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

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The Regulatory Assistance Project
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.

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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 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 ≠ 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
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

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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.