Fallacy Shmallacy...News From the Front
-or-
Even Systems Need Their Space

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New Energy Ventures, Inc.
Rule #1 - Remember Objectives

- Increased competitiveness in a global economy.
- Lower electricity costs.
- Customer choice.
Rule #2 - Remember Lessons

- All markets and all regulators are imperfect.
- Imperfect markets are better than imperfect regulator.
- Markets correct, regulators hide mistakes.
- Remember gasoline.

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Rule #3 - Remember Principles

- Regulatory structures change as political structure changes.
- Ratchet only moves in one direction; or, it's easy to expand, but impossible to collapse regulatory authority.

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Evaluation Criteria

- Empower buyers and sellers to protect their own interests:
  - Price & non-price factors.
  - Total energy management.
  - Encourage innovation.

- Provide incentives for long-term investment in transmission & generation.
Evaluation Criteria (con’t.)

- Encourage mitigation over management of constraints.
- Provide short and long-term risk sharing.
  - Hedging & buying flexibility.
  - Sellers and buyers share capital risk.
Evaluation Criteria (even more)

- Provide adaptability to a changing market.
  - New transactions.
  - New conditions.
  - New players.
  - New commodities.
Evaluation Criteria (last one).

- Doesn't ask regulators to exceed their abilities:
  - Act as a proxy for competition.
  - Control/manage competition.
  - Planning.
  - Stability.

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Questions Regarding Separation

- Does our system need to be born perfect? Do we know enough about the future to even define perfection?
- Is avoiding cost shifting bogus?
- Are the functions of the ISO bloated to implement a double standard?
- What incremental benefits are expected by combining the ISO and Exchange?

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Problems with Combining

- Principle objective seems to be constraint management, yet;
- No estimates of whether constraints would be an everyday or anomalous occurrence.
- Why create an elaborate, persistent construct to solve an infrequent problem?
More Problems with Combining

- Unclear Benefits. What percentage of the long-term market will the exchange represent? If large, then combination = PoolCo. If small, then why take the risk?

- Ratcheting. Expansion to include bilateral transactions.

- Self-dealing and other human factors - the IPP lesson.

- Ultimate outcome = PoolCo.
Principles for the ISO

- Facilitate fair access so that buyers and sellers can act in their own interests.

- Start low - remember the ratchet.

- Presume that rules, practices, and procedures which currently work for utilities will work for direct access, e.g...
  - TOU pricing
  - Constraint management
  - Imbalance reconciliation.
More Principles for the ISO

- Test and/or explain why existing constraint management practices won’t work:
  - Firm/nonfirm subscriptions.
  - Limit of firm to rated capacity.
  - Prorata curtailment of nonfirm when nominations exceed capacity.
  - Let market forces encourage efficient use.
Regulatory Litmus Tests

- Regulatory oversight - does the proposal require more or less regulatory involvement?
- What CPUC/FERC functions will vanish or diminish?
- What functions will be created or expanded? CTC administration? Real-time ratemaking?

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Final Conclusion

- If customer choice is the goal, then you shouldn’t regulate buyers and sellers to the benefit of the system; rather, you should regulate the system to the benefit of buyers and sellers.

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