

23rd Mid-C Seminar:

Cognitive Dissonance of Direct Access

Mary Lynch (Standing in for Bob Kahn)

Constellation

Director, Wholesale Market Development

916-606-0783

Mary.lynch@constellation.com

July 24, 2019

www.constellation.com



Constellation[®]

An Exelon Company

What is Cognitive Dissonance

- **Definition:**

The state of having inconsistent thoughts, beliefs, or attitudes, especially as relating to behavioral decisions and attitude change.

- **Translation:**

- We* think customers having choice for electric supply is good.
- We* handcuff Direct Access opportunities to provide customer choice.

*("We" is referencing policymakers and/or incumbent utilities)

How Do We Address Cognitive Dissonance?

Here's the Example: "I know I should eat healthy foods. I am going to eat the donut."
There are four ways to reduce the mental stress that Cognitive Dissonance creates:

- **Change the cognition:** "I will not eat the donut."
 - We know Customer Choice is good. Or *Customer Choice is not good*
 - *We will not hold it back anymore.* We will handcuff it completely.
- **Justify the cognition, by changing the conflict:** "It's OK if I eat one donut a week."
 - We know customer Choice is good.
 - *But Direct Access harms other customers.*
- **Justify the cognition by adding new cognitions:** "I'll work out more to work it off."
 - Customer choice is good.
 - *We don't need Direct Access for customers to have choice.*
- **Ignore/deny conflicting information:** "This donut is not bad for me!"
 - Customer choice is good.
 - Direct Access does not provide customer choice.

Cognitive Dissonance in Direct Access in the West

- Customer choice is happening throughout the west as a result of customers' (residential and commercial/industrial) ability to choose to leave utility service by installing solar – distributed resources.
- Customer choice is desired throughout the west due to corporate goals to pursue renewable goals and cost containment.
- The choice that began with distributed resources has been the impetus for more discussion about choice:
 - Multiple different programs offered by Utilities
 - Green
 - Backstop supply
 - Time of use rates
 - Community Choice Aggregation
 - And Direct Access

Cognitive Dissonance in Direct Access – Some State Examples

- **Arizona:** About to embark on a new proceeding to discuss (? And implement) broader retail choice.
 - We've been here before – last proceeding in 2013.
 - Shut down on constitutional grounds.
 - Will it be different this time?
 - *Cognitive Dissonance reduction path:* Change the cognition: Direct Access is good.
- **Nevada:** Ballot initiative passes the first time; fails the second time after intense media campaigns and utility opposition.
 - Now a law has been enacted that radically alters and restricts the framework for customers to depart.
 - *Cognitive Dissonance reduction path:* Change the cognition: Customer choice is not good.

State by State Cognitive Dissonance on Direct Access

- **California:**
 - Residential customers only choice is solar, but there is lots of support for that.
 - Commercial and industrial choice continues to be limited by a cap. Recent legislative expansion reduced to 4,000 GWh; only 31% of C&I load has access
 - CPUC under pressure to reform the utilities.
 - ***Cognitive Dissonance reduction path:*** Introduce a new cognition: Direct Access is ok as long as we can control it.
- **Oregon:**
 - Commercial/industrial choice is the law, but subject to caps and high costs.
 - Large (> 10 aMW) New Load Direct Access program is just starting.
 - Competition in the renewable space is getting some good attention.
 - But still strong resistance from the incumbent utilities
 - ***Cognitive Dissonance reduction path:*** Introduce a new cognition:
 - Utilities: We don't need Direct Access for customers to have choice.
 - Or
 - Perhaps: Customer choice isn't so bad if they bear more capacity costs

How Do We Move Past the Cognitive Dissonance?

- **Step 1: Set the Standards for What Matters**
 - Develop the desired standards of reliability that must be met
 - Develop the desired levels and types of environmental improvement
- **Step 2: Define products that achieve compliance**
 - Capacity requirements for reliability
 - Clean energy standards for environmental improvement
- **Step 3: Create markets for those products**
 - Price transparency
 - Liquidity
 - Transactional ease
- **Step 4: Let them work**

Let Them Work???? What Does That Mean???

- **Minimize out of market interventions**
 - Nothing chills investment faster than that.
- **Ensure competitive playing field**
 - All suppliers compete on the same basis – all qualified suppliers may enter, and utilities must compete for customers
- **Have a robust Provider of Last Resort**
 - For customers who do not or cannot choose an alternative
 - Seeks supply from the wholesale market (usually reverse auction)
 - Allow customers to opt out of last resort protection

Thank you.

Mary Lynch

Constellation

Director, Wholesale Market Development]

916-606-0783

Mary.lynch@constellation.com

www.constellation.com



Constellation®

An Exelon Company

Disclaimer

The information contained herein has been obtained from sources which Constellation NewEnergy, Inc. and/or Constellation NewEnergy-Gas Division, LLC (collectively, “Constellation”) believes to be reliable. Constellation does not represent or warrant as to its accuracy or completeness. All representations and estimates included herein constitute Constellation’s judgment as of the date of the presentation and may be subject to change without notice. This material has been prepared solely for informational purposes relating to our business as a physical energy provider. We are not providing advice regarding the value or advisability of trading in “commodity interests” as defined in the Commodity Exchange Act, 7 U.S.C. §§ 1-25, et seq., as amended (the “CEA”), including futures contracts, swaps or any other activity which would cause us or any of our affiliates to be considered a commodity trading advisor under the CEA. Constellation does not make and expressly disclaims, any express or implied guaranty, representation or warranty regarding any opinions or statements set forth herein. Constellation shall not be responsible for any reliance upon any information, opinions, or statements contained herein or for any omission or error of fact. All prices referenced herein are indicative and informational and do not connote the prices at which Constellation may be willing to transact, and the possible performance results of any product discussed herein are not necessarily indicative of future results. This material shall not be reproduced (in whole or in part) to any other person without the prior written approval of Constellation.

© 2017 Constellation Energy Resources, LLC. The offerings described herein are those of Constellation NewEnergy-Gas Division, LLC or Constellation NewEnergy, Inc., affiliates of each other and ultimate subsidiaries of Exelon Corporation. Brand names and product names are trademarks or service marks of their respective holders. All rights reserved. Errors and omissions excepted.