

## EXECUTIVE SUMMARY

The five Conditions Certain issues identified in § 70-1003(6) were assigned to five separate Technical Groups. This Executive Summary includes an overall summary and the specific new findings and conclusions of those Technical Groups, that are incorporated in the 2007 Update, as well as the findings and conclusions from the prior years' reports.

### Overall Summary

As outlined in page (iii) of the introduction to this report, for customer choice to be effective and beneficial to the citizens of Nebraska, all of the following three conditions must be met:

- A viable regional transmission organization and adequate transmission exist in Nebraska or a region that includes Nebraska, and,
- A viable wholesale electricity market must exist in a region which includes Nebraska, and,
- Wholesale electricity prices in the region must be comparable or competitive to Nebraska prices.

The overall results of the 2007 conditions certain report will indicate that all three conditions have not been met as indicated by the following:

- Viability of regional transmission organization and adequate transmission exist in Nebraska or a region that includes Nebraska:
  - A viable regional transmission organization does not yet exist in the region
  - There is not adequate transmission in the region to make all desired transactions sought by utilities and marketers
  - This condition has not been met
- A viable wholesale market in a region including Nebraska:
  - A reasonably efficient and workable wholesale market does exist in the region, however,
  - Based on new FERC rules, it cannot be judged free from market power.
  - This condition has not been met
- Wholesale electricity prices in the region must be comparable or competitive with Nebraska prices:
  - Nebraska prices for the 2004-2007 study period are 41.2 percent below the regional market
  - Regional market prices are significantly non-competitive
  - The most current data for 2005 shows that Nebraska's average retail rate of 5.87 cents/kWh is approximately 32 % lower than the national average retail rate of 8.66 cents/kWh.
  - This condition has not been met.

Other conditions certain in this report include the extent that retail rates have been unbundled and any other information the board believes to be beneficial to the Governor, the Legislature, and Nebraska's citizens when considering whether retail electric competition

would be beneficial, such as, but not limited to, an update on deregulation activities in other states and an update on federal deregulation legislation. Two significant items should be mentioned:

- There has been no significant unbundling of retail rates in Nebraska
- In other states, customers served by regulated retail markets have generally experienced smaller electric rate increases than customers served by “competitive” retail markets and promises of wholesale and retail competition driving down prices has not occurred.

## **SUMMARIES OF CHAPTERS FOR 2007 REPORT**

### **Summary of Issue 1**

- Viability of the MAPP region is less certain than in previous years
- MISO market participation options need to be evaluated carefully
- Participation in SPP may be an option
- Adequate transmission exists in Nebraska to deliver generation to load but:
  - Parallel flows from the market cause increased congestion
  - Regional transmission cannot support all of the potential wholesale market transactions

**Summary of Issue 2** - The traditional test of market power, the hub and spoke test, demonstrated that two out of the three regions in the wholesale market that includes Nebraska, experienced market power. The newly approved FERC market power screens of individual utilities indicate that nearly all of the area utilities not belonging to an RTO have market power. The final conclusion is that a reasonably efficient and workable wholesale market does exist in the Midwest region, but it cannot be judged as being free from market power given the new FERC rules.

**Summary of Issue 3** - There were no new developments in 2007. Technical Group #3 will continue to review the status of unbundling in Nebraska, and report the results as needed. During the study year 2008, there may be activity in the area of privately owned generation that might require limited unbundling and Technical Group #3 may look in to those activities.

**Summary of Issue 4** - The results of the comparison between the market product indices and the Nebraska production costs show that Nebraska production costs are approximately 39% lower than the equivalent wholesale “median” market price based on the period 2003-2006 (three years actual, one year projected), and weighted based on MWH. Based on the “average” market price, Nebraska production costs are approximately 39% lower than the “average” market price.

### **Summary of Issue 5**

- The cost of gas is becoming an increasingly important fuel source for electricity generation, now producing approximately 20 percent of Nation’s electricity.
- Texas is producing approximately 50 percent of its electricity with natural gas.

- Natural gas sets the market price for electricity in several retail and wholesale markets.
- Promises of wholesale or retail competition driving down energy prices have not occurred.
- Competitive wholesale markets are a necessary precedent to successfully implementing retail choice.
- Adequate power supply, reserves and infrastructure are crucial.
- Elimination of the “obligation to serve” is a contributing factor to the reduction of generation reserve margins.
- Customers served by regulated retail markets have generally experienced lower electric rate increases than customers served by “competitive” retail markets..