

Is PoolCo Just The Status Quo?

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PoolCo

- Thematic Comments
- December PUC Order
- Independent System Operator
- Power Exchange
- Robot Monster Regulation
- Replacing Markets with Disguised Regulators
- A Logical Outcome



Thematic Comments

- California has brought us many innovations
 - Hollywood
 - the California Energy Commission
 - the California Public Utilities Commission
 - Disneyland
- This presentation is based (in part) on recent CPUC orders, old Godzilla movies, and other important California source materials



California Regulation



December CPUC Order

- 400 pages of carefully reasoned confusion
- Specific proposals for the Independent System Operator
- Specific proposals for the Energy Exchange
- Specific proposals for the Competitive Transition Charge



A Fox In With The Chickens

- The fundamental result of the December order is to expand regulation in California
- Both the ISO and the Energy Exchange are regulatory institutions with relatively few market benefits for participants



Independent System Operator

- The ISO both operates the system and administers transmission constraint pricing within the system
- The CPUC panel feels that since load balancing is an ancillary service provision for load balancing will be set under FERC regulation



Energy Exchange

- Energy Exchange accepts reservation style bids from both energy suppliers and customers
- Energy Exchange (like the ISO) is independent of all other players
- Energy Exchange appears to "pre-scheduled" rather than real time

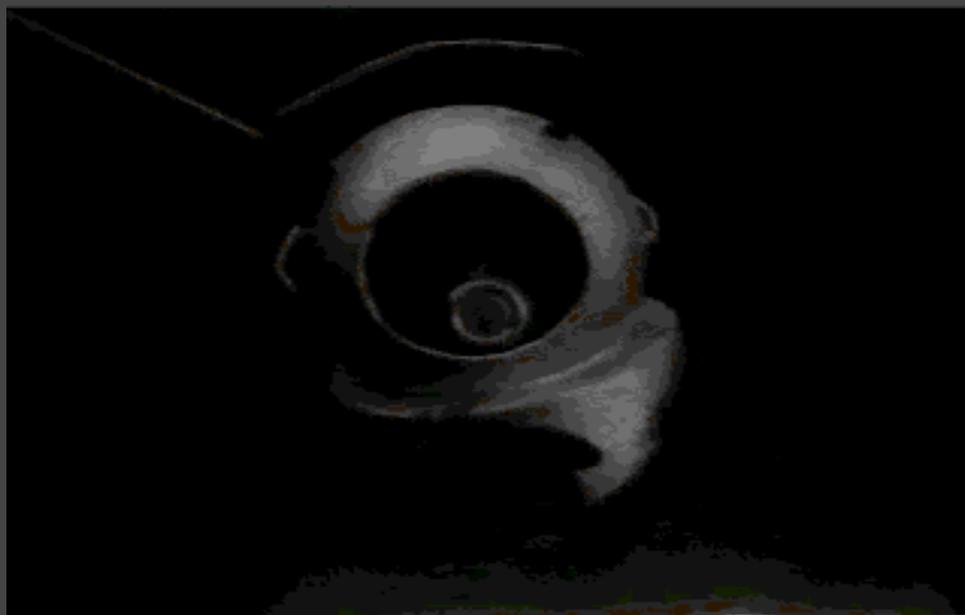


Robot Monster Regulation

- Robot Monster is generally regarded as being the worst Hollywood film of all time
- Robot Monster's immortal dialog "I must but I cannot" describes the CPUC's emotional response to open competition
- The December order would appear to be the worst of the "I must but I cannot" approach to deregulation



I Must, But I Cannot



Why Can't New Regulation Work?

- The Energy Exchange is basically an attempt to reduce transaction choices. Since specific players can change the market clearing price by "game playing", their market power is enhanced by a one size fits all policy
- For example: if one utility can nominate 30% of the supply at a specific price, they can easily set the market clearing price to a specific level



How Would The Market Respond?

- In a market, one utility's effort to unilaterally change the market does not "legislate" all prices -- other players can simply choose other suppliers
- PowerEx's attempt to dictate prices in Canada this spring are an example -- PowerEx's share of the market simply went to zero



Congestion Pricing

- The Independent System Operator is supposed to implement congestion transmission pricing
- Markets are the only efficient solution to congestion pricing
- Mathematics allows theoretical solutions -- but these solutions are, themselves, subject to "Game Playing"



Logical Outcomes

Energy << Exchange

Inde <pendent System Operator

California Energy Commission

Ind <

California Public Utility Commission



Outcomes II

- Shoddy construction often collapses of its own weight
- The ISO/Energy Exchange -- helped by the continuing work of existing regulators is simply not as efficient as the market
- Two years ago California was the leader -- today they follow initiatives in Alberta, Illinois, Michigan, and the Pacific Northwest



Questions?

