



Center for the Advancement of Energy Markets
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The Center for the Advancement of Energy Markets

Is Pleased to Announce the Creation of

THE CAEM CANADIAN ENERGY RESTRUCTURING FORUM

SUMMARY: As an action step following the *DOE-NARUC North American Summit on Energy Restructuring*, the **Center for the Advancement of Energy Markets (CAEM or Center)** is initiating the **CAEM Canadian Energy Restructuring Forum (CERF)**. The purpose of the forum is to consolidate within one effort and report the state of play of gas and electric, wholesale and retail energy restructuring activity in Canada and to develop a consensus on a vision and gameplan for energy restructuring in Canada. Additionally, the Forum will analyze impediments and options to successful integration of energy restructuring between the US and Canada and make recommendations on steps to take to ensure an effective transition between the monopoly model of utility regulation and the competitive model. The Forum is scheduled to begin in the Fall of 2001 and to end by the Fall of 2002. The Forum will be made up of about 50 organizations, split evenly between public sector/public interest organizations and corporate (governmentally owned energy facilities are classified as corporate). The Forum is expected to have a significant impact on public officials in developing a coherent strategy on energy restructuring.

OVERVIEW

Energy Restructuring—the reform of policies relating to gas and electric networks to create competitive wholesale and retail energy markets—is alive but not necessarily well in North America. While natural gas restructuring, especially at the wholesale level, has advanced quite far in both Canada and the United States (hereinafter referred to as CANUS), restructuring of wholesale electric and retail gas and electric markets are still quite immature. The disaster created by ineffective energy restructuring in California’s electricity market vividly demonstrates the risk involved in getting it wrong.

CAEM organized the *North American Summit on Energy Restructuring*, sponsored by the U.S. Department of Energy and the National Association of Regulatory Utility Commissioners. This gave the Center the opportunity to work with many of the Canadian organizations that are involved with energy restructuring in Canada, such as the

- Canadian Association of Members of Public Utility Tribunals (CAMPUT);

- Canadian Gas Association;
- Canadian Electric Association;
- Canadian Energy Research Institute;
- Atlantic Institute for Market Studies; and
- Energy Probe.

Additionally, in May 2001, CAEM extended its **RED Index** (Retail Energy Deregulation Index) to the 13 Canadian Provinces and Territories. This allows CAEM to rank each CANUS province, state or territory on the progress it is making in retail electric restructuring. CAEM will be issuing a similar index for retail gas restructuring in the fall of 2001.

These contacts led to a conclusion that there is no coordinated effort to pull together the Canadian energy restructuring story and to identify in a comprehensive forum the big picture of Canadian energy restructuring. It is evident that key stakeholders believe there is little informational integration that allows for cross fertilization among the Canadian provinces and utilities. Additionally, if the vision is to eventually forge a CANUS and eventually North American energy market consistent with the increasing integration of the Canadian and US economies, there is a poor understanding in the United States of energy restructuring developments in Canada. Lastly, Canadian institutions have some significant differences—the limited role of the national government in the wholesale electric market and the predominance of Crown corporations to name two—that will have differential impacts of energy restructuring’s pace and politics.

CAEM shares the growing apprehension of many industry stakeholders over the future of energy restructuring in the gas and electric sectors in a post-California environment, especially regarding the lack of an adequate informational foundation for Canadian energy restructuring. In response, CAEM is creating a blue ribbon panel of fifty leaders in the energy industry, public and private, to thoroughly analyze Canadian energy restructuring and most importantly, to make consensus-based policy recommendations to decision-makers at all levels of government. The **Canadian Energy Restructuring Forum** will release a number of white papers and a final report that are intended to have an immediate and important impact on policy and business decisions that affect energy restructuring over the next few years.

WHAT?

CAEM believes that energy restructuring and technology developments create a number of challenges to regulated companies and their regulators that will impact core energy services and the businesses and consumers to whom those services are provided. There are also many open questions regarding the role of new stakeholders, such as marketers, in energy services of the future.

The Forum will cover both wholesale and retail markets for both gas and electric. The Forum will focus on five primary subject areas:

- I. Vision: Developing a Comprehensive Vision for Energy Restructuring;
- II. Foundation: Building the Information Foundation for Decisionmaking;

- III. Domestic Impediments and Options: Identifying Impediments and Options to Progress on Canadian Energy Restructuring;
- IV. Continental Impediments and Options: Identifying Impediments and Options to an Integrated North American (beginning with US and Canada) Restructured Energy Market; and
- V. Recommendations: Developing Recommendations for Policy Makers to Overcome the Identified Impediments

I. Vision

Where there is no vision, the people perish. (Proverbs: 29:18). Energy restructuring is proceeding in CANUS in a helter skelter manner. There is no single authoritative organization in either country that can be said to have a coordinated gameplan for the future, and the support of the key stakeholders to implement such a gameplan.

