

UNPRECEDENTED CONDITIONS AND THE SECOND WAVE OF COMPETITIVE ELECTRICITY RESTRUCTURING

UNIVERSITY OF TEXAS GAS & POWER INSTITUTE

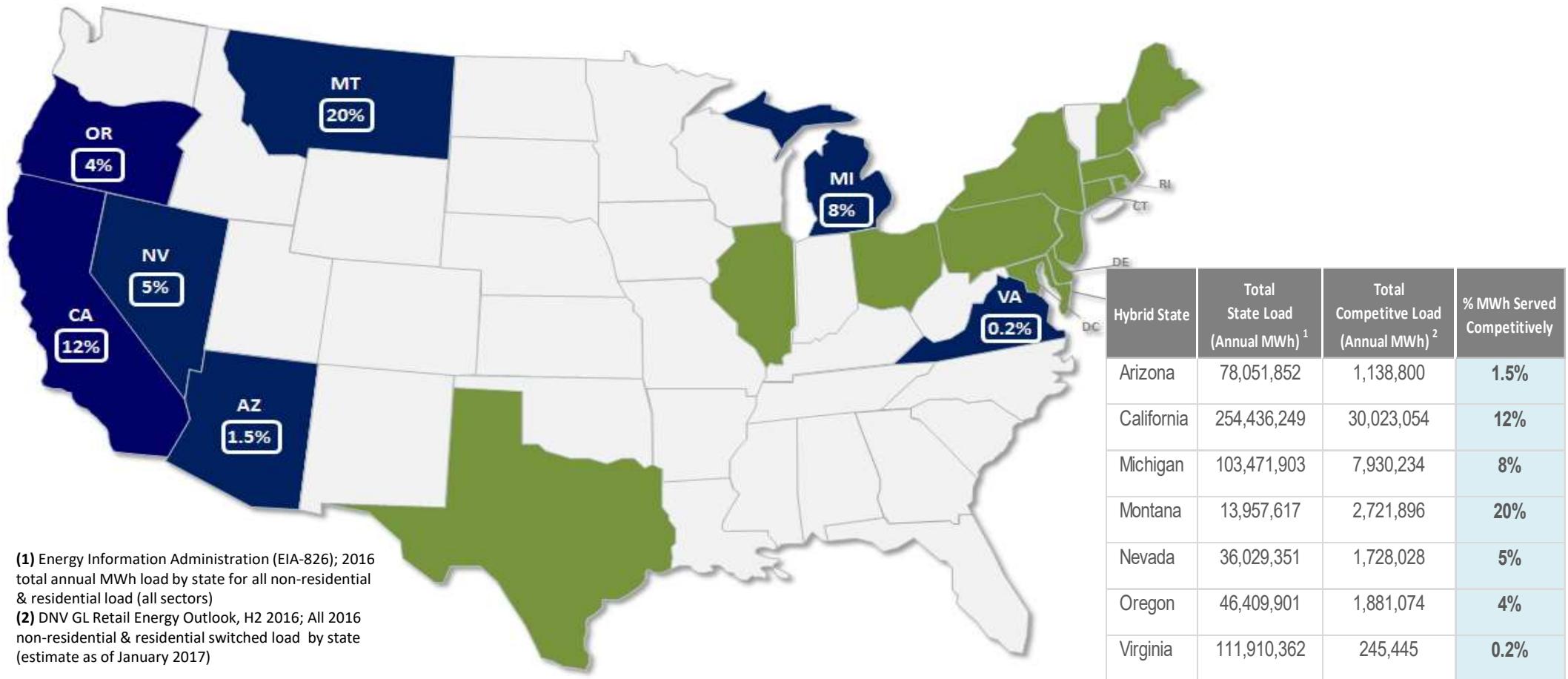
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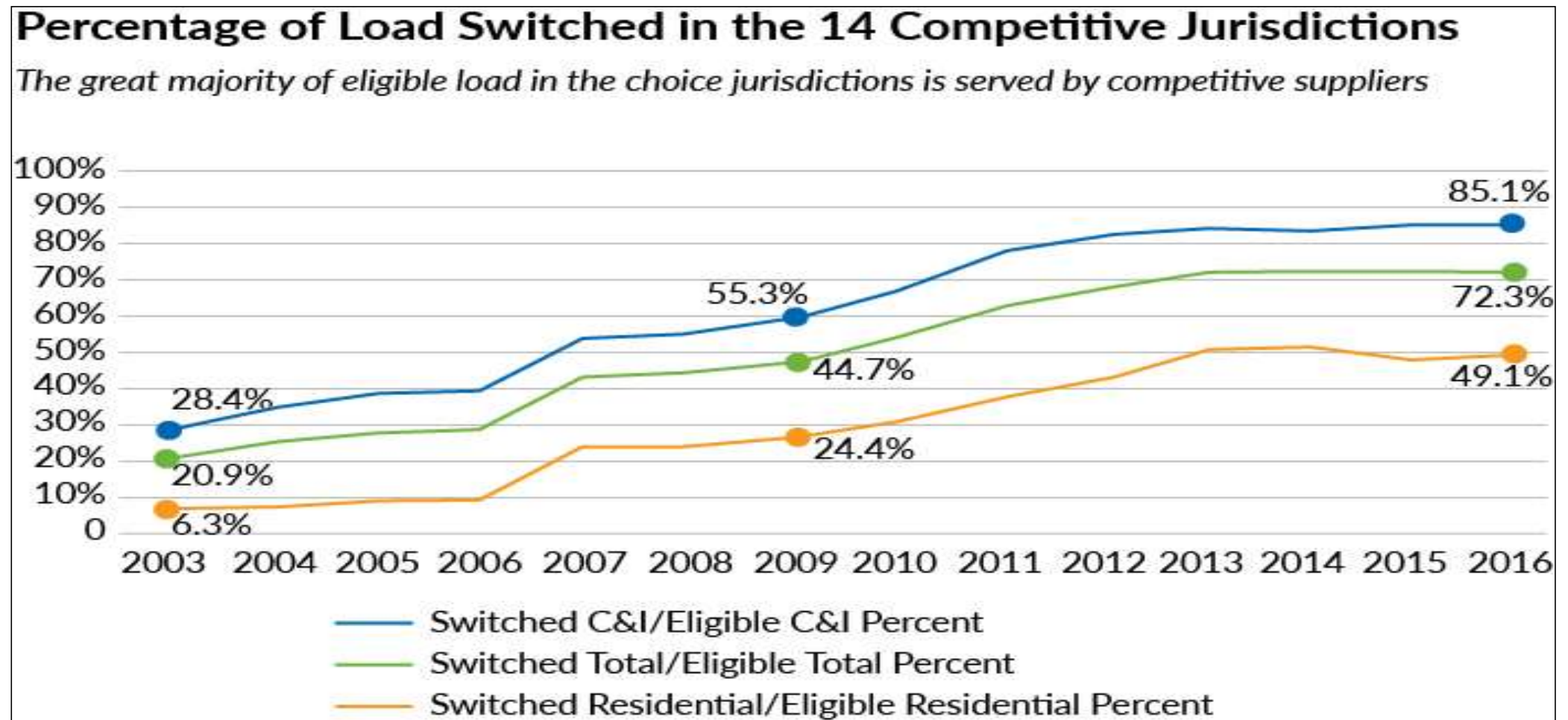
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TWO DECADES OF PARALLEL REGULATORY REGIMES IN THE U.S.
 13 OF 14 CHOICE JURISDICTIONS ARE IN THE NORTHEAST QUADRANT
 CHOICE STATES ACCOUNT FOR ONE-THIRD OF U.S. ELECTRICITY
 5 OF 7 HYBRID RESTRICTED ACCESS STATES ARE IN THE WEST



