



Constellation Energy®

Competitive Markets Alert:

A Regional Look at the Opportunities & Pitfalls in the Coming Months



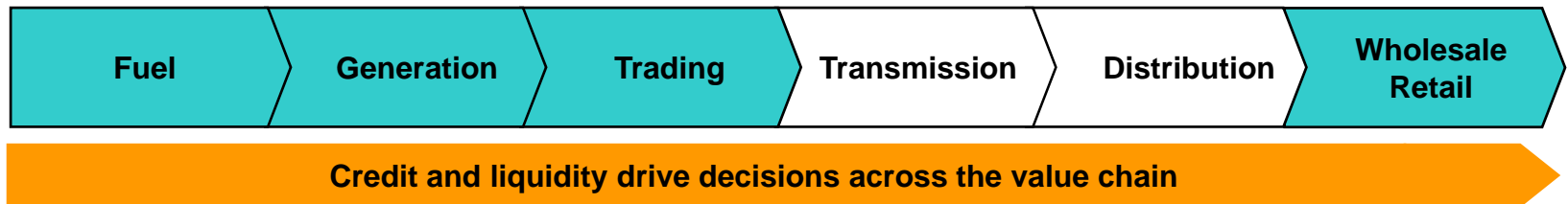
The way energy **works**.™

2009 EEI Spring National Accounts Workshop

Regulatory and Government Outlook

- Energy still a key political focus at both the state and federal levels.
- Key environmental policy issues and legislative proposals:
 - Greenhouse gas initiatives
 - Renewable portfolio standards
- Key competitive market structure issues and legislative proposals:
 - Utility investment in generation
 - A return to cost-based regulation of energy rates
- Significant state legislative and regulatory activity:
 - Maryland
 - New York
 - Texas
 - California
- Other notable legislative and regulatory issues:
 - PJM Reliability Pricing Model (RPM) and credit policy reforms
 - Regional Greenhouse Gas Initiative (RGGI)
 - Federal action on Climate Change expected to move out of committee in each house of Congress in 2009

Risks in Restructured Commodity Markets



Types of Risks and Issues:

- Fuel price risk
- Fuel production
- Inventory/ storage risk
- Fuels transportation, shipping, freight, pipelines
- Alternative sources
- Increased international demand
- Merchant power plants
- New generation technologies
- Site selection
- Forced outages
- Transmission access
- Stranded cost recovery
- Financing and cost of capital issues
- Environmental compliance
- Commodities price risk
- Volatility pricing and management
- Changes in accounting regulation
- Credit
- Liquidity
- Volumetric risk
- Congestion
- Electricity price risk
- New load serving entities
- Customer switching
- Expansion into new products/ service offerings - bundling
- Competitive metering, billing, and information services (MBIS) providers

■ Unregulated business
 □ Regulated business

Electric Restructuring: Current State

Differing Models

Now What?

After California crisis in 2001, states which had not chosen or begun implementing electric restructuring, largely dismissed restructuring initiatives



Cost-of-Service Model

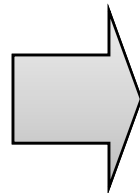
- Return to basics strategy or re-regulation



Hybrid Model

- *Wholesale/retail competition mix (standard offer service model)*

States which chose to restructure have either reached, or will soon be reaching, the end of their transition period



Pure Market Model

- Customers receive prices based on spot market prices

Illinois

- **Outlook: Embracing Competition**
 - Full embrace of competitive suppliers to serve most business customers
 - Major expansion of retail choice into medium and smaller commercial segments
 - Programs to stimulate competitive options for residential and small business customers

- **New Utility Procurement Structure Begins for 2009-10 Planning Year**
 - Illinois Power Authority (IPA) created to oversee utility power procurement
 - IPA's new 3-year 'laddering' Procurement Plan approved by Illinois Commerce Commission

