
FEDERAL ENERGY REGULATORY COMMISSION



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NEWS RELEASE

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COMMISSION EYES TARIFF REFORM, STANDARDIZED MARKET DESIGN IN MAJOR DRIVE FOR ENHANCED COMPETITION, LOWER PRICES

In a major push for enhanced competition and lower prices in the nation's bulk power markets, the Federal Energy Regulatory Commission made clear today that it intends to reform public utilities' open access transmission tariffs to reflect a standardized wholesale market design.

The goals: more choice and improved services for all market participants; lower prices from reduced transaction costs and wider trade opportunities; improved reliability through better grid operations and expedited infrastructure improvements; and certainty about market rules and cost recovery for greater investor confidence.

Chairman Pat Wood, III commented, "As always, our purpose is simple: reliable electricity at lower prices for all Americans. The most effective way to achieve this goal is to standardize market design and transmission service around the country."

A significant challenge, the Commission said in a working paper on standardized transmission service and wholesale electric market design, will be to balance the need for standardization and streamlined operations with the need for regional differences and market innovation.

The paper, which will be made public in the near future, outlines key principles and policy decisions on standard market design to guide the Commission in developing a revised transmission tariff. Most reflect consensus voiced by parties in written comments and in conferences and workshops held by the Commission between October 2001 and February of this year. They could be changed if further comments from the

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various stakeholders indicate a need. A notice of proposed rulemaking (NOPR) will be issued this summer and FERC will consider all additional comments in shaping a final rule.

The reformed tariff will be filed by regional transmission organizations (RTOs) and other public utilities that own, operate or control interstate transmission facilities.

To protect all customers and assure the benefits of competition for all, consistent transmission rules must be applied. A lack of regional coordination of the grid that hampers market efficiency is among the additional problems cited in the working paper.

Principles to guide the development of standard market design (SMD) outlined in the paper include:

- A common market framework promotes efficiency and lowers costs. It creates a reliable power system, provides mitigation for market power and offers more choices to market participants.
- Standardized market design and business practices to minimize transaction costs in seams issues.
- Market rules and market operations must be fair, well defined and understandable to all market participants.
- Imbalance markets and transmission systems must be operated by entities that are independent of the market participants they serve.
- Energy and transmission markets must accommodate and expand customer choices. Buyer and sellers should have options that include self-supply, long-term and short-term energy and transmission acquisitions, financial hedging opportunities, and supply or demand options.
- Market rules must be technology- and fuel-neutral. They must not unduly bias the choice between demand or supply sources or provide competitive advantages or

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disadvantages to large or small demand or supply sources.

- SMD should create price signals that reflect the time and locational value of electricity.
- Demand response is essential in competitive markets to assure the efficient interaction of supply and demand.
- Transmission owners will continue to have the opportunity to recover the embedded and new costs of the transmission system. Consistent with current policy, merchant transmission capacity would be without regulatory assurance of cost recovery.
- SMD must not be static. It must not inhibit adaptation of the market design to regional requirements or hinder innovation.

In discussing new transmission service, the paper says transmission providers should be required to offer a nondiscriminatory, standard transmission service, "Network Access Service," for all customers, including vertically integrated utilities. This service would combine the flexibility and universal access of network integration transmission service and the reassignment rights of point-to-point transmission service. This would allow all customers to have a system of tradable transmission property rights that will expand their transmission options and enable and enhance competition.

The paper states that to complement Network Access Service and implement SMD, transmission providers should function under the following guidelines:

- Transmission providers should manage congestion using locational marginal pricing (LMP). To handle imbalances and the procurement of ancillary services, the transmission provider would operate markets for energy and operating reserves in conjunction with the markets for transmission services.
- These markets should be bid-based and operated in two time frames: a day ahead of real time operations and in real time.
- For both time frames, the transmission provider would assure that purchases and sales of energy and operating reserves through the centralized energy and

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operating markets, or through self-supply or bilateral contract, are coordinated with transmission services on the grid.

- The transmission provider would establish schedules for transmission service and sales and purchases of energy and operating reserves, to ensure the most efficient use of the transmission grid.

The Commission intends the working paper to serve as policy guidance and allow parties to move forward in a focused process that builds on Order Nos. 888 and 889 and the institutional innovations of RTOs identified in Order No. 2000 to complete the establishment of robust, seamless competitive markets.

The paper notes that additional work is needed to resolve remaining issues on who pays for embedded transmission costs, how transmission rights should be allocated, and how to transition existing rights and contracts

Consistent with the Commission's November 2001 order, FERC will use a two-track approach to resolve RTO issues. Issues of scope and governance will be handled in individual cases, not in SMD rulemaking.

The working paper, "Working Paper on Standardized Transmission Service and Wholesale Electric Market Design," will be available on the Commission website, www.ferc.gov, when it is issued.