

## **Conference on Competition in Wholesale Power Markets**

### **Docket No. AD07-7-000**

Federal Energy Regulatory Commission

Initial Comments of William W. Hogan<sup>1</sup>

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The Commission invited panelists to discuss any or all of the following issues:

- The most significant challenges facing wholesale competition in organized markets today, such as:
  - The ability to attract new investment
    - The ability to attract and sustain efficient new investment, and avoid inefficient investment, is the most important dimension for evaluating electricity market design and operation.
  - The need to send accurate price signals
    - Getting prices right is a necessary condition for success. A paradox of electricity markets is the importance of short-term time prices in supporting the long-term price signals needed for investment.
  - The availability of long-term contracts
    - In the abstract, long-term contracts are always available at a price. The challenge is to create a regulatory framework that allows participants to choose the scope, duration and costs of contracts.
  - Transmission congestion
    - A central feature of existing technology is pervasive transmission congestion. Eliminating congestion is not now feasible nor would it be efficient. This central technical fact governs much of the details of electricity market design. The organized electricity markets provide the only consistent, non-discriminatory mechanism for dealing with this reality.
  - The need for fuel diversity and renewables
    - Private investment and public support for diversity and renewables would be better served with better price signals.
  - The need for energy efficiency and demand response
    - The absence of adequate demand response is one of the most troubling and persistent problems in organized electricity markets. In large part, this is a problem of poor design of mechanisms for dealing with scarcity pricing. Improved scarcity pricing, through better representation and integration of real-time operating reserve demand curves, could be a point of high leverage for improving the

incentives and opportunities for greater efficiency and demand response.

- The benefits and drawbacks of generation or transmission divestiture
  - Given an appropriate market design and open access to the dispatch, this is much less of a problem.
- Which concerns should be given the highest priority and which reforms are appropriate to address them?

The fundamental problems center on getting market pricing in place to provide the proper operating and investment incentives while creating the associated property rights to allow market-based investments to go forward. Ironically, for reasons that are peculiar to electricity, the critical pricing rules and conditions arise in the wholesale spot market. In this sense, electricity is different. This difference makes a necessity of the apparent contradiction of a regulator as market designer. In avoiding the small “r” regulatory task of market design, pressure builds for big “R” regulatory micro-management. The symptoms of market problems appear in the difficulties of arranging long-term transmission rights, pressure for mandated contracts supporting capacity markets, and the difficulties in organizing transmission investment. Without improvements in a few elements of market design, ranging from short-term scarcity pricing to long-term transmission rights, the pressure will continue to build for the Regulator to step and make the long-term commitments.

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