FEDERAL ENERGY REGULATORY COMMISSION

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NEWS RELEASE

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COMMISSION ADOPTS MITIGATION PLAN FOR WESTERN POWER MARKETS, ADEQUATE INFRASTRUCTURE IS KEY TO COMPETITIVE MARKETS

The Federal Energy Regulatory Commission today set out a plan for the troubled California bulk power markets that will lead to a robust, stable competitive market and secure reliable service at just and reasonable prices for customers in the West. At the same time, the Commission approved a series of market mitigation measures to replace those adopted in June 2001. In doing so, it largely adopted the recommendations of the California ISO Market Surveillance Committee, an independent advisory group of economic experts who review the California market.

But, market rules and mitigation measures alone will not insulate California customers from potential reliability problems or price fluctuations, the Commission said. A key ingredient in developing long-term, stable markets is adequate infrastructure–the transmission lines, generating plants, and natural gas pipelines needed to meet growing energy demands.

In addition to sufficient infrastructure, the Commission said that two other essential elements are needed to support a competitive bulk power market-- balanced market rules and market oversight and mitigation.

Responding to the California Independent System Operator's (CAISO) Comprehensive Market Design Proposal (MD02), the Commission also called on the appropriate state authorities to take immediate action to carry out critical long-term reforms–such as siting and retail demand response–that are not within FERC's jurisdiction to implement.

Although the Market Surveillance Committee did not request extension of the current West-wide requirement that all generators offer all uncommited power for sale, the Commission deemed this requirement to be essential to prevent physical withholding during the continued recovery of the western marketplace. Many observers have concluded that adoption of this requirement in 2001 led to significant calming of the western markets.

In striking a balance between the need for investor confidence in the markets to bring necessary generation and infrastructure on line and the need to protect against market abuse, the Commission set a $250/megawatt-hour (MWH) bid cap for all sales in the Western Energy Coordinating Council (WECC) beginning October 1, 2002. In other organized power markets in the country, a $1000/megawatt-hour bid cap is in effect.

Other key features of the price mitigation plan adopted today are:

- adoption of a "bid screen" tool called automatic mitigation procedure (AMP), designed to prevent economic withholding and limit the ability of a generator selling into the spot market, to raise its bid price above the current $91.87 price cap.

- conditional approval of the CAISO's proposal for a negative $30 cap on decremental energy bids, and penalties for excessive deviations. Negative decremental energy bids are intended to reflect costs a supplier incurs to reduce generation. The CAISO proposal is narrowly tailored to address periods of system over generation during which suppliers could exercise market power.

- modification of the CAISO's proposed local market power (LMP) mitigation proposal to focus on the potential to exercise market power within each of California's present three geographic zones.

- directed the CAISO to submit a time line by August 30 on a workable demand response program to permit customer load to participate on equal basis with generators in the hourly power markets.

- resolution of seams, or border, issues with neighboring states. The Commission recognized the efforts of the CAISO in its talks with the Western Interconnection Seams Steering Group. The Commission directed the CAISO to continue working with this group and said that both the CAISO and the Seams Steering Group must comply with any future requirements when the Commission issues orders on the RTO West and WestConnect regional transmission organizations (RTO) proposals.

- directed the CAISO to file, by October 21, 2002, tariff language for the day-ahead, ancillary services, and hour-ahead reforms. These changes would be implemented on January 1, 2003.

- approved the use of the CAISO's 12-month market competitive index as a diagnostic tool, but declined to use it as an automatic trigger for other mitigation, deeming that its approved mitigation was sufficient. It directed the CAISO to file the information produced by this index with the Commission's newly-created Office of Market Oversight and Investigations.

- The CAISO said, in its filing, that its proposal for an available capacity requirement (ACAP) could not be implemented until early 2004. Noting that a requirement to assure long-term adequate resources is needed because of the length of time needed to develop new resources, the Commission ordered an expedited technical conference to discuss ACAP.

Other long-term elements of the market design proposal were also set for discussion at a technical conference. Among those issues set for the conference are generation adequacy, congestion revenue rights (CRRs), locational marginal pricing and the use of the ten-minute market.

In November 2001, the Commission first identified a number of long-term structural reforms that needed to be put in place to stabilize the market. Among the needed reforms cited by the Commission were: improved market monitoring and mitigation strategies; a congestion management redesign; greater interconnection procedures; establishment of an independent stakeholder governing board for the CAISO; and additional demand response programs. In a separate order today, the Commission addressed the independence of the governing board and directed a complete overhaul of the existing board.

In April 2001, the Commission adopted a price mitigation plan for the California markets. This mitigation plan was extended to neighboring states in June 2001. The 11-state western region is currently operating under a $91.87 price cap, ordered by the Commission last week to run through September 30, 2002.