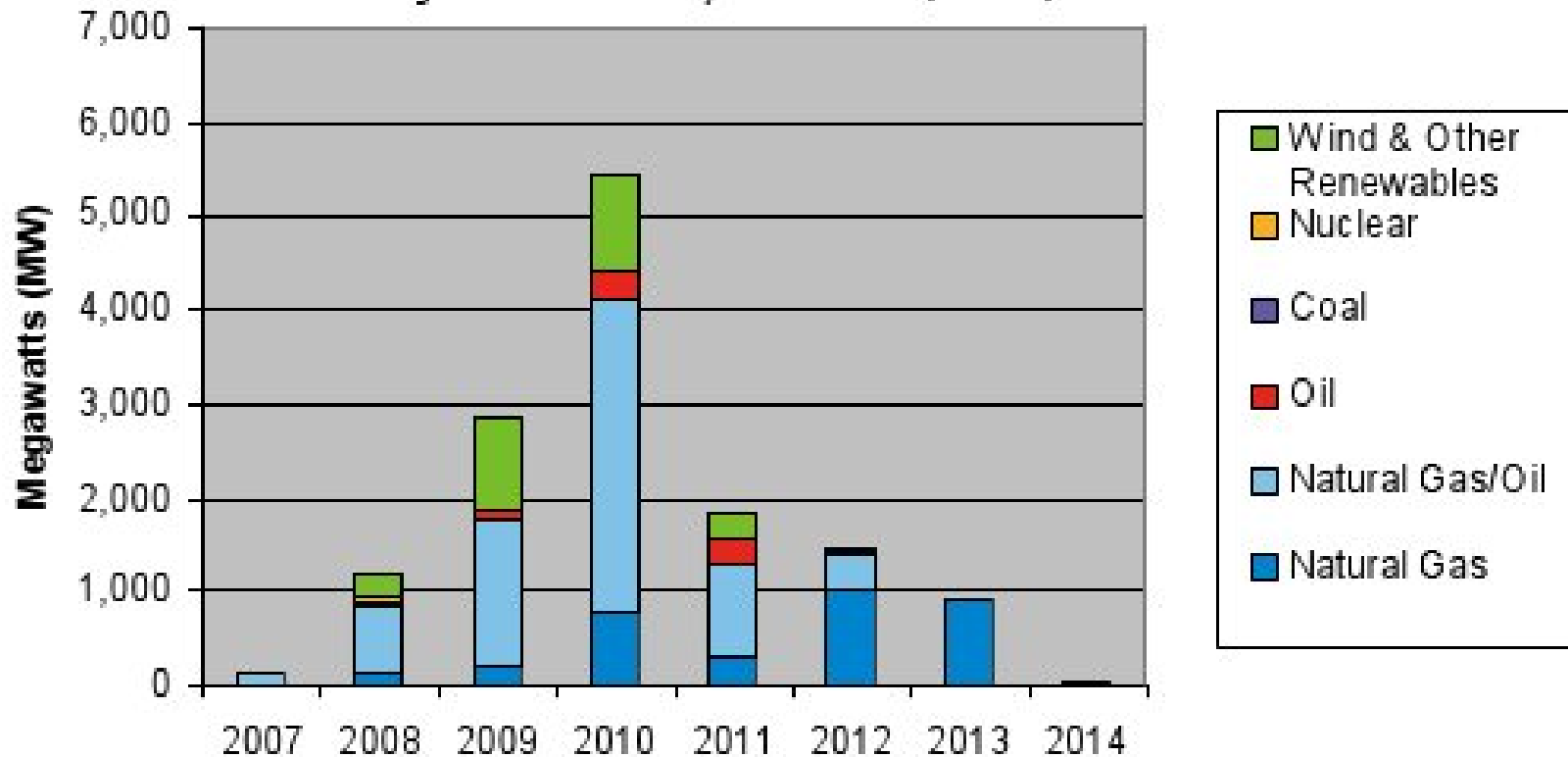




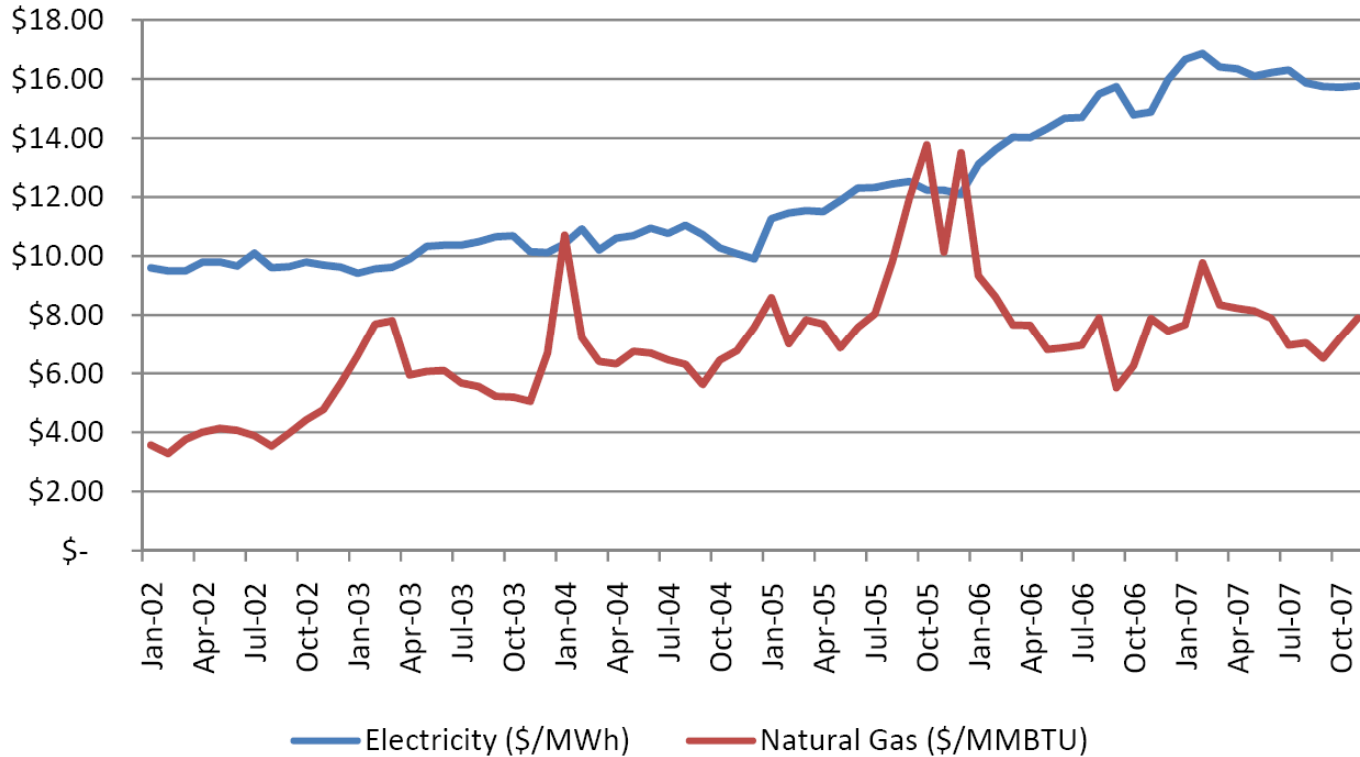
# Our Fossil Fuel Future

## Plants in ISO New England's Resource Queue

Source: Long Term Reliability Assessment, NERC, October 2008



## Natural Gas and Electric Prices in Connecticut



# *How well is the experiment with administered markets working in Connecticut and across the U.S.?*

- Not just poorly, but very poorly
- Relative prices are high
- Transparency is absent
- Enron-style scandals are frequent

# *How did we get here?*

- We adopted California's faulty market structure and we are not sure how to turn back.

# The Solution

- Should we look to Illinois?
- What should a Connecticut Power Authority do?
- What are the advantages?
- Is it expensive, unwieldy, or secretive?
- Does this involve losing consumer choice?

# *Why should Connecticut know about what happened in Illinois?*

- Illinois faced similar problems to those in Connecticut – rapidly increasing rates relative to neighboring states
- Poor resource choices
- Little or no transparency
- The Illinois AG used missteps by market participants to force a settlement
  - A \$1,000,000,000 refund
  - Establishment of a state power authority

# The IPA's first two years

- Very limited staff
- Very low budget
- A very successful acquisition of additional energy for Illinois citizens
  - The IPA's acquisition was actually less expensive than the previous reverse auction in spite of much higher oil prices



