



# Why Direct Customer Participation in Wholesale Markets is Counter Productive

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Wholesale/Retail Pricing: Can the Disconnected Realities be Bridged?

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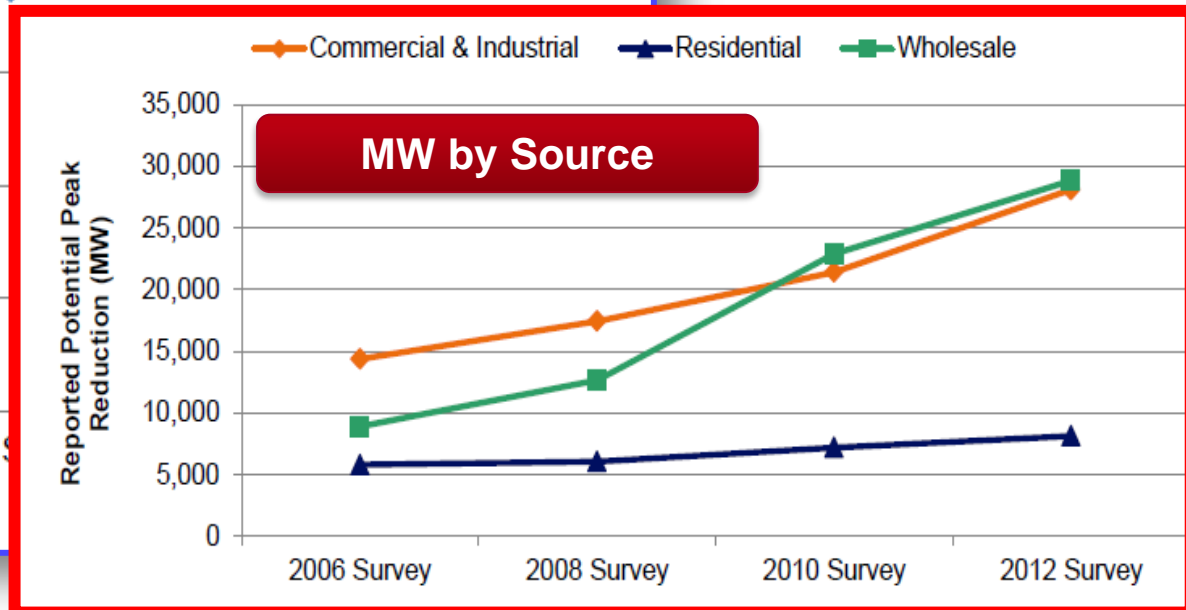
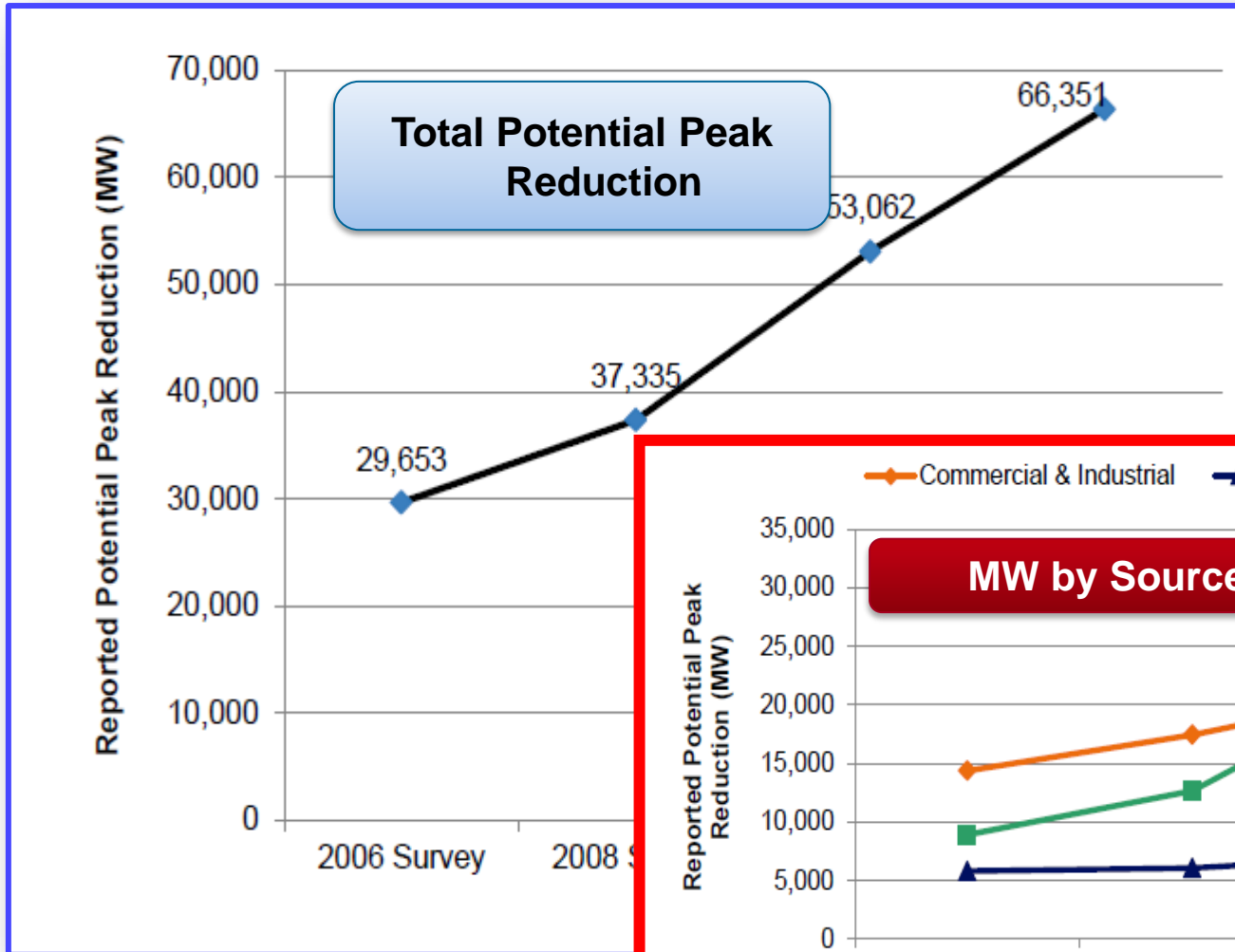
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# Disclaimers, Disclosures & Denials

