

Mad as Hell!
***A Proposal to Accelerate the
Transition to Electric Competition***



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Center for the
Advancement of
Energy Markets

Center for the Advancement of Energy Markets

Discovering consumer,
business, and environmental
advantage in energy markets
transformed by technology and
competition

Center for the Advancement of Energy Markets

CAEM

- Six Years Ago
- State Reform was Chaotic
- Something Missing from Debate
- Think Tank on Energy Competition

Character

- Independent
- Market-Oriented
- Non-Profit-501(c)(3)
- Change Agency, Think Tank
- Not a lobbying group, trade association, or consulting firm

➤ Mission=AID

- **A**nalyze Key Issues
- **I**nform Policymakers
- **D**efend Real Competition

Canadian Affiliate

- October 2001



Key Points

➤ Answer to Question Posed to Panel

- Does the Market Structure Send the Right Price Signals?
- Three World Views: Traditional Monopoly Model; Stiglerian/Cato; Open Access
 - Traditional monopoly model is fatally flawed.
 - Stigler/Cato is strong on theory but weak on **realpolitik**.
 - Open Access has potential but has had limited success in its execution so far.

➤ CAEM Response to the Cato Critique

- Cato has made an insightful critique of the transition from the monopoly model to the competitive model
- Cato has reached the wrong conclusion regarding where that critique leads you
- Open Access is still the most viable model of competition for the electric industry

➤ To overcome and rectify objections, we need a Competitive Energy Markets Action Plan

- The component parts of a CEMAP can be reduced to an acronym: A VAST CORPS

Troubled Waters

➤ Four Horseman of the Energy Apocalypse

- California
- Enron and its Domino Effect
- High Volatile Natural Gas Prices
- Blackout 2003

➤ Death by a Thousand Duck Bites

- *Ontario Price Caps*
- FERC Delay and Missteps with Standard Market Design Rulemaking
- Economy
- Loss of confidence in Corporate Integrity: Global Crossing, World Com, Tyco
- Decline of Pennsylvania, Failure of Retailers
- September 11, Afghanistan/Iraq
- Consumer Reports
- Loss of quality state commissioners
- Failure of DOE to provide leadership
- Letter from Congress to FERC
- PIRG Report to National Commission
- *Cato Study urging return to vertical integration*
- ERCOT Scandals
- *Trade Association Turmoil*
- And on and on and on

CAEM Response to Cato Critique

- Written Response on CAEM.ORG
- Contrast the three World Views
- Cato recognizes limited attraction to its world view of complete deregulation of wires
- Critique of open access is insightful as far as it goes
- Critique leads Cato to embrace a modified monopoly model

Defining Success Depends on the Problem

- What was wrong with the 100 years of success in electricity?
 1. Volatile Energy Prices
 - Friedman's point about oil prices and pencils
 2. Average cost pricing—poor price signals
 3. Incentives to build rather than conserve—AJ effect
 4. Inefficiency of monopolists
 5. Blunted innovation incentives
 6. Cumbersome process for price changes
 7. Creeping Mandates: Social Policy
- High prices per se are NOT the problem
- In fact, low prices are also a problem

Open Access

- Worked in Telecom and Natural Gas
- Cato misses Creative Destruction
- Cato criticisms are not inherent parts of the model but a function of poor implementation
- So the question is can we get it right

Not All is Troubled Waters

➤ The Good News

1. FERC appointments have been good
2. FERC seems committed to competitive wholesale markets (but is stymied)
3. PJM, Texas, and Alberta are perceived as maturing
4. California, like Lazarus, has arose from the dead
5. Compete Coalition (competecoalition.com)
6. Growth in Industrial and Commercial switching in electric
7. North American Energy Standards Board
8. Gas markets continue to be the Silent Success Story: Wholesale, Retail for I&C and Georgia
9. Crisis provides context and motivation for leadership and action: People are worried and will respond to coherent strategy

Quick Poll

- Assuming an effective plan could be developed and implemented, do you favor the adoption of competition for electric?
 - Yes
 - No
 - Not sure
- Can an effective plan be developed and implemented?
 - Yes
 - No
 - Not Sure
- So the question is can we develop an effective plan to achieve open access model

