

HEPG – 20th Anniversary Comedy Tribute

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Ten years ago, at an HEPG meeting, someone quoted Bill Hogan as saying if you input “electricity markets” into the Google search engine, at the top of the list was the HEPG.

Just for fun, I did the same search before coming to this meeting. What term do you think came up first? (Note to all you cheater pants in the audience: put your cell phones down!)

Is it:

- HEPG
- FERC
- Wikipedia
- Enron

A memorable Hoganism: The US government long ago issued rationing tickets for gasoline. Each one has George Washington’s picture on it.”

- We’ve discussed the technical battles won, lost and those we have left to be fought another day. Tonight, we want to celebrate the less tangible, but still incredibly important things the HEPG has provided us.
- First, let’s thank Jo-Ann Mahoney and Trudi Bostian for keeping us organized and meeting logistics running smoothly. Just as important, thank you for consistently searching out fine hotels and excellent restaurants that have enabled us to eat, drink, and kibitz while not endangering our own or the public safety.
- Second, Ashley Brown has reminded us regularly of the need to consider the role of state (as well as federal) regulators, legislators and public interest groups, and of the issues related to conflicts of jurisdiction over issues such as siting of new transmission lines, and the need to get more efficient prices in front of actual

¹ Written with the assistance of three anonymous co-conspirators.

consumers. He is also quite a connoisseur of hilarious stories about former colleagues and adversaries, none of which the censors will allow me to share with you tonight.

- Finally, we want to thank Bill Hogan, who with Ashley has kept HEPG focused on the burning issues of the day. Just as important is the role he played in his own work outside of HEPG. He has been an influential leader in the development of efficient wholesale electricity markets. It's difficult to imagine where we would be today without Bill Hogan having been in the middle of the storm the entire way.
- In acknowledgement of Bill's special contributions we have a special tribute that I prepared, with contributions from three, unindicted co-conspirators, who agreed to help on condition of total anonymity. My guess is if you laugh a lot, one or more might jump up and say "Yeah! I wrote that!" If not, it will serve to prove the old adage that while success has many fathers, failure only has one mother.
- Anyone who has listened to one of Bill's talks on restructuring electricity markets knows he is a really smart guy. He unquestionably knows his stuff. But, you know, the problem with Bill is that he likes to use them really big words. And he likes to string a lot of them into really long paragraphs, which he stuffs into 20 slides, and then he talks really, really fast for 12 minutes. The result is that sometimes it's pretty hard to figure out what the hell he's talking about. So we figured what he could use is a top ten list. So here goes:

BILL HOGAN'S TOP TEN TIPS FOR RESTRUCTURING ELECTRIC UTILITY MARKETS:

#10: Make the market design as simple as you can, but no simpler. (Actually, Bill credited this recommendation from that other famous economist, Norman Einstein.)

#9: Respect the laws of physics. They cannot be broken, and lawyers cannot help you if you try. It matters where those pesky electrons flow and dollars follow close behind. Consequently, we have:

#8: Point to point physical transmission rights are a pipe dream (and we all know what's in the pipe). They cause uncompensated loop flows and other bad stuff. Take a pill. Get over it.

#7: Instead of physical transmission rights, rely on financial transmission rights.

#6: Avoid the separation fallacy. Nothing good will come from trying to separate the market from the physical operation of the system.

#5: Under-engineered markets can't work very well. Properly designed markets are much more efficient.

#4: It's very, very difficult to sell below cost and make it up in volume. That's why bid price caps create missing money.

#3: Let's try to put the missing money back into the energy price. Have we forgotten what happened the last time we mandated capacity contracts for small producers?

#2: In an efficient market, demand response is a result, not a resource.

#1: An essential feature of well-functioning energy markets: (wait for it!) bid-based security constrained economic dispatch with locational marginal prices. Prices that are not locational, not marginal, not security constrained are wrong in virtually every location.

Words to live by!

With that, let's raise our glasses and salute our collective efforts. Let's keep trying to do some good. Let's try especially hard not to screw things up.

Here's to the last 20 years, and to the next, and to those among us who have to sort it all out.