Indeed, there is not even agreement on a term that encompasses the phenomena that is the subject of so much activity. We use the term “energy restructuring” to describe the phenomena whereby companies that owned and operated wires and pipes that transported energy (network companies) and were generally organized and regulated as monopolists in their sales of energy commodities are required by public policy to engage in a transition to a model of regulation that mandates/encourages the network company to allow third parties to transport energy commodities over the network assets and thus allow customers to have greater choice over who supplies their energy commodities. A similar transition is underway in the telecommunications industry.

This part of the Forum will develop a comprehensive vision of the goals, benefits, and risks of energy restructuring. The Vision will focus not simply on the goal of lowering costs to consumers, the most commonly understood and advocated vision for energy restructuring. The Vision will also focus on the technological, service innovation, and market structure implications of energy restructuring.

II. Foundation

Varying degrees of progress have been made in energy restructuring in the different energy sectors. There is near universal agreement that wholesale natural gas markets in CANUS have successfully undergone a near complete transition from the monopoly model to the choice model. Retail natural gas markets for industrial and larger commercial customers have also been largely successful in this transition. Canada has made more progress than the US in beginning the transition for mass market retail natural gas customers. On the other hand, the US has made modest but greater progress on wholesale electric markets than has Canada. Retail electric markets are least mature in CANUS.

There is however no single source that brings the details of these efforts into focus in an understandable and comprehensive manner. Before one can diagnose disease and prescribe therapy, one must undertake a comprehensive examination of the patient(s). This part of the Forum will comprehensively examine the current state of play for the following markets:

- A. Natural Gas Wellhead and Wholesale Commodity Markets
- B. Natural Gas Pipeline Markets

- C. Natural Gas Distribution Markets
- D. Natural Gas Bulk Markets
- E. Natural Gas Mass Markets
- F. Natural Gas Import and Export Markets
- G. Electric Generation and Wholesale Commodity Markets
- H. Electric Transmission Markets
- I. Electric Distribution Markets
- J. Electric Bulk Markets
- K. Electric Mass Markets
- L. Electric Import and Export Markets

Analysis will be organized by Province and Territory where appropriate. Analysis will focus on developing the factual baseline for policy and market structure that will provide a helpful foundation for later sections of the Forum.

The US Energy Information Administration publishes comprehensive historical data on gas and electric markets. There is no counterpart to EIA in Canada. Developing a understanding of the state of play of Canadian energy markets is thus more difficult. The Forum will pay special attention to the need for quantitative data as a foundation decisionmaking.

III. Domestic Impediments

Energy restructuring poses a number of daunting challenges, on regulators, utilities, suppliers, marketers, technologists, and consumers.

- On purely a policy level, energy restructuring requires the reconciliation of technically complex principles in law, accounting, engineering, and economics.
- It also requires a keen sense of equity in balancing the interests of those who have invested under the traditional regime but who must now be given the opportunity to adjust to the more modern regime.
- Perhaps, the most difficult challenge is to reconcile the many overlapping policy dimensions. Energy restructuring has important implications for the environment, largely in electric generation and land use for constructing infrastructure corridors. It has important implications for social welfare, largely in insulating low-income consumers from a market system that allows prices to fluctuate with supply and demand and requiring a more educated consumer to make complex decisions.
- Energy restructuring, perhaps at its most exciting and fundamental level, has implications in how we create an energy system that efficiently deploys the dramatic range of new technology that will insinuate itself into every sector of the energy industry.
- As is evidenced in California, it can have pronounced effects on the economic wellbeing of a house, business, state, province, territory or even a nation.
- Largely due to these complex intersections, lastly and perhaps most problematically, energy policy has always triggered a regional feeding frenzy in the political arena, not only between producer and consumer regions but also between the central and local governments.

Given these complex intersections, it should not be surprising that the challenge of getting energy restructuring right is nearly insurmountable. It is made even more so by the lack of coherent models and analysis from the traditional sources of policy leadership, the academic and

think tank communities. Thus coherent analysis must of necessity start from a very fundamental level by identifying the problem.

This part of the Forum compares the Vision to the Foundation and identifies the impediments to realization of the Vision. This is a brain storming/cataloguing exercise that lines up all the perceived impediments to progress and identifies options for removing those impediments.

Much of this analysis would be similar for either the United States and Canada given the similarities in the historical policies governing the utility sector. Accordingly, the options will draw heavily from both countries' experiences for wisdom. Special attention will be given to identifying institutional differences between the US and Canada in the impediments and options analysis. For example, Canada has a much larger percentage of its electric generation facilities that is owned by the Crown. Additionally, there has never been a strong role for the central government in regulating the wholesale electricity market.