CE-MAP: A VAST CORPS

A—Audit of the Competitive Conditions

V—Vision

A—Analysis of Policy Options

S—Strategy

T—Thought Leadership

C—Community, Coalition, and Consensus Building

O—Organization

R—Resources and Funding

P—PR: Persuasion, Education and Outreach

S—Success

A VAST CORPS

➤ *Audit of Competitive Conditions*

➤ Vision

➤ Analysis of Policy Options

➤ Strategy

➤ Thought Leadership

➤ Community, Coalition, and Consensus Building

➤ Organization

➤ Resources and Funding

➤ Persuasion, Education, and Outreach

➤ Success

Assessment Audit

➤ Does _____ have a crisis looming?

1. Price Caps
2. Generation Investment
3. Infrastructure Investment
4. Price Signals are distorted
5. Gas/Electric Interdependence
6. Increasing Environmental Demands
7. Energy Prices Trending Higher
8. Demand Destruction/Economic Impacts
9. Uncertainty
10. Lack of Political Will

➤ CEMAP can be done at different jurisdictional levels and will differ depending on the jurisdiction

A VAST CORPS

➤ Assessment Audit

➤ ***Vision***

➤ Action on Policy

➤ Strategy

➤ Thought Leadership

➤ Coalition

➤ Organization

➤ Resources

➤ Persuasion

➤ Success

Vision

- What's wrong with traditional model?
- What are the benefits of markets?
- How did we screw up the initial phase of implementation?
- What legacy do we want to leave our grandchildren?

A VAST CORPS

- Assessment Audit
- Vision
- *Analysis of Policy*
- Strategy
- Thought Leadership
- Coalition
- Organization
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- Success

Analysis of Policy

- What do we know that works and doesn't work?
 - RED Index
 - Default Study
 - Resource Adequacy

