Successful Restructuring: The Way Forward

Mark Bennett
Senior Manager of Policy
Electric Power Supply Association
Restructuring and the Wholesale Market
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www.epsa.org  202-628-8200
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?

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