

CLOSING THE CIRCLE: FROM WHOLESALE PRICES TO RETAIL PRICES/RATES AND PROGRAMS

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Introduction

Regulatory Assistance Project

RAP is a non-profit organization, formed in 1992, that provides workshops and education assistance to state government officials on electric utility regulation. RAP is funded by the Energy Foundation and the US DOE.

Richard Sedano was Commissioner of the Vermont Department of Public Service, 1991-2001, and presently serves on the Montpelier Planning Commission. He is the facilitator for the Mid-Atlantic Distributed Resources Initiative.



Can We All Agree?

- Valuable to find good ways to make connection between wholesale markets and retail behavior
 - ❖ Expect more interest in
 - ◆ Demand response
 - ◆ Distributed generation
 - ◆ Energy efficiency
 - ◆ Load shifting and storage



Connection to what? And to whom?

➤ To what?

- ❖ Short run marginal cost
- ❖ Long run marginal cost

➤ To whom?

- ❖ Customers as actors, enable them to help the system and help themselves
- ❖ Customers have distinct sub-groups that need distinct solutions



Short Marginal Cost

- Efficient use of existing assets
- Manage congestion – location important
- Where there is structural potential for market power, need to be prepared to mitigate prices, especially if they are what customers see



Distinct importance of Long Run Marginal Cost

- Drives investment
 - ❖ Hopefully in an economic efficient way



What is Long Run Marginal Cost

- Incremental fixed investments are marginal
- Importance of “the test”
 - ❖ Societal values and the struggle to internalize them
 - ◆ Ancillary services: spinning reserves – working in PJM?
 - ◆ Clean Air Act Emissions Budgets for states – SIPS
 - ◆ Latest challenge: Greenhouse Gas Emissions
 - ◆ What about things like Firm Transmission Rights? Are they part of the LRMC that customers see?
- Do markets convey good price signals?
 - ❖ Short run \neq Long run
- Status: Long run price signals not working well



Customers

- Rate designs to show customers
 - ❖ Long run marginal cost
 - ❖ Short run marginal cost at peak, reliability events
- Enable customers
 - ❖ How much of this and for whom should be mandatory?
 - ❖ How active do we expect customers to be in purchasing hedges in forward markets, etc.
 - ❖ Can customers get enough of the message with well-designed DR and rates, or is RTP needed?



Rate Design

- Traditional drivers: just and reasonable, no undue discrimination
- Allocation of fixed and variable costs important, especially in retail competition states
 - ❖ Price transparency is vague but important
- New drivers: motivate consumer behavior consistent with short and long run marginal cost



Connecting Wholesale Markets to Customers How?

- Dynamic rates
 - ❖ Seasonal, TOU, CPP, ...
- Advanced meters
 - ❖ We have NY DPS saying we need more AMI – they have the power!
- Demand response
- Efficiency



Helpful Point of View

- Remove barriers to customers
- Remove barriers to enablers
- Incentives are nice, but frustrating if barriers remain



Barriers to Customers

➤ Information

- ❖ There is no quick fix for this – a sustained campaign (\$\$) is needed to get sustained results

➤ Rate design induced incentives via rates and demand response programs

- ❖ Must be easy for customer to respond

- ◆ Internet based
- ◆ Smart thermostats
- ◆ Advanced Meters



Barriers to Enablers

- Allow, facilitate entry
- Allow, facilitate access to customers and their information
- Deal with Metering policy
 - ❖ Competitive for the physical meter, or should competition focus on data management?
- Pay them reasonable value, on time
- Minimize bureaucratic hassles



Collaboratives Help

- Helps with transition
- Brings uneasy, suspicious, inexperienced stakeholders along
 - ❖ MADRI
 - ❖ Mass DG Collaborative
- Joint responsibility for finding answers to overall energy price levels



Who?

- Regulators at the pivot point
 - ❖ Someone has to be the mom
- Legislators too if statutes are restrictive, ambiguous or just vague
- They should create an environment where these changes are possible
 - ❖ And push as needed



Note on Retail Market Structure

- Retail competition not critical to success
 - ❖ Customers may or may not be motivated choosers in retail competition or monopoly
 - ❖ When choice is available, residential customers may choose the easiest path – stay put
 - ❖ Will customers switch suppliers to get fixed or variable?
- More and more states will be thinking more about **choice**



View from the trench

- Experience is still very thin
 - ❖ Decision-makers cautious, skeptical or even scared
- Successful regulators will keep their eye on the long run objectives while steering through complaints and missteps
 - ❖ This is hard
 - ❖ Consistency for capital flow is important



Politics

- Some customers are fickle
 - ❖ They are for choice until it hurts them
 - ❖ Can customers be sufficiently educated to ride out hard times
 - ❖ Retail markets change, takes active management by regulators to adapt, communicate to customers (are regulators, over time, up to it??)
- Markets need consistency
 - ❖ Electric industry is capital intensive – can't forget that
 - ❖ Do not mess up the flow of capital!!!



Actions

- Active look at rates
 - ❖ Push time sensitivity, maintain positive response
- Learn more about demand response program
 - ❖ Business practice should work for all
 - ❖ Cost recovery for enabling work by utility
 - ❖ Articulate market role for utility and third parties
- Pilots for investment intensive initiatives
 - ❖ With experience comes more confidence



Thanks for your attention

- ❖ rapsedano@aol.com
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- ❖ RAP Mission: *RAP is committed to fostering regulatory policies for the electric industry that encourage economic efficiency, protect environmental quality, assure system reliability, and allocate system benefits fairly to all customers.*