



Dynamic Pricing for Commercial and Industrial Customers

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ENERGY

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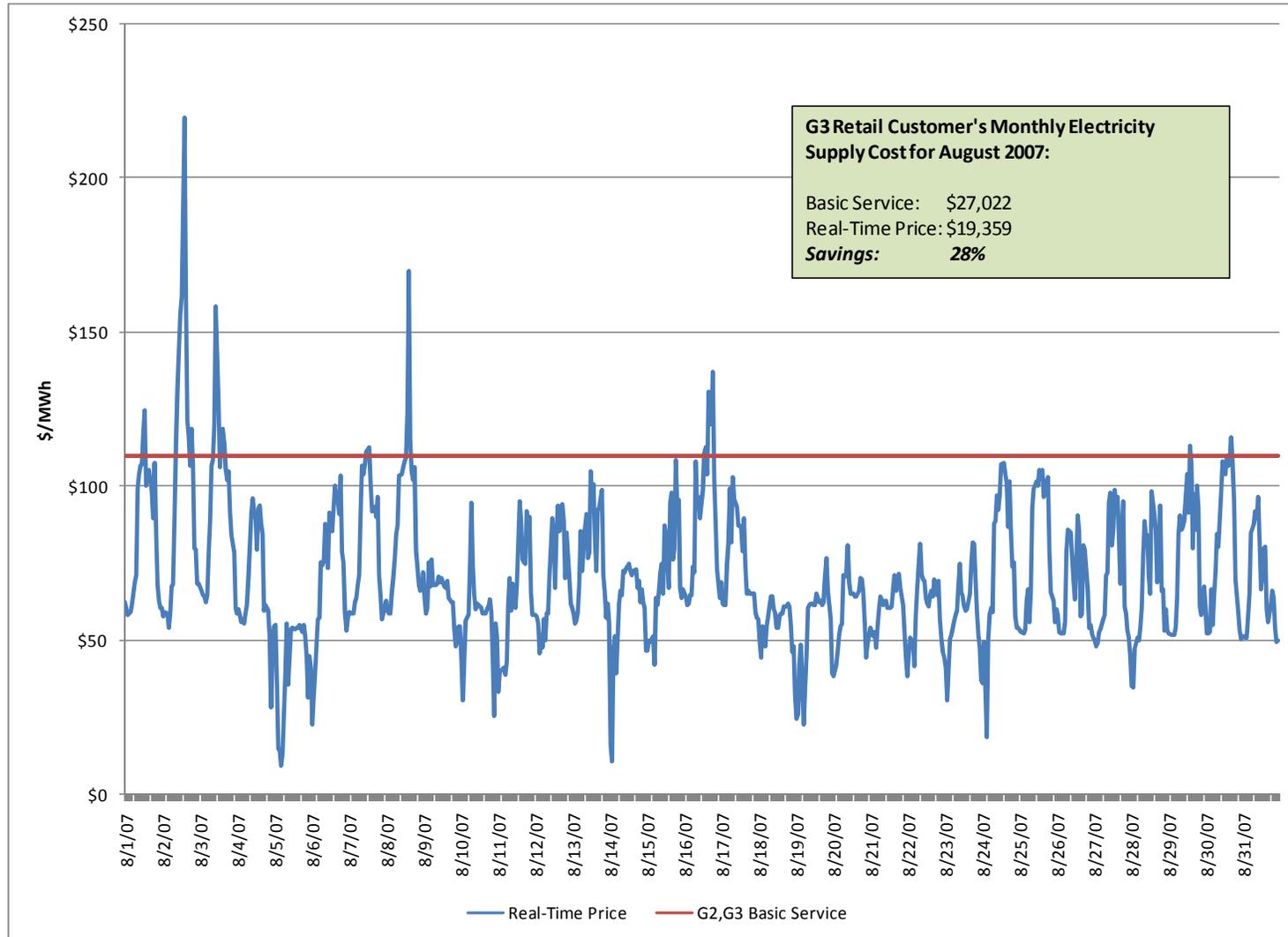
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1	Potential Savings
2	Associated Risks
3	Applicable Policies
a	Metering Infrastructure
b	Access to Information
c	Customer Education
4	Conclusion

