



Energy Markets at the Crossroads

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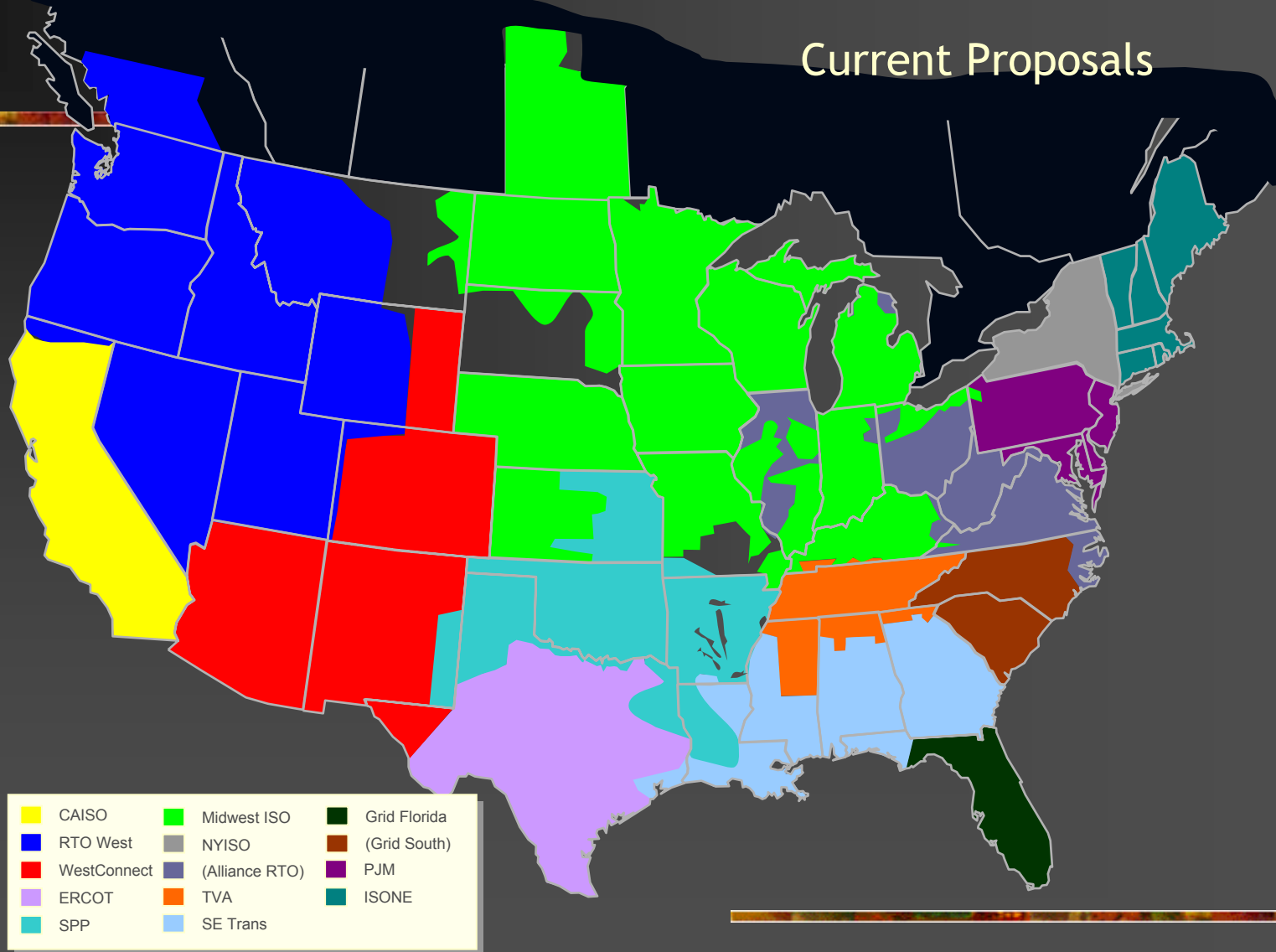
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Markets Design and Performance

- The Northeast moves to competition
 - The Midwest wants SMD, but slowly
 - The Southeast remains a monopoly franchise
 - The West seeks cure for California ills
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Regional Transmission Organizations

Current Proposals



RTOs' Importance to Competition

- Level competitive field among generators
 - Economic dispatch of energy
 - Non discriminatory access to grid
 - Economic management of congestion
 - Independent market administration
 - Independent monitoring of markets
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Markets & Flaws

- Only California's market was flawed
 - Other organized markets function well
 - The true "flaw" in the system is the absence of markets
 - Discriminatory access to the grid most prevalent in market-less regions
 - Anti competitive behavior most prevalent in regions without RTOs
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Market Designs vis Financials

- Markets foster competition which equals economic opportunity for IPPs
 - In the absence of markets, monopoly franchises mask economic inefficiencies:
 - Utilities run old, inefficient, polluting plants that would otherwise be retired,
 - Cleaner, lower cost merchant plants cannot access economic order of dispatch
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Power Markets Are Regulated

- All current markets subject to price caps
 - All markets are adopting Automatic Mitigation Procedures (AMP)
 - All markets under surveillance by MMUs
 - More transactions are bilateral & long term
 - Previous spot market volatility essentially tamed
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Competitive Power Model

- Competition among generators, on a level playing field
 - Independent transmission functions
 - Dispatch of energy on economic merit
 - Economic management of congestion
 - Competitive spot and forward, physical and financial markets
 - Independent & effective market oversight
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The Essence of Time

- Organization of competitive markets has lagged behind investment
 - Excess capacity in several regions, due mostly to non competitive wholesale market
 - Regulatory disincentives for retirement of junk capacity
 - Regulatory disincentives for transmission upgrades
 - Will competition survive current regulatory uncertainty?
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At the Crossroads

- FERC's SMD
 - The California trauma
 - The siren of cost-of-service regulation
 - Temporarily depressed prices
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