CUSTOMERS EMBRACE CHOICE WHEN GIVEN THE OPPORTUNITY

20 MILLION NON-UTILITY CUSTOMERS IN 2016



UNPRECEDENTED CONDITIONS ARE CONVERGING TO PROPEL A SECOND WAVE OF COMPETITIVE RESTRUCTURING

- **FLAT LOAD** – Grid-served power consumption has been flat since 2007
 - Traditional monopoly regulation worked well enough when kWhs & GDP were aligned.
 - Increasing fixed costs must now be spread over a stagnant sales base.
 - In choice states, only the delivery cost component is spread by regulators over that base.
 - In traditional states, generation fixed costs, including uneconomic assets, are included.
 - Traditional regulation places generation fuel, technology, sales volume risks on customers.
- **GENERATION “DYS-ECONOMICS”** – The traditional rule of thumb that capital-intensive central station plants will have lower lifetime fuel costs no longer is generally valid.
 - Natural gas has been overtaking coal as the primary U.S. generation fuel.
 - Choice states have added substantial gas capacity in the competitive era, have a greater share of production from nuclear than traditional states and are far less reliant on coal.
 - Renewables, both utility scale and distributed are a significant disrupter..
- **DIGITAL CUSTOMER SOVEREIGNTY** – Traditional monopoly is incompatible with a world of digital empowerment that facilitates custom electricity transactions and innovation.

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"Status, Structure, and Successes of U.S. Retail Markets"