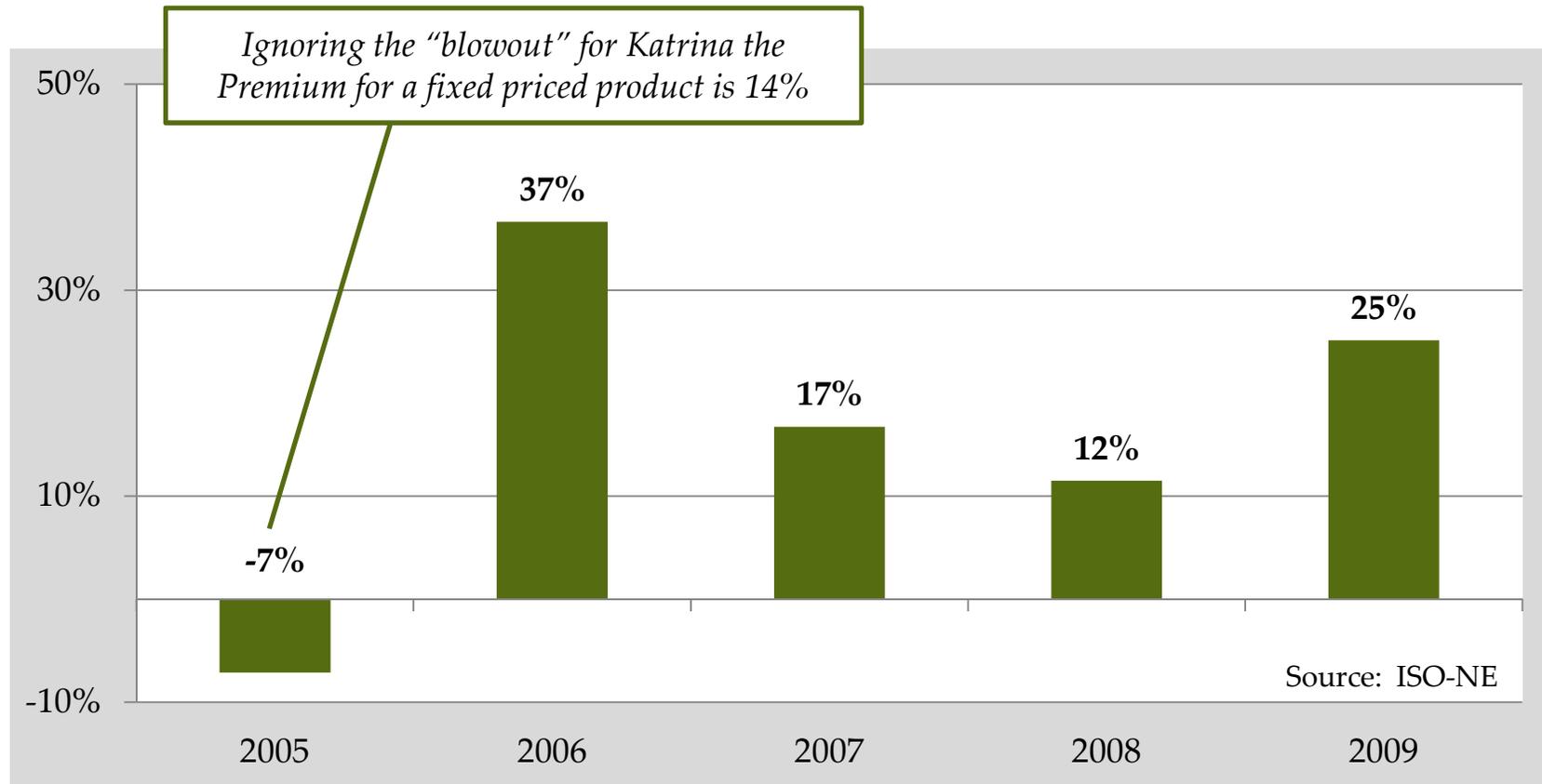
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Example – Flat vs. Dynamic Pricing