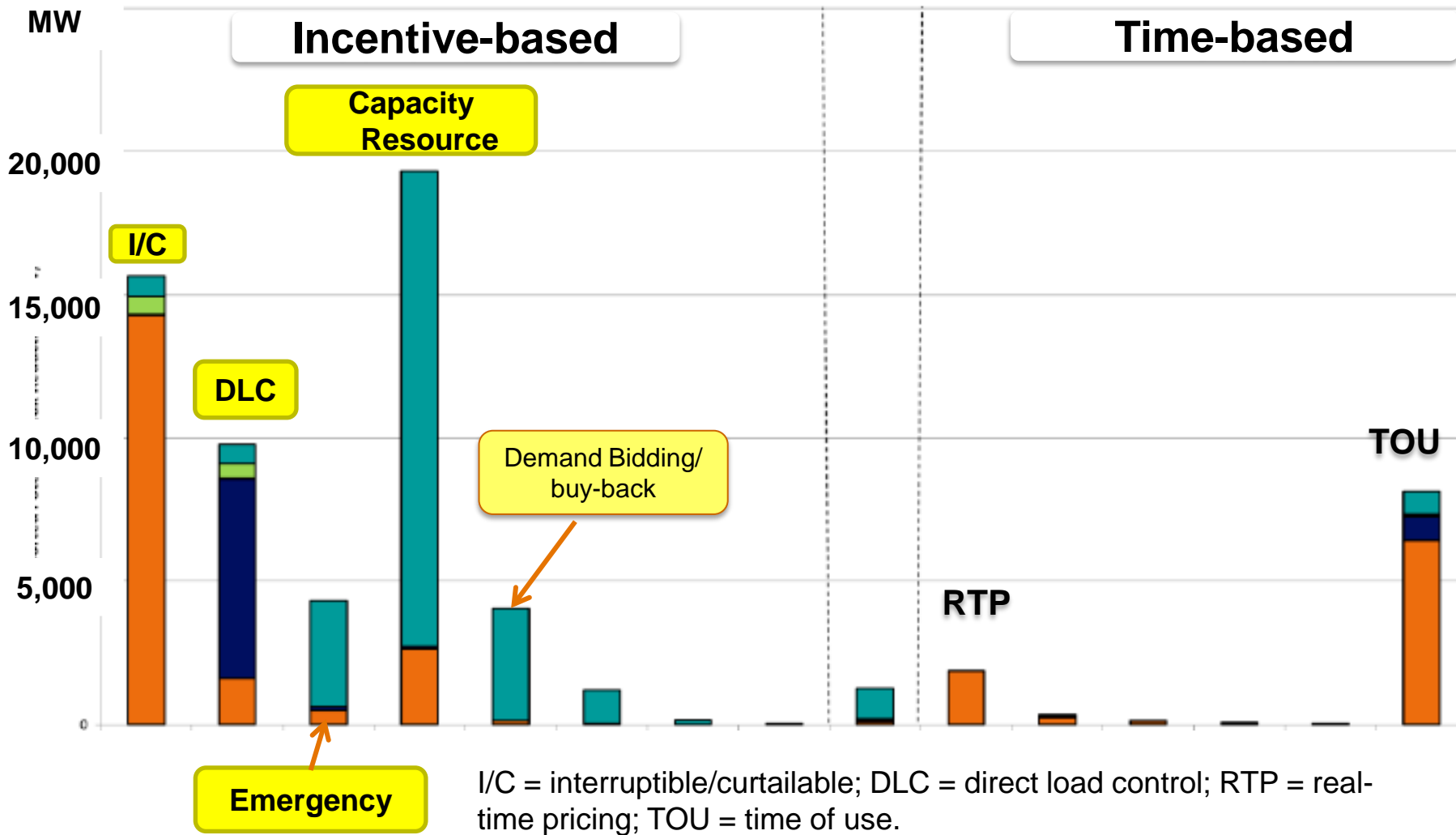
- I was an early proponent of retail participation in wholesale markets
- I have seen the errors of my way
- Views are my own, not those of my employer
- If you quote me, I'll swear I didn't say it