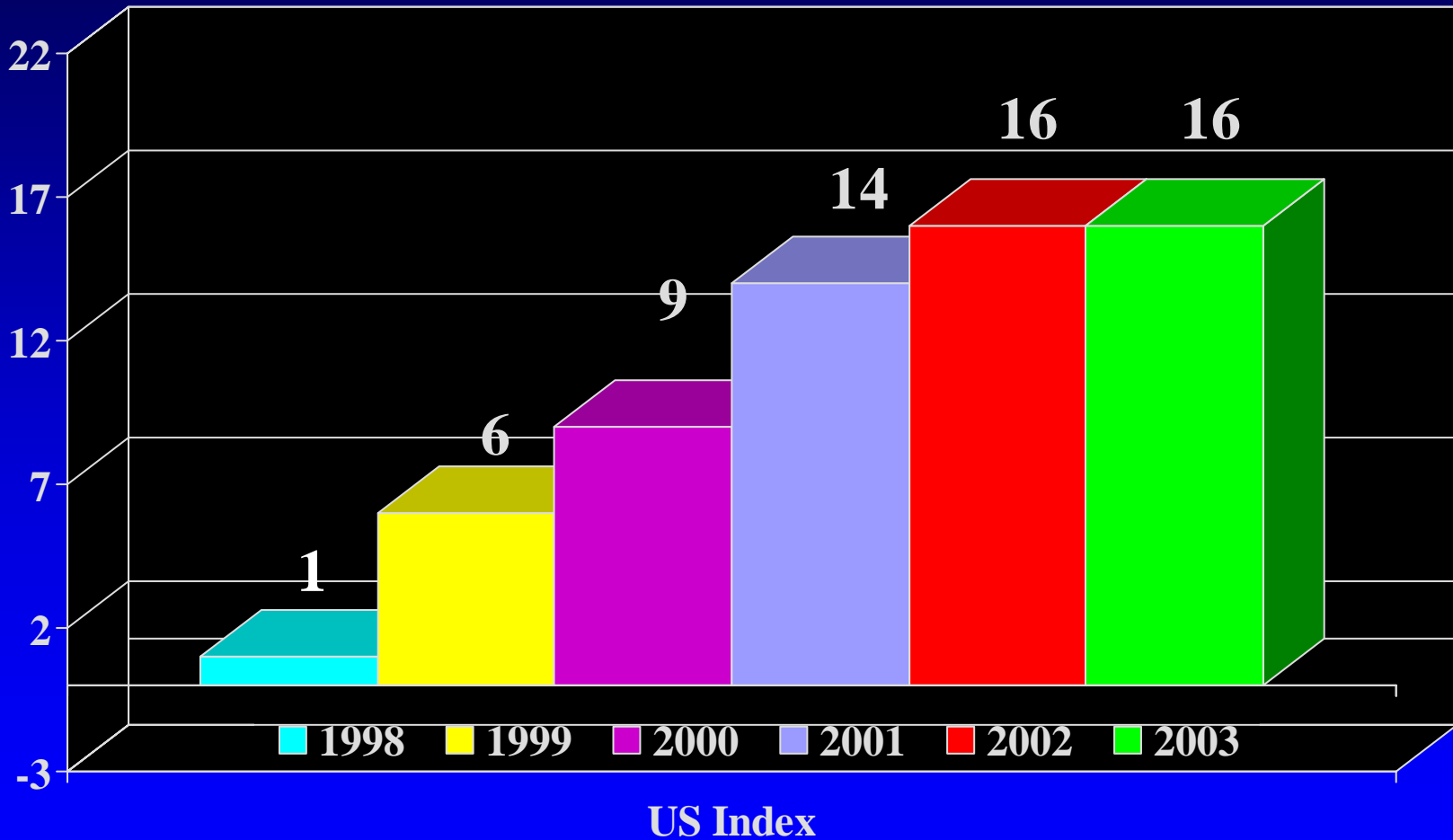
Texas Takes over First in US

Even before debacle, California barely in top 20

Country, Province, State or Territory	RED Index Score 2003	World Rank 2003
<i>England, United Kingdom</i>	88	1
<i>New Zealand</i>	75	2
<i>Texas, USA</i>	69	3
<i>Pennsylvania,</i>	68	4
<i>Maine, USA</i>	67	5
<i>Alberta, Canada</i>	66	6
<i>New York, USA</i>	60	7
<i>District of Columbia, USA</i>	54	8
<i>Michigan, USA</i>	52	9
<i>Maryland, USA</i>	52	9
<i>Victoria, Australia</i>	50	11
<i>Queensland, Australia</i>	22	25

But it's a Pretty
Stupid Class

North American Red Index Score



A VAST CORPS

- Assessment Audit
- Vision
- Action on Policy
- ***Strategy***
- Thought Leadership
- Coalition
- Organization
- Resources
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- Success

Cover

- How do you overcome consumer/voter/politician lack of political will to embrace a fully competitive electricity policy?
- Need to develop Cover: “Strategic protection given by armed units during hostile action”
 - Cover in Natural Gas
- Contrast
 - California ATM increase and Ontario Price Caps and California Electric
 - Texas, NY, PA, MD, Alberta
 - Oil, Natural Gas, Stock Market Losses, and the retail gas market in Georgia
 - Lesson:
 - Government or corporate manipulation will result in consumer hostility and backlash
 - Consumers will tolerate well functioning competitive markets

A VAST CORPS

➤ Assessment Audit

➤ Vision

➤ Action on Policy

➤ Strategy

➤ ***Thought Leadership***

➤ Coalition

➤ Organization

➤ Resources

➤ Persuasion

➤ Success

Who is the Leader?

- Other Reform Movements
- Who is the leader of the competitive reform movement after the collapse of Enron?