Source: NEPOOL Markets Committee Report – May 2009

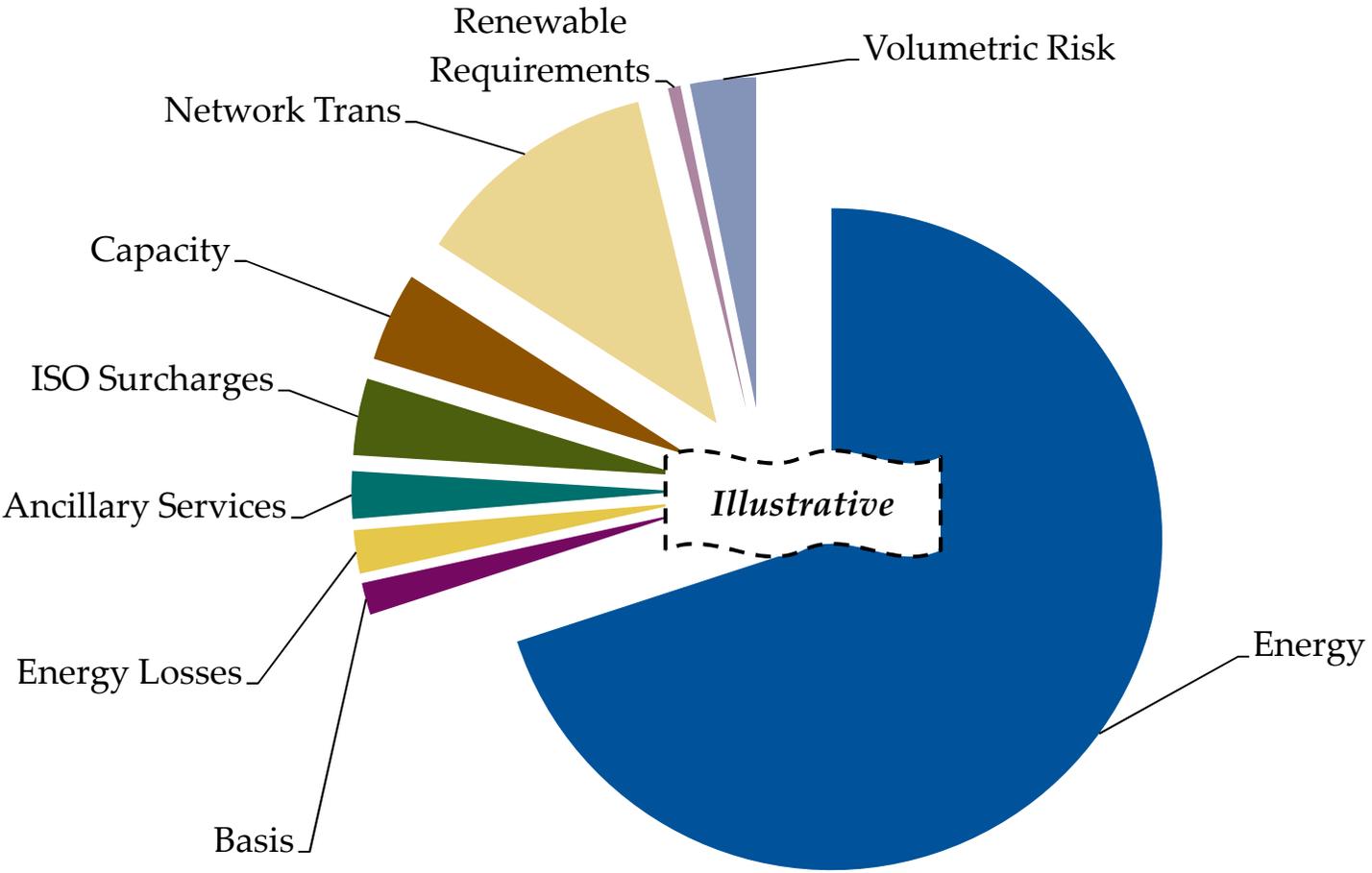
The Premium Associated with a Fixed Price Product Varies Based on Market Conditions



Although the relative magnitude of the savings will change based upon markets and time it is reasonable to assume that over time a flat price will command a premium compared to Dynamic Pricing

