



**Retail Wheeling As A  
*Quid Pro Quo* For Plant  
Location**

*Robert McCullough*  
*Managing Partner*  
*McCullough Research*




## Retail Wheeling As A *Quid Pro Quo* For Plant Location

- Bringing Competition To An Uncompetitive World
- Establishing Regional Energy Options
- Taking A Principled Position
- Adding Value -- Knowing the Industry and the Utility
- Positioning Regulatory Approval



# Bringing Competition To An Uncompetitive World

- The future is now
  - It may not be happening close to you, however
  - New ideas get new solutions
  - Traditional siting processes can be discouraging
  - State economic development offices have little economics and don't offer much development
- 



# Stay Out of Jurisdictions

- Jurisdictions are the South Bronx of the energy landscape
- Many new deals "break open" the jurisdictional prison
- Jurisdictions are often far weaker than they appear
- Many states have only vague and difficult to enforce service territory allocations





# Establishing Regional Energy Options

- The anonymous RFP
- Generating a good mailing list
- Helping the bidders
  - The new brokers range from competent
  - Citizens Energy
    - To strictly amusing -- Dreyfus
  - Restricting the universe
    - Bidders quickly can run off in all directions
    - Avoiding bidder advice



## The anonymous RFP

- Why anonymous?
  - Reduces overhead
  - Eliminates competitor advantages
  - Allows maximum maneuvering room in negotiations
- Timing





## Generating a good mailing list

- The correct utility representatives are essential
- Marketeers are often poorly organized -- a direct approach is sometimes required
- Public utilities are seldom interested -- although they often have the best options





## Helping the Bidders

- Restrict responses to operational information

- Price -- very important

- Some bidders will forget or neglect to include price

- > Marketers are often hazy about what a price is

- Proof of substance is important

- Location is very important

- Discourage glossy materials

- IPPs love to photocopy Westinghouse literature





## Restricting the Universe

- Bidder initiatives are very time consuming
- Marketeer financial advice is scary

I believe I may have failed a number of  
marketeer financial geniuses in college

- They haven't improved since then
- Electricity really is a commodity
- Complex options really are too complex





# Taking A Principled Position

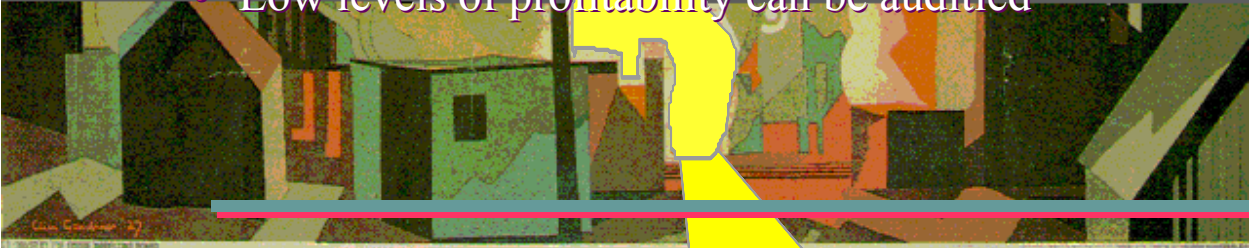
- The "squeaky wheel" is getting a greasy reputation
- Empty claims invite investigation
- Good homework can bring both sides along quickly
- Market research is useful -- even for the customer representatives





## Squeaky Wheels Are Greasy Propositions

- Most utilities have strong "squeaky wheel" defences
- Credibility is often the first victim of the "squeaky wheel" approach
- Undefined alternative options tend to be checked
- Low levels of profitability can be audited





## Good Homework Can Move Affairs Quickly To Resolution

- Utility negotiators are often detail oriented
- Transmission details are important
- Utility services are critical components
  - Shaping
  - Load Following
  - Reserves
- Credible suppliers require other utility involvement



## Market research is useful -- even for the utility customer representatives

- A natural division between wholesale and retail is common in many utilities
- Retail representatives often have little market information
- Wholesale representatives may not be accessible to the utility's negotiators





## Adding Value -- Knowing the Industry and the Utility

- Utilities are very gradually developing strategies
  - A few have decided to orient towards retail service
    - A number view themselves wheeler-dealers
    - A very few have a significant wholesale advantage
- Industries have differences too





## Interruptibility May Actually Mean Something

- Interruptibility is currently a catch-all phrase for discount
- Some industries actually are interruptible
- Industrial processes are very different
- Thermal utilities seek short "intense" interruptions
- Hydro utilities seek market insurance





## Utilities Are Gradually Developing Strategies of Their Own

- Most utilities have noticed the very low marginal costs of additional energy sales
- A number of utilities have adopted a "Letter of Marque" approach -- stealing from the enemy is fine, but local sales are different
- A few have actually moved towards an aggressive sales policy
- Most, however, still distrust new loads and fear the objectives of the industrial





## Most utilities have noticed the very low marginal costs of additional energy sales

- Long run marginal costs vary from a low of 2.5¢ per kilowatt-hour (Pacific Northwest) to 3.0¢ per kilowatt-hour (TVA)
- Long run contracts are usually available for 10% less
- Short run contracts vary in the 2.0¢ range
- A 3.0¢ industrial sale generally brings in a significant contribution to fixed costs

# Typical West Coast Prices





**Most, however, still distrust new loads  
and fear the objectives of the industrial**

- After years of DSM voodoo, many utilities are genuinely afraid of large new loads
- Many utilities fear industrial political clout
- Some simply fear being accused of being sales oriented
- A few have become dominated by no-growth activists





# Positioning Regulatory Approval

- Regulators appear more risk averse than innovative
- Regulators are more likely to accept new solutions for new loads
- Regulators always want a "pocket solution"
- Most of all, regulators fear opening the door to wholesale rate reductions





# Winning Isn't Everything

- A good supply may simply be utility service at a better price
- Fancy alternatives carry their own costs
- Stay out of jurisdictions

