

Q. Further to CA-NP-291, the October 4, 2012 report of Regulatory Research Associates states, “As a result of electric industry restructuring, certain states unbundled electric rates and implemented retail competition for generation.” Would Ms. McShane please explain how this development has affected the risk of the electric utilities operating in these states and please provide information as to which states this development has occurred in?

A. At a high level, where utilities have restructured and have transformed from integrated to relatively pure transmission and distribution utilities, they would be subject to lower operating risks than prior to restructuring, as they no longer build and operate generating facilities. The extent to which individual utilities face higher or lower combined business/regulatory risk subsequent to restructuring is case-specific, dependent on the regulatory framework that is in place currently compared to that in place pre-restructuring, which in many cases was close to 15 years ago. Over that time period, the regulatory frameworks governing the entire utility sector in the U.S. have evolved, e.g., adoption of various cost recovery mechanisms for utilities in both states that have restructured and states that maintained the traditional vertically integrated utility model.

Regulatory Research Associates (RRA) classifies states as:

Tier 1: Power prices are competitively determined for all retail customers, both standard offer service and retail access. Retail access is permitted for all customers. For the most part, utilities in these states do not own generation.

Tier 2: Competitively priced power is limited to retail access customers. Power prices for standard-offer customers remain regulated. For the most part, utilities remain vertically integrated.

Tier 3: Power prices are fully regulated for all retail customers. All retail customers must purchase their power from the franchised utility.

The following table identifies which states are in which Tier as of August 2012.

Tier I		Tier II	Tier III		
Connecticut	New Jersey	Arizona	Alabama	Kansas	Oklahoma
Delaware	New York	California	Alaska	Kentucky	South Carolina
D.C.	Ohio	Michigan	Arkansas	Louisiana	South Dakota
Illinois	Pennsylvania	Montana	Colorado	Minnesota	Tennessee
Maine	Rhode Island	Nevada	Florida	Mississippi	Texas (non-ERCOT)
Maryland	Texas (ERCOT)	New Hampshire	Georgia	Missouri	Utah
Massachusetts		Oregon	Hawaii	Nebraska	Vermont
		Virginia	Idaho	New Mexico	West Virginia
		Washington	Indiana	North Carolina	Wisconsin
			Iowa	North Dakota	Wyoming

Source: RRA, *Electric Industry Restructuring*, August 1, 2012.