Electricity Trading: How Do We Improve the Value Added?

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Disclaimer

The ideas, views, and opinions expressed in this presentation and in my spoken remarks are mine and mine only and are based upon my personal experiences and observations. These ideas, views, and opinions do not necessarily reflect those of my employer and are not based upon any confidential information.

What are the right questions?

- *Intuitively, the value that electricity trading creates should be in lock stop with increasing market efficiency, meeting reliability goals, and providing value to consumers*

- *How do we increase this value and ensure that this is being accomplished?*

- *What are obstacles that prevent realizing a much greater value that electricity trading can bring?*

- *Industry needs to take a harder look at resolving obstacles*

Can we all agree?

- *The point of implementing RTO/ISO markets was to greatly increase open access and competition to benefit consumers.*

- *Successfully enabling trading in electricity markets is a must for the success of electricity markets at all levels.*
  - *Production*
  - *End-user supply*
  - *All levels in between…markets/products do not exist in a vacuum*

Value Added…and Questioned

- *Added*
  - *Competition…beyond consumer choice*
  - *Exposure of opportunities to incent competition*
  - *Trade partners for physical load and gen*
  - *Tailored transactions*
  - *Broad perspective for managing risk*

- *Questioned*
  - *High profile manipulation cases settled w/ FERC*
  - *Suspicion of "financial traders" adding risk*

Value of Trading Is Hindered

- *Market operations and design challenges can limit access to products, distort price signals, and create unproductive cost allocations*

- *Regulatory/market rule uncertainty as well as political compromise and gridlock in governance processes can lead to suboptimal results*

Until we have improvements in these areas, we will not realize the full value of electricity trading

Market Operations/Design Issues

- *Real-time price formation*
- *Transparency in operator/reliability actions*
- *Uplift*
- *Cost allocation and certainty*
- *Separation of market components (e.g. energy vs. capacity)*
- *Certainty in models (e.g. FTRs)*

We need to ensure well structured and operated markets that promote competitive trading activity via clear, accurate price signals and incentives.

Regulatory Certainty Issues

- *Clarity in regulatory enforcement*
- *Market rules with long-term stability*
- *Clarification of "regional differences"*
- *Break through governance process gridlock and unfruitful compromise*

We need stable, consistent, and transparent regulations and rules that promote confidence in participating in electricity markets.

Market Operations/Design Considerations

- *Encourage market designers, monitors, and regulators to improve markets to function in a manner that increases the value that trading brings*

- *Need to consider the impacts of:*
  - *ISO/RTO markets where LMP is biased downward*
  - *ISO/RTO practices of relying on un-priced operator actions that distort price signals, both short-term and long-term*
  - *Incentives that incent the wrong behavior*
  - *Cost allocations that can harm reliability*

Regulatory Certainty Considerations

- *Encourage regulators, monitors, and market designers to work with commercial entities to develop clarity and certainty needed to support the value of trading*

- *Need to consider:*
  - *Facilitating an industry-wide process to provide tools and guidelines on anti-manipulation*
  - *Addressing regional differences that add costs*
  - *Governance outcomes that run counter to efficient markets*