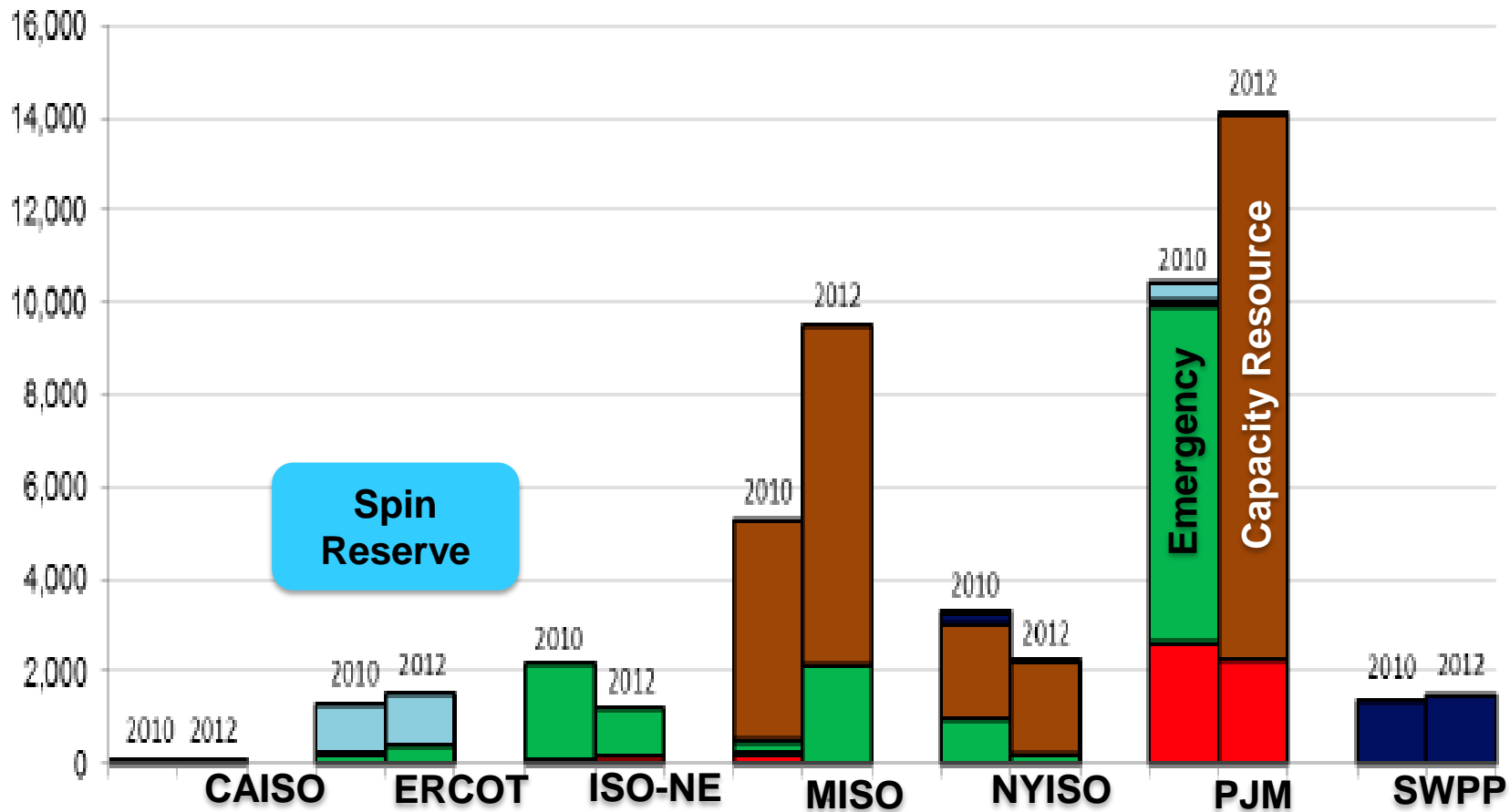
# How Much Price and Demand Response do we Have? (Source: FERC 2012 Demand Response Survey)