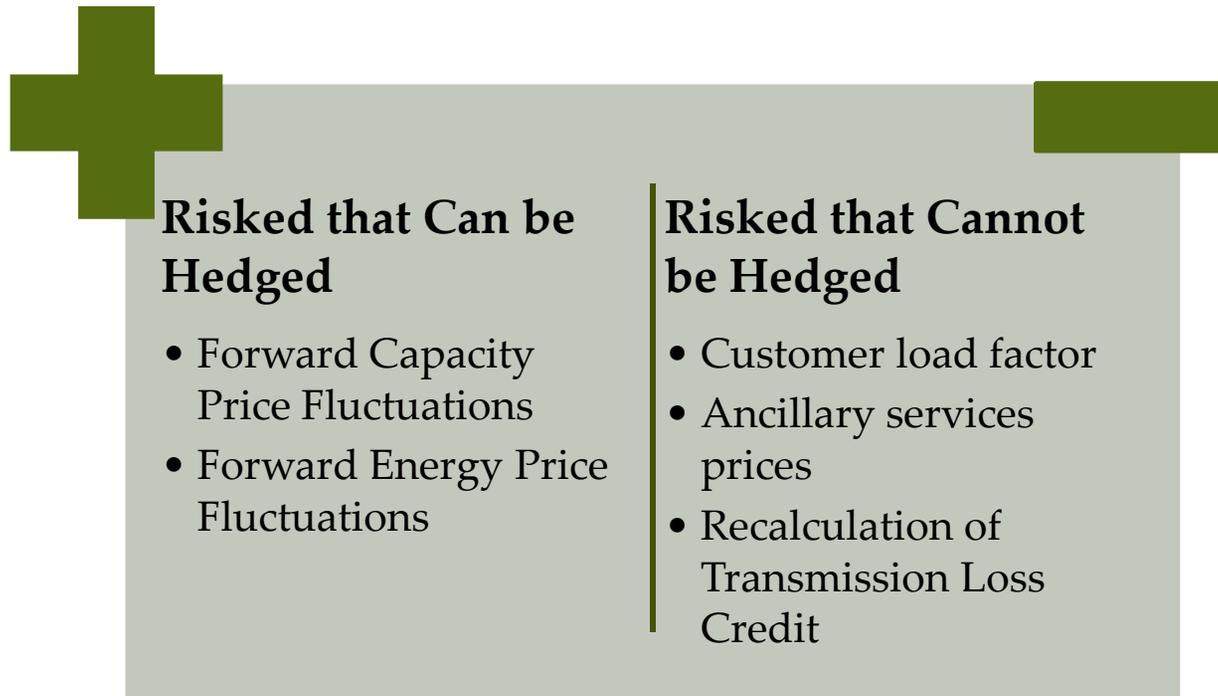
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Composition of the Electric Commodity Product

