What’s Required and What’s Allowed?

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Restructuring is a Complicated Mess in the United States

- Legislation is 10 Years old
- Progress is piecemeal, on a state-by-state basis
What is required and what is allowed?

- **Access** is required by the 1992 law – SMD is the best way to do it.
- **Access** is necessary but not sufficient for successful **deregulation.** (removal of price controls)
- Competition at the production level should control prices, but requires **restructuring.**
- **Customer choice** for small customers is a red herring.
Access is required – SMD is how to do it – wheeling was not.

• SMD will permit access (as envisaged in 1992 by EPAct)
• SMD will deal with short term issues
• SMD will offer the minimal amount of restructuring to make access work (separation of T and G)
The Four “Controls” of Trading Arrangements

- SCHEDULING
- IMBALANCES
- CONGESTION
- ANCILLARY
These changes will increase efficiency even without deregulation

- They are equivalent to the old tight pools
- They do not presuppose deregulated generation
- They do not require customer choice
- They will use the transmission more efficiently
Restructuring is still a problem

- SMD requires separation of T and G
- Does not address other restructuring problems
  - Consolidation of RTOs
  - Who is responsible for T-expansion
  - Who can restructure generation
SMD is necessary but not sufficient for successful deregulation

• Deregulation means the regulators stop setting prices because something else is making prices just and reasonable.
• That something has to be competitive generating markets.
Competitive markets need:

- Liquid, efficient market places (SMD)
- Many Buyers
- Many Sellers
- Demand response
- Supply response
Deregulation without competitive wholesale markets fleeces customers

- Ownership in the US is concentrated by area – may need divestiture
- Federal government dominates some areas
- Too little transmission – small markets (??)
- Too much regulation of entry
- Need demand response
SMD gives Transparent Spot Prices

- Spot prices are needed for settlement of contracts
- Prices should be set by demand as well as supply
- Most of the wholesale transactions should be at contract prices
- If small customers do not have choice, regulators should require contracts, to limit market power
Demand responsiveness

- Customers should be metered and priced by the hour
- Most of the purchases should be fixed price – marginal purchases at spot prices.
- This limits market prices – allows spot markets to clear
- If this had been done CALIFORNIA WOULD NOT HAVE HAPPENED.
Then markets can be competitive

- Distribution companies (Distcos) buy most (but not all) on contract
- Contract could be market price (auction) or historic cost (regulated)
- Large customers have choice, to provide enough buyers
Finally – complete retail access?

- New settlement software
- Much customer information
- Issues of the couch potatoes
- Default service problems

- This is not where most of the benefit is…Customer choice for small customers is a red herring
Five problems and 51 jurisdictions
Competition falls through the cracks

- Big states and preexisting arrangements are competitive (5 areas)
- In the rest of the country no single state can make a competitive market alone
- FERC does not have the authority
  - To require divestiture of generation
  - To expand transmission
  - To require metering
  - To remove barriers to entry
What has gone wrong?

QUALITY CONTROL

Too many actors, no common script

Need a national vision and roadmap

FERC has a vision but still no power; no staff.

May not be solvable without shift of jurisdiction from states to feds to create competition.
In theory, there is no difference between theory and practice.

In practice, there is