

The Consumer Viewpoint: Value Reliable Electric Service – But Not At Any Cost!

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Commissioners' Balancing Act

- Electric reliability:
 - Has high value for virtually *all* customers
 - But:
 - Is not free, and
 - Investments provide rapidly diminishing marginal benefits
- Commissioners must thus:
 - Act – and impose costs – to provide reliable service
 - But resist pressure to pay too much

The Utility Reform Network (TURN)

- More than three decades of advocacy on behalf of California's residential and small business consumers on utility issues
- Reputation for getting into the nuts and bolts of utility regulatory issues
- Devoting growing amounts of attention and resources to reliability issues

The Challenge for Regulators: Reliable Service, Without Overspending

- Modern society *assumes* reliable service:
 - Service has historically been highly reliable
 - Absence of service more memorable than presence of service
 - Strong public pressure to maintain reliability
- Vendors (IOUs included) use this pressure to push their own products and services

The Challenge:

Markets Won't Reliably Deliver Reliability

- Market will not ensure construction of new plant:
 - Prices in the West will not support building new plants, despite assertions of current or looming shortage
 - Even in tight markets, market prices may not support construction of last increments of needed capacity
 - Who wants to own, or pay for, the plant that doesn't run except under very adverse conditions?
- Short-term system disturbances need rapid physical responses, and are (hopefully) resolved before prices are affected

The Challenge:

Quantitative Analyses Questionable

- Key data required for 'Benefit-Cost' analysis are
 - and will always be – sketchy:
 - Estimates of reliability's 'value' produce wide range of results
 - Estimates of probabilities of reduced outages are also speculative
- 'Economic' analyses of value of reliability investments produce wide range of results

The Challenge:

Industry 'Rules of Thumb' Are Often Arcane

- Industry has instead developed 'Rules of Thumb' to maintain reliable service:
 - 'Reserve Margin' targets for aggregate resource need
 - NERC and regional reliability standards for local area needs, transmission planning, and operations
 - Professional judgment or 'Prudent Utility Practice'
- But such standards are often:
 - Prone to alternate interpretations,
 - Technically dense, limiting effective review
 - Judgment not always documented (or documentable)
- Result – Huge risk of 'black box' decision-making

The Response:

Be Skeptical of Reliability Investments

- Commissions must:
 - Commit to maintaining reliability, BUT . . .
 - Also recognize that just because a sponsor purports an investment will provide ‘reliability’ does not make it good for ratepayers
- Project proponents often not driven by balanced view of benefits and costs:
 - Shareholders’ interests generally prevail for privately-owned proposers, whether regulated or not
 - Public agencies may be infected by ‘edifice complex’
 - System operators notoriously conservative, and likely to overinvest

The Response:

Require Proponents to Make A Case

- Demand that project proponents make credible cases:
 - Mere assertion of need, without further support, should be a ‘red flag’
 - In other words, beware any vendor that says:

‘Buy my project, or the lights will go out!’

- Reasonable case consists of:
 - Meeting NERC / Regional Council planning or operating criteria
 - Meeting regional or state Resource Adequacy Requirement
 - Providing plausible, significant reductions in outage probabilities

AT A REASONABLE COST!

The Response:

Exercise 'Due Diligence' for Ratepayers

- **Commissions must use their independent judgment on behalf of ratepayers**
- With any case:
 - Review details and assertions carefully
 - Perform your own 'smell test'
 - Recognize that alternatives may exist
 - Recognize that improvements may be too expensive

The Response:

Consider Competing Alternatives!

- Multiple competing proposals may achieve the same reliability objectives – including generation, transmission, and demand-side investments
 - Especially if other ‘economic’ projects are considered
- Implementation of any one proposal will reduce the value of all other competing proposals
 - Marginal reliability benefits, in particular, diminish rapidly with each new investment
- When alternates exist, Commission must consider all options to avoid over-investment

The Response:

Allocate Costs to Those Who Benefit

- System reliability generally benefits *all* who use the grid
 - Even interruptible customers
 - Certainly “unbundled” customers (i.e. “direct access” customers)
- All customers must thus share costs of reliability
- Such costs include:
 - Generation investments to meet local and system resource adequacy needs
 - Added transmission and distribution plant
 - Uneconomic unit commitment and dispatch

Questions & Answers

Q. How much is reliability worth to customers?

A. Lots, but its value is not infinite, and estimates are speculative.

Q. Can there be too much reliability, i.e., too costly?

A. Yes, it is possible to pay too much, especially as each 'reliability' investment will produce declining marginal reliability benefits.

Q. Who should pay for it?

A. Whoever benefits should pay, both for system reliability generally and for specific reliability investments.

Q. What needs to be considered in the quest to provide customers with a reliable electric system?

A. Commissions should enable 'control area' operator and others to meet their reliability mandate. But Commission's must exercise 'due diligence' in reviewing purported reliability needs and investments to meet such needs.

Closing Thought

(With Apologies To Samuel Johnson)

Regulators must not allow reliability to become
the next refuge of the scoundrel.