# Demand Response MWs are predominantly from incentive-based, short duration call options



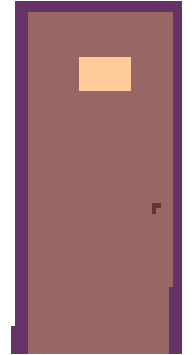
# DR Program Designs vary widely across ISOs/RTOs



# A Proposition

Closing the door to retail customers physically trading in ISO/RTO markets...

- Properly makes a distinction between wholesale and retail market functions
- Shifts the focus price and demand services that fit customers' capabilities
- Promotes efficient investments in home and business control technology
- Results in the optimal supply/demand balance



# Why customer participation in centralized wholesale markets is counter-productive (1)

1. Direct customer participation in wholesale markets was expected to pave the way for diverse retail services
  - Has not materialized
  - It might be the case that ISO/RTO programs act as a deterrent to LSE\* operated programs
2. Current wholesale demand response programs give customers benefits that retailers (LSEs) can't compete with
  - Double-payment for performance (retail bill reduction + marginal-cost based savings)
  - Customers can sell that which they do not own
  - Unequal performance standards

\*LSE = load serving entity

# Why customer participation in centralized wholesale markets is counter-productive (2)

## 3. Use of customer baseline loads

- The intractable problem of baselines: “How can you measure something that cannot be directly observed?”
- Creates legitimate concerns about opportunistic bidding.

