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**“INVESTOR – OWNED UTILITIES AND
PRIVATE MERCHANT GENERATION IN
NORTH AMERICA”**

Brad Patterson
Duke Energy International México
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- Merchant
 - Power in US and Canada
 - 14,200 MW of generation
- Franchise power generation and distribution
 - North and South Carolina
 - 17,660 MW of generation
 - 2 Million customers
- Natural Gas Transmission
 - 28,000 Km
- Largest processor of NGLs in U.S.
- Power, Natural Gas and Liquids processing supported by marketing.

DEI – Portfolio



- DEI México
 - 30% of Compañía de Nitrógeno de Cantarell
 - 1200 MMcfd produced for Pemex Exploration and Production.
 - Project value \$ 1.3 billion.

 - 50% of Compañía de Servicios de Compresión de Campeche
 - 250 MMcfd of natural gas processed and compressed for Pemex Exploration and Production.
 - Project value \$ 0.25 billion.

- An Investor Owned Utility (IOU) can serve the market's needs if:
 - There is a sufficient economic incentive for the presence of the private sector.
 - There are appropriate regulatory, legal and fiscal frameworks.
- A government can maintain its role through regulation rather than ownership of the infrastructure.

- State commissions regulate rate base and retail rates.
 - North Carolina Utilities Commission.
 - South Carolina Public Service Commission.
- FERC for wholesale power rates
 - Consumer choice as to supplier at wholesale level.

- A wholesale market will facilitate the goal of low-cost reliable, power at stable prices.
 - A private merchant generator can serve the wholesale market's needs if:
 - There is a sufficient economic incentive for the presence of the private sector.
 - There are appropriate regulatory, legal and fiscal frameworks.
 - There is a workable competitive model
 - A government can maintain its role through regulation rather than ownership of the ~~infrastructure.~~
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- Wholesale power buyers.
 - Municipalities, investor –owned utilities, large industrials and power marketers.
 - Transmission must be open access with non-discriminatory rates
 - FERC Orders in the U.S.
 - Transmission operation independent of wholesale market players. (RTO)
 - Independent System Operator.
 - Price transparency, and pricing that reflects supply and demand rather than exercise of market power.
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- Allow market signals to be passed to players.
- Allow bi-lateral contracts.
- Allow fair competition.
- Asset optimization: Duke requires the freedom to engage in flexible transactions, arbitrage around constraints, and market gas and power.

- Overall public policy set by Administration and Legislative branches.
 - Implementation controlled by a strong but fair regulator.
 - Level playing field
 - Independent
 - Regulation can and should evolve but it must do so in a stable manner and not create uncertainty.
 - Reflect regional characteristics.
 - Government/regulator should not dictate when and where merchant plants should be built.
 - Possible role for a competition watchdog
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Summary

IOUs and competitive private merchant power can support North American goals of growth and prosperity, when there are the appropriate regulatory regimes.