

## MEMORANDUM

16 August, 1999

TO: RSC Task Force Members  
FROM: PHB Hagler Bailly  
SUBJ: Guiding Principles and Assumptions

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Below is a summary of principles and assumptions that have guided development of the Retail Settlement System Code.

1. The overall objectives of the settlement code are to define the regulatory obligations of LDCs to support retail competition by facilitating customer choice and accurate financial settlement among retail market participants at a reasonable cost.
2. The primary measures of success in overall market design include:
  - Low entry and exit barriers for retailers
  - Low switching costs for customers
  - Equal treatment by LDCs towards all retailers
  - The absence of sustainable monopoly margins on competitive services.

A low rate of switching among customers or limited market entry by competitive electricity suppliers are not necessarily signs of market failure. While the code should not deter customer switching, it also should not artificially stimulate customer switching.

3. In general, LDCs must not only treat all retailers equally (as required by Section 26 of the Act), they must remain neutral with respect to how they treat retailers and customers and in any disputes between retailers and customers.
4. End-use customers have a right to purchase electricity at the wholesale spot price.
5. Uniform business practices should be carefully considered where flexibility imposes high costs on retailers that operate across LDC boundaries or where uniformity leads to significant scale economies for LDCs. Uniformity is easier to implement when business processes and support systems are brand new.

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Where business processes and support systems are already well-established, the cost for LDCs to modify existing systems or replace them with new, uniform systems must be weighed against the cost for retailers to handle a reasonable degree of flexibility on the part of LDCs.

6. Settlement system development and operating costs should be minimized, subject to the need to support customer choice through minimization of barriers to entry and switching.
7. While the code must seek operational efficiency, there is also a need to ensure minimum standards of customer service.
8. All reasonably incurred costs by LDCs to develop and operate the settlement system should be recoverable through some combination of wires charges, user fees and transaction fees.
9. LDCs should not be subjected to undue risk in fulfilling their settlement obligations.
10. LDCs have an obligation to negotiate in good faith to offer selected optional settlement services requested by market participants. Such services should not be cross-subsidized by market participants who do not purchase or benefit from such services.
11. The settlement code should, wherever possible, provide sufficient detail and specificity to minimize the regulatory burden of implementation.
12. Having the obligation to meet the requirements of the settlement code and how those obligations are fulfilled are two separate things. The task force fully expects that many LDCs will fulfill their settlement obligations through outsourcing or joint venture arrangements.
13. The settlement code is being drafted under a significant degree of uncertainty about other relevant obligations and market design parameters and about the level of market activity in both the short and long run. Included among these uncertainties are:
  - The precise nature of pricing and service information provided to LDCs by the IMO
  - How the aggregate cost of delivered electricity must be unbundled
  - What billing determinants should be used to calculate end-use customer's and retailer's bills
  - What information must be included on a customer's or retailer's bill
  - The specific design for performance-based regulation of LDCs

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- Whether or not metering will be a competitive service
- The nature of standard supply service
- How settlement system development and operating costs should be recovered.

Many of these issues are being worked on in parallel with development of the draft code. As they are resolved, the settlement code will need to be modified.