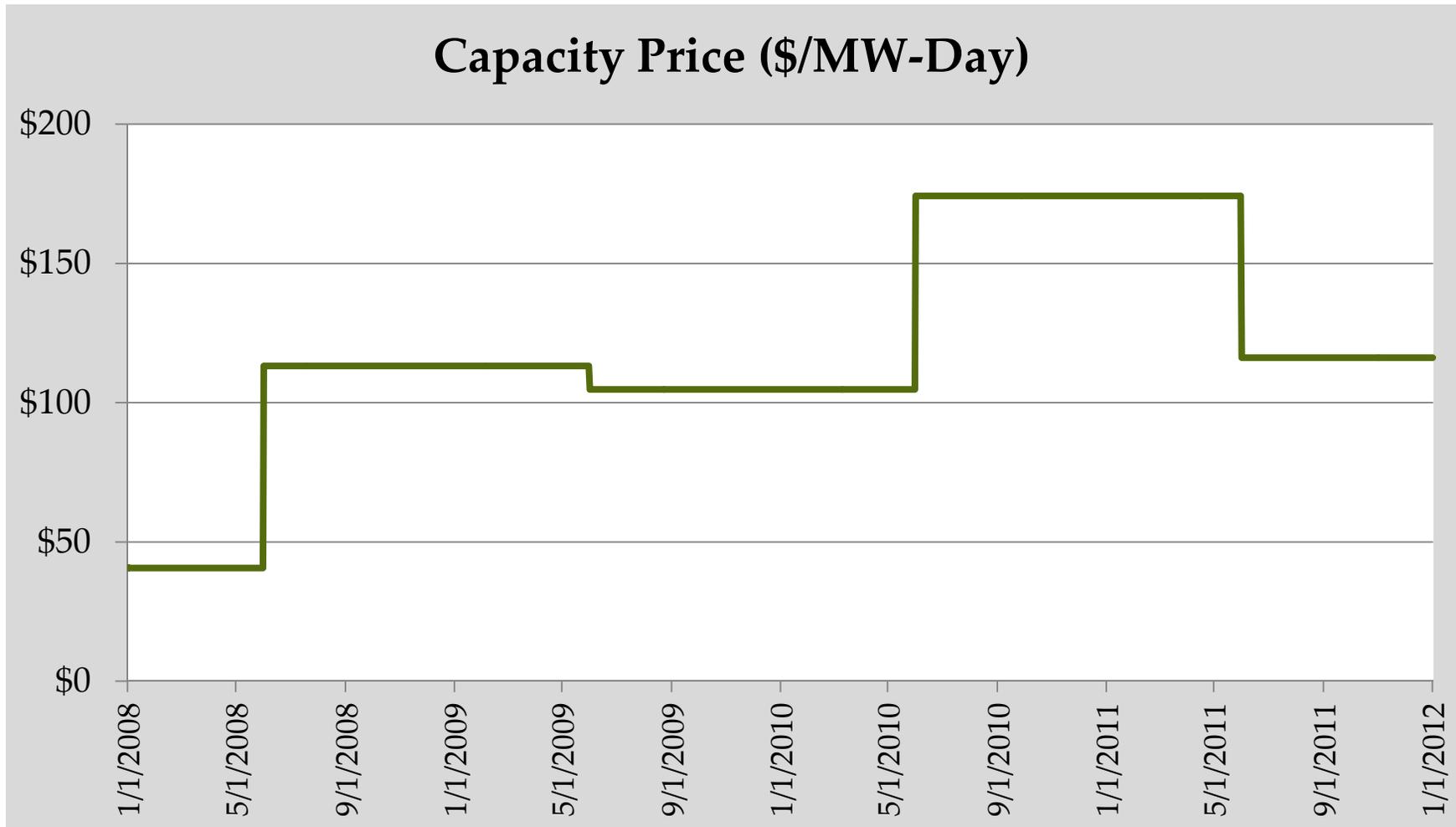


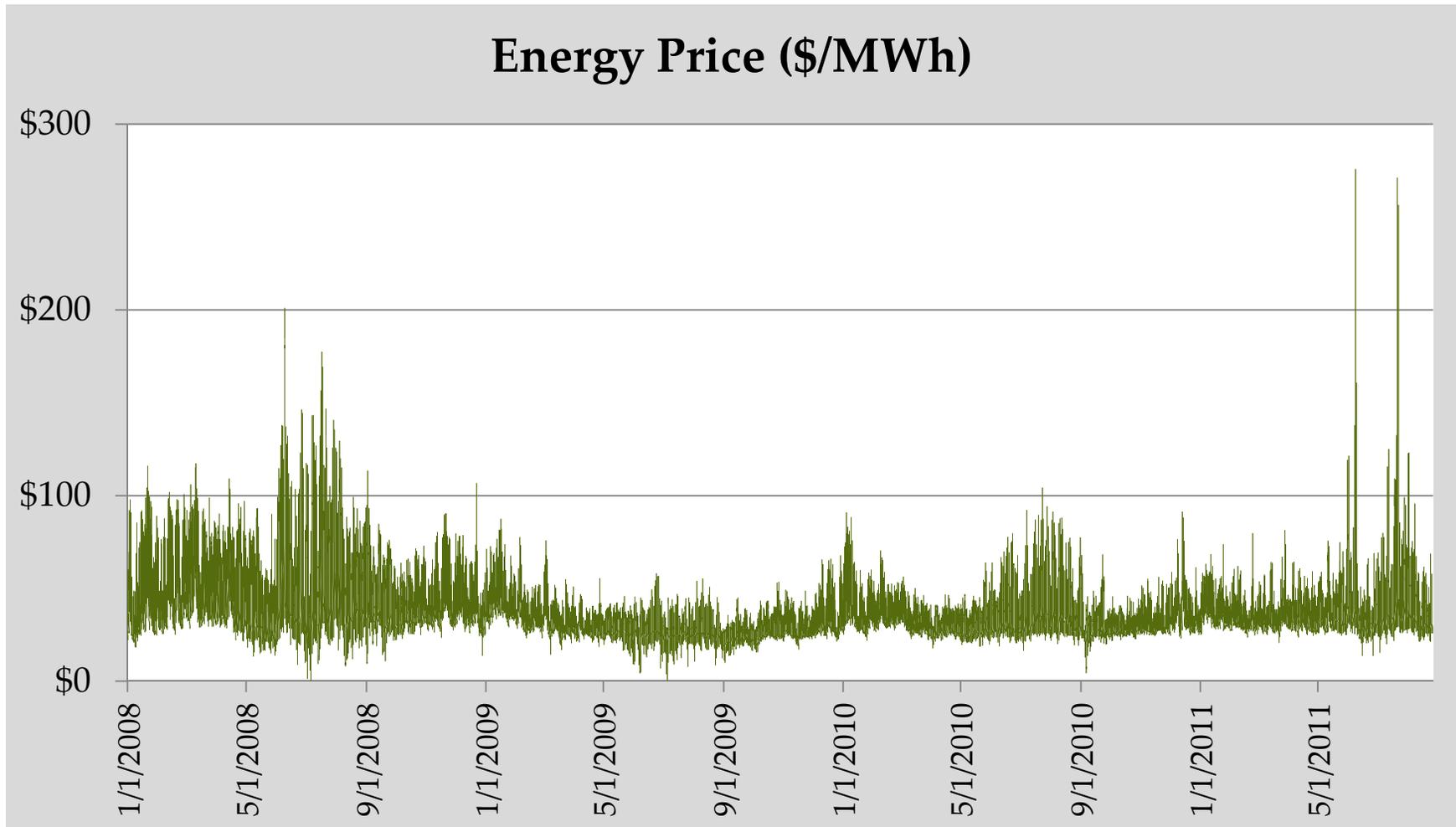
Elements of Risk in Electric Commodity

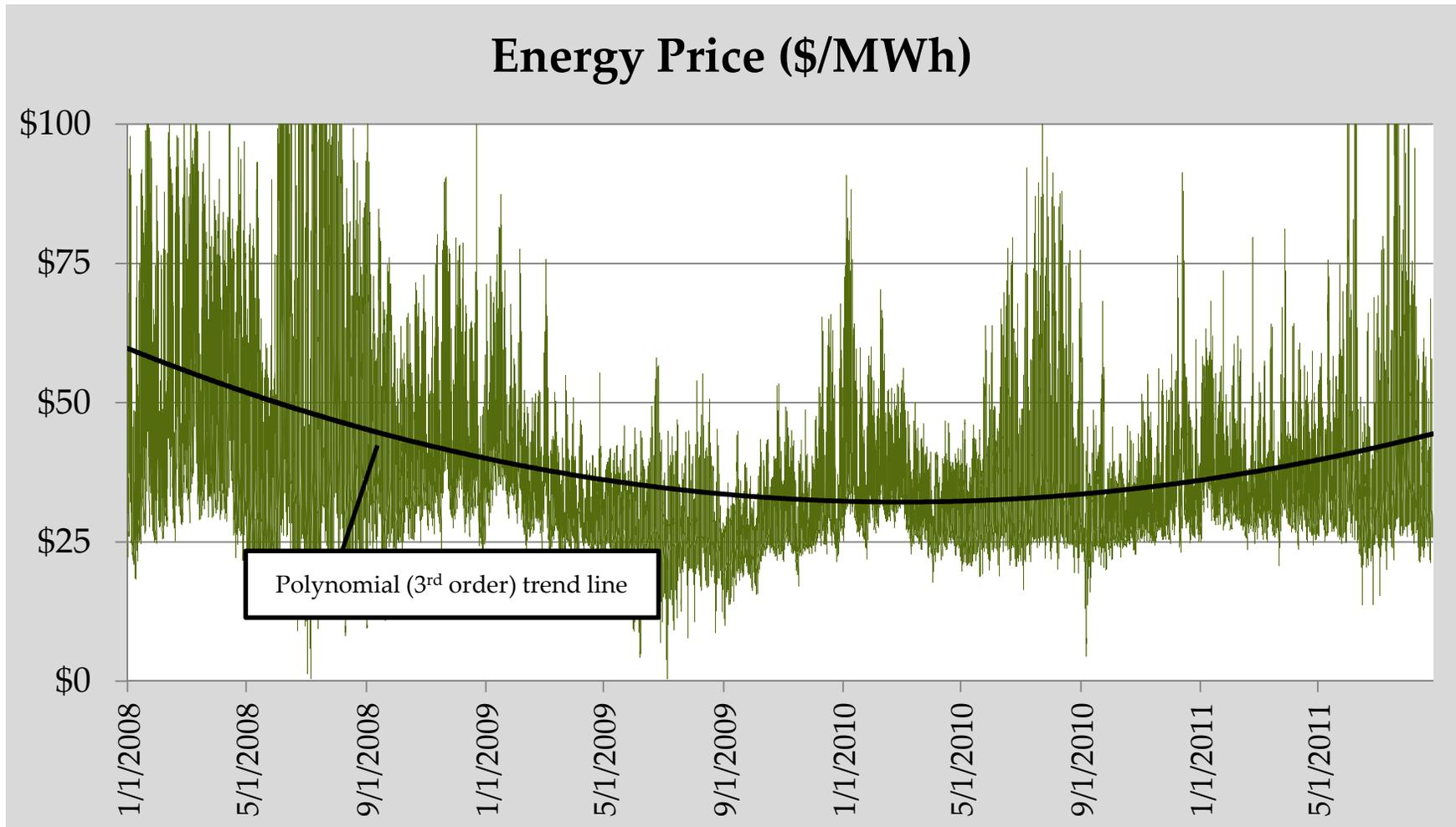
- » Capacity
 - Unknown Customer Demand for future time periods
 - Load factor risk
- » Energy
 - Forward curves mitigate price risk but are tied to blocks of power
 - Smaller blocks of power are available but command a premium price
- » Ancillary Services
 - Marketers are price takers for ancillary services and exposed to “price blow-outs”
- » Transmission Risk
 - Recalculation of transmission obligations
 - Transmission loss credit



Marketers are able to avoid market price risk associated with energy and capacity through forward contracts. However, much of the pricing is one-part or time-differentiated energy tariffs exposing them to load-factor risk. Furthermore, components such as ancillary services are currently cannot be hedged.







How Will Market Conditions Impact the Attractiveness of Dynamic Pricing?

- » High electricity prices will trigger increased interest in complex pricing mechanisms
