



Fallacy Shmallacy...News From
the Front

-or-

Even Systems Need Their Space

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Rule #1 - Remember Objectives

- Increased competitiveness in a global economy.
- Lower electricity costs.
- Customer choice.



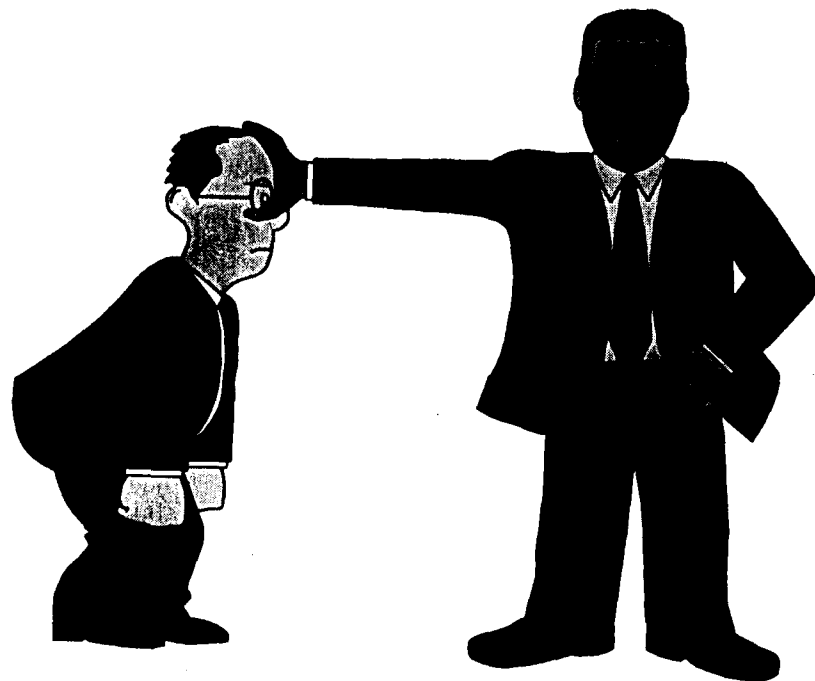
Rule #2 - Remember Lessons

- All markets and all regulators are imperfect.
- Imperfect markets are better than imperfect regulator.
- Markets correct, regulators hide mistakes.
- Remember gasoline.




Rule #3 - Remember Principles


- Regulatory structures change as political structure changes.
- Ratchet only moves in one direction; or, it's easy to expand, but impossible to collapse regulatory authority.



Evaluation Criteria

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- Empower buyers and sellers to protect their own interests:
 - Price & non-price factors.
 - Total energy management.
 - Encourage innovation.
 - Provide incentives for long-term investment in transmission & generation.

Evaluation Criteria (con't.)

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- Encourage mitigation over management of constraints.
 - Provide short and long-term risk sharing.
 - Hedging & buying flexibility.
 - Sellers and buyers share capital risk.

Evaluation Criteria (even more)



- Provide adaptability to a changing market.

- New transactions.
- New conditions.
- New players.
- New commodities.


Evaluation Criteria (last one).

■ Doesn't ask regulators to exceed their abilities:


- Act as a proxy for competition.
- Control/manage competition.
- Planning.
- Stability.




Questions Regarding Separation

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- Does our system need to be born perfect?
Do we know enough about the future to even define perfection?
 - Is avoiding cost shifting bogus?
 - Are the functions of the ISO bloated to implement a double standard?
 - What incremental benefits are expected by combining the ISO and Exchange?


Problems with Combining

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- Principle objective seems to be constraint management, yet;
 - No estimates of whether constraints would be an everyday or anomalous occurrence.
 - Why create an elaborate, persistent construct to solve an infrequent problem?


More Problems with Combining

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- Unclear Benefits. What percentage of the long-term market will the exchange represent? If large, then combination = PoolCo. If small, then why take the risk?
 - Ratcheting. Expansion to include bilateral transactions.
 - Self-dealing and other human factors - the IPP lesson.
 - Ultimate outcome = PoolCo.


Principles for the ISO

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- Facilitate fair access so that buyers and sellers can act in their own interests.
 - Start low - remember the ratchet.
 - Presume that rules, practices, and procedures which currently work for utilities will work for direct access, e.g...
 - TOU pricing
 - Constraint management
 - Imbalance reconciliation.

More Principles for the ISO

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- Test and/or explain why existing constraint management practices won't work:
 - Firm/nonfirm subscriptions.
 - Limit of firm to rated capacity.
 - Prorata curtailment of nonfirm when nominations exceed capacity.
 - Let market forces encourage efficient use.

Regulatory Litmus Tests

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- Regulatory oversight - does the proposal require more or less regulatory involvement?
 - What CPUC/FERC functions will vanish or diminish?
 - What functions will be created or expanded? CTC administration? Real-time ratemaking?

Final Conclusion

- If customer choice is the goal, then you shouldn't regulate buyers and sellers to the benefit of the system; rather, you should regulate the system to the benefit of buyers and sellers.

