

Successful Market Design: What Should A State Want?

Harvard Electricity Policy Group

Point Clear, Alabama

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Who is This Guy?

- I Am From a Regulated State
- I am From a Low Cost State
- I am a Firm Believer That Competitive Markets NEED Regulation
- I am a Firm Believer That States Have a Vital Role in Market Design
- I am From a State That Produces 97% of It's Electricity From Coal

Why Then Support RTOs & Market Design?

- Electrons Cross State Borders
- Independent Marketers Cross State Borders
- Regulated Utilities Cross State Borders
- State Regulators Can NOT Cross Borders

Why Then Support RTOs & Market Design?

- 1992 Energy Policy Act
- 10 Years of Competitive Markets
- 40% of Power Comes from Non-affiliated Power Companies
- Markets ARE Interconnected
- Our Rate-payers Benefit

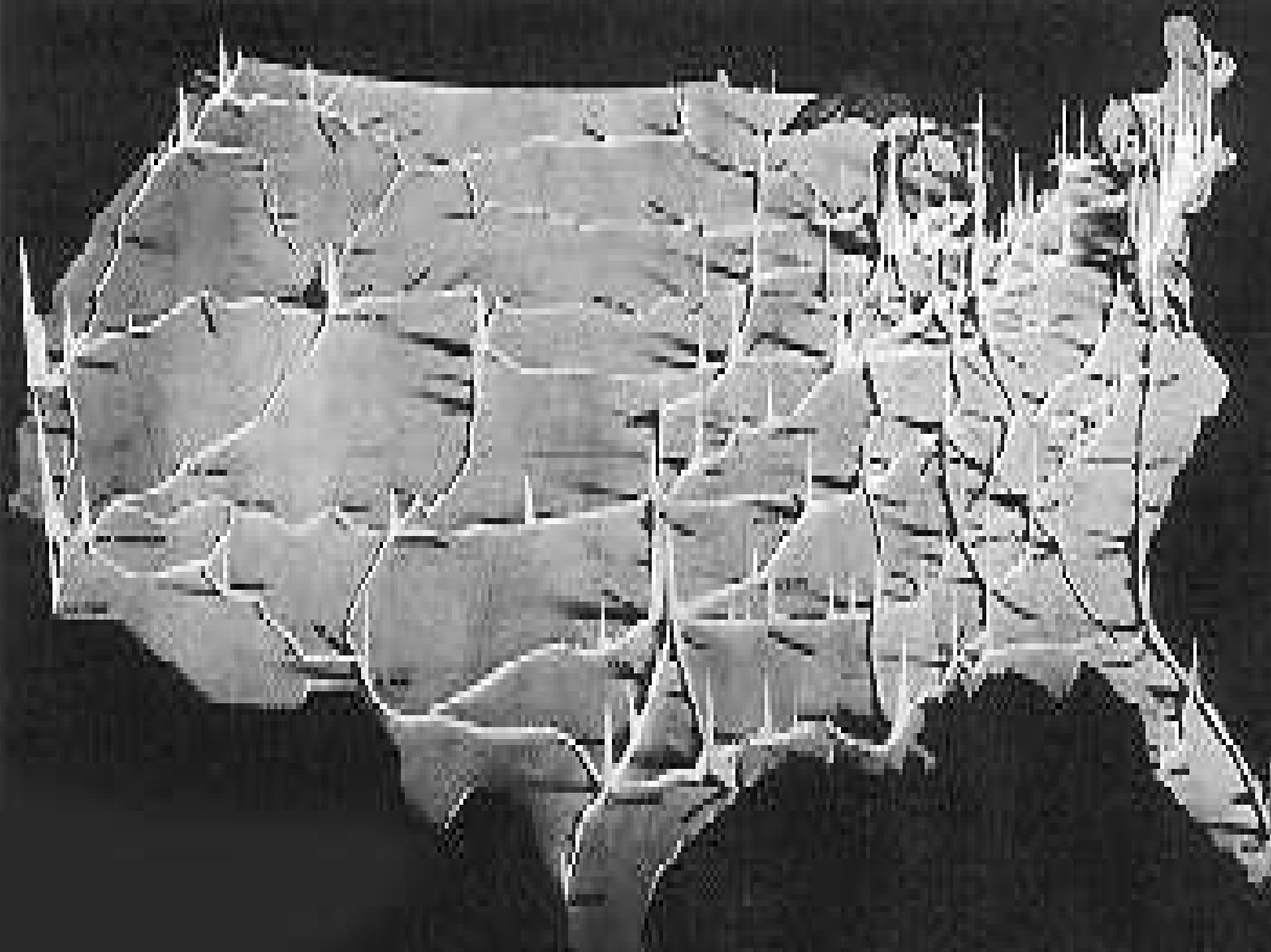



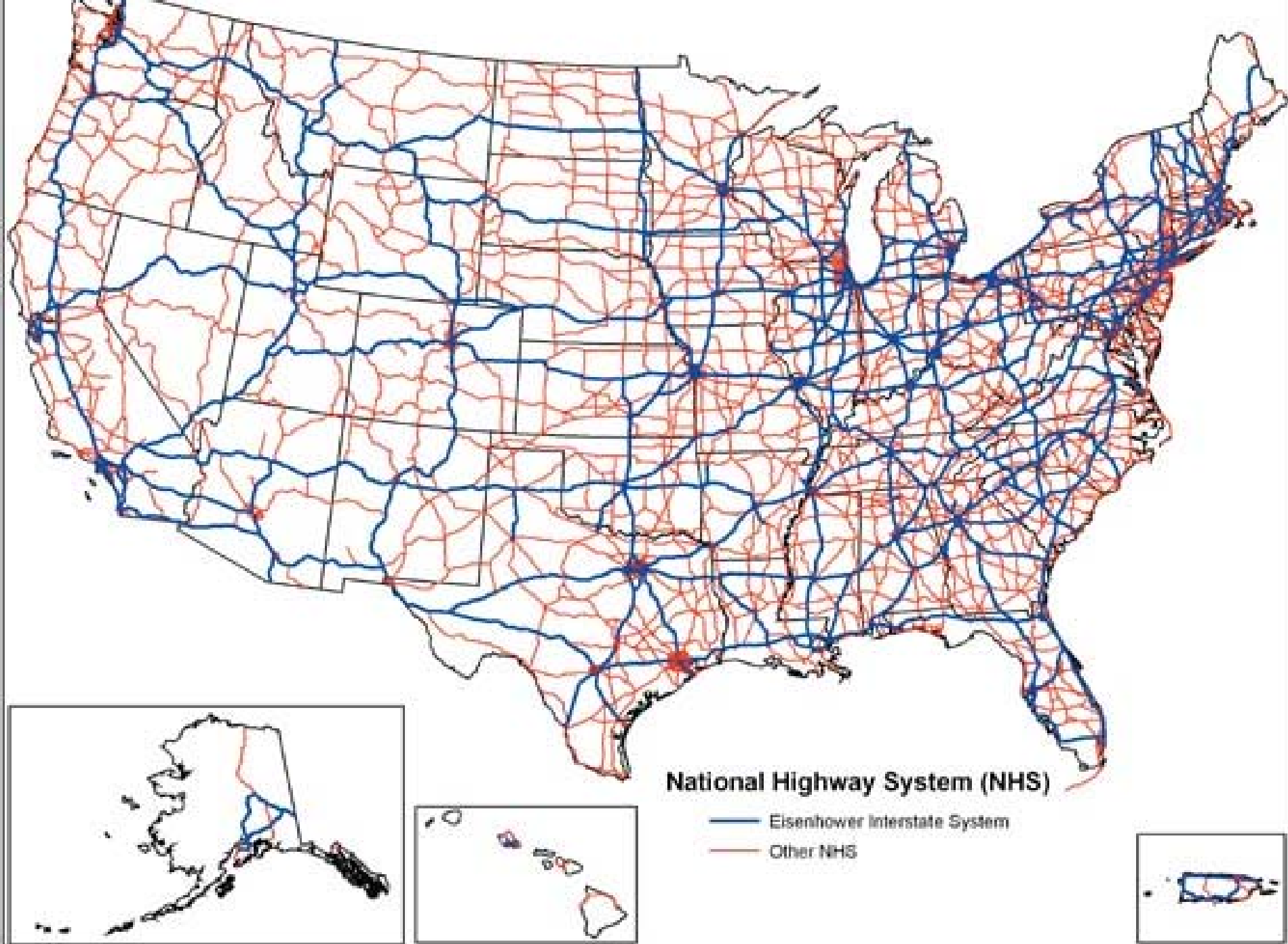
Illustration of peak traffic volumes
based on statewide planning
surveys of the 1930s.



"Together, the united forces of our communication and transportation systems are dynamic elements in the very name we bear - United States. Without them, we would be a mere alliance of many separate parts."

- President Dwight D. Eisenhower, Feb.

22, 1955



Market Design?



What Should a State Want?

An electric power grid as
reliable and economically
efficient as reasonably possible.

Reliability!

Or,

Said

Another Way . . .

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Market Design - Reliability

- Communication
- Transparency
- Security Constrained ... Dispatch
- Elimination of Pancaked Rates
- Locational Marginal Pricing
 - Firm Transmission Rights
 - Reactive Power
- Coordinated Planning

Market Design - Economic Efficiency

- Communication
- Transparency
- Security Constrained *Economic* Dispatch
- Elimination of Pancaked Rates
- Locational Marginal Pricing
 - Firm Transmission Rights
 - Reactive Power
- Coordinated Planning

Market Design – Include State Commissions

- Regional Coordination
 - Resource Adequacy Standards
 - Transmission Planning and Expansion
 - Rate Design and Revenue Requirements
 - Market Power and Market Monitoring
 - Demand Response and Load Management
 - Distributed Generation and Interconnection Policies
 - Energy Efficiency and Environmental Issues
 - Management and Budget Review of RTOs

WTGBRFDT?

What's the Good
Business Reason for
Doing This?

What Should a State Want?

An electric power grid as
reliable and economically
efficient as reasonably possible.