The goal, then, of this section will be to thoroughly analyze the impediments and options to implementing a plan to realizing the Vision for energy restructuring in Canada.

IV. Continental Impediments

The previous section concentrates on identifying impediments and options to energy restructuring by looking at Canada as an independent, isolated subject. There is a consensus, however, that the US and Canada cannot and should not operate as silos of policy but should rather integrate their policies and actions to the end of establishing a continental market for energy products and services, an energy restructuring free trade zone if you will.

While much progress has been made under the Canada-US Free Trade Agreement and the North American Free Trade Agreement in other energy areas, there has been little attempt to deal with the complexity of integrating energy network policies. This should not be surprising since provinces, states, and territory (hereinafter referred to as PSTs) in each country have frankly done little to integrate policy among themselves.

The difficulty of moving from, in many cases, 64 PST models for many issues to an integrated CANUS market seems overwhelming. But so then do most great accomplishments. While under no illusion that progress will be swift and efficient, there is still an obvious and compelling need to begin the analytical process of identifying the impediments and options to such an ambitious goal. This section of the Forum begins that process.

V. Recommendations

The final section of the Forum will focus on making recommendations to both public policy makers and industry stakeholders on actions to be taken to move from Here to There.

The future of energy restructuring is very uncertain. Whether energy restructuring serves Canada well will largely be determined by policy decisions made over the next few years. Moreover, a high-level discussion is necessary and essential to developing a consensus on action. The primary rationale for *The Canadian Energy Restructuring Forum* is to facilitate good decision-making based on analysis and consensus.

WHO?

The Canadian Energy Restructuring Forum will be comprised of approximately fifty senior executives representing industry, regulators and legislators from all levels of government, and other leading stakeholders including consumer advocates and environmentalists. With the goal of building consensus on how to proceed, a careful balance will be maintained in regard to viewpoint, financial interests and geographic representation. Half of the Forum will be comprised of public sector/non-profit representatives and half from industry.

HOW MUCH?

To accomplish all of the above, CAEM estimates that this effort will cost \$700,000 CAN. There will be four categories of membership based on the applying organization’s annual revenue:

Small Organizations (annual revenue of less than \$5 million)	\$10,000 CAN
Medium Organizations (annual revenue of \$5 million to \$25 million)	\$25,000 CAN
Large Organizations (annual revenue over \$25 million)	\$50,000 CAN
Public sector participants (except for grants from governmental organizations)	No fee

CAEM encourages participation by the public sector/public interest organizations. There will be no fee for these participants. CAEM recognizes that many organizations are under budgetary constraints and pledges to be as flexible as possible in regard to project support commitments. On a case-by-case basis, CAEM is willing to consider split payments, in-kind contributions or other means of contributing to the effort.

WHEN?

The Forum is scheduled to begin in October 2001. The Forum will consist of five plenary sessions, two to be held in Toronto, one in Montreal, and one each on the west and east coasts, over the course of a year. Subcommittees will also be convened as necessary between plenary meetings. At the end of one year, the Forum will issue a report with policy recommendations that will be widely distributed to policymakers and stakeholders. The Forum will conclude with a conference that is open to all announcing the results of the Forum.

CAEM proposes the following timeline for the Canadian Energy Restructuring Forum:

- June—October: Solicit Project Support Commitments for the Forum, Develop Draft of Vision White Paper and Workplan
- October: Meeting 1 of the Forum in Toronto to Discuss Vision and Workplan.

- October – January: Complete Vision and draft Foundation and Domestic Impediments section
- January: Meeting 2 in Calgary primarily to discuss Foundation and Domestic Impediments
- January – April: Prepare Continental Impediments White Paper
- April: Meeting 3 in Halifax primarily to discuss Continental Impediments Paper
- April to June: Prepare Recommendations Paper
- June Meeting 4 in Montreal primarily to discuss Recommendations
- June to September: Draft of Final Report
- September Meeting 5 in Toronto to discuss Draft Final Report
- October: Presentation of Final Report at a National Conference in Toronto

WHO?

CAEM is pleased to announce that Mike McLeod has agreed to serve as Project Director of the CAEM Canadian Energy Restructuring Forum. Mike brings a wealth of experience and dedication to the analysis of Canadian energy restructuring policies. He will be assisted by Nancy Etkin, CAEM Project Director of the RED Index, and Ken Malloy, President of CAEM.

Mike is a Center Canadian Scholar and is the president of Regulatory Compliance Services (RCS). Prior to starting RCS, Mike was with the Ontario Energy Board for six years and was head of the Board's Strategic Services group. He was responsible for the Board's energy research and policy development work dealing with the electricity and natural gas industries including PBR, and mergers and acquisitions activities. He was also the Board's Senior Advisor and one of three Senior Project Managers responsible for the annual regulatory review of Ontario's Class "A" gas utilities.