# *Is a state power authority a good alternative?*

- The state power authority has the ability to finance new plants either by outright ownership or by long-term contracts. Since renewable resources are likely to be high capital cost options, this may be the only short term solution to adding these options to the resource mix in Connecticut.

# Existing Power Authorities

- New York Power Authority
- Bonneville Power Administration
- Tennessee Valley Authority
- California Department of Water Resources
- Western Area Power Administration
- Southeastern Power Administration
- Southwestern Power Administration
- Illinois Power Agency

# What does the CPA actually do?

- The CPA acquires power for state retail distributors
- They can purchase or finance
- They do not have a large staff – costs are funded through a small fee to consumers
- They are governed by a board answering to Connecticut

# Advantages

- ① 1. The CPA can choose longer term purchases enabling fuel choices other than natural gas
- ② 2. Subject to federal tax rules, they can issue tax-free financing
- ③ 3. They can sell to consumers at cost
- ④ 4. They are not subject to the New England ISO, nor must they buy and sell through their markets

# Is the CPA expensive, cumbersome, or unwieldy?

- No, no, and no
- Staff is minimal and salaries, unlike the New England ISO, will be set at market and limited by law
- The operations are limited by law and have a direct purpose
- Open meetings and open document rules apply

# *Does the CPA affect consumer choice?*

- No.
- The ability of the retail consumer to choose suppliers is unaffected by the CPA.
- The CPA is an alternative to the poorly functioning New England ISO – adding to competition in Connecticut, not replacing it.



McCullough Research

<http://www.mresearch.com>