

RTO Performance, or--“What’s My Motivation Here?”

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Standard Disclaimer

- Remarks here today are my own, and are not to be attributed as official APPA positions

“What’s My Motivation Here?”

- There is a story told about the late Sir Lawrence Olivier, when co-starring in a West End show with a leading Hollywood actor. The American actor, a successful student of method acting, was having difficulty getting into role. After several unsuccessful attempts at a particular scene, the star held up the cast and production while he roamed about the stage muttering 'what's my motivation here?'. Sir Larry put up with this for a while and then approached him. "Look, your motivation here is you're being paid ten times as much as the rest of us. And my motivation is just to get through the bloody thing!"

- ***British Dental Journal* 195, 616 (2003)**

Published online: 6 December 2003 and available at

<http://www.nature.com/bdj/journal/v195/n11/full/4810776a.html>

The Motivational Challenge for RTOs

- RTOs are charged with:
 - Providing non-discriminatory transmission service (remember?)
 - Running markets for energy, ancillary services, capacity
 - Operating the transmission system reliably
 - Policing the market actors
 - Leading regional transmission planning

It Is Not an Easy Mission

- RTOs must act as intermediaries between generators/transmission owners and load interests (sometimes reminiscent of the Middle East Peace Process)
- They act in some ways like a utility, and in others like a regulator
- They manage the assets of others, but have no ability to order asset disposition, construction, etc.
- They are not-for-profit, thinly capitalized (main hard assets are building, computers, software)

How Can An RTO Work Under Such Conditions?

- Transmission owners can pick up their assets and go, since it is a voluntary regime
- Generators (with no obligation to serve) can shut down plants in the absence of an obligation (bilateral or to the RTO) not to do so
- Federal regulator can make an RTO's life difficult if it disagrees with RTO's policy direction or tariff filings

The Temptation: “Just to Get Through the #\$\$%^&* Thing.....”

- Because transmission owners and generators have the hard assets, and FERC the jurisdiction, keeping these entities happy become the RTO’s “motivation”
 - Transmission owners/generators want substantial returns—It is the American Way
 - FERC wants “markets” and no reliability problems

What Is Missing From this Picture?

-- The Interests of Load (Consumers)

- Most loads cannot leave, and must consume (although energy efficiency and demand response are starting to have some marginal impact); *participation is not voluntary for them*
- More price-responsive load (e.g., industrials) can leave if price gets too high—demand destruction is the ultimate demand response

Result: Load Interests are Subordinated to These Other Interests

- There is a wide-spread view among load interests that they are “second-class citizens” when it comes to both RTO stakeholder processes and follow-on FERC proceedings
- Not just a matter of fewer resources to devote to the stakeholder process, although this is no doubt a problem

Are RTOs an Example of “Second Generation” Regulatory Capture?

- Newell and Davis’ May 2008 Paper (at 12-13) argues that RTOs display several indicia of capture:
 - Mission/interest convergence
 - Impact concentration
 - Migration of personnel
 - Information costs
 - Asymmetric distribution of expertise

How to Revamp RTO Incentives to Make Performance More Balanced?

- Somehow, the interests of load need to get on the RTOs' radar screens
- APPA and others argued in RM07-19 that the impact of RTO actions on load be included in RTO mission statement: RTOs should provide cost reductions and net benefits to consumers; a mere "commitment to responsiveness" is insufficient

More Market Data Transparency Is Another Possibility

- Load interests have called for more data disclosure regarding RTO market operations
- Generators argue that release could harm load, facilitate collusion
- What is wrong with this picture?
- APPA advocated greater data disclosure in RM07-19; but it got only limited traction

GAO Report Has Some Recommendations as Well

- Regular FERC review of Form No. 1s
- Development of standardized measures to track RTO performance
- Report those performance measures to Congress and the public annually, and make changes needed to address performance concerns

Need to Ensure RTOs Serve Load as Well as Generators and Regulators

- Will take a change in mind-set to make RTOs more responsive to load/consumer interests
- The issue is NOT that RTOs are not-for-profit, but that they do not have sufficient incentives “built in” to pay attention to the needs and concerns of load-side interests