


Successful Restructuring: The Way Forward

Mark Bennett
Senior Manager of Policy
Electric Power Supply Association
Restructuring and the Wholesale Market
Springfield, IL
December 10, 2003



Electric Power Supply Association
*Advocating the **power** of competition*

Fundamental Challenges

- **RTO Development – Shift to Independent Grid Management and Operation**
 - **Recognize Link Between Reliability and Markets**
 - **Adopt Wholesale Power Market Platform**
 - **Reconcile Regulatory Price Adjustments with Market Price Outcomes**
 - **Prevent Affiliate Transactions from Undermining Markets**
 - **Restore Confidence with Effective Price Reporting**
 - **Promote Investment in Transmission Infrastructure**
- 

RTO Development: An Update

- NE-RTO filing
 - ISO-NE filing to be recognized as NE-RTO (10/31/03)
- New England Standard Market Design
 - FERC approved Market Rule 1, disallowed AMP-type mitigation in unconstrained areas
 - Market successfully implemented on March 1, 2003
- SeTrans
 - Motion for declaratory order approved (10/10/02)
 - Filing was expected by end of the year
 - Participating utilities abandoned effort on December 2
- RTO West stage II filing approved (9/18/02)
- WestConnect motion for declaratory order approved (10/10/02)
- Western Interconnect, LLC filing (9/30/03)

RTO Development (Cont.)

- PJM-MISO integration – ongoing joint and common market effort
- MISO
 - FERC approved tariff withdrawal (10/29/03)
 - MISO developing timeline to move forward on market implementation with “Reliability Charter”
 - MISO to file progress reports in response to FERC guidance
- State regulatory actions
 - Virginia legislation bars state utilities from joining an RTO until July, 2004
 - Kentucky commission creates obstacles to AEP asset transfer

Link Between Reliability and Market Development

- Commission requires RTOs to have (1) exclusive authority over short-term reliability; and (2) operational authority over all transmission facilities
- Well functioning markets promote reliability
 - FERC supports control area consolidation (MISO orders: 2/24/03 and 10/29/03)
 - Need to coordinate development of reliability and business practice standards (NERC and NAESB)
 - Improve communication and data exchange


Link Between Reliability and Market Development (Cont.)

- Reliability title in energy legislation
 - FERC given authority over standards development
 - ✓ FERC may certify new Energy Reliability Organization
 - Proposed standards must be “just, reasonable, not overly discriminatory or preferential”
 - “Due weight” to technical expertise – but FERC retains full authority over “the effect of a standard on competition”

Adopt Wholesale Power Market Platform

- Single Network Access Tariff – Same terms and conditions for all users
- Congestion Management – Locational Marginal Pricing
 - Efficient and transparent price signals
- Financial Transmission Rights (FTRs)
- Spot Markets – Day-Ahead and Real-Time
- Independent Grid Management and Operation
- Market Monitoring and Mitigation
 - Must reconcile “just and reasonable” regulatory standards with legitimate price volatility
 - Regulatory interventions distort price signals, discourage investment and impede demand response
- Resource Adequacy
- Regional State Committees (RSCs)

Regulatory Price Adjustments and Market Price Outcomes

- \$1,000 Bid Cap
 - Automated Mitigation Procedures (AMP)
 - RMR contracts
 - Peaking Unit Safe Harbor (PUSH)
 - Local Market Power Mitigation Procedures
 - FERC looking at greater standardization
- 

Affiliate Transactions Must Not Undermine Competitive Markets

- Moving competitive generation into rate base
 - Cinergy
 - ✓ What is effect on competition of asset transfers?
 - Ameren
 - ✓ What is effect on competition of asset transfers?
- Affiliate Purchases
 - Entergy
 - ✓ Use of fair, transparent competitive bidding process
 - Southern
 - ✓ Impact of affiliate awards on competition

Effective Price Reporting

- Policy Statement creates a safe harbor for reporting when the following minimum standards are met :
 - Index publishers
 - ✓ Code of conduct and confidentiality
 - ✓ Completeness
 - ✓ Data verification, error correction and monitoring
 - ✓ Verifiability
 - ✓ Accessibility

Effective Price Reporting Cont.

- Data providers
 - ✓ Code of conduct
 - ✓ Source of data
 - ✓ Data reported
 - ✓ Error resolution process
 - ✓ Data retention and review
- EPSA has asked for clarification from the Commission on some ambiguities under the Policy Statement.
- FERC surveying 300 market participants on data reporting.

Investment in Transmission Infrastructure

- Designed to promote RTO membership and efficient infrastructure investment
 - Need to support a regional planning process
 - Need to provide incentives for infrastructure investment that relieves congestion

Questions?



Electric Power Supply Association
*Advocating the **power** of competition*

Mark Bennett
Senior Manager of Policy
Electric Power Supply Association
1401 New York Ave., NW
11th Floor
Washington, DC 20005

Telephone: (202) 628-8200

Fax: (202) 628-8260

E-mail: mbennett@epsa.org

Website: www.epsa.org