A VAST CORPS

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- ***Community, Coalition, and Consensus***
- Organization
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- Success

Coalition Must Be Broader Than Just Economic Interests

- Vernon Smith
- National Rifle Association
- Pro Abortion Groups
- Customers, academics, former government officials, financial community, industry stakeholders
- Compete Coalition is promising

North American Convention for Friends of Competitive Energy Markets

- Convention that Inspired the Idea
- Plenary Sessions
- Breakout Sessions
- Annual Energy Competition Leadership Awards Banquet
 - Tribute to Pat Wood
- Canadian into the Hall of Fame
- Canadian speakers from Alberta and Ontario
- June 6 and 7 in Washington DC
- Website: CAEM.ORG

Tuesday Morning Reports

Promoting Community Among Supporters of Competitive Energy Markets

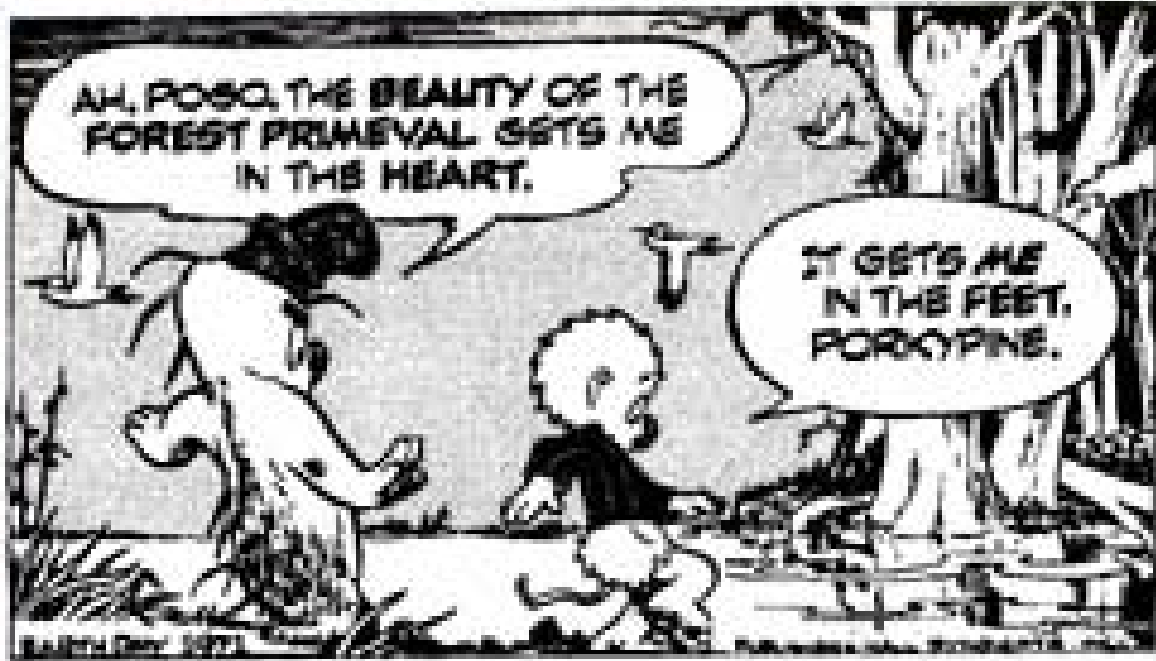
1. This Week's Insight
2. Next Week's Insight
3. Update
4. Perspective On Change
5. On The Go!
6. Significant Developments On The Journey To
Competitive Markets—Progress and Setbacks
7. Resources That Provoke Thought About The Journey
8. Feedback
9. Adding New Sections on Leaders, Organizations, and
Technologies

A VAST CORPS

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- Thought Leadership
- Coalition
- ***Organization***
- Resources
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Organization

- Enron's aftermath left organizational chaos behind
 - Trade Associations are weakened
 - Companies leery
 - Major think tanks, foundations, and universities have not provided intellectual leadership
 - No broad coalition
- Compare Energy Competition Movement to other reform strategies, such as the consumer and environmental movements
- Develop infrastructure of influence similar to other reform efforts
 - Trade Associations
 - Think Tanks, Foundations, and Academia
 - Coordinated State organizations
 - International Integration
 - Permanent Lobbying Group/Coalition
 - Political Action Committee
 - Public Interest Law Firm
 - Annual Convention
 - Camp Competition: Training for Public Decision Makers
 - Competitive Energy Leadership Link: CELL
- What other Organizational Constructs do we need to develop?



