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

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Duke Energy Overview

• 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 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.
Role of Investor - owned Utilities

• 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.
Regulatory Model for Duke’s Franchise Area

- 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.
• 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.
Characteristics for a wholesale market

- 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.
How does Government maintain an influence?

- 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/regulated should not dictate when and where merchant plants should be built.
- Possible role for a competition watchdog
Summary

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