

Musings on DR, EE, Competitive
Wholesale Markets and the
nature of “Integration”

Bob Lieberman
Illinois Commerce Commission
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My lawyer told me to say . . .

My thoughts today are mine alone and
do not necessarily reflect the
positions of the Illinois Commerce
Commission on any of the issues
discussed today.

Brief introduction

- I have been a utility regulator in Illinois since February 2005.
 - currently the Chairman of the Midwest Demand Response Initiative, a collaborative effort of 14 Midwest state regulatory commissions, utilities and other stakeholders trying to educate and learn from each other about how to implement regional price responsive retail demand.
- I ran a Chicago-based not-for-profit called the Center for Neighborhood Technology where we created and managed community-based demand response and energy efficiency programs in partnership with Commonwealth Edison, the local Chicago utility.
 - We introduced the first in the nation hourly pricing pilot for residential customers, the success of which prompted the Illinois General Assembly to recently mandate that electric utilities offer such a program to all residential customers in the state.
- I was partially – only partially – responsible for Illinois' Integrated Resources Planning process, which the legislature put out of its misery in 1997

The three fallacies

- Electricity markets can be competitive without an active and price responsive demand side
- RTOs want to make it easy for DR & EE to be integrated into RTO operations
- Customers don't respond to price signals

Organized wholesale electricity markets are only one half of a competitive electricity market

The early constructs that wholesale markets *could* be competitive *without* significant price response from the demand side were *simply wrong*

Alice laughed, "There's no use trying," she said, "one can't believe impossible things."



I daresay you haven't had much practice." said the Queen. "When I was your age, I always did it for half-an-hour a day. Why, sometimes I've believed as many as six impossible things before breakfast."

Lewis Carroll
Through the Looking Glass
1871

To make electricity markets competitive

- We need price responsive customers
- We will only get price responsive customers if state regulators and policy makers design appropriate rate structures
- Until there is pressure on state regulators and policy makers to change, they won't.
- Both FERC and the RTOs need to stop arguing that the current circumstance is satisfactory
 - "Organized wholesale markets produce results that are roughly equivalent to the results that would occur from a competitive market"

The dilemma

- FERC regulates the “supply” side of the market
- States regulate the “demand” side of the market
- And up till now, the twain have seldom, if ever, met

I’m an agnostic

- What we are looking for is price-responsive customers
- Customers are on the demand side of the supply/demand equation which is controlled by state regulators and policy makers
- As long as the retail rate structures customers face do not provide the incentives for behavior change – both short term and long term – than weirdly complex and largely untested-at-any-real-scale bureaucratic mechanisms are needed to provide those incentives
- “Demand Response” and the very well intentioned but complex set of issues relating to its value and its integration is what we get when we assume a same-price for 8760 hours basic retail rate structure
- If we loosen the flat rate average price assumption, the world gets a lot less murky and in some ways a lot less complex

What FERC should say

- Without price responsive load, wholesale markets cannot be competitive
- Put pressure on state regulators to act

What the RTO's should do

- The RTOs – at least in the Midwest – are doing regional resource planning.
 - They should – systemically – provide state regulators, policy makers and other stakeholders with estimates of the value of reduced demand both in the short-term LMP markets and as it relates to regional resource adequacy on a state by state basis
 - At least state regulators won't be able to say they don't know what the value of reduced demand is...
 - Understand the scale of demand reduction required to achieve the regional objectives

What state regulators and policy makers should do

- Put in place rate structures that incent customer behavior change and allow customers to capture the full value of that behavior change, both short and long term
- Put in place the necessary information and financing systems to give customers the knowledge and ability to change their behavior

What advocates should do...

- Badger all of us until we do this