- » However, recent electricity market prices have been generally low.

A paradox exists in that low market prices are an impediment to the adoption of complex pricing mechanisms such as Dynamic Pricing because it diminishes the importance of electricity procurement to an organization. However, high prices triggers interest in electricity pricing decisions and thus increases interest in Dynamic Pricing.

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Discussion

- » Metering Infrastructure
 - Although the sophistication of metering infrastructure is less of a problem today than it was a decade ago significant challenges remain
 - Participation in advanced market mechanism (i.e. ancillary services requires the use of meters with interval capabilities as potentially as short as 1 second

Takeaways

- » Policy initiatives providing customers' with timely access to advanced / optional metering capability

Discussion

- » Access to Information
 - Access to the customer’s meter data on a timely basis
 - Access to market prices

Takeaways

- » Policy initiatives which promote – or at least remove the impediments – of data access from customers will promote dynamic prices
- » Possibly include advanced metering and access to real time data as an Energy Efficiency program

Discussion

- » Ongoing support of programs which provide customers information about changes in the market
- » Ongoing dialogue about new policies

Takeaways

- » Changes in market structures, regulatory policies and tariffs strongly influences customer's decisions.

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Conclusions

- » The retail market is barely a decade old and product development is still in its infancy compared to other markets
- » New retail products for C&I customers will continue to evolve and develop as the market evolves and retailers and marketers gain experience
- » Policymakers most effective role in promoting innovative products such as Dynamic Pricing would be to support utilities in offering advanced metering structure, encourage access to information, and provide education programs.

Key CONTACTS



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