Community Choice Aggregation and Retail Choice

Potential Benefits and Challenges

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CCA is a form of retail choice

- A very specific (and narrow) form
- CCA/Retail choice can provide beneficial aspects to markets.
  - But also raises new challenges for regulators and operators
- Specific regulatory infrastructure is necessary to support retail choice while preserving financial and physical stability of the electric system.
- Regulations need to be robust to stressed market conditions
  - Policies for retail choice, and the incentives provided to utilities played an important role in the CA electricity crisis.

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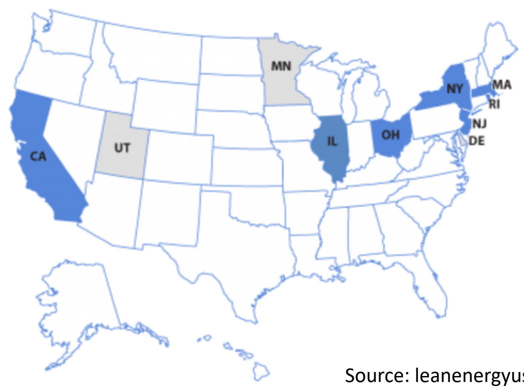
Community Aggregation Nationwide

Legal in 7 States:

- California
- Illinois
- Massachusetts
- New Jersey
- Ohio
- Rhode island
- New York

Under Consideration in:

- Utah
- Delaware
- Minnesota



Source: leanenergyus.org

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Potential Benefits of CCA/Retail Choice

- One approach to promoting competitive wholesale markets
  - Reduces the concentration of individual load serving entities
  - Can reduce reliance on regulatory procurement processes
- Provides a benchmark with which to compare utility procurement
  - If regulated procurement still plays a big role, other retails provide a comparison group to judge performance.
- One avenue for accommodating diverse customer preferences
  - More choices --> More options
    - Can these options be provided by a traditional utility?
  - More potential for innovation in retail services
  - How much scope for innovation in electricity retail is there?

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Potential Issues with CCA/Retail Choice

- Migration risk
  - How to invest and plan for customers who might leave (or come back)?
  - Migration is strongest in periods of market upheaval.
  - Stable wholesale markets require long-term investment and financial contracts.
  - Eastern markets have developed complex mechanisms to deal with risks of regulated providers of last resort. CA has not.
- Stranded costs of incumbent utilities
  - Who should pay for costs of old contracts/plants?
  - Issue looms largest during large transitions (like 1998, and today?)
  - Are customers migrating primarily to avoid paying for stranded costs?
  - Or are they being prevented from migrating because of excessive exit fees?

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Potential Issues with CCA/Retail Choice (2)

- Environmental issues
  - State climate policy has several complex aspects
    - Renewable "buckets", Reshuffling, Caps
  - Does your average electricity customer understand them?
    - Do we need them to?
  - RPS rules vs. Organic food labelling.
  - Is it fair to rely upon some customer's over-compliance with carbon goals?
- Coordination of planning and investment
  - Trade-off between integrated planning and more competition
    - LTTP has played a dominant role, may not in the future
  - Can require policies that set standards on retailers
    - Renewable energy policies; Resource adequacy policies; GHG import policies
  - Many of today's policies in CA have not been tested under a setting with many retailers
    - Are these policies applied equitably to both CCA's and utilities?
    - Potential loopholes that may become more of an issue with many LSEs

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Critical Policy Issues with CCA/Retail Choice

- How to manage exit and possible return of customers?
  - How to set exit and return charges to protect remaining customers?
  - CCA context is unusual in that "default" provider is *not* the provider of last resort.
  - What should happen to customers if their CCA goes bankrupt?
- How to implement State policy with more and more diverse retail providers?
  - Renewable policy, reliability policy.
  - State policy coordination vs. customer choices
  - May need to rely more upon broadly applied, market-based instruments (e.g. cap and trade) and less upon planning.
    - Need to make sure those standards/caps are applied evenly to all retailers.

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