

Opening Statement
Commissioner Bob Lieberman
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Good morning. My name is Bob Lieberman and I have been a utility regulator in Illinois since February 2005. I am currently the Chairman of the Midwest Demand Response Initiative, a collaborative effort of 14 Midwest state regulatory commissions, and other stakeholders trying to educate and learn from each other about how to implement price responsive retail demand. I am also on the executive committee of the Organization of MISO States (OMS), a Regional State Committee working together to ensure that the RTO works in the interests of customers as well as suppliers.

Before that, for nearly ten years, I ran a Chicago-based not-for-profit called the Center for Neighborhood Technology where we created and managed community-based demand response and energy efficiency programs in partnership with Commonwealth Edison, the local Chicago utility. As part of that effort, we introduced the first in the nation hourly pricing pilot for residential customers, the success of which prompted the Illinois General Assembly to recently mandate that electric utilities offer such a program to all residential customers in the state.

In speaking before you today, I do not represent the views of the Illinois Commerce Commission nor the Organization of MISO States. My perspectives are mine alone.

I applaud the Commission for holding these conversations relating to the state of competition in the wholesale power markets. From my perspective as a state regulator, though, questions about wholesale competition always strike me as a bit odd – when I first got this job and was young and naïve, I would ask the “are the wholesale markets competitive?” question, and I always got answers that seemed a little stilted – like “well, they produce results that are roughly equivalent to the results that would occur from a competitive market”. Answers like that sounded suspiciously like what state regulators used to say about the benefits of old-time cost-of-service regulation.

What made my question “naïve”, I think, was the underlying premise that “wholesale” markets were somehow independent of “retail” markets and that the supply side could be considered “competitive” without a price-responsive demand side.

I don't really mean to get into a semantic discussion about the definition of competition, nor am I really complaining (at least today) about the shift in

regulatory authority from states to – what some of my friends in Chicago call – “large shadowy regional organizations”.

And yes, I know about price caps and administratively determined supply curves and capacity markets – but rather than be reassured by those, it strikes me that they are indicative of how far we have to go.

For markets to be truly competitive – and – more importantly - for customers to have the opportunity to capture the benefits of those competitive markets – the electricity market needs to be envisioned, defined and designed as a whole - supply and demand rather than as separate wholesale and retail. And for customers to be able to access what are – up till now only the *potential* benefits of the competitive market – the demand side of the market has to be able to respond to prices on the supply side.

And that very seldom happens today. Customers for the most part don’t see price changes and therefore have no incentive to respond. Until we can get a price-responsive demand-side, the benefits of electricity market restructuring will continue – in large measure, I fear – to elude us.

And words actually matter. If supply markets can be deemed competitive without a downward sloping demand, then there really is no pressure on state policy makers and state public utility commissions to take the necessary steps and make the necessary investments to enable the demand side of the market. And inertia being the most powerful force in the universe, if there is no pressure there will be little action.

This is, after all, the dilemma. Those of you responsible for regulating the “wholesale” market have no control over the behavior or the rules of the “retail” market and those of us regulating the “retail” market, well, in the restructured states many policy makers view customer exposure to the wholesale market with trepidation if not outright fear. In the vertically integrated states – well, average price cost-of-service regulation seems just fine, thank you very much.

So after a decade of hard work, we are still – as they say - neither fish nor fowl.

So, what is to be done and how do we move forward?

Unfortunately, I have no quick or easy answers to this dilemma as it goes right to the heart of the well-documented legal and institutional complexities of our current regulatory and governance system for electricity markets.

But I know where I would start if I were king. Last week I had the honor of testifying before Chairman Boucher’s Sub-Committee on Energy and Air Quality in the House with Commissioner Wellinghoff among others on a question that goes directly to the dilemma we face. The Sub-committee asked us to identify

possible actions the Federal Government might take to create incentives for state public utility commissions to move more rapidly to upgrade retail distribution networks with “smart grid” and “smart meter” technology.

One of the major barriers that I identified was a lack of public demand for these new technologies and by implication access to wholesale market prices. It really is no surprise to me that there is not a rising clamor among the population for “smart” meters or for that matter, access to the wholesale market. For eighty years, we have lived – and prospered – with a dumb network, dumb meters and average prices. Other than the few geeks among us, who would even know enough to want to change?

And it the very simple fact that consumers don’t know what’s in it for them and policy makers don’t understand the structure of these markets that stands in the way of creating a price-responsive demand. In this context, one of the very real if under-appreciated and under-utilized - successes of the organized wholesale electricity markets over the last decade – is the development of a visible and transparent hourly price.

If you know where to look, you can determine the value of electricity at any hour. If you look at those hourly prices over time, you know that as much as 98% of the hours, the prices are really low – in fact, very often lower than the retail electricity product offered by the distribution utilities. If you take the average of the hourly prices over the course of almost any year, they are almost universally lower than the retail price.

But I would argue – based on my experience in Illinois -- that 98% of all customers -- residential, small commercial, municipal – (not to mention policy makers) have absolutely no idea that this alternative – but real - universe exists. If you ask people what the price of electricity is, for the most part they have no idea and when pressed, they will say it’s whatever I pay the utility company. And until they learn about this alternative reality, they won’t realize that there is something in it directly for them; that access to the wholesale market and investing in smart meters will give them access to lower cost electricity. Unless they are informed of these benefits, why does it surprise us that there is little or no interest among consumers and therefore state policy makers and regulators?

In many ways, therefore, it seems to me that the single most cost-effective way to begin to link the supply side to the demand side is to begin to publicly explain to consumers what they are missing. If I were king, I would create an independent third party to make consumers (and policy makers) aware of what the hourly prices are, that they are often lower than retail and that the reason they don’t have access to them is because the pricing structure and technology is not in place. Unfortunately – as I am not king – no such independent third party exists today.

I say this only half facetiously – I guess the other half is serious – but imagine the RTO or DOE buying time on the Weather Channel so that every hour – when they give the weather for Chicago, or for Cleveland, or for Philadelphia or for Washington D.C., they also told you what the local wholesale price of electricity was for that hour. Or every time you checked the weather for your hometown on Yahoo, you also got the hourly electricity price?

In this era of rising electricity prices, when policy makers across the country are struggling to find ways to mitigate that impact, in an odd and convoluted way I think we have an opportunity to build the demand for these more direct linkages between wholesale and retail. If policy makers and consumers understood that access to wholesale market prices offers a reasonable potential for lower cost electricity – I think we would see a different kind of public policy at the state level than we are seeing today. Imagine a public education campaign that combined price transparency, with information on potential cost savings, new technologies and energy efficiency. If policy makers and consumers could see an alternative future, perhaps they would demand it. As of today, however, they don't have enough information to imagine, let alone demand it.

Until we make these markets transparent and the wholesale prices visible to retail customers – until we educate customers so that they understand what's in it for them to access the wholesale markets and invest in the new technologies that would allow that access to occur – we are unlikely to get the broad linkages that we need so that electricity markets can really be competitive, customers can have the opportunity to benefit and we can avoid this same conversation ten years from now.

Thank you for your attention. I will be happy to answer any questions.