- **ComEd & Ameren distribution rate cases**
 - Approved rate cases reflect increased costs of maintaining distribution systems
 - Future distribution rate cases anticipated in 2009 to address costs for maintaining distribution systems and SmartGrid & advanced metering infrastructure ("AMI") initiatives

- **Political Landscape**
 - New Governor Pat Quinn takes over for impeached Gov. Blagojevich
 - Likely be some changes to the regulatory and political landscape
 - Active attorney general with strong desire to set energy policy for the state
 - Renewable energy, energy efficiency, and greenhouse gases/climate change

- **Adoption of Environmental Legislation**
 - RPS, Global Warming, Clean Coal Portfolio

California

- **Outlook: Return of Direct Access (DA) is not likely in 2009**
- **California Public Utility Commission (CPUC) evaluating steps to secure reopening of the retail markets**
 - Legislative suspension of DA in California is starting its eighth year
 - Initial target goal is removal of DWR from all of its outstanding contracts by January 1, 2010
 - Specific contracts addressed
- **Early 2009 legislative initiatives may impact direct access**
 - Utility rate design reform
 - Expansion of renewable energy requirement
- **Improved wholesale competitiveness and market liquidity enhanced**
 - Deployment of the California Independent System Operator (CAISO) Market Redesign and Technology Update (MRTU)
 - Development of resource adequacy markets
 - Adoption of renewable energy credits
 - Greenhouse gas cap and trade programs
- **Market improvements and DA market success may be compromised by utility procurement practices that allow the utilities to build, own, and execute long term contracts for generation**

Arizona & Montana

Arizona

- **Outlook: No Direct Access (DA) likely in 2009**
- **ACC Investigating Retail Competition Options**
 - In 2004 Electric Competition Rules suspended and electric competitor certificates voided
 - ACC Staff convened a forum on retail competition in Nov 2008 on the cost/benefits of DA and how to handle default or POLR service
 - Staff will release a report on retail competition with recommendations by the end of 2009
 - ACC's investigation of retail competition will not be ready for action until 2010 at the earliest
 - DA for very large loads may be permitted. Robust market unlikely

Montana

- **Outlook: Regulated system in effect**
- **Passed Re-Regulation Laws in 2007**
 - Customers over 5 MW in peak demand are still allowed to shop
 - All other customers currently taking competitive supply cannot switch again if they return to utility service

Oregon & Nevada

Oregon

- **Outlook: No anticipated change in activity**
- **PG&E Restructuring Plan in Effect**
 - The PUC's 5-year restructuring plan remains in effect for large >1 MW PG&E customers
 - Large customers pay a transition charge to switch to a competitive supplier
 - Medium-sized (> 30 kW, < 1 MW) C&I customers who shop receive a shopping credit of 0.5 cents/kWh
 - The shopping credits extended/modified through 12/31/09
- **Shopping Windows Limit Choice**
 - PG&E increased its (3-day) non-residential switching windows from annual to quarterly in 2007
 - PacifiCorp has one annual 3-day non-residential switching window

Nevada

- **Outlook: Switching among large customers is not expected in 2009**
- **Limited Opportunity for Choice**
 - Only customers >1 MW (or annual electric bills of at least \$700,000) can apply to leave the regulated electric system
 - Onerous fees and processes preclude viable competitive retail market

Texas

- **Outlook: Expected to continue commitment to competition**
- **Governor Perry's State Energy Plan proffers 37 legislative recommendations**
 - Aimed at removing barriers to competition in order to facilitate market solutions and innovation
 - Recommends legislature resist efforts to re-regulate the market and instead adopt measures in the Energy Plan while retaining oversight of the PUCT, ERCOT and the market
- **In 2008, the Public Utility Commission of Texas ("PUCT") and the Electric Reliability Council of Texas ("ERCOT") focused on:**
 - Nodal market implementation
 - Accommodation of wind generation resources
 - Development of various energy efficiency and demand response programs
- **PUCT is now creating rules to address:**
 - Renewable energy credits
 - Mergers and acquisitions
 - Energy efficiency



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Thank You



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