FEDERAL ENERGY REGULATORY COMMISSION

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NEWS RELEASE

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ER96-2495-015, et al.

COMMISSION ANNOUNCES NEW, INTERIM GENERATION MARKET POWER SCREEN AND MITIGATION POLICY

The Federal Energy Regulatory Commission today announced a new generation market power screen. The new screen, called the Supply Margin Assessment (SMA), will apply to market-based rate applications and triennial reviews on an interim basis pending a generic review of new methods for analyzing market power.

Because of significant structural changes and corporate realignments in the electric industry, the Commission's hub-and-spoke analysis no longer adequately protects customers against generation market power in all circumstances.

The SMA screen builds on and improves the existing hub-and-spoke analysis in two ways. First, in determining the geographic market, the SMA considers transmission constraints to more accurately determine what supply can reach buyers and compete with the applicant.

Second, in determining the market share that triggers market power concerns, the SMA establishes a threshold based on whether an applicant is pivotal in the market. When an applicant is pivotal, it is in a position to demand a price above competitive levels because at least some of its capacity must be used to meet the market's peak demand.

All sales into an independent system operator (ISO) or regional transmission organization (RTO) with Commission-approved market monitoring and mitigation will be exempt from the SMA. These sales will be governed by the specific thresholds and mitigation provisions approved for the particular markets.

The primary tool for exercising generation market power is physical or economic withholding, the Commission said in explaining its mitigation policy. To prevent physical withholding, the Commission will require that an applicant who fails the SMA screen offer uncommitted capacity for spot market sales in the relevant market. To prevent economic withholding, this uncommitted capacity will be priced under a split-savings approach, a form of cost-based rates.

In today's order, the Commission applies the SMA screen on the triennial market power updates submitted by AEP (ER96-2495-015, et al.), Entergy (ER91-569-009), and the Southern Companies (ER97-4166-008). In each case, the Commission finds that these companies have the ability to exercise market power within their control area markets because their generation is needed to meet the markets' peak demand. The Commission directed each company to make a filing within 15 days demonstrating that they are complying with the mitigation requirements. These include a requirement to post on a daily basis the projected 24-hour incremental costs for energy offered for spot market sales in the company's control area or adjacent control areas, thus making the energy available to all interested buyers.

The order also requires the companies to modify their evaluation of generation interconnection applications, if the applicants request, by treating them as competing network resources in meeting load rather than requiring them to formally designate a particular load. In addition, the order requires Entergy and the Southern Companies to employ an independent third party to operate and administer their Open Access Same Time Information System (OASIS) sites to mitigate residual transmission market power. AEP already complies with this requirement due to meeting the Commission's recent merger condition.

In the case of Mirant, a company recently spun off by the Southern Companies, the Commission said it needed more information and ordered Mirant to submit a revised analysis within 15 days.