## 4. LSEs (retailers) can already provide opportunities to be linked to wholesale ISO/RTO markets

- Priced cap load bidding in day-ahead energy markets
- Use call options (overlays) to reduce load when the system is at peak to reduce the LSE’s capacity requirement.
- Self-supply balancing services
- Collaborate with distribution companies to implement localized PR/DR



# If those are the problems, what is the solution?

## Two different directions

### 1. Break the plate

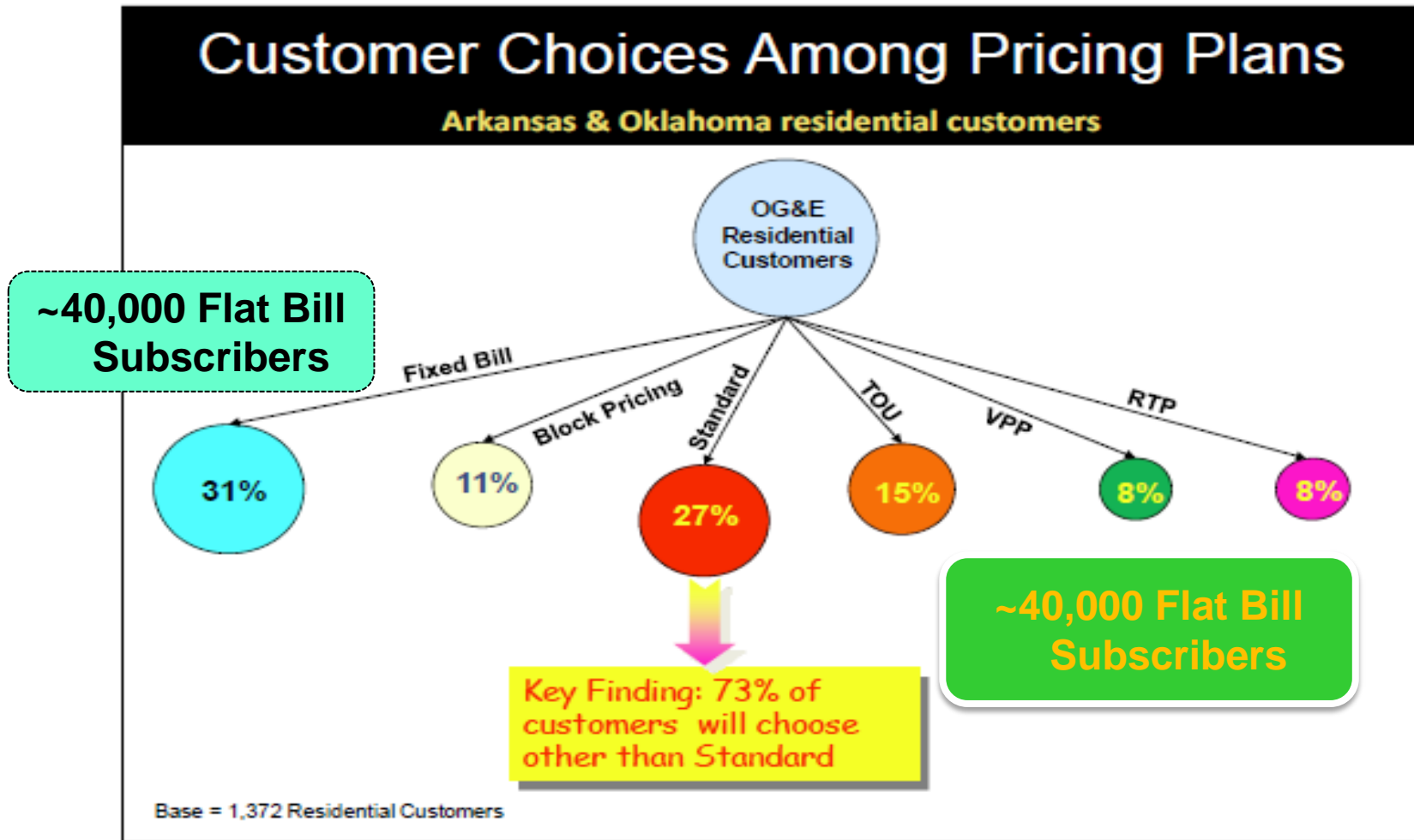
- Phase out direct participation
- Revise and refine ISO/RTO and LSE linkages
  - Price cap load bidding
  - Capacity contracts for differences

