

Country Update – U.S.A.

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Overview



- ? Ownership and Investment
- ? Strength of Market Model
- ? Recovery Path for Electricity Investments
- ? Standard Market Design
- ? Transmission Organizations
- ? Standardizing Interconnection
- ? Reliability Initiatives
- ? Natural Gas Price Volatility
- ? National Energy Bill

Ownership and Investment



? Ownership:

- Investor-owned U.S. utilities provide approximately three-fourths of U.S. energy (kWh 2002)
- Public, cooperative, and federal provide approximately one-fourth of U.S. energy (kWh 2002)

? Investor Concerns Fall Into 3 Risk Areas:

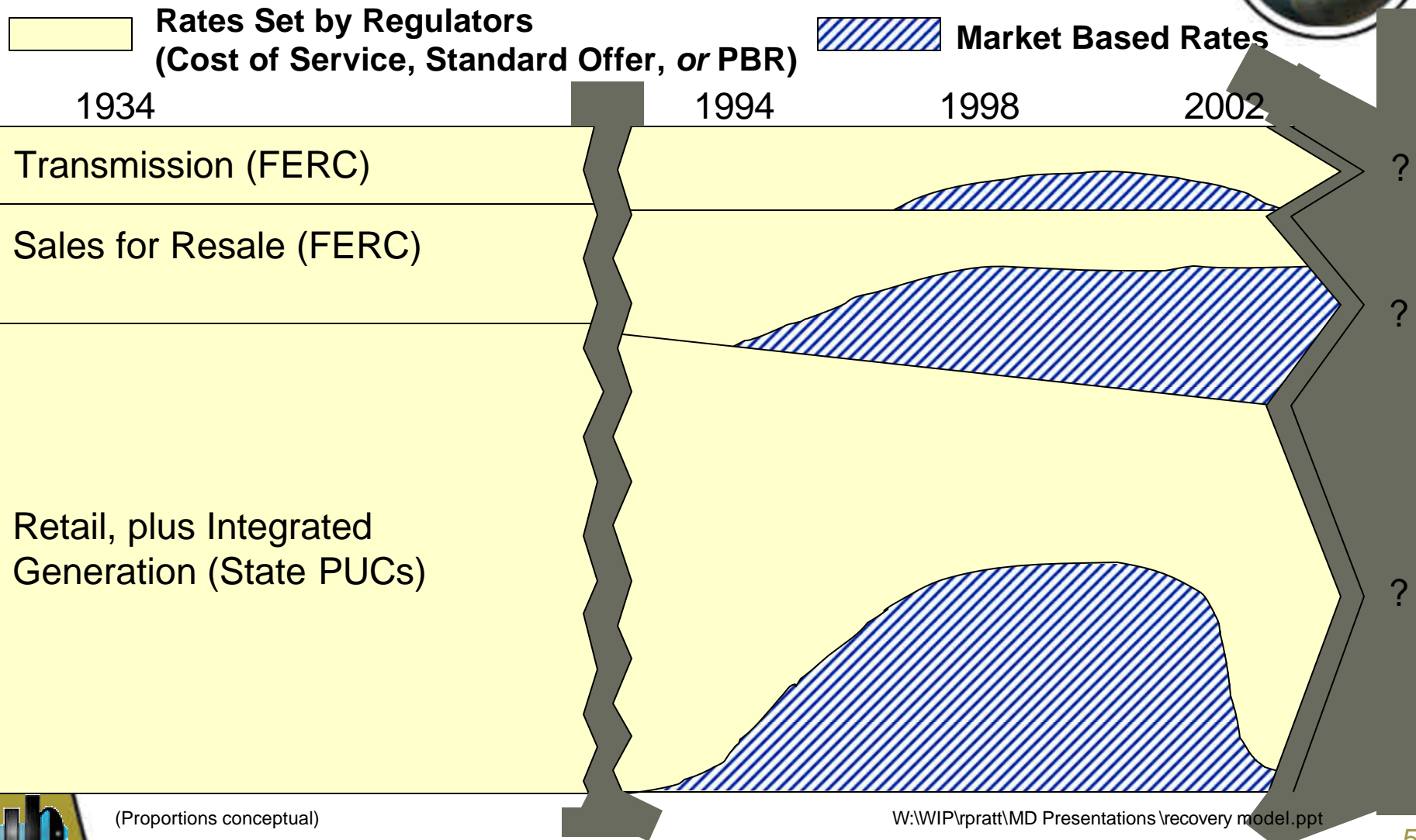
- Accounting risk
- Market risk
- Regulatory risk

Strength of Market Model Varies by Sector



- ? **Retail:** only about 2% of end-use customers make conscious market choices (~3% of load)
- ? **Wholesale:** load-serving entities buy roughly half of needed power through markets, the rest is self generated or bought through long term bilateral contracts
- ? **Transmission:** only flickers of interest in merchant lines; all large investments still through rate-regulated monopolies

Expected Recovery Path for Electricity Investments



Standard Market Design (SMD)



- ? Federal (FERC) effort to promote wholesale markets through nationally standardized rules
- ? Reaction to this proposal has been mixed
- ? Significant opposition from states in the Southeast and West
- ? Future currently unclear

Transmission Organizations



- ? Regional TO concept is closely linked to development of federal SMD initiative
- ? States in the Southeast, Pacific Northwest, and Southwest have taken anti-SMD actions; slowing formation of RTOs
- ? RTOs forming primarily in Midwest and Northeast

Standardizing Interconnection



- ? FERC issued interconnection standards for large generators on March 5, 2004
- ? NARUC with 5 state Commissions appealed on jurisdictional grounds May 3, 2004
- ? Interconnection rule for small generators scheduled for summer 2004 – NARUC recommends its October 2003 Model Procedures instead of federal preemption

Reliability Initiatives



- ? U.S.-Canada Power System Outage Task Force Final Report (April 2004)
- ? Key recommendations: binding reliability standards, better software and training, vegetative management
- ? Open questions: Transmission, software, and personnel demands from increased trading?
- ? FERC issued Policy Statement and Vegetation Management Order (working with NARUC's Ad Hoc Committee on Critical Infrastructure on data-collection about tree-trimming practices)

Natural Gas Price Volatility



- ? Gas prices on repeated upward swings (with coal and petrol prices following)
- ? Increasing interdependence with electricity
 - one-fourth of northeast electricity now from gas
 - one-fourth of northeast gas now for electricity
- ? Import of liquefied natural gas (LNG) increasingly important (note localized safety concerns and more generalized state-federal jurisdictional disputes, e.g., *FERC v. California*)
- ? *Key studies now recommend energy-efficiency as best response* (NPC study & U.S. DOE response)

Energy Bill



? Passage of national energy bill uncertain.