

ELECTRICITY MARKETS IN TRANSITION: RTO and SMD ISSUES

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SMD and FERC's New White Paper

- The FERC issued a proposed rule on Standard Market Design (SMD) in July 2002.
- There were many strong arguments for and against the proposal or some of its elements.
- After 9 months of outreach and comment on the proposed rule, the FERC issued a White Paper on April 28, 2003, setting out how it intends to proceed to a Final Rule.

Why Issue A White Paper?

- Let the industry, states, and others know Commission views about the scope & direction of a final rule
- Explain changes in the proposal based on the comments and our outreach
- Address legitimate concerns while moving forward to better wholesale markets

The Commission Proposes To Issue A Rule That Would

- Establish a wholesale market platform to be implemented through RTOs and ISOs
- Require public utilities to join an RTO or ISO
- Allow regional flexibility in policies & timelines
- Establish regional state committees to provide state input on FERC issues
- Not require an element of the wholesale market platform if its cost outweighs its benefit

Wholesale Market Platform Goals

- Reasonable prices through improved wholesale competition
- Encourage investment in needed electric infrastructure
- Improve the reliability of regional wholesale electric service
- Recognize the regional character of electricity markets and their dependence on RTOs and ISOs, which already exist or are forming throughout the country

Wholesale Market Platform Goals (continued)

- Set fair market rules with transparent market prices
- Avoid market manipulation by power sellers and others
- Prevent transmission owners from favoring their own wholesale power sales
- Provide a means for federal and state regulators to cooperate in overseeing regional RTOs and ISOs and load serving utilities

WHOLESALE MARKET PLATFORM ELEMENTS

- Regional Independent Grid Operator
- Regional Transmission Planning Process
- Fair Transmission Cost Allocation
- Market Power Mitigation and Monitoring

WHOLESALE MARKET PLATFORM ELEMENTS (continued)

- Spot Markets for Customers' Energy Needs
- Efficient Grid Congestion Management
- Firm Transmission Rights
- Resource Adequacy Approaches

REGIONAL STATE COMMITTEES

- Would decide regional resource adequacy and retail demand response policies

And have a strong role in deciding:

- Transmission cost allocation
 - Existing costs: e.g., License plate v. postage stamp
 - Costs across RTOs: e.g., export fees v. no fees
 - New costs: e.g., rolled-in v. participant funding
- Transmission planning
- FTR types, allocation, and firm rights assurance
- Market monitoring
- Transition process: e.g., time line and budget

OTHER ISSUES CLARIFIED

- Prior RTO & ISO decisions are not overturned
- Set RTO & ISO governance principles not details
- Limit liability of transmission providers
- Require NERC-set cyber-security standards
- Keeps existing reciprocity conditions (Order 888)

NEXT STEPS

- Timing of a Final Rule will take into consideration:
 - The results of technical conferences in each region with states and market participants to develop a reasonable timetable for moving forward
 - Comments on the White Paper (no due date yet)
 - Legislation before Congress

CONCLUSION

- The goals of the rule are important to customers
- New market platform emphasis gives more weight to
 - Good market design through RTO and ISO formation
 - Regional flexibility over standardization
- FERC welcomes comments on the new approach