A VAST CORPS

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- Thought Leadership
- Coalition
- Organization
- ***Resources and Funding***
- Persuasion
- Success

Post Enron

- Enron and Dynegy reputedly spent 50 and 30 million respectively
- NO ONE is likely to replace that
- Must develop mechanisms to allocate, pool, and deploy funding for A VAST CORPS

A VAST CORPS

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- Success

Persuasion, Outreach and Education

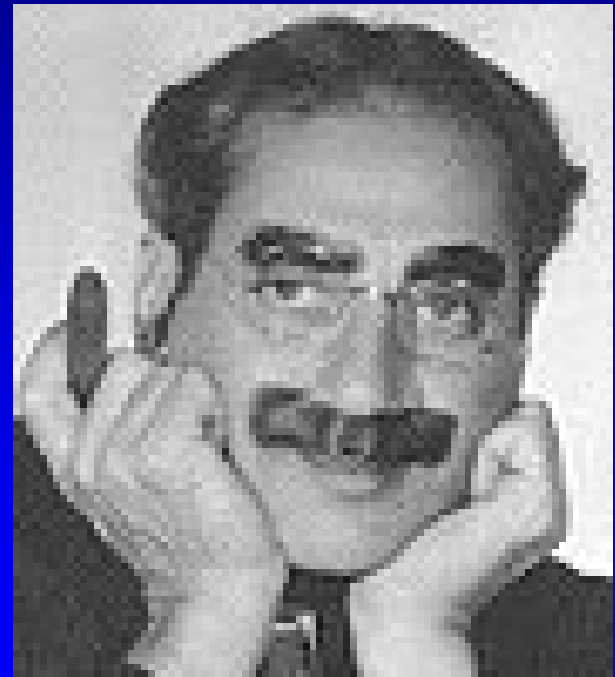
- Needed on a massive scale
- Nuke, Coal, and Telecom Commercials
- Be Careful about credibility
- It is natural and appropriate to be skeptical of self interested corporate pleas
- Need to have credibility that outreach is based on the fundamental values that consumers believe in and delivered by a source with no special interest dog in the fight

A VAST CORPS

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- *Success*

Marx:

Politics is the art of looking for trouble, finding it everywhere, diagnosing it incorrectly, and applying the wrong remedies.

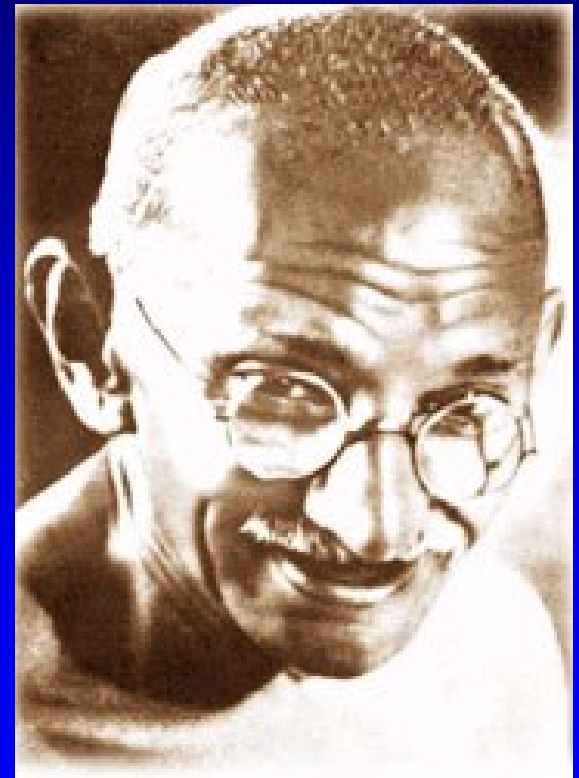


Success is
moving from
failure to
failure with
great
enthusiasm



First they ignore you.
Then they laugh at you.
Then they fight you.
Then you win.

Gandi



Are You Mad as
Hell and Are You
Going to Take it
Anymore?

Thank
You