All The King’s Horses And All The King’s Men:

Can Humpty Dumpty Be Put Together Again?

Harvard Electricity Policy Group

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Overview

• What is driving the push for reintegration?

• What is reintegration?

• Electricity in Illinois, May 2007
What Is Driving Reintegration Efforts?

- Retail price increases, especially as multi-year rate freezes are ending, have prompted these efforts.
  - Dissatisfaction with competition
- Key issues which should inform the debate:
  - Has “deregulation” caused price increases?
  - Have consumers in regulated jurisdictions fared better?
  - Will reintegration cause price increases to stop?
  - To what extent are the price increases in deregulated jurisdictions transitional?
  - What are the “non-price” implications of reintegration?
Prices

Myth: Prices have increased more in competitive markets than they have in regulated markets

Reality:

⇒ Since 1999 prices have increased roughly the same percentage in states both with and without organized, competitive markets
⇒ Electricity prices are largely determined by the cost of fuel
⇒ Neither the competitive model nor the cost-of-service model can shield customers from fuel price increases

*Competition has not caused electricity price increases; the real culprit is the cost of fuel.*
Natural Gas & Electricity Prices

Natural Gas and Electricity Prices
States in RTOs with Organized Markets and Other States
January 1996 - February 2007


Note: This slide was inadvertently omitted from the slide deck that was submitted to the FTC on April 10, 2007.
Price Increases by State

Percent Change in Average Electricity Prices
States in RTOs with Organized Markets, and Other States
1999 - 2006

Note: 2006 average prices reflect data through October.
Electricity vs. Other Energy Products

Percent Increase in Prices to End Use Customers
1999 - 2006

| % Increase | States without RTO Markets (Electricity) | States with RTO Markets (Electricity) | Residential Natural Gas | Commercial Natural Gas | Gasoline | No. 2 Heating Oil |
|------------|
| 34%        | 34%                                   | 95%                                  | 116%                    | 251%                  | 269%     |


Note: Natural Gas prices in 2006 are through November, electric prices are through October. All prices are annual averages of monthly data. No. 2 Heating Oil represents the New York Harbor price, Gasoline represents the Gulf Coast price.
What does history teach us?

• “Good old days” of rate base regulation, integrated resource planning and long-term contracts were not so good.
• Central planning - done by utilities, regulators or legislators - has not produced and will not produce economic results.
  ➢ Predicting future load levels, fuel prices, changes in technology and environmental regulation is perilous. Who bears the risk?
  ➢ Generally, deregulation has prompted efficiency in generation.
  ➢ “New build” often was haphazard in the old regime.
What is Reintegration?

- States cannot take back power plants which utilities have sold or divested. They will have to buy them at fair market value.

- Construction costs of new plants are enormous. Are states ready to assume them?
  - New and untested technologies.
  - Latest coal plant estimates: $2500 to $2800/kW
  - Nuclear plant estimates as high as $5000/kW

- “Reregulation” through other avenues, such as generation taxation, is replete with legal and economic problems.
Electricity In Illinois, May 2007


- Fourteen successful bidders in initial auction in ComEd territory.

- Average price increase of 23 percent under the auction still leaves prices slightly below 1997 levels.

- Ameren territory experienced significantly higher percentage increases.
Illinois Legislative Proposals “On The Table”

- Rate rollback to 2006 levels, with full rebates of charges to date above 2006 rates, plus interest.
- Generation tax of $70,000 per megawatt of nameplate capacity. Approximately $2 billion annually.
- Creation of Illinois Power Authority with condemnation power, and authority to procure electricity and construct generation.