### 2. Allow direct retail customer participation but only under the same terms as generation

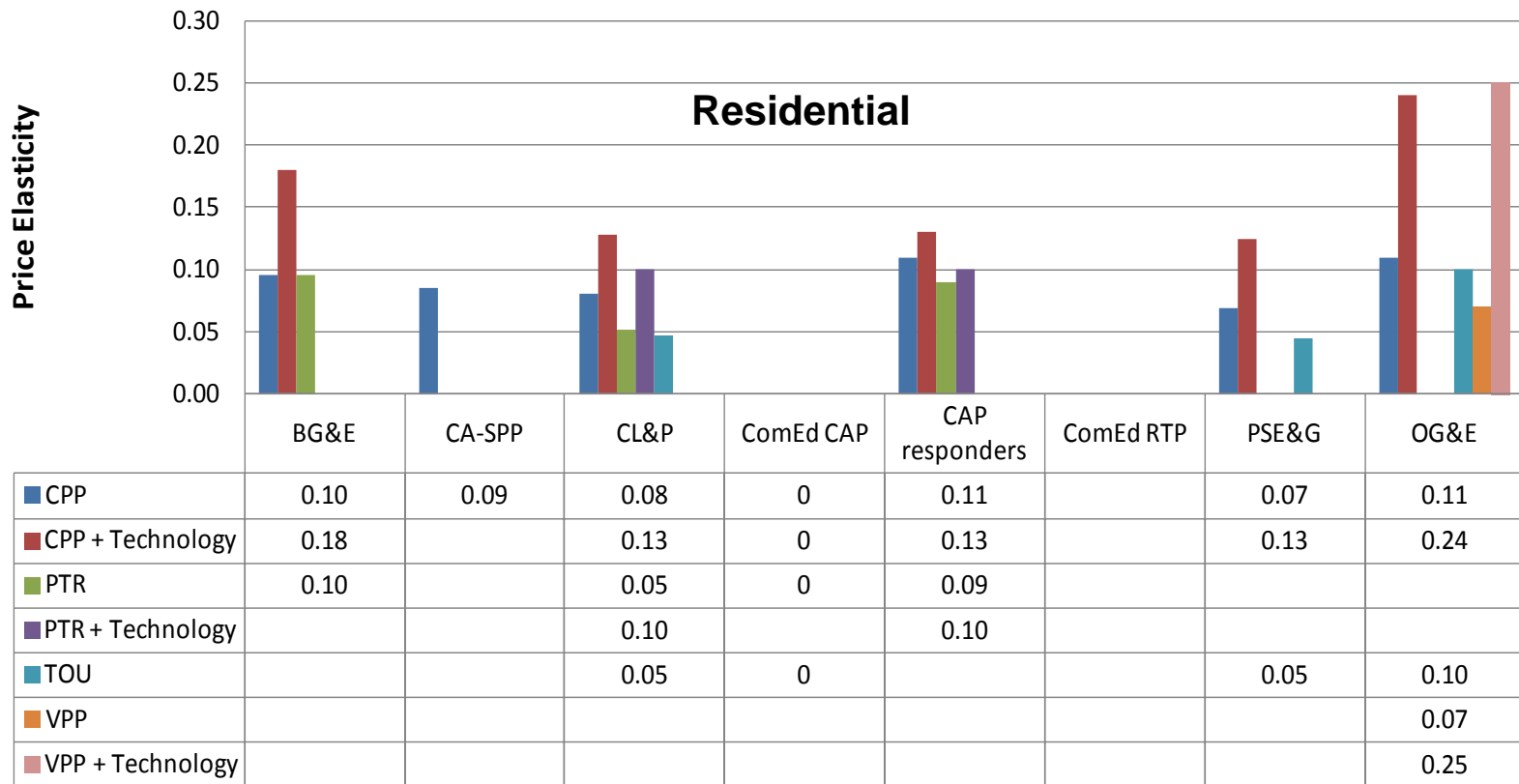
- Customers will have to demonstrate they have paid for the resources (capacity and energy) that they are “selling into the market”
- Would make DR perform fully equivalent to generation

# Who says customers don't like having options?

Chart 1



# Growing Evidence of Price Response – Substitution Elasticity



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