

# Electricity Markets: Looking Forward

---

Ron McNamara  
Harvard Electricity Policy Group  
Thirtieth Plenary Session  
January 30, 2003

# Perspective

---

- Suggest changing the perspective of the debate that is taking place:
  - Not necessary to look at it in terms of “right” or “wrong”...
    - This perspective potentially sets up a zero sum “game” that can be unproductive.
    - Can create an emphasis on the debate and not the issues.
  - ...rather, it is about what will be best for customers and the industry...*going forward*.

# Change

---

- Changing the way we look at an issue is difficult and creates tensions.
  - Must understand how things have changed and why existing patterns of thinking may no longer be appropriate.
  - Must admit that change could be beneficial.
- Clearly we are in a very dynamic period in the industry...

# What has changed?

---

- With respect to the industry:
  - Large scale generation may not be cost effective.
  - One size fits all service isn't appropriate.
- With respect to the overall economy:
  - As the economy becomes more competitive, cross subsidies are difficult/impossible to maintain.
- With respect to the environment:
  - Pressure to price/account for environmental externalities.

# These changes...

---

- ...fundamentally undermine the basis for the previous paradigm.
- Is it even possible to “go back”?
  - Would it be in the best interest of customers and the industry?
- Going back isn't really an option - not because we couldn't do it, but rather because it wouldn't be beneficial.

# Why?

---

- At its core this is a debate about centralized vs decentralized decision-making.
  - In particular, where is the appropriate boundary between the two?
    - Technology and customer preferences are driving that boundary closer to real time.
    - It is increasingly difficult, if not impossible, for structures based on centralized decision-making (e.g. regulatory processes and integrated utilities) to acquire, evaluate, and act on relevant information.

# The real debate

---

- It would be more productive if we could agree to focus on the circumstances or conditions where decision-making can be decentralized to the benefit of customers and the industry.

# We know what is important

---

- Going forward, the important elements that we must be mindful of regarding market design and implementation include:
  - **Real time operations**
    - Keep the lights on with a dispatch process that is transparent and auditable.
  - **Incentive compatibility**
    - Align the economics and the physics.
  - **Governance**
    - Independent efficient governance is critical.
  - **Education**
    - Stakeholders must understand the rules and operations.