Before joining the Board, Mike was the Division Coordinator for the Ministry of Environment's Policy Development and Intergovernmental Affairs Division, and was the Assistant Director of the Ministry's Environmental Assessment Branch where he was heavily involved in the siting and approvals of electricity generation and transmission facilities in the Province.

Mike graduated from York University in Toronto in 1976 having specialized in geography and community planning. He ran his own town planning consultancy before joining the Ontario Government in 1979 as a District Lands Planner with the Ministry of Natural Resources.

Mike is also a graduate of the U.S. National Association of Regulatory Utility Commissioners (NARUC) Regulatory Studies Program at Michigan State University, and is the former Administrator for the Canadian Association of Members of Public Utility Tribunals (CAMPUT).

Nancy joined CAEM as Project Director for the RED Index in October 2000. She has over 20 years of experience in the natural gas industry, starting as an internal management consultant at ENSERCH Corp., (now Texas Utilities). While at Lone Star Gas Company in Dallas, she participated in the American Gas Association's "loaned executive" program from 1983-1984.

Etkin's government relations experience includes serving as energy coordinator to the state of Texas's Office of State-Federal Relations for two years; working in ARKLA, Inc.'s (now Reliant Energy) Washington, D.C. office for six years; and serving as the Director of Government Relations for the Natural Gas Vehicle Coalition in Arlington, Virginia for four years. During her tenure at ARKLA, as Regulatory Affairs Specialist, she worked on pipeline deregulation issues in the post-Order 436 implementation.

Etkin's energy policy experience ranges from representing Texas' electric, oil and natural gas interests in Washington during the mid-80's, to participating in the Clinton Administration's Domestic Gas and Oil Initiative and Federal Fleet Conversion Task Force as a contractor to the U. S. Department of Energy in the early 90's.

She holds her bachelor's degree from Valparaiso University in Indiana and her master's in public policy from the Lyndon B. Johnson School of Public Affairs at the University of Texas in Austin.

Ken is the President of the **Center for the Advancement of Energy Markets (CAEM)**. Ken is nationally recognized as a bold visionary on the energy industry's transition from monopoly regulation to open access markets, having been cited in **Business Week, National Review, the Washington Post, Time Magazine,** and the **New York Times**, and has appeared on **CNN, MSNBC,** and on numerous radio shows..

Ken was a member of PHB Hagler Bailly's Corporate Strategy and Management Group and Market Analysis Group from 1996 to 1999. He specialized in corporate strategies relating to restructuring gas and electric retail markets. He was the U.S. Department of Energy's lead career official on policies relating to competition, regulatory reform, and industry restructuring over the last three Administrations (1987 to 1996). A lawyer by training, he has held positions in the areas of natural gas, electricity and oil policy. He was Deputy Executive Director and General Counsel of the Illinois Commerce Commission, Director and Assistant Director of the predecessor of FERC's Office of Economic Policy, and staff attorney in FERC's Office of General Counsel. During his FERC tenure, he worked on regulations that encouraged the development of competition in natural gas markets, working extensively on Orders 436 and 451. Prior to FERC, Ken was a law professor at Western New England College School of Law, teaching in the area of federal economic regulation of industry.

Malloy graduated with honors from Boston College Law School in 1978, where he was an author and editor of the Boston College Law Review.

The Center for the Advancement of Energy Markets (CAEM, pronounced "kay em") is a not-for-profit corporation (501 (c) (3)) whose mission is to:

- Chronicle and understand changes in domestic and global energy markets brought about by technological and policy developments.
- Expound a market-oriented vision for energy markets.
- Persuade and encourage key public policy, consumer, and corporate decision-makers to implement changes to achieve a market-oriented vision.
- Build consensus among industry stakeholders on contentious policy issues.
- Educate the media, policymakers, and the general public on issues of importance in the energy sector.

CAEM was founded in 1999. Its accomplishments to date include: publishing the *Retail Energy Deregulation Index* (RED Index) twice a year; being awarded the NARUC project on uniform business rules; organizing the *North American Summit on Energy Restructuring* sponsored by NARUC and DOE; being named by Public Utility Fortnightly as one of five companies that were “energy innovators ringing in age of enlightenment;” and appearing on *CNN* and in *Time* magazine as an expert on the California Crisis.

CAEM has a wealth of expertise in conducting consensus forums. The Center currently is conducting two other consensus forums: The **DISCO of the Future Forum** and the **Distributed Energy Task Force**. The Center has also participated in consensus forums on electric restructuring, convergence, and distributed energy. The Center offers a variety of educational programs and publications that provide the major source of its funding. Its website is www.caem.org.

HOW TO JOIN?

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